Technovator

Technovator International Limited

(incorporated in Singapore with limited liability)

Stock Code: 1206

A Leading Smart Energy Saving Services Provider

ANNUAL REPORT **2016**

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Zhao Xiaobo (趙曉波)
Mr. Seah Han Leong (謝漢良)

Non-executive Directors
Mr. Fan Xin (范新) *(Chairman)* (resignation effective on 15 July 2016)
Mr. Huang Yu (黃俞) *(Chairman)* (appointed on 15 July 2016)
Mr. Liu Tianmin (劉天民)
Mr. Wang Yinghu (王映滸)
Mr. Ng Koon Siong (黃坤商) (resignation effective on 22 January 2016)

Independent Non-executive Directors
Mr. Fan Ren Da Anthony (范仁達)
Mr. Chia Yew Boon (謝有文)
Ms. Chen Hua (陳華)

BOARD COMMITTEES

Audit Committee
Ms. Chen Hua *(Chairman)*
Mr. Chia Yew Boon
Mr. Fan Ren Da Anthony

Nomination Committee
Mr. Chia Yew Boon *(Chairman)*
Mr. Fan Ren Da Anthony
Mr. Fan Xin (resigned on 15 July 2016)
Mr. Huang Yu (appointed on 15 July 2016)

Remuneration Committee
Mr. Fan Ren Da Anthony *(Chairman)*
Mr. Chia Yew Boon
Mr. Seah Han Leong (appointed on 26 February 2016)
Mr. Ng Koon Siong (黃坤商) (resignation effective on 22 January 2016)

Risk Management Committee (established 29 March 2016)
Mr. Fan Ren Da Anthony *(Chairman)*
Mr. Huang Yu (appointed on 15 July 2016)
Ms. Chen Hua
Mr. Chia Yew Boon
Mr. Fan Xin (resigned on 15 July 2016)
Mr. Liu Tianmin
Mr. Seah Han Leong
Mr. Wang Yinghu
Mr. Zhao Xiaobo

JOINT COMPANY SECRETARIES

Mr. Leung Lok Wai
Mr. Cheo Meng Ching (resigned on 16 May 2016)
Mr. Teo Meng Keong (appointed on 16 May 2016)

AUTHORISED REPRESENTATIVES

Mr. Zhao Xiaobo
Mr. Seah Han Leong

REGISTERED OFFICE

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Central, Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Luk & Partners

AUDITORS

KPMG
KPMG LLP

SINGAPORE PRINCIPAL SHARE REGISTRAR

Tricor Barbinder Share Registration Services
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PWC Building
Singapore 048424

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
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183 Queen's Road East
Hong Kong

COMPANY WEBSITE

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PRINCIPAL BANKERS

Standard Chartered Bank
DBS Bank
The Hong Kong and Shanghai Banking Corporation Limited
Agriculture Bank of China
Bank of China
Industrial and Commercial Bank of China
China CITIC Bank
China Construction Bank
China Merchant Bank
Bank of Beijing

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CHAIRMAN'S STATEMENT

Dear Honorable Shareholders,

On behalf of the board of directors (the "Board") and the management, I am pleased to present to the shareholders the report on the development and operating results of Technovator International Limited ("Technovator") and its subsidiaries (the "Group") for the year ended 31 December 2016.

Fully embracing a new phase of strategic transformation

The year of 2016 marked the 11th anniversary of the establishment of Technovator and the fifth anniversary of listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange" or the "Hong Kong Stock Exchange"). Thanks to the joint efforts and supports of all the employees, business partners, shareholders and investors of the Group, we have been able to enjoy rapid growth, set up a clear development path, improve business segments and optimize our management structure, as a result of which we realized capital accumulation and accomplished the unification of a long-term strategic layout in the past few years.

Currently, China's macroeconomic situation has been undergoing profound changes. At a time when the overall economic growth has slowed down, new development needs and opportunities have emerged among various economic sectors. Under the new trend, the Group unshackled the limits of the prevailing market condition and ushered into a new phase of strategic transformation and upgrade with its sharp insight and decisiveness. Positioning as a leading urban energy intelligence energy saving service provider, the Group adjusts the business structure and commercial model for each segment as major measures and improves the revenue structure and increase its profit margin as transformation target. While the Group is optimizing and consolidating traditional intelligence business for each segment, it also endeavors to strengthen the growth and input of energy saving services and projects related to energy saving operations in order to quickly enter into a healthy development path for sustainable operation in the long run, striving to secure more benefits for employees and shareholders and contribute more for China's urban energy saving cause.

Initial success of transformation of each segment business

The year of 2016 witnessed the tremendous improvement of smart transportation segment in respect of comprehensive capability. Leveraging on the historical opportunity of rapid construction of rail transit across major cities in China, the Group's subway intelligence business continued to grow at a steady pace and made material progress and breakthrough in business fields such as Integrated Supervision and Control System, safety door system and urban Traffic Control Center. With the substantial increase in the newly-built subway lines, great business opportunities have sprung up from the existing subway stations' energy saving and transformation market. With early insight into new business opportunities and timely deployment of resources to such field, the Group successfully completed the pilot project for single subway station in Beijing with its outstanding technical strengths, and signed the contracts for two subway lines in Beijing during the year, marking a great breakthrough of strategic approach of connecting lines and networks for subway energy saving. By swiftly promoting and replicating the above models towards various cities across the country in the future, the Group also promoted the restructuring of transportation segment to realize sustainable increase in profits.

Undermined by macro-economy, smart building and complex business suffered from temporary slowdown; however, the Group's comprehensive strength in this business segment still enjoys predominant advantages in the industry and it is still capable of capturing the enormous market and profit margin by transformation and upgrade. The Group set the transformation strategies for the segment and made building intelligence business targeted at projects with high quality and high challenge and premium and high-end customer base to secure profit margin of the segment and sustainability of the project. Meanwhile, the Group deployed enormous recourses into building energy saving and transformation market and conducted comprehensive upgrade of various core software systems for building energy consumption and supervision during the year. Besides, the Group proactively promoted in-depth cooperation with a number of sizeable real estate enterprises including Wanda Group and China Jinmao and a couple of local governments. The Group actively invested in big data accumulation and analysis regarding building energy consumption to pave the way for building energy saving and transformation and energy saving operational services in full swing in the future.

The Group has been leading the industry in urban centralized heating supply segment. With the ever-accelerating of China's urbanization, smart energy segment shows strong momentum for the future development. Notwithstanding, the Group has been pursuing a path for the segment's transformation and upgrade to shore up its leading position in traditional predominant field while exploring more technical breakthroughs and discovering more potential business opportunities to climb the top of the industry. During the year, the Group continued to promote centralized heating intelligent business and actively expanded project of the integration between network and source and achieved significant increase in the overall profit margin of the segment through various heating network energy saving projects. With the Group's timely embrace of the opportunities brought about by the state's economic structural reform and accurate grasp of the emerging business opportunities from centralized heating hosting operation segment, the Group has made sound progress in respect of the pilot project in Friendship Heating Company (友誼熱力公司) in Heilongjiang and accumulated precious experience. The Group plans to quickly promote and replicate such projects in the future, which may serve as the key factor for the sustainable development of the segment in the future.

A new start, a new plan

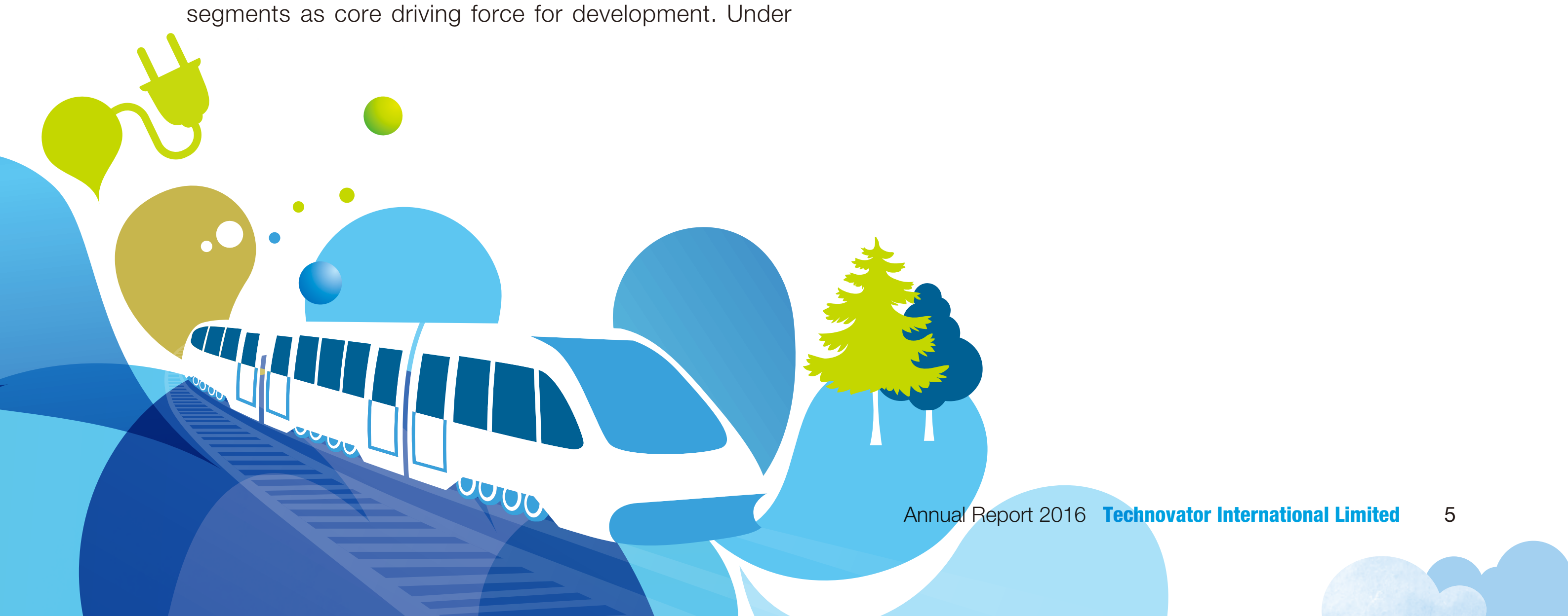
Under the new strategic plan of transformation and upgrade, the Group will leverage on its enduring legacy of "inheriting Tsinghua and stemming from THTF" and persist in its development path as a high-tech enterprise with technical breakthroughs and innovations in various segments as core driving force for development. Under the new strategic plan of transformation and upgrade, the Group will break the traditional industrial barriers by continuously discovering, exploring and challenging new segments, new models and new business opportunities to lead an increase in profits with innovative ideas, finally, to realize sustainable operation. Under the new strategic plan of transformation and upgrade, the Group will draw the strengths of capital market in full and take a wide view for international layout, and keep improving the industry values as well as pursue striding development.

For the past decade, we have weathered the storm. For the past five years, we have been poised to achieve. Today, Technovator is standing at a new start. Through innovation, we will lead the transformation; through transformation, we will pursue better development. The market is ever changing and the model is developing driven by innovation, however, the dream and pursuit of Technovator remain unchanged. We will draw a blueprint for urban energy saving cause and make our own contributions to create a better homeland.

Lastly, on behalf of the Board of Technovator, I would like to express my heartfelt gratitude to all of staff of the Group for their unremitting contribution, to all our customers and business partners for their tremendous support, and to all shareholders and investors for their support and trust. Time is running like a river to the sea, yet we will always bear those memorable days deep in our heart. The cantabile past is in the past, yet we will start our new chapter for a glorious tomorrow!

Huang Yu
Chairman

13 March 2017



FIVE YEAR FINANCIAL SUMMARY

	2012	2013	2014	2015	**2016**
('000 RMB)					
Consolidated income statement					
Continuing operations					
Revenue	901,654	1,082,598	1,394,346	1,692,624	**1,786,341**
Cost of sales	(689,547)	(818,385)	(1,023,120)	(1,297,085)	**(1,357,747)**
Gross profit	212,107	264,213	371,226	395,539	**428,594**
Other revenue	7,466	21,977	24,675	58,475	**40,162**
Other net gain/(loss)	197	(7,247)	1,291	1,888	**27,999**
Selling and distribution costs	(39,346)	(60,865)	(67,960)	(70,269)	**(66,183)**
Administrative and other operating expenses	(60,657)	(84,162)	(109,003)	(144,193)	**(131,647)**
Financial expenses	(3,088)	(11,869)	(22,349)	(34,794)	**(30,897)**
Profit before taxation	116,679	122,047	197,880	206,646	**268,028**
Income tax	(20,592)	(23,868)	(41,803)	(21,351)	**(36,303)**
Profit for the year from continuing operations	96,087	98,179	156,077	185,295	**231,725**
Discontinued operation					
Profit for the year from a discontinued operation	27,453	33,985	40,967	599,318	**–**
Profit for the year	123,540	132,164	197,044	784,613	**231,725**
Equity shareholders of the Company	112,105	124,677	184,510	778,919	**234,127**
Non-controlling interests	11,435	7,487	12,534	5,694	**(2,402)**
Profit for the year	123,540	132,164	197,044	784,613	**231,725**
Basic earnings per share (RMB)	0.1896	0.2040	0.2959	1.0680	**0.2935**
Diluted earnings per share (RMB)	0.1886	0.1871	0.2677	1.0092	**0.2870**
('000 RMB)					
Non-current assets	522,554	829,220	982,245	778,117	**832,941**
Current assets	1,176,545	1,567,232	1,933,958	3,187,256	**2,996,669**
Current liabilities	668,002	1,022,038	1,268,677	1,754,975	**1,607,886**
Net current assets	508,543	545,194	665,281	1,432,281	**1,388,783**
Total assets less current liabilities	1,031,097	1,374,414	1,647,526	2,210,398	**2,221,724**
Non-current liabilities	210,846	440,995	466,968	203,602	**27,606**
Total equity attributable to equity shareholders of the Company	778,651	903,260	1,150,642	1,998,710	**2,188,427**
Non-controlling interests	41,600	30,159	29,916	8,086	**5,691**
Total equity	820,251	933,419	1,180,558	2,006,796	**2,194,118**
Net assets per share (RMB)	1.57	1.79	1.83	2.52	**2.74**
Financial ratio					
Cost to income ratio	76.5%	75.6%	73.4%	76.6%	**76.0%**
Pre-tax profit margin	12.9%	11.3%	14.2%	12.2%	**15.0%**
Return on Equity	11.7%	10.5%	13.2%	9.2%	**10.6%**
Current ratio	1.8	1.5	1.5	1.8	**1.9**
Ending balances of shares	521,520,000	521,520,000	644,228,189	795,272,189	**801,418,189**

MANAGEMENT DISCUSSION AND ANALYSIS

(The following discussion is based on continuing operations)

GENERAL

For Technovator, 2016 was a crucial year for optimizing business layout from a new starting point, planning and getting prepared for future transformation strategy. The Group continued to taking advantage of the inheritance from Tsinghua Tongfang Co., Ltd, ("THTF", 600100.SSE) in terms of its tremendous depth of technology expertise, innovative products and build-up of talents. At the same time, in response to the change of market environment and policy requirement, the Group proactively adjusted its own business structure and business model and stepped into a new stage of transformation and upgrade. Positioning itself as a leading energy, smart energy and energy saving services provider in China, the Group paved the way for future innovative development.

During the year, the transformation adjustment of the Group began to take effect. Throughout the year of 2016, the Group realized revenue of RMB1,786 million, representing a year-on-year increase of 5.5%, and a net profit of RMB232 million, representing a year-on-year increase of 25.1%, with the net profit margin achieving a remarkable increase.

BUSINESS REVIEW

Progress made by all business segments

➢ *Smart Transportation Business:*

Leveraging on the historical opportunity of rapid construction of rail transit across major cities in China, the Group continued to make fast progress on rail transit business in 2016. Many achievements by the Group were reported regarding rail transit intelligence projects during the year and major breakthroughs were made in the Group's rail transit transformation and promotion strategy. Meanwhile, the core technologies, proprietary software and hardware, and implementation capability of the Group's projects of this segment were enhanced significantly, which further consolidated the Group's leading position in the industry.

In respect of rail transit intelligence: after the Beijing Traffic Control Center project, the Guangzhou Traffic Control Center project undertaken by the Group has been successfully delivered for operation during the year. The Shenzhen rail NOCC project has also completed the linkage of three routes, which further consolidated the Group's advantageous position in Traffic Control Center market in China and helped the Group to expand its business in other large cities. As for the segment of integrated rail transit supervision and control, a long-existing and well-developed business, the Group successfully contracted various rail transit projects including Changchun rail transit line 1, Wuhan rail transit line 7, Xi'an rail transit line 4 and Chongqing rail transit line 10, and facilitated the implementation of projects in cities such as Suzhou, Shijiazhuang and Shenzhen. Meanwhile, the Group successfully contracted the rail transit orange line project in Lahore, Pakistan, which became an important opening for the implementation of "One Belt, One Road Initiative" strategy. The Group's proprietary system, Platform Screen Door System (PSD), was successfully applied for Tianjin line 5, forging a new market for the future development of our smart transportation segment.

In respect of energy saving transformation for subway stations: during the year, the Group successfully contracted and implemented Energy Management Contract (EMC) project for Beijing rail transit line 8 and 9. The Line 8 project has successfully delivered during the year and contributed revenue for the energy saving segment that exceeded our expectation. The Group will regard Beijing as the model city for rail transit energy saving transformation and continue to promote the strategy of connecting lines and networks. Furthermore, the Group will swiftly replicate the successful experience to various cities across the country and strive to become a leader as well as an active promoter in the rail transit energy saving market in the future, in order to create new profit drivers for the smart transportation business segment of the Group.

➢ *Smart Building and Complex Business:*

In light of the slowdown in the growth of the macro-economy in China and the overall real estate and construction industries reached saturation, the Group has timely transformed and adjusted its business development direction and business model of smart building and complex segment. By focusing on high-quality intelligence projects, integrating resources to develop energy saving service and energy saving operation projects, as well as promoting long-term strategic cooperation with large key customers, the Group proactively explored ways for the segment's future profit growth and long-term sustainability, and the effort began to take effect.

In respect of the building intelligence, the Group was not bound by the current market condition. It endeavored to transform and upgrade itself by capitalizing on its own technological advantages with an aim to fully explore the segmented market as well as high quality and high-end customers. During the year, the Group contracted and completed a number of difficult landmark projects, among which Taiyuan Zhongding Logistics Park project successfully contracted in the mid-year, with an objective to develop a highly effective, convenient and cost-effective domestic premium smart logistics park based on Internet applications for Zhongding Logistics. It also symbolized the significant transformation and upgrade into smart of the traditional low current integration. The cooperation with Baidu moved forward during the year as the Group successfully contracted Baidu Cloud Computing (Yangquan) Center project following Beijing and Shenzhen and continued to outlining the future operational cooperation in energy saving. The "One Belt, One Road Initiative" strategy of the building segment made an auspicious start during the year thanks to the successful completion of Tanzania National Information and Communication Technology (ICT) Backbone Network project. It marks the successful start of the Group's proprietary building control products and technology going abroad, and accumulates the precious experience for overseas market promotion in the future.

In respect of the building energy saving, the core software technologies were ramped up fully and the overall strategic layout was arranged during 2016. The Group also proactively proceeded with in-depth cooperation with various large-scale real estate enterprises in order to pave the way for building energy saving operational service in full swing in the future. The Group continued to provide service to Wanda Group throughout the year, developed "The Huiyun System" for 24 Wanda Plazas in total across the country, and fully upgraded Techcon IBS platform in order to support the intelligence and energy saving operation management for Wanda Group. In the mid-year, the Group has entered into "the Strategic Cooperation Agreement" with Jinmao Green Building (金茂綠建) and began to build the centralized energy consumption monitoring platform for the company in order to collect energy consumption data for Jinmao Palace (金茂府) in various cities and to realize efficient real time supervision and control management. Meanwhile, the Techcon Energy Management System (EMS) of the Group's building energy consumption data center was upgraded again during the year so as to continue to serve Changsha City and Zhuzhou City in Hunan Province and Wuhan City in Hubei Province. The Group also contracted with a large-size and high-quality customers (such as Goldwind (金風科技) and conducted new business in Foshan and Macau, etc.

➢ *Smart Energy Business:*

At present, as China undergoes ever-accelerating urbanization, the government keeps upgrading the energy conservation and emission reduction policies and indicators, and the demand on centralized and highly efficient utilization of urban energy surges significantly. All of these brought forth a long-term favorable driving force for the development of the Group's smart energy business segment. In 2016, great progress and breakthroughs were made by the Group in the intelligence of the heating network, the integration between network and source, the heating network energy saving EMC and the centralized heating hosting operation in this segment. The segment recorded a significant increase in annual revenue and profit.

In respect of centralized heating intelligence, the Group's integrated solution capability in that field has been in leading industry position for a long time. The centralized heating project in Taiyuan Taigu signed in the year comprised various domestic-first and world-leading technologies, which successfully created entry points for super long-distance transmission of urban energy in the future. The Group also successfully signed several heating network intelligence projects in Taiyuan, Baoding, Tongliao and Wuwei, etc., and continuously promoted the implementation of projects in Datong, Baoding, Lanzhou and Xinxiang, with operations covering 12 provinces, cities as well as autonomous regions in the North China. In the meantime, successful experience was gained from the combination of network and source projects in Wangkui, Shihezi and other areas, of which it reduced the security risk of heating source production, improved the overall heating revenue significantly for customers, and formed a solid foundation for the implementation of successive projects of the integration of network and source.

In respect of energy saving in heating supply, the heating network energy saving EMC projects have achieved another significant progress during the year with the projects signed in Heze, Shandong and Xiaoyi, Shanxi. Currently, a total of seven heating network energy saving EMC projects covering heating area of nearly 100 million square meters have operated steadily and continues to make revenue contribution to the energy saving segment. The business is at a sound development stage. Friendship Heating Company Project (友誼熱力公司項目), a pilot project in the field of heating supply entrusted operation business, has expanded its heating area again in 2016 and gained strong revenue. The pilot project has entered into a healthy development track and paved the way for replication and promotion of the similar projects.

OUTLOOK

Although China's economy has currently entered into to a new normal period, the economic growth remained faster than most of the countries and regions in the world. With the growth of China's total economic capacity, China's total energy consumption continues to surge and has reached up to 4,300 million tons of standard coal in 2015. China's "13th Five-Year Plan" stated that China aims to lower its energy consumption per unit of GDP by 15% in 2020 as compared to that of 2015. This provides substantial growth for the domestic energy-saving market.

In the area of building energy saving, the energy consumption of various building operations accounted for nearly 20% of the whole society. China has proposed specific plans for building energy saving, which includes targets set for overall energy saving and separate energy saving measures, drawing out building energy-saving designs and green building standard and the promotion plan. According to the forecasts of the third party investigation and survey institute engaged by the Group, China's total building energy-saving will reach 12.1 million tons of standard coal in 2021, corresponding to a market size of RMB73.9 billion in 2021. In the area of rail transit energy saving, the energy-saving reformation of air-conditioning ventilation system and power traction system is expected to be used progressively in the coming five years. The prospects of China's urban rail transport energy-saving market is promising. According to the forecasts, the number of subway stations in China will reach 5,821 by 2021. In the area of urban centralized heating supply energy saving, with an increase of China's total heating supply capacity and the improved penetration of energy-saving technology in heating supply source and heating network in China, there will be enormous growth potential in the market size. According to the forecasts, China's total capacity of urban centralized heating supply may save approximately 8 million tons of standard coals by 2021 and the coverage of China's urban centralized heating supply will reach 10.96 billion square meters by 2021.

Transformation target: improving income structure, increasing profit margin, and materializing sustainable operation

In response to the demand of China's economic changes, coupled with its own advantages in terms of technology, products and human resources, the Group formulated a new development plan in 2016 to order to improve the existing income structure with an aim to increase the overall profit margin and swiftly enter into a long-term sustainable healthy development track. The Group has stepped into a historical stage of restructuring and upgrading as a whole in 2016.

In the traditional smart EPC market, the Group will continue to maintain its technological leadership, while focusing on the exploration and investment on long-term high quality customers, segmented services areas and innovative products and technology, and striving to create outstanding and differential features for the new market environment in a new era. In the energy-saving market, it is expected that each of the Group's existing segment has huge room for development in the future and the market potential is enormous. Meanwhile, the EMC mode oriented energy-saving service projects will become the main direction of the Group's future development. Currently, the Group has gained initial scale in the heating supply energy-saving area, while the rail transit energy-saving projects are in a period of rapid expansion. The building energy-saving area of the Group underwent big data accumulation and completed trial projects in various places. The large-scale promotion of energy-saving reformation project will commence very soon. Meanwhile, in light of the new development opportunities which have arisen in the area of the energy entrusted operation business model and regional power station in recent years and since the Group has a good technology base and project experience in those businesses, these will also become the Group's future development focus.

As a leading urban energy, smart energy and energy saving services provider in China, Technovator, in line with the market development pace and the changes in demand of energy-saving services in each area, will proactively make adjustment and transformation, fully enlarge resources input in three main energy-saving and transformation projects of rail transit, building and heating supply in a bid to improve income structure and increase profit margin. In addition, by boldly tapping into the energy entrusted operation business and introducing the regional power station business, we set to realize sustainable operation with leapfrogging growth in the future in order to maximize value for shareholders.

FINANCIAL REVIEW

Revenue

The Group recorded net revenue of approximately RMB1,786.3 million for 2016, representing a year-on-year increase of 5.5%. On the one hand, benefited from China's increasingly growing demands for urban rail transit construction and urban centralized heating and energy saving, the smart transportation and smart energy businesses recorded a remarkable increase in revenue; on the other hand, the smart building and complex business suffered from a substantial decrease in revenue due to the impact of the overall slowdown in the industry's growth rate, however, the decrease has narrowed down compared to that of the first half of the year.

Revenue by business segments

The table below sets out the profile of the Group's revenue by business segments for the periods indicated.

	2016		2015		
	Revenue (RMB'000)	% of revenue	Revenue (RMB'000)	% of revenue	Comparison
Smart transportation	677,632	38%	626,755	37%	8.1%
Smart building and complex	633,308	35%	734,440	43%	–13.8%
Smart energy	475,401	27%	331,429	20%	43.4%
Total	1,786,341	100%	1,692,624	100%	5.5%

Smart transportation
Revenue from the smart transportation business segment increased by 8.1%, from approximately RMB626.8 million for 2015 to approximately RMB677.6 million for 2016, representing a slightly higher percentage of revenue to 38%. In recent years, China's demand for rail transit intelligence market has enjoyed a continuous and stable growth, which has driven the growth of smart transportation business. During the result period, the Group promoted the implementation of various urban subway intelligence projects including Shijiazhuang Subway Line No. 1, Changchun Subway Line No. 1 as well as Shenzhen rail NOCC Project, and successfully signed the contracts in succession for subway intelligence projects of various lines in different cities including Wuhan, Xi'an, Changchun, Qingdao, Chengdu, Chongqing and certain overseas cities. Meanwhile, the Group's rail transit energy saving business made a great breakthrough of the strategic approach of connecting lines and networks, manifested by success in promoting the EMC project for the energy-saving and transformation of the ventilation and air conditioning system of Beijing Subway Line No. 8 and 9 during the year.

Smart building and complex
Revenue from the smart building and complex business segment decreased by 13.8%, from approximately RMB734.4 million for 2015 to approximately RMB633.3 million for 2016, which was mainly attributable to the insufficient growth in general of the construction-related industries and the decrease of profit margin. However, with the Group's proactive efforts to transform and focus on high-end markets such as data centers, high-end hotels, hospitals and smart complex, the decline of the Group's building intelligence business in the second half of the year 2016 has narrowed substantially compared to that of the first half of the year. During the result period, with the contracts for Smart Logistics Complex System Construction of Zhongding Logistics Park, North Data Center of Agriculture Bank of China, Baidu Cloud Computing (Yangquan) Center and intelligence projects in respect of hotels and commercial complex in various cities successfully signed in succession, the Group continues to promote the intelligent and energy-saving operation and management for Wanda Group's "Huiyun" Project, whilst signing a "strategic cooperation agreement" with Jinmao Green Building Company, aiming at large-scale cooperation in the future in respect of construction of the centralized management platform of building energy and the additional and acquired building energy saving and transformation projects.

Smart Energy
Revenue from smart energy business segment recorded a significant year-on-year increase of 43.4%, from approximately RMB331.4 million for 2015 to approximately RMB475.4million for 2016, which was mainly benefited from the Group's ongoing breakthrough in respect of the energy saving and transformation of EMC, and the continued expansion of the centralized heating network intelligence businesses against the backdrop of China's ever-accelerating urbanization, the increasingly upgrade of governments' policies and indicators regarding energy conservation and emission reduction and the surging needs of centralized and highly efficient utilization of urban energy as well. During the result period, the Group has achieved great progress and breakthroughs in various fields such as the intelligence of the heating network, the integration between network and source, heating network energy saving EMC and centralized heating hosting operation. Meanwhile, the Group signed the contracts for and promoted the Energy-saving and Transformation EMC Project for Centralized Heating Supply in Heze City of Shandong and the Energy saving and Transformation EMC Project for Centralized Heating Supply in Xiaoyi City of Shanxi. Leveraging on the network-wide balancing software, the Group achieved unified control, transformation and quantitative treatment over the entire network. Also, the Group successfully signed several heating network intelligence projects in Taiyuan, Baoding, Tongliao and Wuwei, etc., and continuously promoted the implementation of heating network intelligence projects in various places in Datong, Baoding, Lanzhou and Xinxiang.

Cost of sales
Cost of sales increased by approximately 4.7%, from approximately RMB1,297.1 million for 2015 to approximately RMB1,357.7 million for 2016.

Gross profit
Gross profit increased by 8.4%, from approximately RMB395.5 million for 2015 to approximately RMB428.6 million for 2016. Gross profit margin increased slightly by 0.6 percentage points, from approximately 23.4% for 2015 to approximately 24.0% for 2016. In particular, the gross profit margin of the smart transportation business segment remained stable while the gross profit margin of the smart energy business segment increased significantly, which was driven by the Energy Saving and Transformation EMC Project promoted during the year. The gross profit margin of the intelligent building segment witnessed a decrease due to the impact of the overall decline in the industry's profit margin, while the decrease in the gross profit margin of the segment has been stabilized with the transformation of the Group achieving an initial success.

Other revenue
Other revenue decreased by approximately RMB18.3 million, from approximately RMB58.5 million for 2015 to approximately RMB40.2 million for 2016, which was mainly due to a decrease in the government grants.

Other net gain
Other net gain for 2016 was approximately RMB28.0 million as compared to approximately RMB1.9 million for 2015, which was primarily due to the net foreign exchange gains of the Group.

Selling and distribution costs
Selling and distribution costs was approximately RMB66.2 million for 2016, representing a year-on-year decrease of 5.8%, which was mainly due to effective cost control implemented by the Group. Selling and distribution costs as a percentage of revenue decreased from 4.2% for 2015 to 3.7% for 2016.

Administrative and other operating expenses
Administrative and other operating expenses decreased by 8.7%, from approximately RMB144.2 million for 2015 to approximately RMB131.6 million for 2016, which was mainly due to the provision of one-off impairment loss on assets of approximately RMB28.0 million in 2015 by the Group. The administrative and other operating expenses as a percentage of revenue decreased by 1.1 percentage points, from 8.5% for 2015 to 7.4% for 2016.

Finance costs
In 2016, the Group's finance costs declined to approximately RMB30.9 million, which was mainly due to the decrease in balances of loans and borrowings, which also offset the effect of interest expenses paid for the remaining balance of acquisition. The finance costs in 2015 was approximately RMB34.8 million.

Income tax
Income tax increased by 70.0%, from approximately RMB21.4 million for 2015 to approximately RMB36.3 million for 2016, which was mainly due to the increase in the Group's taxable income as well as the increase in income tax expenses caused by the fact that in 2016, the software company in the Group which had enjoyed full tax exemption in 2015 have entered into the first year of a 50% tax-cut period. The overall effective tax rate for the Group in 2016 was 13.5%.

Profit for the year
Profit for the year of continuing operation increased approximately by 25.1%, from approximately RMB185.3 million for 2015 to approximately RMB231.7 million for 2016. Net profit ratio increased by 2.1 percentage points, from 10.9% to approximately 13.0%. The net profit ratio of 2016 would be 11.3% (2015:10.9%) if excluding the net foreign exchanges gain.

The Group's basic earnings per share from continuing operation increased to RMB0.2935 (2015: RMB0.2524)as compared to that of the last year while diluted earnings per share increased to RMB0.2870 (2015: RMB0.2385) as compared to that of the last year.

Working Capital and Financial Resources
The following table sets forth the Group's current assets and liability as at the indicated dates:

	2016 (RMB'000)	2015 (RMB'000)
Inventory	**302,950**	283,762
Trade and other receivables	**1,345,417**	1,212,817
Trade and other payables	**1,292,923**	1,459,534
Average inventories turnover days	**59**	50
Average trade receivables turnover days *	**208**	175
Average trade payables turnover days *	**226**	175

* The calculation of turnover days excluded other receivables, other payables and related party amounts

The Group's inventory increased from approximately RMB283.8 million as at 31 December 2015 to approximately RMB303.0 million as at 31 December 2016, which was mainly due to the increase of inventories driven by the rapid growth of smart energy business. The Group's average inventories turnover days generally maintained at approximately 59 day in order to accommodate the Group's inventory management policy.

The Group's amounts of trade and other receivables increased from approximately RMB1,212.8 million as at 31 December 2015 to approximately RMB1,345.4 million as at 31 December 2016. The average trade receivables turnover days increased to 208 days. On the one hand, such increase was due to the continuous expansion of the Group's business resulting in the corresponding increase in trade receivables; one the other hand, it was also due to the increase in the age of receivables caused by the slower progress of engineering projects in light of the slowdown in the growth of construction-related industries.

The Group's amounts of trade and other payables decreased from approximately RMB1,459.5 million as at 31 December 2015 to approximately RMB1,292.9 million as at 31 December 2016, which was mainly due to the decrease in other payables resulted from the repayment of the amounts of acquisition by the Group. The average trade payables turnover days increased to 226 days.

Liquidity and financial resources

In 2016, the Group has financed its operations primarily through cash on hand, cash flows from operations and bank borrowings. As at 31 December 2016, the Group had approximately RMB665.8 million in cash and cash equivalents, accounting for 30.3% of the Group's net assets. The proceeds will be used for the Group's normal working capital, expansion of market shares and pursuit of future acquisitions. The Group's cash and cash equivalents consisted primarily of cash in the banks and on hand and deposits that are readily convertible into known amounts of cash.

As at 31 December 2016, the Group's indebtedness consisted of short-term bank loans of approximately RMB217.0 million with an average annual interest rate of approximately 4.4% and borrowings of RMB73.4 million. The decrease in the Group's indebtedness in 2016 was mainly due to the repayment of a short-term bank loan bearing higher annual interest rate by the Group in 2016 amounting to approximately RMB276.7 million and the repayment of a long-term borrowing amounting to approximately RMB100.0 million.

As at 31 December 2016, the Group's debts were mainly bank loans and borrowings denominated in RMB. Cash and cash equivalents were mainly cash in the banks and on hand denominated in RMB, CAD, U.S. dollars, HKD, MOP and SGD and deposits that are readily convertible into known amounts of cash.

As at 31 December 2016, the net cash of the Group was approximately RMB375.5 million. Gearing ratio, defined as loans and borrowings divided by total assets, was approximately 7.6% (2015: approximately 11.2%).

Pledge of assets

As at 31 December 2016, the Group had no pledge of assets.

Contractual obligation and capital commitments

The following table sets forth the Group's non-cancellable operating lease commitments as at 31 December 2016 and 2015. The Group's operating lease commitments relate primarily to its leases of office spaces, workspaces and machinery.

	2016 RMB'000	2015 RMB'000
Within 1 year	**11,883**	10,808
After 1 year but within 5 years	**5,730**	13,599
	17,613	24,407

Capital commitments outstanding at 31 December 2016 and 2015 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for	**188,641**	304,461

Contingent liabilities

As at 31 December 2016, the Group did not have any material contingent liabilities.

Off-balance sheet arrangements

The Group does not have any special purpose entities that provide financing, liquidity, market risk or credit support to it or engage in leasing, hedging or research and development services with it. The Group has not entered into any derivative contracts that are indexed to the shareholders of the Group (the "Shareholders") and classified as Shareholders' equity, or that are not reflected in its financial statements. Moreover, the Group does not have any retained or contingent interest in assets transferred to an unconsolidated entity that services as credit, liquidity or market risk support to such entity.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhao Xiaobo (趙曉波), aged 47, is an executive Director and chief executive officer of the Company, responsible for overall strategic planning and general management of the Group. He joined the Group in May 2005 and was appointed a Director on 26 May 2005 and was re-designated as an executive Director on 12 April 2011. Apart from being the general manager of Tongfang Technovator Int. (Beijing) Co., Ltd. (同方泰德國際科技（北京）有限公司) ("Technovator Beijing"), Mr. Zhao is also an assistant to the president of Tsinghua Tongfang Co., Ltd. (同方股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600100) and the controlling shareholder of the Company, ("THTF") and a general manager of "Digital City Division" of THTF. Mr. Zhao received his Bachelor's degree in Thermal Engineering from Tsinghua University in 1993 and Executive Master of Business Administration from Tsinghua University in 2005. Mr. Zhao was qualified as professor and researcher level senior engineer (教授研究員級高級工程師) by the Human Resource and Social Security Department of Liaoning Province (遼寧省人力資源和社會保障廳) in 2009 and was appointed as the vice-chairman of Intelligent Building Branch of China Construction Industry Association (中國建築業協會智能建築分會) in April 2010.

Mr. Zhao joined the Beijing Tsinghua Artificial Environmental Engineering Co. (清華人工環境工程公司) in 1993 and worked in various departments related to environmental protection, responsible for research and development, business strategies, and planning. He had participated in many "intelligent building" projects, such as projects with the Beijing Hotel in the PRC and the Tehran Metro in Tehran, Iran. Mr. Zhao and such projects that he was involved in received various awards including the building low-carbon technology innovation award issued by Ministry of Science and Technology of the PRC (中華人民共和國科學技術部).

Mr. Seah Han Leong (謝漢良), aged 53, is a founder, an executive director and chief operating officer of the Company and is responsible for the day-to-day operations and general management of the Group. He was appointed a director on 25 May 2005 and was re-designated as an executive director on 12 April 2011. Mr. Seah received a certificate for attending the INSEAD-T.A.C. Management Development Program from INSEAD Fontainbleau, France in 2003 and Technician Diploma in Electronics and Communication Engineering from Singapore Polytechnic in 1984.

Prior to founding the Company, Mr. Seah joined Honeywell Southeast Asia in 1990 and worked in various sales management positions covering different countries. In 1994, he was transferred to Honeywell China Inc. and his last position with Honeywell was the sales manager covering the Greater China market. He was also the managing director of TAC Controls Asia Pte Ltd from 1998 to 2005. Mr. Seah was recognized as the key personnel of the Asia Pacific management team of TAC Controls Asia Pte Ltd. He received various awards including Winners Club Award by Honeywell Asia Pacific Inc. and President's Club Award by Honeywell Inc. Mr. Seah was admitted as ordinary member of the Singapore Institute of Directors on 18 April 2012.

Mr. Seah is also the executive director, president and chief executive officer of Neo-Neon Holdings Limited (stock code: 1868). Neo-Neon Holdings Limited is listed on the main board of the Stock Exchange. Mr. Seah is also the director of Tongfang Securities Limited (同方證券有限公司).

Non-Executive Directors

Mr. Huang Yu (黃俞), aged 48, was appointed as a non-executive Director and the chairman of the Board of the Company on 15 July 2016.

He is also (i) the chairman of the board of directors of Shenzhen Huakong Seg Co., Ltd. (深圳華控賽格股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000068), (ii) the senior vice president of Tsinghua Holdings Co., Ltd. (清華控股有限公司), (iii) an executive director of Shenzhen Aorongxin Investment Development Co., Ltd. (深圳市奧融信投資發展有限公司), (iv) the chairman of the supervisory committee of Penghua Fund Management Co., Ltd. (鵬華基金管理有限公司), (v) the vice chairman of the board of directors and chief executive officer of Tsinghua Tongfang Co., Ltd. (同方股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600100) and the controlling shareholder of the Company, (vi) an executive director and the chairman of the board of directors of Tongfang Kontafarma Holdings Limited (同方康泰產業集團有限公司)), a company listed on the Stock Exchange (stock code: 1312), and (vii) a non-executive director and the chairman of the board of directors of Neo-Neon Holdings Limited (同方友友控股有限公司), a company listed on the Stock Exchange (stock code: 1868).

Mr. Huang holds a master degree in science from the University of Greenwich.

Mr. Liu Tianmin (劉天民), aged 55, was appointed as a non-executive director on 8 September 2011. Mr. Liu had over eight years of experience in strategic investments and portfolio management. In March 2003, he was appointed as the vice president of THTF and general manager of "Digital TV System" Division, one of the divisions of THTF. Such division stresses on enhancing technological products and services on digital television network and Mr. Liu was responsible for strategic investment and management of extensive portfolio of companies with business covering information technology, new media, internet, broadcasting services, telecommunication and information technologies equipment such as Beijing Tongfang Ehero Co., Ltd (北京同方易豪科技有限公司), Beijing Tsinghua Tongfang Innovative Investment Co., Ltd. (北京同方創新投資有限公司), Know China International Holdings Limited (知網國際控股有限公司), Beijing Tongfang Legend Silicon Tech. Co., Ltd (北京同方淩訊科技有限公司) and Beijing Tongfang Gigamega Tech Co., Ltd (北京同方吉兆科技有限公司).

Mr. Liu left THTF in 2009 and subsequently joined SB China Venture Capital (軟銀中國創業投資有限公司) ("SBCVC") as Managing Partner in November 2009. Established in 2000, SB China Venture Capital is a one of the top 10 venture capital firms in China as ranked by CNBWeekly in 2009. Mr. Liu's previous experience in investing in technological fields has allowed him to manage SBCVC's related funds.

Mr. Liu is also the independent non-executive director of Neo-Neon Holdings Limited (stock code: 1868). Neo-Neon Holdings Limited is listed on the main board of the Stock Exchange.

Mr. Wang Yinghu (王映滸), aged 42, was appointed as a non-executive director of the Company in November 2015. Mr. Wang joined THTF, a company listed on the Shanghai Stock Exchange (stock code: 600100) and a controlling shareholder of the Company, in 2008. He held several positions including the Chief Manager of Audit Department (審計部總經理), Chief Manager of Finance Department (財務部總經理) and Vice Chief Accountant (副總會計師) of THTF and is currently the Chief Accountant cum Chief Manager of Financial Management Center (總會計師兼財務管理中心總經理) of THTF. He has almost 20 years of experience in the areas of accounting, audit and financial management, where he was employed by Shine Wing Certified Public Accountants* (信永中和會計師事務所) and was a Senior Auditor (高級審計員), Senior Project Manager (高級項目經理) and Assistant Manager of Audit Department (審計部副經理). He is a Senior Accountant (高級會計師), a member of the Chinese Institute of Certified Public Accountants (CICPA) and Association of International Accountants (AAIA), and a Certified Internal Auditor (CIA). He graduated with a bachelor's degree in Transport Economics (運輸經濟) from Beijing Jiaotong University* (北方交通大學, currently known as 北京交通大學).

Independent Non-Executive Directors

Mr. FAN Ren Da, Anthony (范仁達), aged 56, was appointed as an independent non-executive director of the Company in September 2011. Mr. Fan is currently the chairman of AsiaLink Capital Limited and also an independent non-executive director of Neo-Neon Holdings Limited (stock code: 1868), Uni-President China Holdings Ltd. (stock code: 220), Raymond Industrial Limited (stock code: 229), Shanghai Industrial Urban Development Group Limited (stock code: 563), Renhe Commercial Holdings Company Limited (stock code: 1387), Tenfu (Cayman) Holdings Ltd. (stock code: 6868), Citic Resources Holdings Limited (stock code: 1205), Guodian Technology & Environment Group Corporation Limited (stock code: 1296), China Development Bank International Investment Limited (stock code: 1062), Hong Kong Resources Holdings Company Limited (stock code: 2882), CGN New Energy Holdings Co., Ltd. (stock code: 1811) and LT Commercial Real Estate Limited (stock code: 112), all of which are listed on the main board of the Stock Exchange. Mr. Fan is also the President of the Hong Kong Independent Non-Executive Director Association. Mr. Fan holds a master's degree in business administration from the United States.

Mr. Chia Yew Boon (謝有文), aged 58, was appointed as an independent non-executive director of the Company on 8 September 2011. He received his Diploma of Chemical Engineering from Ecole Nationale Supérieure de Chimie de Strasbourg, France in July 1983.

Before entering the financial sector, Mr. Chia worked for the Economic Development Board of the Singapore government in various capacities from 1985 to 1990. He then spent eight years in equity research and corporate finance with regional investment banks from 1990 to 1998. From 1999 to 2005, Mr. Chia served as the senior vice president at GIC Special Investments Pte Ltd, a subsidiary of the Government of Singapore Investment Corporation. From 2005 to 2007, he was the chief executive officer of EasyCall International Ltd, a company involved in tertiary education in China and Australia, which was previously listed on the Australian Securities Exchange (stock code: EZY) and Singapore Stock Exchange, and a director of Strategic Planning at Boustead Singapore Limited, an engineering and information technology services company whose shares are listed and traded on the Singapore Stock Exchange (stock code: SGX: F9D). Since April 2007, he has been an independent private equity and venture capital consultant.

Mr Chia is also an Independent non-executive director of EC World Asset Management Pte Ltd, which manages EC World Real Estate Investment Trust; EC World REIT is listed on the Singapore Stock Exchange (stock code: SGX: BWCU) and has a diversified portfolio of income-producing real estate used primarily for e-commerce, supply chain management and logistics purposes, with an initial geographic focus on China.

Ms. Chen Hua (陳華), aged 51, was appointed as an independent non-executive director on 8 September 2011. Ms. Chen received a Bachelor's degree in Science from New York University in 1988, and a Master's degree in Science with major in taxation from Fordham University in 1992. Since 2010, Ms. Chen is the operating partner and chief financial officer of SB China Venture Capital (軟銀中國創業投資有限公司). Ms. Chen was a director in the asset management division of Credit Suisse from 25 September 2000 to 31 December 2009. From 1993 to 2000, Ms. Chen was a Tax Consulting Manager with Arthur Andersen LLP and Ernst & Young's financial service division, providing tax and structure consulting services to broker/dealers, hedge fund, private equity, venture fund and 40 Act mutual fund companies. Ms. Chen is a U.S. certified public accountant.

Senior Management

Mr. Zhao Xiaobo (趙曉波), please refer to the details set out above under the paragraph headed "Executive Directors".

Mr. Seah Han Leong (謝漢良), please refer to the details set out above under the paragraph headed "Executive Directors".

Mr. Leung Lok Wai (梁樂偉), aged 41, is the chief financial officer of the Group and a joint company secretary of the Company. He joined the Group in June 2010. Mr. Leung received his Bachelor's degree in accountancy from the Hong Kong Polytechnic University in December 1999. He is a member of Hong Kong Institute of Certified Public Accountants and a member of the Institute of Internal Auditors. He has over 15 years of experience in accounting, audit, due diligence and financial management, including transaction services in PricewaterhouseCoopers, group internal audit in Swire Group and audit assurance services in KPMG.

JOINT COMPANY SECRETARIES

Mr. Leung Lok Wai (梁樂偉), please refer to the details set out above under the paragraph headed "Senior Management".

Mr. Teo Meng Keong (張明強), aged 46, was appointed as a joint company secretary of the Company on 16 May 2016. He is a member of Chartered Secretaries Institute of Singapore (formerly known as The Singapore Association of the Institute of Chartered Secretaries & Administrators). He is currently serving as a senior manager of Tricor Singapore Pte Ltd.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is principally engaged in integrated urban energy saving services. Its business covers three major segments including smart transportation, smart building and complex and smart energy, providing the customers with smart energy management products, solutions and integrated services throughout their full life cycles.

BUSINESS REVIEW

The business review of the Group as at 31 December 2016 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 7 to 9.

ANALYSIS OF FINANCIAL KEY PERFORMANCE INDICATORS

For details of the key financial performance indicators to the performance the Group's business, please refer to "Five Year Financial Summary" on page 6 of this annual report.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2016 are set out in note 15 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 60 to 136 of this annual report.

DIVIDENDS

During 2016, the Company has declared and paid a special dividend of RMB0.10 per share in respect of the financial year ended 31 December 2015. The Board does not recommend any final dividend for the year ended 31 December 2016.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB451,641,000 (2015: RMB528,840,000). Details of the reserves of the Company as at 31 December 2016 are set out in note 26 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2016 amounted to approximately RMB232,290 (2015: RMB384,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2016 are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2016 are set out in note 26 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2016 and as at the date of this report were:

Executive Directors
Mr. Zhao Xiaobo (趙曉波)
Mr. Seah Han Leong (謝漢良)

Non-executive Directors
Mr. Fan Xin (范新) *(Chairman)* (resignation effective on 15 July 2016)
Mr. Huang Yu (黃俞) *(Chairman)* (appointed on 15 July 2016)
Mr. Liu Tianmin (劉天民)
Mr. Wang Yinghu (王映滸)
Mr. Ng Koon Siong (黃坤商) (resignation effective on 22 January 2016)

Independent Non-executive Directors
Mr. Fan Ren Da Anthony (范仁達)
Mr. Chia Yew Boon (謝有文)
Ms. Chen Hua (陳華)

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive, non-executive and independent non-executive Directors on the Board other than Mr. Huang Yu and Mr. Wang Yinghu had entered into a service contract with the Company for an initial term of one year, commencing from 27 October 2011. Mr. Huang Yu has entered into a service contract with the Company for an initial term of one year commencing from 15 July 2016. Mr. Wang Yinghu has entered into a service contract with the Company for an initial term of one year commencing from 16 November 2015. Each of the service contracts are automatically renewed upon expiration and until terminated by either party upon a three-month prior written notice.

In accordance with article 104 of the Company's articles of association, Mr. Zhao Xiaobo and Ms. Chen Hua will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. In accordance with Article 108 of the Articles, Mr. Huang Yu, who was appointed as non-executive Director and the chairman of the Board on 15 July 2016, holds office until the forth coming annual general meeting and being eligible, would offer himself for re-election.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 15 to 21 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2016.

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

As at 31 December 2016, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the Shares, underlying shares of the Company (the "Shares") and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions of Directors of Listed Issuers (the "Model Code"):

Long Positions in the Company

Name of Director and chief executive	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[3]
Mr. Seah Han Leong	Interest in a controlled corporation[1]	8,000,000	1.00%
	Beneficial owner	11,920,000	1.49%
	Beneficial owner	4,000,000[2]	0.50%
Mr. Zhao Xiaobo	Beneficial owner	8,728,000	1.09%
	Beneficial owner	1,000,000[2]	0.12%
Mr. Leung Lok Wai	Beneficial owner	770,000	0.10%
	Beneficial owner	2,100,000[2]	0.26%
Liu Tianmin	Beneficial owner	500,000[2]	0.06%
Fan Ren Da Anthony	Beneficial owner	500,000[2]	0.06%
Chia Yew Boon	Beneficial owner	500,000[2]	0.06%
Chen Hua	Beneficial owner	500,000[2]	0.06%

Notes:

(1) Mr. Seah Han Leong is the sole shareholder of M2M Holdings Ltd and hence is deemed to be interested in all the Shares held by M2M Holdings Ltd.

(2) Shares subject to options under the Share Option Scheme.

(3) The percentage of interest in the issued share capital of the Company is calculated based on the number of issued Shares without taking into account Shares which may be allotted and issued to all grantees upon their after full exercise of the options under the Share Option Scheme.

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The shareholders of the Company have approved and the Company has adopted a share option scheme (the "Share Option Scheme") on 18 May 2012 to grant options to Eligible Persons.

Pursuant to an ordinary resolution adopted in general meeting by the shareholders of the Company on 14 July 2014, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at 14 July 2014, being the date of the extraordinary general meeting at which the said ordinary resolution was adopted, i.e. 52,152,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's shares in issue from time to time.

The Board may, at its absolute discretion, offer options to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to the Eligible Persons. "Eligible Person(s)" means (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group (collectively, the "Executives"), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group, or of an Eligible Entity; (b) a director or proposed director (including an independent non-executive director) of any member of the Group or of an Eligible Entity; (c) direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group or of an Eligible Entity; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group or of an Eligible Entity; (f) person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group or of an Eligible Entity; and (g) an associate of any of the persons referred to in paragraphs (a) to (f) above. "Eligible Entity" means any substantial shareholders or holding companies (as defined in the Companies Ordinance) of the Company and any of their respective subsidiaries, and any entity (including associated company) in which any substantial shareholders or holding companies of the Company or any of their respective subsidiaries holds any equity interest.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(b) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date of adoption of the Share Option Scheme by the shareholders of the Company, 18 May 2012, after which no further options will be granted or offered.

Details of such share options granted under the Share Option Scheme as at 31 December 2016 are as follows:

				Number of shares issuable under the share options			
Name	Date of Grant[(1)]	Exercise price per Share	Exercise period[(2),(3),(4)]	Outstanding as at 1 January 2016	Exercised during the year ended 31 December 2016[(5)]	Forfeit during the year ended 31 December 2016	Outstanding as at 31 December 2016
Director, chief executive or substantial shareholder							
Zhao Xiao bo	23 July 2012	HK$1.15	23 July 2014–22 July 2017	2,400,000	(2,400,000)	–	–
	5 September 2013	HK$3.06	5 September 2015– 4 September 2018	1,000,000	–	–	1,000,000
Seah Han Leong	23 July 2012	HK$1.15	23 July 2014–22 July 2017	4,800,000	(1,800,000)	–	3,000,000
	5 September 2013	HK$3.06	5 September 2015– 4 September 2018	1,000,000	–	–	1,000,000
Liu Tianmin	15 August 2014	HK$3.83	15 August 2014– 14 August 2019	500,000	–	–	500,000
Fan Ren Da Anthony	15 August 2014	HK$3.83	15 August 2014– 14 August 2019	500,000	–	–	500,000
Chia Yew Boon	15 August 2014	HK$3.83	15 August 2014– 14 August 2019	500,000	–	–	500,000
Chen Hua	15 August 2014	HK$3.83	15 August 2014– 14 August 2019	500,000	–	–	500,000
Leung Lok Wai	23 July 2012	HK$1.15	23 July 2014–22 July 2017	1,500,000	–	–	1,500,000
	5 September 2013	HK$3.06	5 September 2015– 4 September 2018	600,000	–	–	600,000
Other Employees							
In aggregate	23 July 2012	HK$1.15	23 July 2014–22 July 2017	11,750,000	(1,880,000)	(550,000)	9,320,000
	5 September 2013	HK$3.06	5 September 2015– 4 September 2018	14,800,000	(250,000)	(1,450,000)	13,100,000
	15 August 2014	HK$3.83	15 August 2016– 14 August 2019	4,300,000	–	–	4,300,000
	17 October 2014	HK$3.444	17 October 2015– 16 October 2019	5,900,000	–	–	5,900,000
Suppliers of goods or services							
In aggregate	5 September 2013	HK$3.06	5 September 2015– 4 September 2018	1,800,000	–	–	1,800,000
Others							
In aggregate	23 July 2012	HK$1.15	23 July 2014– 22 July 2017	2,900,000	–	–	2,900,000
	5 September 2013	HK$3.06	5 September 2015– 4 September 2018	32,900,000	(50,000)	(2,200,000)	30,650,000
	15 August 2014	HK$3.83	15 August 2014– 14 August 2019	1,000,000	–	–	1,000,000
	17 October 2014	HK$3.444	17 October 2015– 16 October 2019	1,100,000	–	–	1,100,000
Total				89,750,000	(6,380,000)	(4,200,000)	79,170,000

The weighted average closing price of the Shares immediately before the respective dates on which the options were exercised during the year ended 31 December 2016 was HK$3.23 per Share.

Notes:

(1) The closing price per Share immediately before 23 July 2012, 5 September 2013, 15 August 2014 and 17 October 2014 (the dates on which the share options were granted) was HK$1.15, HK$3.06, HK$3.83 and HK$3.34, respectively.

(2) Share options granted under the Share Option Scheme on 23 July 2012 and 5 September 2013 (each a "Date of Grant A") shall have an Option Period (as defined in the Share Option Scheme) of 5 years from the respective Date of Grant A and conditional upon, the achievement of certain performance targets as set out in the offer letter, shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the Options are to vest being hereinafter referred to as a "Vesting Date A"):

(i) For the Directors, chief executive or substantial shareholder, other employees and others:

Vesting Date A	Percentage of options to vest
Any time after the second anniversary of the Date of Grant A	50% of the total number of options granted
Any time after the third anniversary of the Date of Grant A	50% of the total number of options granted

(ii) For suppliers of goods or services:

Vesting Date A	Percentage of options to vest
Any time after the second anniversary of the Date of Grant A	100% of the total number of options granted

(3) Share options granted under the Share Option Scheme on 15 August 2014 (each a "Date of Grant B") shall have an Option Period (as defined in the Share Option Scheme) of 5 years from the respective Date of Grant B and conditional upon, the achievement of certain performance targets as set out in the offer letter, shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the Options are to vest being hereinafter referred to as a "Vesting Date B"):

(i) For the Directors:

Vesting Date B	Percentage of options to vest
On the Date of Grant B	100% of the total number of options granted

(ii) For other employees:

Vesting Date B	Percentage of options to vest
On the date of the second anniversary of the Date of Grant B	100% of the total number of options granted

(4) Share options granted under the Share Option Scheme on 17 October 2014 (each a "Date of Grant C") shall have an Option Period (as defined in the Share Option Scheme) of 5 years from the respective Date of Grant C and conditional upon, the achievement of certain performance targets as set out in the offer letter, shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the Options are to vest being hereinafter referred to as a "Vesting Date C"):

Vesting Date C	Percentage of options to vest
On the date of the first anniversary of the Date of Grant C	50% of the total number of options granted
On the date of the second anniversary of the Date of Grant C	50% of the total number of options granted

(5) The weighted average closing price of the Shares immediately before the date(s) on which the options were exercised is HK$5.46.

No option was granted under the Share Option Scheme during the year ended 31 December 2016. Save as disclosed above, no options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2016.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Tsinghua Tongfang Co., Ltd (同方股份有限公司)	Beneficial owner	92,000,000	11.48%
	Interest in a controlled corporation[(1)]	184,432,142	23.01%
Resuccess Investments Limited	Beneficial owner	184,432,142	23.01%

Note:

(1) Tsinghua Tongfang Co., Ltd (同方股份有限公司) ("Tongfang") is the sole shareholder of Resuccess Investments Limited and hence is deemed to be interested in all the Shares held by Resuccess Investments Limited.

Save as disclosed above, as at 31 December 2016, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased a total of 234,000 ordinary shares of the Company on the Stock Exchange, all of which were not yet cancelled as at 31 December 2016. The Directors considered that by making these share repurchases would further enhance the shareholders' value. The details of the repurchases were disclosed as follows:

Month of Repurchase	Aggregate number of shares repurchased	Repurchase price Highest	Repurchase price Lowest	Total consideration paid(Note)
		HK$	HK$	HK$
December 2016	234,000	2.9	2.86	677,234.63
Total	234,000			677,234.63

Note: The total consideration paid excludes expenses paid for the Share repurchase.

Save as disclosed above, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

CONNECTED TRANSACTION

During the year, there was no connected transaction required to be reported.

CONTINUING CONNECTED TRANSACTIONS

Connected persons

(a) Tsinghua Tongfang Co., Ltd. (i.e. THTF): THTF is a controlling shareholder of the Company (the "Controlling Shareholder") and is therefore a connected person of the Company under Rule 14A.11(1) of the Listing Rules.

The continuing connected transactions

1. *Sales of products to THTF from Technovator Beijing and such other parties procured by Technovator Beijing and agreed by THTF*

   On 30 May 2016, Technovator Beijing and THTF entered into a sales agreement (the "Sales Agreement"), pursuant to which Technovator Beijing agreed to sell or procure such other parties agreed by THTF, including members of the Group, to sell building related products, equipment and services, which include control security systems, and fire alarm systems to THTF, its subsidiaries and their respective associates and affiliates (the "Tongfang Group") for a term of three years from 1 January 2016 to 31 December 2018 and annual caps for the years ending 31 December 2016, 2017 and 2018, being RMB55 million, RMB55 million and RMB55 million, respectively. The price at which the Group sells such products to the Tongfang Group will be determined based on normal commercial terms after arm's length negotiation.

   For the year ended 31 December 2016, the Group sold products to Tongfang Group in the amount of approximately RMB47,124,295, which was within the approved cap of RMB55 million.

   The Group entered into the Sales Agreement to accommodate the business needs of the Group's non-core businesses. Further details of the Sales Agreement are set out in the announcement of the Company dated 30 May 2016.

2. *Purchase of raw materials from THTF and such other parties procured by THTF and agreed by Technovator Beijing to Technovator Beijing*

   On 30 May 2016, Technovator Beijing and THTF entered into a purchase agreement (the "Purchase Agreement"), pursuant to which THTF agreed to sell or procure such other parties agreed by Technovator Beijing, including members of the Tongfang Group, to sell wiring, lighting and other products, equipment and systems and services relating to the Group's business of energy management, energy saving and environmental protection to the Group for a term of three years from 1 January 2016 to 31 December 2018 and annual caps for the years ending 31 December 2016, 2017 and 2018, being RMB12 million, RMB12 million and RMB12 million, respectively. The price of such goods and services supplied by the Tongfang Group to the Group will be determined based on normal and commercial terms after arm's length negotiation.

   For the year ended 31 December 2016, the Group purchased such raw materials from Tongfang Group in the amount of approximately RMB11,853,525, which was within the approved cap of RMB12 million.

   The Group entered into the Purchase Agreement to accommodate the business needs of the Group's non-core businesses. Further details of the Purchase Agreement are set out in the announcement of the Company dated 30 May 2016.

3. *Provide to or receive from the Tongfang Group miscellaneous products and services*

   On 30 May 2016, Technovator Beijing and THTF entered into a master agreement (the "Master Agreement"), pursuant to which the Group may provide to or receive from the Tongfang Group miscellaneous products and services for a period of three years from 1 January 2016 to 31 December 2018 as may be required to satisfy the operational needs of the Group/Tongfang Group from time to time in the ordinary course of business of the Group with annual caps for the category of "provision of miscellaneous products and services by the Group to the Tongfang Group" for the years ending 31 December 2016, 2017 and 2018, being RMB6 million, RMB6 million and RMB6 million, respectively, and annual caps for the category of "receipt of miscellaneous products and services by the Group from the Tongfang Group" for the years ending 31 December 2016, 2017 and 2018, being RMB10 million, RMB10 million and RMB10 million, respectively.

   Pursuant to the Master Agreement, the miscellaneous products and services provided by the Group to the Tongfang Group mainly include (i) rental services (including leasing of land and premises); (ii) research and development services and products (including technology licensing); (iii) the use of trademark license; and (iv) sharing of general administration and management support services but exclude any transactions contemplated under the Sales Agreement.

   The miscellaneous products and services provided by the Tongfang Group to the Group mainly include (i) rental services (including leasing of land, premises, machinery and equipment); (ii) research and development services and products (including technology licensing); (iii) the use of trademark license; and (iv) sharing of general administration and management support services, other than the transactions contemplated under the four existing trademark license agreements all dated 28 May 2010 entered into between Technovator Beijing and THTF, as amended on 4 August 2011, and the Purchase Agreement.

   The prices at which the Group or the Tongfang Group provides such services will be based on the pricing mechanism as disclosed in the announcement of the Company dated 30 May 2016.

   For the year ended 31 December 2016, the miscellaneous products and services provided by the Tongfang Group to the Group amounted to RMB6,721,753, which was within the approved cap of RMB10 million.

   The Group entered into the Master Agreement to accommodate the business needs of the Group's non-core businesses. Further details of the Master Agreement are set out in the announcement of the Company dated 30 May 2016.

4. *The Procurement Agreement between THTF and Tongfang Energy Saving*

To regulate the purchase of equipment and products by the TFRH Investments Limited, Excel Perfect Investments Limited, 同方節能工程技術有限公司 (Tongfang Energy Saving Engineering Technology Co., Ltd.*) ("Tongfang Energy Saving") and its subsidiaries (the "Tongfang Energy Saving Group") from the Controlling Shareholder (and its associates other than the Group) after the acquisition of the Tongfang Energy Saving Group by the Company in 2014, Tongfang Energy Saving and the Controlling Shareholder entered into the a procurement agreement on 21 April 2014 (the "Procurement Agreement"), pursuant to which the Controlling Shareholder (and its associates other than the Group) agree to sell, and Tongfang Energy Saving and other members of the Group agree to purchase, heat pumps, cooling systems and other products, equipment and systems and services relating to the Group's business of energy management, environmental protection and energy saving for a term of three years from 1 January 2014 until 31 December 2016.

The price of such products supplied by the Controlling Shareholder (and its associates other than the Group) to the Group will be determined based on normal and commercial terms after arm's length negotiations, with reference to the prevailing market price of similar products at the time of a particular transaction, and in any event no less favourable to the Group than those offered by independent third party suppliers to the Group.

The annual caps for the Procurement Agreement for the years ended 31 December 2014, 2015 and 2016 were RMB150 million, RMB185 million and RMB230 million, respectively.

For the year ended 31 December 2016, the Group did not make any purchases from the Controlling Shareholder and its associates under the Procurement Agreement.

Further details of the Procurement Agreement are set out in the announcement of the Company dated 30 April 2014 and the circular of the Company dated 24 June 2014.

5. *The Future Business Arrangements with THTF with respect to the Target Businesses*

Pursuant to the Business and Assets Purchase Agreement dated 28 July 2015, THTF and the Purchasers agreed to engage in certain business arrangements (the "Future Business Arrangements'), including (i) THTF and the Purchasers will cooperate to implement the transfer of the projects acquired by the Purchasers (the "Acquired Projects") from THTF to the Purchasers by way of assignment, sub-contracting and/or delegation; (ii) THTF should use its reasonable endeavors to notify all of the debtors of loans which are part of the assets of the target businesses of the assignment of such debt to the Purchaser; (iii) THTF should use its reasonable endeavors to facilitate the assumption of debt which are part of the liabilities of the Target Businesses by the Purchasers; (iv) THTF undertakes to assist the Purchasers to take up the Acquired Projects without any additional compensation, including but not limited to providing any necessary information to the Purchasers and handling the relevant project completion and settlement procedures as necessary; and (v) THTF will support the Purchasers on the continual development and expansion of the Target Businesses in manners similar to the support to be provided by THTF in respect of the Acquired Projects as set out in paragraphs (i) to (iv) above.

The prices for new sales contracts to which THTF will act as the party will be negotiated with third party customers based on the price range as indicated by the prices charged by the relevant Target Business for projects with scope of services undertaken and/or for past sale of products by the relevant Target Business which most closely resembles the requirements of the new sales contract concerned within a certain period. The prices for the purchase of material and/or services to be procured under supply contracts subject to the Future Business Arrangements will be negotiated with third party suppliers based on the price range as indicated by the prices paid by the relevant Target Business in past purchases for similar material and/or services within a certain period.

The annual caps of payments to be transferred by THTF to the Group pursuant to the Future Business Arrangements for each of the years ended 31 December 2015 and 2016 and for the year ending 31 December 2017 are RMB338 million, RMB778 million and RMB874 million, respectively. For the year ended 31 December 2016, the payments transferred by THTF to the Group pursuant to the Future Business Arrangements amounted to RMB771,496,403, which was within the approved annual cap of RMB778 million.

The annual caps of payments to be transferred by the Group to THTF pursuant to the Future Business Arrangements for each of the years ending 31 December 2015, 2016 and 2017 are RMB238 million, RMB622 million and RMB700 million, respectively. For the year ended 31 December 2016, the payments transferred by the Group to THTF pursuant to the Future Business Arrangements amounted to RMB531,959,617, which was within the approved annual cap of RMB622 million.

Please refer to the announcement dated 25 September 2015 and the circular dated 25 September 2015 issued by the Company for further details of the Future Business Arrangements.

The independent non-executive directors of the Company have reviewed these connected transactions and confirmed that such transactions were:

(i) entered into in the ordinary and usual course of business of the Group;

(ii) conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from Independent Third Parties; and

(iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor, KPMG, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor, KPMG, has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange.

Details of the significant related party transactions undertaken in the normal course of business are provided under note 29 to the financial statements. None of these related party transactions constitute connected transaction or continuing connected transactions as defined under the Listing Rules that is required to be disclosed, except for those described in the sections headed "Connected Transaction" and "Continuing Connected Transactions" in this report, in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Other than the continuing connected transactions set out above, no contract of significance has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders during the year ended 31 December 2016.

NON-COMPETE UNDERTAKINGS

Each of the Controlling Shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the prospectus of the Company dated 17 October 2011). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the Controlling Shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was 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 ended 31 December 2016 and up to and including the date of this annual 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of Singapore where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee of the Company and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Group has adopted the Share Option Scheme to motivate and reward its Directors and eligible employees. Further information on the Share Option Scheme these schemes are set out in the paragraph headed "Share Option Scheme" above and note 23 to the financial statements.

None of the Directors waived any emoluments during the year.

PENSION SCHEME

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

For the Group's subsidiaries in countries other than the PRC, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

PERMITTED INDEMNITY PROVISION

Since 1 January 2016 up to and including 31 December 2016, the Company had taken out appropriate corporate liability insurance for its Directors. As of the date of this report, such corporate liability insurance remained effective.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers for the year ended 31 December 2016 were 6.2% (2015: 13.1%) and 22.4% (2015: 33.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers for the year ended 31 December 2016 were 2.1% (2015: 4.0%) and 8.1% (2015: 15.1%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2016, did a Director, his/her close associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

KPMG was the external auditor of the Company in Hong Kong and KPMG LLP was the registered auditor of the Company in Singapore during the year ended 31 December 2016, whose term will end at the conclusion of the forthcoming annual general meeting of the Company. During the three preceding financial years, there was no change in the external auditor in Hong Kong and the auditor in Singapore of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2016.

BANK LOANS

Details of bank loans of the Group as at 31 December 2016 are set out in note 22 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operations of the Group, some of which are inherent to energy saving industry and some are from external sources. For further details, please refer to the section headed "Management Discussion and Analysis".

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

For details of relationship with the employees, customers and suppliers, please refer to the paragraphs headed "Emolument Policy" and "Major Suppliers and Customers" in this section.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Our Group is specialized in providing energy saving and environmentally-friendly products. The Group has obtained the ISO14001 Environmental Management System Certification of the China Quality Certification Centre, which is an international standard on the operation of an environmental management system. In addition, we are committed to building an environmentally-friendly corporation that pays close attention to conserving energy. We strive to operate in compliance with the relevant environmental regulations and rules. During the year ended 31 December 2016 and up to the date of this report, the Group does not have any violation of relevant environmental regulations and rules which gives rise to significant impact to the Group's development, performance and businesses.

See also the "Environmental Society and Governance Report – Environment" in this report for more information.

COMPLIANCE WITH LAWS AND REGULATIONS

Our Group shall comply with relevant laws and regulations in the jurisdictions where the Group operates. The Group's operations are mainly carried out by the Company's subsidiaries in the PRC. Accordingly, our operations shall comply with relevant laws and regulations in the PRC. During the year ended 31 December 2016 and up to the date of this report, the Group does not have any violation of relevant laws and regulations which gives rise to significant impact to the Group's development, performance and businesses.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this annual report.

On behalf of the Board

Huang Yu
Chairman

13 March 2017

CORPORATE GOVERNANCE REPORT

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. The Board of Directors continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2016, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code in Appendix 14 to the Main Board Listing Rules (the "Corporate Governance Code").

Set out below is a detailed discussion of the corporate governance practices adopted and observed by our Company during the year.

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") effective since its adoption by the Company from 8 September 2011 and throughout the year ended 31 December 2016 as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year ended 31 December 2016.

BOARD OF DIRECTORS

Board Composition
As at 31 December 2016 and the date of this annual report, the Board comprised two executive Directors, three non-executive Directors and three independent non-executive Directors:

Executive Directors
Mr. Zhao Xiaobo (趙曉波)
Mr. Seah Han Leong (謝漢良)

Non-executive Directors
Mr. Fan Xin (范新) *(Chairman)* (resigned on 15 July 2016)
Mr. Huang Yu (黃俞) *(Chairman)* (appointed on 15 July 2016)
Mr. Liu Tianmin (劉天民)
Mr. Wang Yinghu (王映滸)
Mr. Ng Koon Siong (resigned on 22 January 2016)

Independent Non-executive Directors
Mr. Fan Ren Da Anthony (范仁達)
Mr. Chia Yew Boon (謝有文)
Ms. Chen Hua (陳華)

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Group are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals have to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. Biographical information of the Directors are set out in the section headed “Directors and Senior Management” of this annual report. To the best knowledge of the Company, there is no financial, business or family relationship among the members of the Board.

The Company has subscribed appropriate and sufficient insurance coverage on Directors’ liabilities in respect of legal actions taken against Directors arising out of corporate activities.

Board meetings were held from time to time to discuss the business strategies of the Group; monitor financial and operational performance; approve the annual and interim results of the Group; and discuss the corporate governance functions of the Board.

CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

The Directors have been informed of the requirement under Code Provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training by attending briefings, seminars, conferences or reading materials with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2016:

	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
Name of Director	**Read materials**	**Attended seminars briefings**	**Read materials**	**Attended seminars briefings**
Executive Directors				
Mr. Zhao Xiaobo	✓	✓	✓	✓
Mr. Seah Han Leong	✓	✓	✓	✓
Non-executive Directors				
Mr. Huang Yu	✓	✓	✓	✓
Mr. Liu Tianmin	✓	✓	✓	✓
Mr. Wang Yinghu	✓	✓	✓	✓
Independent non-executive Directors				
Mr. Fan Ren Da Anthony	✓	✓	✓	✓
Mr. Chia Yew Boon	✓	✓	✓	✓
Ms. Chen Hua	✓	✓	✓	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and the chief executive officer are segregated. Mr. Huang Yu is the chairman of the Company since 15 July 2016, and Mr. Fan Xin was the Chairman of the Company up to 14 July 2016. Mr. Zhao Xiaobo is the chief executive officer of the Company. The chairman is responsible in leading the Board in forming the Group's strategies and policies and for organizing the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group. The chief executive officer is directly in charge of the daily operations of the Group and is accountable to the Board for the financial and operational performance of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Fan Ren Da Anthony, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rules 3.10(1) and (2) and 3.10A of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the content of such confirmations, the Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

BOARD DIVERSITY POLICY

Pursuant to the new code provisions of the Corporate Governance Code relating to board diversity which has come into effect since 1 September 2013, the Board adopted a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

MEETINGS

The Board meets regularly either in person or through electronic means of communications. The number of the Board meetings and general meetings held and the attendance of each Director at these meetings for the year ended 31 December 2016 are set out as follows:

	Board Meeting	General Meeting
No. of meetings held	8	1
No. of meetings attended		
Executive Directors		
Mr. Zhao Xiaobo	8	1
Mr. Seah Han Leong	8	1
Non-executive Directors		
Mr. Fan Xin (resignation effective on 15 July 2016)	3(1)	1(1)
Mr. Huang Yu (appointed on 15 July 2016)	5(2)	–(2)
Mr. Liu Tianmin	8	–
Mr. Wang Yinghu	8	–
Mr. Ng Koon Siong (resignation effective on 22 January 2016)	–(3)	–(3)
Independent non-executive Directors		
Mr. Fan Ren Da Anthony	8	–
Mr. Chia Yew Boon	8	–
Ms. Chen Hua	8	–

Notes:

(1) Since 1 January 2016 and up to Mr. Fan's resignation, a total of seven Board meeting and one general meeting of the Company were held.

(2) Since Mr. Huang's appointment and up to 31 December 2016, a total of four Board meeting and no general meeting of the Company were held.

(3) Since 1 January 2016 and up to Mr. Ng's resignation, no Board meeting or general meeting of the Company was held.

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the joint company secretaries of the Company at all times and may seek independent professional advice at the Company's expense. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures complied with the Articles, as well as relevant rules and regulations.

JOINT COMPANY SECRETARIES

At the beginning of the year, Mr. Leung Lok Wai and Mr. Cheo Meng Ching were the joint company secretaries of the Company. Mr. Cheo Meng Cheng resigned and his resignation was effective from 16 May 2016. Mr. Teo Meng Keong was appointed as a joint company secretary of the Company and effective from 16 May 2016 to replace Mr. Cheo to satisfy the requirement under the Companies Act (Cap. 50) of Singapore. Mr. Leung Lok Wai and Mr. Teo Meng Keong are currently the joint company secretaries of the Company. Details of the biographies of Mr. Leung Lok Wai and Mr. Teo Meng Keong (collectively, the "Joint Company Secretaries") are set out in the section headed "Directors and Senior Management" of the annual report of which this corporate governance report forms part. The Joint Company Secretaries have been informed of the requirements under Rule 3.29 of the Listing Rules. Each of the Joint Company Secretaries has confirmed that he/she had attained no less than 15 hours of relevant professional training during the year ended 31 December 2016.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors, non-executive Directors and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the Articles. The Articles provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. For more details of the service contract of each of the Directors, please refer to the section headed "Report of the Directors" of this annual report.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors and independent non-executive Directors other than Mr. Huang Yu and Mr. Wang Yinghu had entered into a service contract with the Company for an initial term of 1 year commencing from 27 October 2011. Mr. Huang Yu has entered into a service contract with the Company for an initial term of one year commencing from 15 July 2016. Mr. Wang Yinghu has entered into a service contract with the Company for an initial term of one year commencing from 16 November 2015.

All the service contracts of non-executive Directors and independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party upon a three-month prior written notice.

BOARD COMMITTEES

The Board has established (i) audit committee, (ii) remuneration committee; (iii) nomination committee; and (iv) risk management committee, with defined terms of reference. The terms of reference of the board committees which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 8 September 2011 in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee currently consists of three members, namely, Ms. Chen Hua, Mr. Fan Ren Da Anthony and Mr. Chia Yew Boon, all of whom are independent non-executive Directors. Ms. Chen Hua, who has appropriate professional qualifications and experience in accounting matters, is the chairman of the audit committee. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company.

During the year ended 31 December 2016, the Audit Committee mainly performed following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2016 and the audited annual results for the year ended 31 December 2016, met with the external auditors to discuss such interim results and annual results (without the Company's management being present), and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors;

– reviewed the effectiveness of the Group's internal audit function;

– reviewed the effectiveness of the Group's internal control systems on all major operations of the Gorup, which was considered effective and adequate; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control.

During the year ended 31 December 2016, 2 meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	**Attendance of Audit Committee Meetings**
Ms. Chen Hua *(Chairman)*	2
Mr. Fan Ren Da Anthony	2
Mr. Chia Yew Boon	2

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2016.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 8 September 2011 with written terms of reference. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review remuneration, and ensure none of the Directors determine their own remuneration. As a the beginning of the year, the remuneration committee has consisted of three members, namely, Mr. Chia Yew Boon and Mr. Fan Ren Da Anthony (both are independent non-executive Directors) and Mr. Ng Koon Siong (a non-executive Director), and Mr. Fan was the chairman of the remuneration committee. Mr. Ng resigned and his resignation was effective from 22 January 2016. Mr. Seah Han Leong was appointed as a member of the remuneration committee on 26 February 2016, and restored to a minimum of three members as prescribed under the terms of reference of the remuneration committee adopted by the Board on 21 March 2012. The remuneration committee currently consists of three members, namely, Mr. Chia Yew Boon and Mr. Fan Ren Da Anthony (both are independent non-executive Directors) and Mr. Seah Han Leong (an executive Director). Mr. Fan Ren Da Anthony is the chairman of the remuneration committee.

During the year ended 31 December 2016, the Remuneration Committee mainly performed following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2016.

During the year ended 31 December 2016, 1 meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	**Attendance of Remuneration Committee Meeting**
Mr. Fan Ren Da Anthony *(Chairman)*	1
Mr. Chia Yew Boon	1
Mr. Seah Han Leong (appointed on 26 February 2016)	1[(1)]
Mr. Ng Koon Siong (resignation effective on 22 January 2016)	–[(2)]

Notes:

(1) Since Mr. Seah's appointment and up to 31 December 2016, a total of two remuneration committee meetings of the Company were held.

(2) Since 1 January 2016 and up to Mr. Ng's resignation, no remuneration committee meetings of the Company was held.

The remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

Remuneration bands (HKD'000)	**Number of persons**
2,000–2,500	1
2,500–3,000	1
3,000–3,500	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

NOMINATION COMMITTEE

The Company established a nomination committee on 8 September 2011 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The nomination committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. The nomination committee currently consists of three members, namely, Mr. Fan Ren Da Anthony, and Mr. Chia Yew Boon (two independent non-executive Directors) and Mr. Huang Yu (a non-executive Director). Mr. Chia Yew Boon is the chairman of the nomination committee.

During the year ended 31 December 2016, the Nomination Committee mainly performed following duties:

– reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessing their independence;

– reviewed the structure, size and composition of the Board during the year; and

– selected and recommended candidates for directorship during the year.

During the year ended 31 December 2016, 2 meetings were held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meetings of the Nomination Committee is set out below:

Name of Director	Attendance of Nomination Committee Meeting
Mr. Chia Yew Boon *(Chairman)*	2
Mr. Fan Ren Da Anthony	2
Mr. Huang Yu	1
Mr. Fan Xin	1

RISK MANAGEMENT COMMITTEE

The Company established a risk management committee on 29 March 2016 with written terms of reference. The primary duties of the risk management committee are to consider the risk management strategies of the Company, review the risk management system of the Group, assess the risks from major decisions and to consider solutions for significant risks, have periodic assessment on the Group's risk profile and risk management capabilities, make recommendations on the improvement of the Group's risk management systems, consider major investigations findings on risk management matters and management's response to these findings, oversee the Group's risk management systems on an ongoing basis, ensure that a review of the effectiveness of the risk management systems of the Group has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The risk management committee currently consists of all the current Directors of the Board, namely, Mr. Zhao Xiaobo and Mr. Seah Han Leong (both are executive Directors), Mr. Huang Yu, Mr. Liu Tianmin and Mr. Wang Yinghu (all are non-executive Directors), Mr. Fan Ren Da Anthony, Mr. Chia Yew Boon and Ms. Chen Hua (all are independent non-executive Directors). Mr. Fan Ren Da Anthony is the chairman of the risk management committee.

During the year ended 31 December 2016, the Risk Management Committee mainly performed following duties:

– assess and review the effectiveness of the risk management system of the Group which was considered effective and adequate; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of risk management.

During the year ended 31 December 2016, 1 meeting was held by the Risk Management Committee. The attendance record of each member of the Risk Management Committee at the meetings of the Risk Management Committee is set out below:

Name of Director	Attendance of Risk Management Committee Meeting
Mr. Zhao Xiaobo	1
Mr. Seah Han Leong	1
Mr. Huang Yu	1
Mr. Liu Tianmin	1
Mr. Wang Yinghu	1
Mr. Fan Ren Da Anthony	1
Mr. Chia Yew Boon	1
Ms. Chen Hua	1

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with Code Provision D.3.1 of the Corporate Governance Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report. The Board has held meetings from time to time to: (a) review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of the Directors; and (c) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

MEMORANDUMS AND ARTICLES OF ASSOCIATION

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2016.

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Group for that period. The directors acknowledge their responsibilities for preparing the accounts of the Company. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of KPMG, the Company's external auditors in Hong Kong, on the financial statements are set out in the section headed "Independent Auditor's Report" in this annual report.

EXTERNAL AUDITORS' REMUNERATION

The Company has re-appointed KPMG as the external auditor in Hong Kong and appointed KPMG LLP as the Company's registered auditor in Singapore during the year ended 31 December 2016. The external auditors are refrained from engaging in non-audit services except for specific approved items. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. For the year ended 31 December 2016, the total fee paid/payable in respect of audit services provided by the Company's external auditors is set out below:

	RMB'000
Audit and audit-related services*	2,410

* *There was no non-audit service provided by the external auditors during the year ended 31 December 2016.*

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls (including handing and dissemination of inside information), and the risk management system. In particular, regarding the controls for handling and dissemination of inside information, the employees, senior management and the Directors of the Company who possesses or handles inside information are reminded of the inside information requirements under the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). The Directors, with the assistance of Mr. Leung Lok Wai, a joint company secretary of the Company, and the internal audit department of the Company, are responsible to ensure the inside information, if any, is kept confidential and disseminated to the public to avoid a false market in the listed shares of the Company as and when necessary. The Company may also seek professional advice to consider the dissemination of inside information to be public as and when necessary to ensure the Company will comply with the requirements under Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). The internal control and risk management systems are designed to provide reasonable, but not absolute assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems. The Board together with the audit committee and the risk management committee have reviewed the effectiveness of the Group's internal control systems and on the risk management systems, respectively, on all major operations of the Group during the year under review.

The Group has an internal audit function carried out by the Group's internal audit department. The Group's internal control department has reported internal control fact findings to the Board and no major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department will be properly followed up by the Group to ensure that they are implemented within a reasonable period of time. Similar process has been carried out for the risk management systems. The Board and the audit committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, are reasonably implemented and effective and adequate. The Board and the risk management committee considered that the key areas of the risk management, including the identification, measuring and evaluation new risks, and the ongoing monitoring of existing business and operation risks identified to be effective and adequate. As such, the Board is of the view that the Group has fully complied with provisions of the Corporate Governance Code regarding internal control and risk management systems in general for the year ended 31 December 2016.

SHAREHOLDERS RIGHTS

How Shareholders can convene an extraordinary general meeting and put forward proposals at Shareholders' meetings

Under the Articles, Directors may in general, whenever they think fit, convene extraordinary general meetings. Under Section 176 of the Companies Act (Cap. 50) of Singapore (the "Singapore Companies Act"), however, directors of the Company must notwithstanding anything in its articles, on the requisition of shareholders holding not less than 10% of the total paid-up capital of a company at the date of the deposit of the requisition, immediately proceed to convene an extraordinary general meeting to be held as soon as practicable but in any case not later than 2 months after receipt by the company of the requisition. In addition to the said right of requisition, two or more shareholders holding not less than 10% of the total number of issued shares of a company (excluding treasury shares) may also call a meeting of the company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to Mr. Leung Lok Wai, a Joint Company Secretary by mail at the Company's principal place of business in Hong Kong or by email at paddy_leung@thtf.com.cn. Mr. Leung Lok Wai will forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The management endeavours to maintain effective communications with the Shareholders and potential investors.

The Company meets the Shareholders at the annual general meeting, publish interim and annual reports on the websites of the Company and the Stock Exchange, and release press releases on the Company's website to keep the Shareholders and potential investors abreast of the Group's business and development.

ENVIRONMENT, SOCIETY AND GOVERNANCE REPORT

As a leading service provider of urban energy intelligence and energy saving in China, the Group is committed to helping users reduce energy consumption and costs, while attaches great importance to issues related to environment, society and governance and achieves the sustainability of corporate and social development.

After taking into account the business model and internal and external communication, the Group has identified material stakeholder types which have mutual influence with the operation of the enterprise to determine the Group's environmental, social and governing priorities through analyzing the demands of the stakeholders. The main stakeholder types of the Group include:

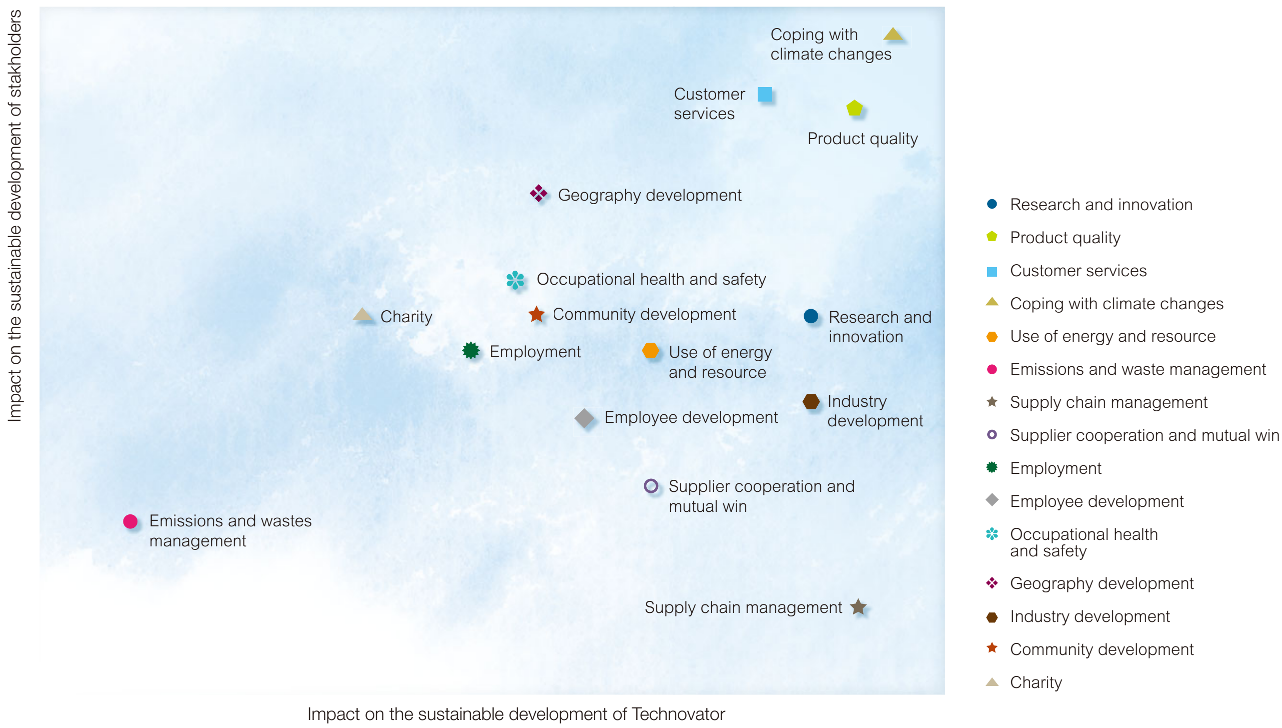
- Employee
- Shareholder
- Government
- Customer
- Community
- Supplier
- Other business partners

In order to further clarify the key areas of corporate environment, society and governance practices and information disclosure, the Group has started the identification program of material issues on environment, society and governance in 2016, and decided the relatively priority of the issues according to the influence of corporate strategy, operations, finance and stakeholder, to determine the degree of information disclosure on environment, society and governance. The deciding factors mainly refer to:

- The Group's values, policies, strategies, operation management systems, long-term and short-term goals
- Relevant laws, regulations, international agreements or voluntary agreements that have a significant impact or with strategic value to the Group and its stakeholders
- The material judgment results of information disclosure on environment, society and governance between peers and competitors
- Demands and expectations clearly expressed by stakeholders
- The views of the Group's management and social responsibility management team

Through the identification process, the Group has identified the issues about environment, society and governance most related to the sustainable development of corporates, and has decided the materiality of each issue with the results as follows:

Material ESG Issues of Technovator



The Group has always been committed to providing integrated services such as products, solutions and integration for urban integrated energy saving to help management personnel improving energy efficiency, reduce consumption, achieve the unity of social, economic and environmental benefits, and promote the sustainable development of enterprises and society. According to the characteristics of the industry in which the business is placed, the Group has initially established an information management system covering the whole group against the environmental, social and governance issues identified in 2016, and began to sort out the statistics and processes of the relevant information. Unless otherwise stated, the disclosure period for this report is from 1 January 2016 to 31 December 2016. We will gradually improve the relevant management mechanism in the future, and further enrich the content of information disclosure on environment, society and governance.

ENVIRONMENT

Dealing with climate change and greenhouse gas emission

The climate issue has become a common challenge for the world. The Group serves the energy-saving and environment-protection industry by providing safe, intelligent, energy-saving solutions to its users so as to cope with the climate issue together with its customers. Take the energy consumption monitoring platform for public buildings as an example, which can obtain a large number of energy consumption dates of public buildings and the analysis based on those dates could be helpful in policy-making and market development. Currently, the Group has completed the construction of central energy consumption supervision platform for Ministry of Housing and Urban-Rural Development, and the construction of various energy consumption supervision platforms of public buildings for Hunan Province and Changsha City as well as Wuhan City.

The Group actively promotes green office by using energy-saving lamps in the office area, encouraging power-off when leaving by posting such reminders in plain view and making energy-saving improvement to certain meeting rooms as well as reducing the usage of ink boxes and toner cartridges by using public network printers. The volume of recycled paper used by the Group reached about 1.3 tons per year. The aforesaid measures adopted in our green office could reduce energy consumption and greenhouse gas emission, so that we could deal with climate issue more effectively.

The Group's greenhouse gas emissions mainly come from the indirect energy emission and direct emission from our official gasoline vehicles. The main energy consumed in production is electricity, however, there is no direct emissions from boilers and other equipments powered by coals and gas. Other than these emissions, there were no other air and greenhouse gas emissions from the Group's operations, and therefore, there were no laws and regulations that have a significant impact on the Group relating to greenhouse gas emission applicable to the Group during the year.

Waste Management

The Group attaches particular importance to waste management and complies with relevant requirements of laws and regulations strictly: the hazardous waste is delivered to and disposed by qualified third party while the other wastes are delivered to relevant departments for recycling; and the Group engages external third party of qualified monitoring department to monitor the exhaust gas.

The Group has established environment management system on this basis and received certification to the ISO 14001 Environmental Management System in 2007, formulated management rules and systems for regulation and management, such as Rules Governing Identification of Environmental Factors and Determination of Important Factors, Rules Governing Environmental Targets, Indicators and Programs, Rules Governing Environmental Monitoring and Conformance Evaluation, Rules Governing Non-compliance and Rectification Measures on Environment, so as to minimize the impacts of wastes on environment.

The Group's production mainly engages in the processing and manufacturing of PCB, and the major wastes arising from which include dross spot, metal packages, wires and cardboard boxes, accompanying with waste gas. During the current reporting period, the Group has generated 0.399 ton of dross spot, 0.18 ton of metal packages, 0.1 ton of wires and 0.7 ton of cardboard boxes, all of which have been safely handled. The waste gas emitted in production satisfied the national emission standards according to the monitoring.

The Group paid special attention to the requirement relating to generation of hazardous and non-hazardous waste, and the emission of exhaust gas that have a significant impact on the Group by strictly adhering to relevant laws and regulations where the Group operates, like *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Cleaner production standard — Printed circuit board manufacturing (HJ 450-2008), etc.*.

There is no sewage during our manufacturing progress since the water is only used in office area. The Group has no significant impact to land or ecologic environment as our operation are all finished in buildings and all waste are well disposed.

Resources Consumption

The product-producing process involved in this report refers to the manufacture of PCB, and its energy consumption is mainly electricity. The energy consumed in office area is mainly electricity and gasoline for official vehicles.

The consumed water mainly represents water used during the manufacturing process and as daily water in office area. The Group calls for saving water in employees through posters, education and other manners.

The packaging materials used by our Group are mainly cardboard boxes, plastics, filling stuffs and so on. In addition, we also use recycled packaging materials as appropriate to reduce the resources consumptions. The volumes of cardboard boxes, plastics, filling stuffs and recycled packaging materials are 3.5 tons, 0.02 ton, 0.024 ton and 0.1 ton respectively during the current reporting period.

EMPLOYEES

Employees' remuneration and benefits

The Group paid special attention to legal employment and employees' legitimate interests by strictly adhering to the *Labour Law of the People's Republic of China, the Labour Contract Law, the Trade Union Law* and other relevant laws and regulations in the jurisdictions where relevant branch office/subsidiary operates. Specifically, the Group entered into formal labour contracts or labour agreements with employees and ensured not to use child labour or forced labour. Meanwhile, the Group ensured that employees' employment, treatment, training and promotion shall not be affected by gender, age, ethnicity, religion, region, etc., creating a fair environment for employees' growth.

The Group strictly implemented the recruitment practices for avoiding the use of child labour and forced labour, and thus there is no description for the response measures after the recruitment of child labour in the personnel recruitment system. The Group conducted open society recruitment to attract legitimate employees, and required candidates to submit legal identity documents in local areas for verification. During the reporting period, all employees employed by the Group had complied with the relevant PRC laws and regulations in the countries where they are employed.

To create a better working environment, improve the employee welfare system and enhance employees' satisfaction and loyalty, the Group developed Welfare Management System, Internship Student Management System, Employee Complaint Management System, Recruitment Management System and other policies and related management systems in respect of employee recruitment, remuneration, dismissal, working hours and other welfare and benefits. The Group shall maintained old age insurance, unemployment insurance, employment injury insurance, medical insurance, maternity insurance, housing fund and other social insurance for all Chinese employees who have signed the labour contracts with the Group and provide paid leave in accordance with the requirements of PRC laws and regulations. Meanwhile, the Group also provided supplementary medical insurance, supplementary old age insurance, meal allowance, labour protection fees, heating subsidies, accident insurance and other welfare items for employees. In addition, the Group also formulated the Enterprise Annuity Management System to further enhance the employee's satisfaction and sense of belonging, and those employees who entered the Group for over one year and had participated in basic old age insurance can voluntarily participate in the System.

The Group attached great importance to the caring of employees. In order to address employees' temporary livelihood difficulties caused by sickness or other reasons and to give subsidies to employees with immediate family members past, the Group established Employee Care and Subsidy Management System, which formulates the standards and application procedures for subsidies, and effectively offers help and care to employees. The Group also organizes visits to employees on sick or maternal leaves aiming to boost cohesion in the Group.

During the current reporting period, there are 640 people (among which employees from Hong Kong, Macau, Taiwan and abroad amounted to 12) in the Group. Of such number, there are 626 employees with labour contract, 14 employees with labour agreement, and no temporary workers and employees assigned by third parties. The contracting rate for employees with labour contract is 100%, social insurance coverage rate is 100%.

Set out below is the distribution of employment types:

Types of employee	Number of employee (people)
Employee with labour contract	626
Employee with labour agreement	14
Total employee	640

Set out below is the employee employment by age structure:

Age	Number of employee	Turnover rate
Under 30 years old (30 exclusive)	177	17.67%
30-50 years old (50 exclusive)	432	11.66%
50 years old and above (50 exclusive)	31	11.43%
Total	640	13.40%

Set out below is the employee employment by gender:

Gender	Number of employee	Turnover rate
Male	439	14.23%
Female	201	12.22%
Total	640	13.40%

Employee Development

The Group actively provide employees with a comprehensive career development environment and a broad career development space, and employees themselves can learn about the promotion requirements to determine the direction of career development though the policies and related methods such as the Performance Appraisal Management System.

In order to improve the employees' professional skills and qualities and to promote their vocational development, the Group aggressively organised and carried out training for employees. It also formulated the Training Management System in order to standardize the organization and implementation of training. The Group developed a training system featuring "Three Levels", "Four Types" and "Three Tiers" as shown in the chart below. The Group has specifically set up a tutor system for new employees to help them become more familiar with environment, and plan their own career progression.

Training covers corporate culture, vocational training, working skills and other aspects. Training methods are trainings organised by the Group and departments, namely, internal training, and the Group will develop training scheme and design training programs based on training demands of employees and departments. If employees are required to participate in trainings of relevant industrial organisations, he/she can submit an application according to the Group's internal and external training process. The Training Management System also provides training mechanism, training information feedback etc. to ensure training efficiency.

During the current reporting period, the Group's total employee training hours for the year was 18,651 hours.

The employees' training hours per capita and percentage by gender:

Gender	Training hours per capita (hour)	Percentage of the employees trained
Male employee	29.69	98.69%
Female employee	29.68	96.45%

The employees' training hours per capita and percentage by the class of employees:

Class	Training hours per capita (hour)	Percentage of the employees trained
Senior management	30.13	100%
Intermediate management	31.48	100%
Common staff	28.54	98.33%

Note: Information and data on safety production and anti-corruption training are not included in the above statistics and will be provided separately hereof later.

Employee health and safety management

The Group implements the safety production responsibility system and the safety management policy of "safety first, prevention priority", and clarifies the responsibilities of safe production and occupational disease prevention and control of various departments and posts. In order to improve the quality of the employees' safety and reduce the injury at work, the Group developed the Management System for Safe Use of Electricity, Protection Measures for Electricity Leakage of Equipment and Circuit, Special Equipment and Operator Management System, Provision and Management System for Labour Protection Articles and other systems to regulate the work process and improve the labour protection. In order to enhance the safety and occupational health awareness of the employees, the Group actively carried out training, and developed the Safety Production Education and Training Program to standardize and implement the safety production training work, and propagandized by hanging banners with safety production slogans. In addition, the Group jointly protected the fire safety through developing the Fire Facilities Management System and carried out fire emergency exercises.

The Group established a occupational health and safety management system and passed the third-party certification, OHSAS18001. In accordance with the requirements of the system, the Group has formulated the systems such as Management System for Hazard Identification, Risk Assessment and Measure Implement, Management System for Objectives and Solutions of Occupational Health and Safety and Management System for Occupational Health and Safety Performance Monitoring and Compliance Evaluation, which will ensure the standardized and systematic work of employees' occupational health and safety and practically and effectively protect the occupational health and safety of employees.

The Group attaches great importance to safety accident prevention, reporting and investigation handling work, QES Emergency Preparation and the Corresponding System, Production Safety Accident Emergency Rescue Plan of the Group contain the emergency preparation, drills and response requirements for emergencies and events, and ensure the effective implementation of emergency treatment and rescue work. It also developed Management System for Event Investigation, the Inconformity of Corrective Measures, Written Information Management System and other systems to standardize the accident investigation and the filling records for accidents. The Group paid special attention to the requirement relating to the providing a safe working environment and protecting employees from occupational hazards by strictly adhering to the Labour Law, the Labour Contract Law, Regulation of Insurance for Work-Related Injury of the People's Republic of China and other relevant laws and regulations where the Group operates.

During the current reporting period, there was no safety accident occurred and the hours of work injury loss was 0.

PRODUCT RESPONSIBILITY AND CUSTOMER SERVICE

The Group understands that quality is the guarantee of the Group and development, and also the life of the Group, so it carries this concept through the work. The Group established quality management system in compliance with the relevant laws and regulations and passed ISO9001 Quality Management System certification in 2007. The Group ensures the stability and consistency in product quality of projects and hardware and devotes to realize "Quality Ranks First". The Group formulated and improved quality management structure, stipulated the responsibilities of each department and developed systems including QES Rectification Measures Management System, Management System for Consistency of Certified Products, Management System for Unqualified Products Output and Management System for Unqualified Projects Output to regulate processing procedures of unqualified products and projects according to the requirements of quality management system. The Group also established QC080000 Electrical Appliance Harmful Substances Management System to strength the management of harmful substances in the process and meet the requirements of the customers better.

The Group attaches great importance to customer satisfaction and devotes to realize "Customer First" by first class technology, management, products and service, and pays highly attention to customers' experiences and advices. For customers' complaint and feedback handling, the Group set up Customer Service Officer and formulated Customer Service Management System to regulate customers' complaint handling system and responsibilities of the relevant positions.

During the current reporting period, no products recalled events accrued for reasons of safety and health.

The Group has complied with the relevant laws and regulations that have a significant impact on the products and services provided by the Group during the year. The Group insists on the protecting business data and information during the cooperation with our clients, suppliers and industrial partners. Since our products would not be directly sold to consumers, matters related to consumer data protection and privacy policies were not material topics for the Group.

PRODUCT R&D

Being the supplier for the products and technology of city infrastructure information construction, the Group pays high attention to product research and development to provide better products and technology service for customers. In recent years, the Group intensified its R&D investment in self-developed products, implemented the policy of "going out and bringing in" by recruiting international R&D personnel on the R&D platform established in Singapore to build up an international R&D team, achieve a complete R&D organization, implement professional division on process, structure, test, purchase, production and quality inspection and regulate R&D management. The Group developed Intellectual Property Management System, stipulated the responsibilities of management bodies and relevant personnel and standardized the procedures and requirements of patent applications, patent maintenance, patent protection, patent licensing and transfer to improve the management, protection and application of intellectual property. Meanwhile, the Group awarded the inventors according to the relevant provisions of the Patent Law to encourage employees to innovate, applied patent actively and granted a one-off reward of RMB5,000 in cash to each invention patent, and RMB2,000 to practical new patent.

There are 82 members in the R&D team of the Group and the annual R&D investment amounted to approximately RMB54.48 million. The granted patents obtained by the Group in the PRC amount to 19, of which 4 were obtained in 2016, and the total number of software copyrights obtained is 67, of which 36 were obtained in 2016.

SUPPLY CHAIN MANAGEMENT

The suppliers with whom the Group has business connections include raw material suppliers, ancillary material suppliers and subcontracting suppliers, as well as service providers in terms of logistics and trading. The Group has formulated the Supplier Management and Control Procedure according to its own condition and based on relevant laws and regulations. Such document specifies the obligations of procurement related departments such as procurement department, quality management department and warehousing and distribution department, and provides the basic requirements and workflow for the selection, assessment and management of suppliers. The Group has also prepared the Record Table of Comments on Suppliers and Table of Information and Comments on Suppliers for supplier assessment. In addition, as compliance with the RoHS standards and WEEE directive is required due to export of most of its products to Europe, the Group has formulated the Procedures for Control on Product Procurement Process for stricter assessment, selection and management of RoHS raw material suppliers and ancillary material suppliers in pursuance of the requirements of Environmental Management Systems – Requirements with Guidance for Use (ISO14001:2004) and Standards and Requirements for the Hazardous Substance Process Management System of Electronic and Electrical Components and Products (QC080000).

In terms of procurement of raw materials, ancillary materials and suppliers, the Group generally chooses to cooperate with internationally renowned enterprises for their higher management level of the inter-company environment and social risks, which accordingly enables the Group to control the environmental and social risks of the supply chain. In terms of procurement of RoHS raw materials, ancillary materials and suppliers, the suppliers are required to provide not only the necessary business information but also relevant supporting materials such as quality management/environment management system proofs, agreements regarding non-use of environmental management substances, and RoHS test report. For finished product suppliers, the Group will conduct a stringent check and assessment on such suppliers' business qualifications and product quality, and various departments will act in concert in monitoring of and strictly controlling over risks from the suppliers. Meanwhile, the Group will give priority to suppliers with relevant qualifications including those passing the accreditation of Environment Management System (ISO14001) and Occupational Health and Safety Management System (OHSAS18001), and will conduct a site examination as necessary on the manufacturers admitted to the suppliers list of the Group for the first time for a strict control over the risk.

In the current reporting period, the number of finished product suppliers of the Group is 83, with 83 suppliers being assessed.

The Group has 100 suppliers of raw materials and ancillary materials in total, the distribution of which is set out in the table below. And the number of suppliers being reviewed on site during the year is 2.

The geographical distribution of the suppliers is as follows:

Region	Number of Suppliers
PRC	22
Other Asian Countries	14
Europe	8
North America	56

ANTI-CORRUPTION

The Group assigns high priority to the construction of an incorrupt government, and is firmly against corruption in any form.

The Group enhances its employees' awareness of anti-corruption through training to jointly maintain a healthy, fair and transparent business environment. In 2016, the Group further tightened its management and control of expenses and reimbursement, and updated relevant management standards while organizing its employee to study for such standards. During the current reporting period, there were no cases of anti-corruption or corruption litigation (including bribery, extortion, fraud and money laundering).

COMMUNITY

Industry promotion

The Group actively participates in the preparation of industry standards and conducts various researches with government agencies, regulatory authorities, academic institutions and industrial organizations for a long term to jointly promote the industry development and technological advance. In 2016, the Group participated in the formulation of China's national standard of Code for Installation of Intelligent Building Systems and local standard of Code for Intelligent Engineering and Technology of Municipal Intelligent Utility Corridor in Beijing. The Group maintains good communication with a number of industry associations, and is an executive member of the council of the Intelligent Building Branch of China Construction Industry Association and the Engineering Intelligent Design Branch of China Exploration and Design Association, and a member of the council of Beijing Security and Protection Industry Association.

In addition, leveraging on good products and technical services, the Group is recognized by, and maintains favorable cooperation relationship with, governments of various regions.

Community participation

The Group is committed to achieving the good vision of joint development of the enterprise and the community, so it values the relationships with local communities and always maintains a good channel for communicating with local residents.

The Group is committed to the dissemination of science and technology culture, and actively participates in and organizes various public welfare activities. In 2016, the Group participated in the Science and Technology Week & Science Popularity Theme Garden Activity in Huairou District Beijing to introduce to visitors the cutting-edge technologies and stage achievements of the Group in building energy saving, industrial energy saving, heating network energy saving and subway energy saving in well-organized manner, and imparted the energy saving and environmental protection knowledge into more than 300 citizens through the introductory exhibition panels, Q&A, etc.. In addition, the Group also organized the top 100 students in the 24th Artificial Environment Engineering Scholarship to visit the "Energy-saving Experience Hall", and imparted the energy saving and environmental protection knowledge into the students and showed the students the technologies and achievements of heating, ventilation, and air conditioning. The Energy-saving Experience Hall receives 600 visitors from various sectors of the society every year.

Independent auditor's report
to the shareholders of Technovator International Limited
(Incorporated in Singapore with limited liability)

OPINION

We have audited the consolidated financial statements of Technovator International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 60 to 136, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated income statement and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

Accounting for construction contracts

Refer to notes 3 to the consolidated financial statements and the accounting policies on page 83.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue for the year ended 31 December 2016 from construction contracts totalled RMB1,119 million, which accounted for 63% of the total revenue for the year. The construction contracts entered into by the Group are primarily energy saving projects relating to transportation, building and industrial businesses. Revenue from construction contracts is recognised in proportion to the stage of completion of the contract, measured by comparing the costs incurred up to the reporting date to the total forecast costs at completion of the contract. Based on the nature of construction activities, revenue and profit or loss recognised on a contract in progress at the reporting date is highly dependent on management's estimation of the total costs required to complete the contract and the percentage of work completed at the reporting date. We identified accounting for construction contracts as a key audit matter because a significant degree of management judgement is required to be exercised, based on the latest progress of each contract, particularly in estimating the future costs to complete a contract which could be subject to management bias.	Our audit procedures to assess accounting for construction contracts included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to accounting for construction contracts; • reading contracts on a sample basis to obtain an understanding of the key terms and risks associated with individual contracts and the accounting implications thereof; • recalculating management's calculations of the percentage of completion for each contract at the reporting date by comparing the key inputs in the calculations, including total contract revenue, costs incurred to date and amounts invoiced to date, with contract terms, invoices issued and vendor invoices, on a sample basis; • examining written documentation from customers indicating their acceptance of the work performed to date on contracts, with reference to related third party engineers' certification of work completed, if any, on a sample basis; • challenging management's estimations of the expected future costs required to complete individual contracts by comparing costs to be incurred with signed subcontractor contracts and by benchmarking with similar estimations for comparable contracts, on a sample basis, and assessing if there was any indication of management bias in the estimations; • assessing the accuracy of management's historical forecasts by comparing the actual costs for contracts completed during the current year to forecasts made at the prior year end and enquiring of management for reasons for any material differences between the estimations and the actual outcome; and • identifying and assessing possible onerous contracts by comparing the total budgeted costs, taking into consideration the actual costs incurred up to 31 December 2016, with the total contract revenue for individual contracts as agreed with customers and assessing if any provision for foreseeable losses was required.

KEY AUDIT MATTERS *(Continued)*

Recoverability of trade receivables

Refer to notes 18 to the consolidated financial statements and the accounting policies on page 78.

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2016, the Group's gross trade receivables totalled RMB1,160 million, which accounted for 30% of the Group's total assets as at that date. The Group's allowance for doubtful debts includes a specific element based on individually significant debtors and a collective element for groups of debtors sharing similar risk characteristics, taking into account the credit history of the Group's customers and current market and customer-specific conditions, which included assessing whether the customers are in financial difficulties and whether the industries in which the customers operate are facing recession. All of the above require the exercise of significant management judgement based on past experience and knowledge of the Group's customers and the industries in which they operate. At 31 December 2016, the Group recorded an allowance for doubtful debts of RMB54 million. We identified the recoverability of trade receivables as a key audit matter because of the significance of the trade receivables balance and because the assessment of the allowance for doubtful debts involves a significant degree of management judgement.	Our audit procedures to assess the recoverability of trade receivables included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to credit control, debt collection and making allowances for doubtful debts; • assessing the classification of individual balances in the trade receivables ageing report by comparing the details in the trade receivable ageing report with relevant underlying documents, including goods delivery notes, completion reports for construction services and payment terms as set out in the contracts with customers, on a sample basis; • challenging the basis of management's judgement about the recoverability of balances assessed individually, on a sample basis, and evaluating the allowance for doubtful debts made by management for these individual balances with reference to the industry in which the debtors are operating, the ageing of overdue balances, historical and post year-end payment records and recent correspondence with these customers; • recalculating the collective allowance for doubtful debts based on the parameters as set out in the Group's policy for making collective allowances for doubtful debts; • assessing the historical accuracy of the estimates made by the management for the allowance for doubtful debts by comparing the level of allowances at 31 December 2015 with the actual new provisions, write offs and recoveries in respect of trade receivables as at 31 December 2015 during the current year; and • comparing cash receipts from debtors subsequent to the financial year end relating to trade receivables at 31 December 2016 with bank statements and other relevant underlying documentation, on a sample basis.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Choi Chung Chuen.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

13 March 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Continuing operations			
Revenue	3, 4	**1,786,341**	1,692,624
Cost of sales		**(1,357,747)**	(1,297,085)
Gross profit		**428,594**	395,539
Other revenue	5(a)	**40,162**	58,475
Other net gain	5(b)	**27,999**	1,888
Selling and distribution costs		**(66,183)**	(70,269)
Administrative and other operating expenses		**(131,647)**	(144,193)
Profit from operations		**298,925**	241,440
Finance costs	6(a)	**(30,897)**	(34,794)
Profit before taxation		**268,028**	206,646
Income tax	7(a)	**(36,303)**	(21,351)
Profit for the year from continuing operations		**231,725**	185,295
Discontinued operation			
Profit for the year from discontinued operation	10	**–**	599,318
Profit for the year		**231,725**	784,613

The accompanying notes form part of these financial statements.

	Note	2016 RMB'000	2015 RMB'000
Profit attributable to:			
Equity shareholders of the Company			
– Profit for the year from continuing operations		**234,127**	184,104
– Profit for the year from discontinued operation		**–**	594,815
		234,127	778,919
Non-controlling interests			
– Profit for the year from continuing operations		**(2,402)**	1,191
– Profit for the year from discontinued operation		**–**	4,503
		(2,402)	5,694
Profit for the year		**231,725**	784,613
Earnings per share	11		
For continuing and discontinued operations			
– Basic (RMB)		**0.2935**	1.0680
– Diluted (RMB)		**0.2870**	1.0092
For continuing operations			
– Basic (RMB)		**0.2935**	0.2524
– Diluted (RMB)		**0.2870**	0.2385

The accompanying notes form part of these financial statements.

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Profit for the year		**231,725**	784,613
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax		**25,728**	45,829
Total comprehensive income for the year		**257,453**	830,442
Attributable to:			
Equity shareholders of the Company		**259,855**	828,977
Non-controlling interests		**(2,402)**	1,465
Total comprehensive income for the year		**257,453**	830,442

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Renminbi ("RMB"))

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	12	**232,556**	266,944
Lease prepayment		**2,958**	3,068
Intangible assets	13	**263,616**	256,442
Other financial assets	14	**320,307**	241,881
Deferred tax assets	24	**13,504**	9,782
		832,941	778,117
Current assets			
Trading securities	16	**5,896**	6,211
Inventories	17	**302,950**	283,762
Trade and other receivables	18	**1,345,417**	1,212,817
Gross amounts due from customers for contract work	21	**676,584**	422,613
Cash and cash equivalents	19	**665,822**	1,261,853
		2,996,669	3,187,256
Current liabilities			
Trade and other payables	20	**1,292,923**	1,459,534
Gross amounts due to customers for contract work	21	**6,138**	1,457
Loans and borrowings	22(b)	**290,354**	276,702
Obligations under finance leases		**178**	167
Income tax payable		**18,293**	17,115
		1,607,886	1,754,975
Net current assets		**1,388,783**	1,432,281
Total assets less current liabilities		**2,221,724**	2,210,398

The accompanying notes form part of these financial statements.

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current liabilities			
Loans and borrowings	22(b)	**–**	168,699
Obligations under finance leases		**180**	335
Deferred tax liabilities	24	**15,133**	6,995
Deferred income	25	**12,293**	27,573
		27,606	203,602
NET ASSETS		**2,194,118**	2,006,796
CAPITAL AND RESERVES			
Share capital	26	**1,254,909**	1,246,989
Reserves		**933,518**	751,721
Total equity attributable to equity shareholders of the Company		**2,188,427**	1,998,710
Non-controlling interests		**5,691**	8,086
TOTAL EQUITY		**2,194,118**	2,006,796

Approved and authorised for issue by the board of directors on 13 March 2017.

Zhao Xiaobo)
Seah Han Leong) *Directors*

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 Note 26(c)	Statutory reserves RMB'000 Note 26(e)(i)	Translation reserve RMB'000 Note 26(e)(ii)	Share-based compensation reserve RMB'000 Note 26(e)(iii)	Capital reserve arising from equity component of redeemable preference shares RMB'000	Other reserves RMB'000 Note 26(e)(iv)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015	629,544	49,931	(25,728)	20,069	4,095	35,181	437,550	1,150,642	29,916	1,180,558
Changes in equity for 2015:										
Profit for the year	–	–	–	–	–	–	778,919	778,919	5,694	784,613
Other comprehensive income	–	–	50,058	–	–	–	–	50,058	(4,229)	45,829
Total comprehensive income for the year	–	–	50,058	–	–	–	778,919	828,977	1,465	830,442
Issuance of shares	592,097	–	–	–	–	–	–	592,097	–	592,097
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(20,850)	(20,850)
Disposal of subsidiaries	–	–	–	(1,971)	(4,095)	–	–	(6,066)	(2,445)	(8,511)
Appropriation to reserves	–	19,423	–	–	–	–	(19,423)	–	–	–
Equity settled share-based transactions	–	–	–	9,542	–	–	–	9,542	–	9,542
Shares issued upon exercise of share options	25,348	–	–	(4,249)	–	–	–	21,099	–	21,099
Consideration for the acquisition of the Target Businesses	–	–	–	–	–	(661,796)	–	(661,796)	–	(661,796)
Other movements	–	–	–	–	–	89,567	(25,352)	64,215	–	64,215
Balance at 31 December 2015 and 1 January 2016	1,246,989	69,354	24,330	23,391	–	(537,048)	1,171,694	1,998,710	8,086	2,006,796

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 Note 26(c)	**Treasury shares RMB'000 Note 26(d)**	**Statutory reserves RMB'000 Note 26(e)(i)**	**Translation reserve RMB'000 Note 26(e)(ii)**	**Share-based compensation reserve RMB'000 Note 26(e)(iii)**	**Other reserves RMB'000 Note 26(e)(iv)**	**Retained profits RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
Balance at 1 January 2016	**1,246,989**	**-**	**69,354**	**24,330**	**23,391**	**(537,048)**	**1,171,694**	**1,998,710**	**8,086**	**2,006,796**
Changes in equity for 2016:										
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**234,127**	**234,127**	**(2,402)**	**231,725**
Other comprehensive income	**-**	**-**	**-**	**25,728**	**-**	**-**	**-**	**25,728**	**-**	**25,728**
Total comprehensive income for the year	**-**	**-**	**-**	**25,728**	**-**	**-**	**234,127**	**259,855**	**(2,402)**	**257,453**
Purchase of own shares	**-**	**(581)**	**-**	**-**	**-**	**-**	**-**	**(581)**	**-**	**(581)**
Dividends to equity shareholders of the Company	**-**	**-**	**-**	**-**	**-**	**-**	**(79,712)**	**(79,712)**	**-**	**(79,712)**
Forfeiture of share options	**-**	**-**	**-**	**-**	**(1,100)**	**-**	**1,100**	**-**	**-**	**-**
Appropriation to reserves	**-**	**-**	**21,583**	**-**	**-**	**-**	**(21,583)**	**-**	**-**	**-**
Capital contribution from a non-controlling shareholder	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7**	**7**
Equity settled share-based transactions	**-**	**-**	**-**	**-**	**3,363**	**-**	**-**	**3,363**	**-**	**3,363**
Shares issued upon exercise of share options	**7,920**	**-**	**-**	**-**	**(1,128)**	**-**	**-**	**6,792**	**-**	**6,792**
Balance at 31 December 2016	**1,254,909**	**(581)**	**90,937**	**50,058**	**24,526**	**(537,048)**	**1,305,626**	**2,188,427**	**5,691**	**2,194,118**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTS

For the year ended 31 December 2016
(Expressed in Renminbi ("RMB"))

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Profit for the year		**231,725**	784,613
Adjustments for:			
Income tax		**36,303**	30,491
Depreciation	6(c)	**31,876**	47,412
Amortisation of intangible assets and lease prepayment	6(c)	**47,706**	45,535
Impairment losses on trade and other receivables	6(c)	**19,934**	6,090
Impairment losses on property, plant and equipment	6(c)	**–**	28,108
Finance costs		**30,897**	44,245
Interest income		**(24,068)**	(30,386)
Net loss on disposal of property, plant and equipment		**2,610**	4
Fair value change on trading securities		**315**	(3,023)
Equity-settled share-based payment expenses	6(b)	**3,363**	9,542
Gain on disposal of a subsidiary	10	**–**	(585,250)
Foreign exchange (gain)/loss, net		**(32,307)**	1,459
		348,354	378,840
Decrease/(increase) in inventories		**248**	(127,836)
Increase in trade and other receivables		**(265,048)**	(360,330)
Increase in trade and other payables		**312,002**	263,673
Change in gross amounts due from/to customers for contract work		**(249,290)**	(71,175)
(Decrease)/increase in deferred income		**(15,280)**	22,803
Cash generated from operations		**130,986**	105,975
Income tax paid		**(30,709)**	(35,120)
Net cash generated from operating activities		**100,277**	70,855

The accompanying notes form part of these financial statements.

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Payments for the purchase of property, plant and equipment		**(12,963)**	(49,012)
Expenditure on purchase of intangible assets		**(59,170)**	(102,333)
Repayment from Karamay construction contract		**36,000**	64,673
Interest received		**21,267**	30,386
Proceeds from sale of trading securities		**–**	9,030
Payments for business combination under common control		**(494,595)**	(183,779)
Disposal of discontinued operation, net of cash disposed of	10	**–**	545,485
Net cash (used in)/generated from investing activities		**(509,461)**	314,450
Financing activities			
Proceeds from issuance of shares		**6,792**	613,196
Proceeds from loans and borrowings		**217,020**	357,212
Purchase of own shares		**(581)**	–
Repayment of loans and borrowings		**(376,702)**	(541,220)
Other borrowing costs paid		**(9,829)**	(28,246)
Dividend to equity shareholder of the company		**(79,712)**	–
Dividend to non-controlling interests		**–**	(60,563)
Decrease in restricted deposit		**–**	8,721
Contribution from equity owners		**–**	64,215
Net cash (used in)/generated from financing activities		**(243,012)**	413,315
Net (decrease)/increase in cash and cash equivalents		**(652,196)**	798,620
Cash and cash equivalents at the beginning of the year		**1,257,474**	441,598
Effect of foreign exchange rate changes		**56,137**	17,256
Cash and cash equivalents at the end of the year	19	**661,415**	1,257,474

The accompanying notes form part of these financial statements.

1 GENERAL INFORMATION

Technovator International Limited (the "Company") was incorporated in Singapore on 25 May 2005 under the name of "Technovator Int Private Ltd." as an exempted company with limited liability under the Singapore Companies Act (Chapter 50). The name of the Company was changed to Technovator International Limited on 8 September 2011. The Company and its subsidiaries hereinafter are collectively referred to as the "Group". Technovator is principally engaged in integrated and comprehensive urban smart energy saving services. Its business covers three major segments including smart transportation, smart buildings and complex and smart energy, providing the customers with smart energy management products, solutions and integrated services throughout their full life cycles. The details of the subsidiaries directly or indirectly owned by the Company are set out in note 15.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) 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. 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. Significant accounting policies adopted by the Group are disclosed below.

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 and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

During 2015, Tongfang Technovator Int (Beijing) Co., Ltd ("Technovator Beijing", a wholly-owned subsidiary of the Company) and Tongfang Energy Saving Engineering Technology Co., Ltd. ("Tongfang Energy Saving", an indirect wholly-owned subsidiary of the Company) acquired certain businesses providing intelligence integrated solutions which center around supervision and control systems in the fields of intelligent rail transit, intelligent building and intelligent urban heating network (the "Target Businesses", in each case, together with the assets and liabilities associated with such businesses) from Tsinghua Tongfang Co., Ltd. ("THTF"). As the Company and the Target Businesses are under common control of THTF, the acquisition of the Target Businesses is accounted for using merger accounting in accordance with the accounting policy set out in note 2(h), and the details are disclosed in note 31.

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 as explained in the accounting policies set out below:

– Financial instruments classified as trading securities (see note 2(f))

– Redeemable preference shares (see note 2(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.

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 32.

(c) Changes in accounting policies

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

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

2 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 and 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.

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 income statement and the consolidated income statement 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 2(p), 2(q) and 2(r), depending on the nature of 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 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill

Goodwill represents the excess of

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

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

When (ii) is greater than (i), then this excess is recognised immediately in the income statement as a gain on a bargain purchase.

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

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

(f) Other investments in debt and equity securities

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

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

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

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of the reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in the income statement in accordance with the policies set out in notes 2(w)(iv) and 2(w)(v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in the income statement.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Derivative financial instruments

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

(h) Merge accounting for business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5, Merger Accounting for Common Control Combinations ("AG 5") issued by the HKICPA to account for the acquisition of an entity or a business which is under common control with the Group, as if the acquisition had occurred and the acquired entity or business had been combined from the beginning of the earliest financial period presented.

The net assets of the Group and the acquired entity or business are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition at the time of the business combinations under common control. The consolidated statement of comprehensive income includes the results of the Group and the acquired entity or business from the earliest date presented, regardless of the date of the business combinations under common control.

The comparative amounts in the consolidated financial statements are restated and presented as if the acquired entity or business had been combined at the beginning of the previous reporting period or when it first came under common control, whichever is shorter.

Transaction costs incurred in relation to business combinations under common control that are accounted for by using merger accounting are recognised as an expense in the year in which they are incurred. Ordinary shares issued as part of a business combination under common control which is accounted for using merger accounting are included in the calculation of the weighted average number of shares for all periods presented.

(i) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(l)).

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 2(y)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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 the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation 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:

– Freehold land is not depreciated	
– Leasehold improvements	The shorter of the remaining term of the lease or 5 years
– Furniture and fittings	5 to 10 years
– Computers and office equipment	3 to 10 years
– Plant and machinery	5 to 12 years
– Motor vehicles	5 to 10 years
– Buildings situated on freehold land	10 to 20 years

When 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) Intangible assets (other than goodwill)

Expenditure on an internal research and development projects is distinguished between the expenditures during the research phase and expenditures during the development phase. Research activities involve original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development activities involve a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Intangible assets (other than goodwill) *(Continued)*

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Other than certain trade name which has indefinite useful life, the following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

–	Patents and technology know-how	5 years
–	Customer relationship	5–7 years
–	Trade name	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) 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 obligations 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 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments are charged to the income statement 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 the income statement in the accounting period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(l) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– intangible assets;

– goodwill, and

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

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, 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 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).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in the income statement 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).

– Reversals of impairment losses

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

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

(m) Inventories

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Construction contracts

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

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

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Group's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised at fair value if it is designated at fair value through profit or loss on initial recognition, or in accordance with the Group's policy for interest-bearing borrowings set out in note 2(p) and accordingly dividends thereon are recognised on an accrual basis in the income statement as part of finance costs.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(v)(i), trade and other payables are subsequently stated at amortised costs unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Cash and cash equivalents

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

(t) Employee benefits

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share-based compensation reserve within equity. The fair value is measured at grant date using the binomial option pricing model and/or Black-Scholes 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 options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation 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 share-based compensation 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 share-based compensation reserve until either the option is exercised (when it is transferred to the share capital) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to a business combination or 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 substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that 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 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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

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

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

  – the same taxable entity; or

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

(v) Provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees is issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Provisions and contingent liabilities *(Continued)*

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(v)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(v)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group 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.

(w) Revenue recognition

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

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and excluding value added tax or other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer which is taken to be the point in time when the final testing of goods is completed at the customers' premises and there is no continuing management involvement with the goods.

(ii) Service fee income

Service fee income is recognised when services are rendered to customers. For consulting service, the service fee income is recognised on a straight-line basis over the service period. For after-sales services, service fee income is deferred over the warranty period or when services are rendered to customers if the after-sales services are not covered by the warranty period.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition *(Continued)*

(iii) Construction contract revenue

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

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

(iv) Dividends

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

(v) Interest income

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

(vi) Government grants

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

(x) Translation of foreign currency transactions

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 the income statement.

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

The results of foreign operations in Singapore, France, the Netherlands and Canada are translated from their respective functional currencies into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and presented separately in equity in the exchange reserves. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Borrowing costs

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

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

(z) Related parties

For the purposes of these financial statements, a related party is a person or entity that is related to the Group.

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

(a) that person has control or joint control over the Group;

(b) that person has significant influence over the Group; or

(c) that person is a member of the key management personnel of the Group or of a parent of the Group.

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

(a) the entity and the Group are members of the same group;

(b) the entity is an associate or joint venture of the Group or an associate or joint venture of a member of a group of which the entity is a member;

(c) both entities are joint ventures of the same third party;

(d) the entity is a joint venture of a third entity and the Group is an associate of the same third entity, or vice versa;

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

(f) the entity is controlled or jointly-controlled by a person identified in (i); or

(g) a person identified in (i)(a) 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).

(h) 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 individual in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

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

(i) Non-current assets held for sale

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(ii) Discontinued operations

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

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

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

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

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

When an operation is classified as a discontinued operation, the comparative statement of income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

3 REVENUE

The Group are principally engaged in integrated and comprehensive urban smart energy saving services. Its business covers three major segments including smart transportation, smart building and complex and smart energy, providing the customers with smart energy management products, solutions and integrated services throughout their full life cycles.

Revenue represents the sales value of goods sold to customers, income from provision of services and revenue from construction contracts. The amounts of each significant category of revenue recognised during the years ended 31 December 2016 and 2015 are as follows:

	2016 **RMB'000**	2015 RMB'000
Sales of goods	**588,908**	705,431
Provision of services	**78,782**	86,749
Contract revenue	**1,118,651**	900,444
	1,786,341	1,692,624

4 SEGMENT REPORTING

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

Smart transportation business ("STB"): It comprises a series of proprietary software and hardware products and systems for rail transit such as Integrated Supervision and Control System (ISCS), Building Automation System (BAS) for rail transit and safety door system, providing integrated solutions with full life cycles ranging from planning, procurement, installation and commissioning to aftersales service.

Smart building and complex business ("SBB"): It provides integrated intelligence solutions and efficiency management services, namely integrated energy consumption monitoring, energy-saving consultation and reformation services and integration and product supply of intelligence system for buildings, aimed at different building and complex and rendering full life-cycle services of which reduces energy consumption and operating costs of buildings.

Smart energy business ("SEB"): It comprised a series of leading technologies such as regional energy planning, integrated utilization of industrial waste heat recovery technology, heat pump technology, independent temperature and humidity control technology and variable air rate technology applied in the energy cascade utilization as well as optimization and transformation of energy system. The Group possess self-owned core leading technologies (in the field of urban heating network) such as heating network & heating source monitoring and optimal regulation, distributed variable frequency heating technology, cooling and heating network balancing technology, combined multi-heat sources heating technology.

4 SEGMENT REPORTING *(Continued)*

(a) Information about reportable segments

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of products, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment results is profit or loss before income tax adjusted for items not specifically attributed to individual segments, such as finance cost, depreciation and amortisation. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment sales), interest income, and impairment losses. Inter-segment pricing is determined on a consistent basis using market benchmarks.

Segment assets and liabilities are not regularly reported to the Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in the consolidated financial statements.

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

	STB		SBB		SEB		Discontinued operation*		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	677,632	626,755	633,308	734,440	475,401	331,429	–	284,805	1,786,341	1,977,429
Inter-segment revenue	–	–	–	32,308	–	–	–	3,652	–	35,960
Reportable segment revenue	677,632	626,755	633,308	766,748	475,401	331,429	–	288,457	1,786,341	2,013,389
Reportable segment profit	142,372	130,470	87,784	143,414	146,938	78,619	–	45,345	377,094	397,848
Interest income	4,438	365	11,411	21,197	8,219	8,116	–	708	24,068	30,386
Impairment losses	7,243	2,522	7,610	2,955	5,081	29,441	–	–	19,934	34,198

* See note 10.

4 SEGMENT REPORTING *(Continued)*

(b) Reconciliations of reportable segment revenues and profit or loss

	2016 RMB'000	2015 RMB'000
Revenue		
Reportable segment revenue	1,786,341	2,013,389
Elimination of inter-segment revenue	–	(35,960)
Elimination of discontinued operation (note 10)	–	(284,805)
Consolidated revenue	1,786,341	1,692,624
Profit		
Reportable segment profit	377,094	397,848
Elimination of discontinued operation (note 10)	–	(23,208)
Reportable segment profit derived from the Group's external customers	377,094	374,640
Depreciation and amortisation	(79,582)	(92,947)
Finance costs	(30,897)	(44,245)
Unallocated head office and corporate gains/(expenses)	1,413	(30,802)
Consolidated profit before taxation	268,028	206,646

(c) Geographic information

For the year ended 31 December 2016, as the Group does not have material operations outside the PRC from continuing operations, no geographic segment information is presented.

5 OTHER REVENUE AND OTHER NET GAIN

(a) Other revenue

	2016 RMB'000	2015 RMB'000
Government grants	15,650	28,608
Interest income	24,068	29,678
Others	444	189
	40,162	58,475

(b) Other net gain

	2016 RMB'000	2015 RMB'000
Net foreign exchanges gain	31,871	973
Others	(3,872)	915
	27,999	1,888

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2016 RMB'000	2015 RMB'000
Interest on loans and borrowings	**30,897**	34,794

(b) Staff costs

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**110,397**	104,453
Contributions to defined contribution retirement schemes	**11,478**	12,321
Equity settled share-based payment expenses (note 23)	**3,363**	9,542
	125,238	126,316

Staff costs include directors' and senior management's remuneration (notes 8 and 29(d)).

Pursuant to the relevant labour rules and regulations in the PRC, the Group's PRC subsidiaries participate in a defined contribution retirement scheme (the "Scheme") organised by the local authorities whereby the subsidiaries are required to make contributions to the Scheme at rates ranged 19% to 20% of the eligible employees' salaries for year ended 31 December 2016 (2015: 20%). Contributions to the Scheme vest immediately.

For the Group's subsidiaries in countries other than the PRC, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

6 PROFIT BEFORE TAXATION *(Continued)*

Save for the above, the Group has no other material obligation for payment of retirement benefits beyond the contributions described above.

(c) Other items

	2016 RMB'000	2015 RMB'000
Cost of inventories (note 17(b))	**1,264,058**	1,304,026
Research and development expenses	**6,157**	9,421
Amortisation of intangible assets and lease prepayment	**47,706**	45,535
Depreciation	**31,876**	47,412
Impairment losses		
– property, plant and equipment	**–**	28,108
– trade and other receivables	**19,934**	6,090
Operating lease charges	**12,315**	11,672
Auditors' remuneration	**2,410**	6,490

7 INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2016 RMB'000	2015 RMB'000
Current tax		
Provision for the year	**31,859**	32,661
Under/(over) provision in respect of prior years	**28**	(780)
Tax refund	**–**	(6,167)
	31,887	25,714
Deferred tax		
Origination/(reversal) of temporary differences (note 24(a))	**4,416**	(4,363)
	36,303	21,351

7 INCOME TAX *(Continued)*

(b) Reconciliation between income tax expense and profit before taxation at applicable tax rates:

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation		**268,028**	206,646
Expected tax calculated at the respective tax rates	(i)/(ii)	**66,894**	53,883
Tax effect on non-deductible expenses		**494**	3,090
Effect of tax concession	(iii)/(iv)	**(32,394)**	(33,993)
Tax refund	(iv)	**–**	(6,167)
Tax effect of non-taxable income		**(4,517)**	–
Tax effect of unused tax losses not recognised		**5,808**	5,318
Tax effect of utilisation of tax losses not recognised in prior years		**(10)**	–
Under/(over) provision in prior years		**28**	(780)
Actual income tax expense		**36,303**	21,351

Notes:

(i) The Company is subject to Singapore corporate income tax at 17% for the years ended 31 December 2016 and 2015. No provision for Singapore income tax was made because the Company sustained tax losses for the years ended 31 December 2015 and 2016.

(ii) The subsidiaries of the Group established in the PRC are subject to PRC Corporate Income Tax rate of 25% for the years ended 31 December 2015 and 2016.

The subsidiary of the Group established in the Cayman Islands is not subject to any income tax pursuant to the rules and regulations of the Cayman Islands.

The subsidiary of the Group established in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the years ended 31 December 2015 and 2016.

(iii) Technovator Beijing is recognised as a high and new technology enterprise and is eligible to enjoy a preferential tax rate of 15% until October 2017.

Tongfang Energy Saving is recognised as a high and new technology enterprise and is eligible to enjoy a preferential tax rate of 15% until December 2019.

(iv) During 2015, Tongfang Technovator Software (Beijing) Co., Ltd. ("Software Beijing") obtained the certificate of Software and Integrate Circuit Enterprise issued by the local authorities and the local tax bureau approved its entitlement to a preferential tax rate of tax free for two years from the first year of profit making and 12.5% for the third to fifth years. Upon the approval of the preferential tax policy, the local tax bureau agreed the refund of income tax of RMB6,167,000 paid by Software Beijing for 2014, which is deemed to be the first profit making year of Software Beijing.

8 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the new 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 2015						
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note (vi)) RMB'000	Total RMB'000
Executive directors							
Zhao Xiaobo	–	650	2,134	–	2,784	144	2,928
Seah Han Leong	–	262	2,134	61	2,457	144	2,601
Non-executive directors							
Fan Xin	186	–	–	–	186	–	186
Lu Zhicheng (note (i))	219	–	–	–	219	505	724
Ng Koon Siong	209	–	936	–	1,145	–	1,145
Liu Tianmin	177	–	–	–	177	–	177
Wang Yinghu (note (ii))	22	–	–	–	22	–	22
Independent non-executive directors							
Fan Ren Da Anthony	290	–	–	–	290	–	290
Chia Yew Boon	290	–	–	–	290	–	290
Chen Hua	225	–	–	–	225	–	225
	1,618	912	5,204	61	7,795	793	8,588

8 DIRECTORS' REMUNERATION *(Continued)*

	Year ended 31 December 2016						
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments (note (vi)) RMB'000	Total RMB'000
Executive directors							
Zhao Xiaobo	–	600	2,166	–	2,766	33	2,799
Seah Han Leong	–	279	2,166	83	2,528	33	2,561
Non-executive directors							
Huang Yu (note (iii))	–	–	–	–	–	–	–
Fan Xin (note (iv))	–	–	–	–	–	–	–
Ng Koon Siong (note (v))	14	–	998	–	1,012	–	1,012
Liu Tianmin	189	–	–	–	189	–	189
Wang Yinghu	189	–	–	–	189	–	189
Independent non-executive directors							
Fan Ren Da Anthony	309	–	–	–	309	–	309
Chia Yew Boon	309	–	–	–	309	–	309
Chen Hua	240	–	–	–	240	–	240
	1,250	879	5,330	83	7,542	66	7,608

Notes:

(i) The non-executive director resigned on 16 November 2015.

(ii) The non-executive director was appointed on 16 November 2015.

(iii) The non-executive director was appointed on 15 July 2016.

(iv) The non-executive director resigned on 15 July 2016.

(v) The non-executive director resigned on 22 January 2016.

(vi) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(t)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 23.

During 2015 and 2016, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: two) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**1,532**	3,042
Discretionary bonuses	**779**	1,493
Share-based payments	**20**	88
	2,331	4,623

The emoluments of the two (2015: three) individuals with the highest emoluments are within the following bands:

	2016 Number of Individuals	2015 Number of individuals
HKD 500,001 – HKD 1,000,000	**1**	–
HKD 1,000,001 – HKD 1,500,000	**–**	–
HKD 1,500,001 – HKD 2,000,000	**–**	2
HKD 2,000,001 – HKD 2,500,000	**1**	1

10 DISCONTINUED OPERATION

On 1 September 2015, the Group completed the disposal of all of its equity interests in Distech Controls Inc. ("Distech Controls") for a total consideration of CAD133 million (equivalent to RMB642 million). At 31 December 2015, the Company had received the consideration in cash of CAD117 million (equivalent to RMB569 million), and the escrow amount of CAD16 million (equivalent to RMB73 million) is recorded in other receivables. Upon the completion of the transaction, Distech Controls ceased to be a subsidiary of the Company.

A. Results of discontinued operation:

	2016 RMB'000	2015 RMB'000
Revenue	**–**	284,805
Net expenses	**–**	(252,146)
Finance costs	**–**	(9,451)
Results from discontinued operating activities	**–**	23,208
Income tax	**–**	(9,140)
Results from discontinued operating activities, net of tax	**–**	14,068
Gain on disposal of shares of Distech Controls	**–**	585,250
Profit for the year from discontinued operation	**–**	599,318
Basic earnings per share (RMB)	**NIL**	0.8156
Diluted earnings per share (RMB)	**NIL**	0.7707

The calculation of basic earnings per share from discontinued operation are RMB0.8156 in 2015, based on the profit for the year from discontinued operation attributable to the equity shareholders of the Company of RMB594,815,000 in 2015 and the weighted average number of ordinary shares for basic earnings per share as disclosed in note 11(a).

The calculation of diluted earnings per share from discontinued operation are RMB0.7707 in 2015, based on the profit for the year from discontinued operation of RMB594,815,000 in 2015 and the weighted average number of ordinary shares for diluted earnings per share as disclosed in note 11(b).

B. Cash flows generated from discontinued operation:

	2016 RMB'000	2015 RMB'000
Net cash generated from operating activities	**–**	41,708
Net cash generated from investing activities	**–**	513,367
Net cash used in financing activities	**–**	(121,488)
Net cash inflow for the year	**–**	433,587

(Expressed in RMB unless otherwise indicated)

11 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

From continuing and discontinued operations

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB234,127,000 (2015: RMB778,919,000) and the weighted average number of ordinary shares of 797,698,020 (2015: 729,345,866) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2016 Number of shares	2015 Number of shares
Issued ordinary shares at 1 January	**795,272,189**	644,228,189
Issuance of shares	**–**	82,344,115
Effect of purchase of own shares	**(5,350)**	–
Effect of exercise of share option schemes	**2,431,181**	2,773,562
Weighted average number of ordinary shares at 31 December	**797,698,020**	729,345,866

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB234,127,000 (2015: RMB778,919,000) and the weighted average number of ordinary shares of 815,748,131 (2015: 771,801,407) in issue during the year, calculated as follows:

Weighted average number of ordinary shares (diluted):

	2016 Number of shares	2015 Number of shares
Weighted average number of ordinary shares at 31 December	**797,698,020**	729,345,866
Effect of deemed issue of ordinary shares under the Company's option scheme for nil consideration (note 23)	**18,050,111**	42,455,541
Weighted average number of ordinary shares (diluted) at 31 December	**815,748,131**	771,801,407

From continuing operations

The calculation of basic and diluted earnings per share from continuing operations is based on profit for the year attributable to the ordinary equity shareholders of the Company from continuing operations of RMB234,127,000 (2015: RMB184,104,000), and the denominators used are the same as those detailed above for basic and diluted earnings per share, respectively.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Furniture and fittings RMB'000	Computers and office equipment RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Land and buildings held for own use RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:								
At 1 January 2015	18,796	4,597	18,859	290,872	6,739	33,973	32,194	406,030
Additions	455	208	3,805	3,041	93	433	40,977	49,012
Transfer of CIP	–	–	–	54,054	–	–	(54,054)	–
Disposal of a subsidiary	(945)	(3,133)	(13,705)	(9,236)	–	(31,544)	–	(58,563)
Disposals	–	–	(12)	–	–	–	–	(12)
Exchange adjustments	127	(271)	(593)	(422)	73	(2,862)	–	(3,948)
At 31 December 2015	18,433	1,401	8,354	338,309	6,905	–	19,117	392,519
At 1 January 2016	18,433	1,401	8,354	338,309	6,905	–	19,117	392,519
Additions	308	168	1,028	13	–	–	18,052	19,569
Transfer out	–	–	–	(22,967)	–	–	(3,743)	(26,710)
Disposals	–	(15)	(186)	–	–	–	(2,534)	(2,735)
Exchange adjustments	67	44	48	–	67	–	(133)	93
At 31 December 2016	18,808	1,598	9,244	315,355	6,972	–	30,759	382,736
Accumulated depreciation and impairment:								
At 1 January 2015	1,170	1,326	9,936	46,330	2,662	2,459	–	63,883
Charge for the year	1,440	525	2,196	41,621	705	925	–	47,412
Impairment loss	–	–	–	28,108	–	–	–	28,108
Disposal of a subsidiary	(109)	(1,140)	(5,772)	(3,078)	–	(3,164)	–	(13,263)
Written back on disposals	–	–	(8)	–	–	–	–	(8)
Exchange adjustments	275	(28)	(574)	(97)	87	(220)	–	(557)
At 31 December 2015	2,776	683	5,778	112,884	3,454	–	–	125,575
At 1 January 2016	2,776	683	5,778	112,884	3,454	–	–	125,575
Charge for the year	1,352	180	822	28,816	706	–	–	31,876
Transfer out	–	–	–	(7,274)	–	–	–	(7,274)
Written back on disposals	–	(6)	(119)	–	–	–	–	(125)
Exchange adjustments	26	23	41	–	38	–	–	128
At 31 December 2016	4,154	880	6,522	134,426	4,198	–	–	150,180
Net book value:								
At 31 December 2015	15,657	718	2,576	225,425	3,451	–	19,117	266,944
At 31 December 2016	14,654	718	2,722	180,929	2,774	–	30,759	232,556

During the year ended 31 December 2016, certain plant and machinery and construction in progress with carrying amount of RMB19,436,000 were transferred to inventories or cost of sales when they ceased to be used in EMC projects.

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

In 2015, due to the cautious anticipation that as certain waste energy recovery EMC projects of the smart energy business segment will maintain at a low level of business operation rate under the current economic condition in the future, the Group assessed the recoverable amounts of related assets and resulted in a provision of impairment loss of RMB28,108,000 which has been included in administrative and other operating expenses. The recoverable amounts of these projects have been estimated based on their value in use, which is derived at by discounting the expected future cash flows using a discount rate of 7.36%.

13 INTANGIBLE ASSETS

	Trade name RMB'000	Patents and technology know-how RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:				
At 1 January 2015	15,934	361,545	12,173	389,652
Additions through internal development	–	102,333	–	102,333
Disposals of a subsidiary	(14,883)	(62,456)	(11,744)	(89,083)
Disposals	–	(6,553)	–	(6,553)
Exchange adjustments	(1,047)	(2,458)	(429)	(3,934)
At 31 December 2015	4	392,411	–	392,415
At 1 January 2016	4	392,411	–	392,415
Additions through internal development	–	54,770	–	54,770
Disposals	–	(15,535)	–	(15,535)
At 31 December 2016	4	431,646	–	431,650
Accumulated amortisation:				
At 1 January 2015	–	121,355	6,370	127,725
Charge for the year	–	44,749	676	45,425
Written back on disposals of a subsidiary	–	(22,770)	(6,847)	(29,617)
Written back on disposals	–	(6,553)	–	(6,553)
Exchange adjustments	–	(808)	(199)	(1,007)
At 31 December 2015	–	135,973	–	135,973
At 1 January 2016	–	135,973	–	135,973
Charge for the year	–	47,596	–	47,596
Written back on disposals	–	(15,535)	–	(15,535)
At 31 December 2016	–	168,034	–	168,034
Net book value:				
At 31 December 2015	4	256,438	–	256,442
At 31 December 2016	4	263,612	–	263,616

14 OTHER FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Long-term receivables	**375,547**	271,910
Less: current portion of long-term receivables	**(55,240)**	(30,029)
	320,307	241,881

At 31 December 2016, long-term receivables included receivables of Karamay construction contract of RMB65,611,000 (2015: RMB101,611,000). Karamay construction contract ("Karamay contract") is a construction contract entered into among Karamay Construction Management Co., Ltd. ("Karamay Construction"), THTF and Technovator Beijing in 2013. Pursuant to Karamay contract, Karamay Construction engaged THTF as the contractor to carry out the construction contract with the finance and major equipment supply provided by Technovator Beijing. The estimated total financing provided by Technovator Beijing is approximately RMB180 million. Karamay Construction should repay Technovator Beijing by five annual instalments, with an investment return charged at 140% of the then prevailing lending interest rate in respect of loans for the same term as quoted by the People's Bank of China. Karamay Construction didn't grant any security to Technovator Beijing.

The remaining balance of long-term receivables represent trade receivables of certain construction contracts which are repayable by instalments over a 2 to 8 years period.

15 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of the Company's principal subsidiaries at 31 December 2016.

			Proportion of ownership interest			
Name of company	**Place and date of incorporation/ establishment**	**Particulars of issued and fully paid up share/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Technovator Beijing	Beijing, PRC 7 August 2006	USD 83,000,000	100%	100%	–	Design, manufacturing and marketing of building automation solutions
Tongfang Energy Saving	Beijing, PRC 21 June 2002	RMB231,812,167	100%	–	100%	Energy management services, marketing of heating power equipment
Software Beijing	Beijing, PRC 22 November 2013	RMB10,000,000	100%	–	100%	Software development, technology development, marketing, service and consulting

16 TRADING SECURITIES

The trading securities are equity securities at fair value listed in Hong Kong.

17 INVENTORIES

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

	2016 RMB'000	2015 RMB'000
Raw materials	**40,836**	23,558
Work in progress	**3,393**	3,243
Finished goods	**258,721**	256,961
	302,950	283,762

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

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**1,264,058**	1,304,026

18 TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade debtors due from related parties	**33,064**	69,885
Other trade debtors and bills receivable	**1,127,108**	911,349
Less: Allowance for doubtful debts (note 18(b))	**(53,933)**	(35,505)
	1,106,239	945,729
Other receivables		
– amounts due from related parties	**21,473**	20,441
– amounts due from third parties	**111,658**	95,700
Less: Allowance for doubtful debts (note 18(b))	**(2,622)**	(1,116)
Loans and receivables	**1,236,748**	1,060,754
Deposits and prepayments	**108,669**	152,063
	1,345,417	1,212,817

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

Included in trade and other receivables are external trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Current	**783,151**	469,754
Less than 1 month past due	**19,798**	114,156
More than 1 month but less than 3 months past due	**20,953**	12,052
More than 3 months but less than 12 months past due	**109,716**	190,260
More than 12 months past due	**172,621**	159,507
	323,088	475,975
	1,106,239	945,729

Trade debtors and bills receivable are due within 0–180 days from the date of billing. Further details of the Group's credit policy are set out in note 27(a).

(b) Impairment of trade and other receivables

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

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**36,621**	31,288
Impairment loss recognised	**19,934**	6,090
Disposal of subsidiary	**–**	(757)
At 31 December	**56,555**	36,621

At 31 December 2016, certain trade receivables of the Group were individually determined to be impaired. The individually impaired receivables related to receivables which debts have been long outstanding with no subsequent settlement received or customers that were in financial difficulties and management assessed that those receivables are not expected to be recovered. The Group does not hold any collateral over these balances.

18 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade and other receivables that are not impaired

Receivables that were neither past due nor impaired (disclosed as current in the table given in note 18(a)) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19 CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Deposit with banks and other financial institutions	**4,407**	4,379
Cash at bank and in hand	**661,415**	1,257,474
Cash and cash equivalents in the statement of financial position	**665,822**	1,261,853
Restricted deposit	**(4,407)**	(4,379)
Cash and cash equivalents in the consolidated cash flow statements	**661,415**	1,257,474

20 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables due to related parties	**58,992**	91,229
Other trade and bills payables	**995,163**	684,983
	1,054,155	776,212
Other payables and accruals		
– amounts due to related parties (note)	**48,385**	479,324
– amounts due to third parties	**48,984**	40,034
Financial liabilities measured at amortised cost	**1,151,524**	1,295,570
Receipts in advance	**141,399**	163,964
	1,292,923	1,459,534

20 TRADE AND OTHER PAYABLES *(Continued)*

All of the above balances are expected to be settled within one year. Included in trade and other payables are trade and bills payables with the following ageing analysis as of the end of reporting period:

	2016 RMB'000	2015 RMB'000
By date of invoice:		
Within 3 months	**741,993**	560,376
More than 3 months but within 6 months	**58,014**	81,934
More than 6 months but within 12 months	**78,648**	61,334
More than 12 months	**175,500**	72,568
	1,054,155	776,212

Note: At 31 December 2015, the other payables due to related parties included a balance of RMB478,017,000 payable to THTF, representing the remaining balance of the consideration for the acquisition of the Target Businesses (see note 31). The amount was settled in September 2016.

21 GROSS AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2016 RMB'000	2015 RMB'000
Direct costs incurred to date on contract plus attributable profits less recognised losses	**2,743,991**	2,445,697
Less: Progress payments billed	**(2,067,407)**	(2,023,084)
Gross amounts due from customers for contract work	**676,584**	422,613
Direct costs incurred to date on contract plus attributable profits less recognised losses	**15,670**	6,413
Less: Progress payments billed	**(21,808)**	(7,870)
Gross amounts due to customers for contract work	**(6,138)**	(1,457)

22 LOANS AND BORROWINGS

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

	2016 RMB'000	2015 RMB'000
Bank loans		
– Secured	–	20,240
– Guaranteed by related parties	27,000	6,705
– Unsecured and unguaranteed	190,020	249,757
	217,020	276,702
Loans from related parties (note 29(c))	73,334	168,699
	290,354	445,401

(b) At the end of reporting period, loans and borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year or on demand	290,354	276,702
After 1 year but within 2 years	–	168,699
	290,354	445,401

(c) The amounts of banking facilities and the utilisation at the end of reporting period are set out as follows:

	2016 RMB'000	2015 RMB'000
Unsecured Banking facilities	520,000	650,000

At 31 December 2016, the facilities were utilised to the extent of RMB217,020,000 (2015: RMB227,002,000).

As at 31 December 2016 none of the Group's banking facilities are subject to the fulfilment of covenants. As at 31 December 2015, some of the Group's banking facilities were subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). At 31 December 2015, none of the covenants relating to drawn down facilities had been breached.

(Expressed in RMB unless otherwise indicated)

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share Option Scheme 2012

The Company has a share option scheme ("Share Option Scheme 2012") which was adopted on 23 July 2012 ("the date of grant") whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of the Company, to take up options to subscribe for a total of 48,500,000 ordinary shares in the share capital of the Company, upon exercise of such option at an exercise price of HK$1.15 per share, which represents (1) the closing price of HK$1.15 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (2) the average closing price of HK$1.15 per share as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant. Under Share Option Scheme 2012, the options granted shall have an exercisable period of 5 years from the date of grant and 50% of the total number of options granted will be vested after the second anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2012 and the remaining 50% will be vested after the third anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2013.

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors and chief executives:			
– on 23 July 2012	8,700,000	2 years service and meeting 2012 profit target	5 years
– on 23 July 2012	8,700,000	3 years service and meeting 2013 profit target	5 years
Options granted to employees:			
– on 23 July 2012	15,550,000	2 years service and meeting 2012 profit target	5 years
– on 23 July 2012	15,550,000	3 years service and meeting 2013 profit target	5 years
Total share options granted	48,500,000		

(Expressed in RMB unless otherwise indicated)

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

(a) Share Option Scheme 2012 *(Continued)*

(ii) The number and weighted average exercise prices of share options are as follows:

	2016 Weighted average exercise price	2016 Number of options	2015 Weighted average exercise price	2015 Number of options
Outstanding at the beginning of the year	HK$1.15	23,350,000	HK$1.15	45,400,000
Exercised during the year	HK$1.15	(6,080,000)	HK$1.15	(22,050,000)
Forfeited during the year	HK$1.15	(550,000)	N/A	–
Outstanding at the end of the year	HK$1.15	16,720,000	HK$1.15	23,350,000
Exercisable at the end of the year		16,720,000		23,350,000

The options outstanding at 31 December 2016 had an exercise price of HK$1.15 (2015: HK$1.15) and weighted average remaining contractual life of 0.56 years (2015: 1.56 years).

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Fair value of share options and assumptions	
Fair value at measurement date	HK$0.21
Share price	HK$1.15
Exercise price	HK$1.15
Expected volatility	42.54%
Option life	5 years
Expected dividends	0%
Risk-free interest rate	0.53%

The expected volatility is based on the historical volatility of the share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service and non-market performance condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

(Expressed in RMB unless otherwise indicated)

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

(b) Share Option Scheme 2013

The Company has a share option scheme ("Share Option Scheme 2013") which was adopted on 5 September 2013 ("the date of grant") whereby the directors of the Company are authorised, at their discretion, to invite directors and employees of the Group, suppliers and other individuals, to take up options to subscribe for a total of 52,100,000 ordinary shares in the share capital of the Company, upon exercise of such option at an exercise price of HK$3.06 per share, which represents the higher of (1) the closing price of HK$3.06 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (2) the average closing price of HK$2.91 per share as stated in the daily quotation sheet issued by the Stock Exchange for the five business days immediately preceding the date of grant.

Under Share Option Scheme 2013, the options granted to directors, employees and other individuals shall have an exercisable period of 5 years from the date of grant and 50% of the total number of options granted will be vested after the second anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2014 and the remaining 50% will be vested after the third anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2015. The options granted to the suppliers of goods or services shall have an exercisable period of 5 years from the date of grant and 100% of the total number of options granted will be vested after the second anniversary of the date of grant conditional upon the price per share equal to or exceeding 150% of the exercise price.

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors			
– on 5 September 2013	3,500,000	2 years service and meeting 2014 profit target	5 years
– on 5 September 2013	3,500,000	3 years service and meeting 2015 profit target	5 years
Options granted to management and employees			
– on 5 September 2013	5,200,000	2 years service and meeting 2014 profit target	5 years
– on 5 September 2013	5,200,000	3 years service and meeting 2015 profit target	5 years

(Expressed in RMB unless otherwise indicated)

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

(b) Share Option Scheme 2013 *(Continued)*

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to suppliers of goods or services			
– on 5 September 2013	1,800,000	2 years and meeting the price per share equal to or exceeding 150% of the exercise price	5 years
Options granted to other individuals			
– on 5 September 2013	16,450,000	2 years service and meeting 2014 profit target	5 years
– on 5 September 2013	16,450,000	3 years service and meeting 2015 profit target	5 years
Total share options granted	52,100,000		

(ii) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HK$3.06**	**52,100,000**	HK$3.06	52,100,000
Exercised during the year	**HK$3.06**	**(300,000)**	N/A	–
Forfeited during the year	**HK$3.06**	**(3,650,000)**	N/A	–
Outstanding at the end of the year	**HK$3.06**	**48,150,000**	HK$3.06	52,100,000
Exercisable at the end of the year		**48,150,000**		26,950,000

The options outstanding at 31 December 2016 had an exercise price of HK$3.06 (2015: HK$3.06) and weighted average remaining contractual life of 1.68 years (2015: 2.68 years).

(Expressed in RMB unless otherwise indicated)

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

(b) Share Option Scheme 2013 *(Continued)*

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

Fair value of share options and assumptions

Fair value at measurement date	
– Options granted to directors, employees and other individuals	HK$0.32
– Options granted to suppliers of goods or services	HK$1.04
Share price	HK$3.06
Exercise price	HK$3.06
Expected volatility	45.30%
Option life	5 years
Expected dividends	0%
Risk-free interest rate	1.043%

The expected volatility is based on the historical volatility of the share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options granted to directors, employees and other individuals were under a service and non-market performance condition. The condition has not been taken into account in the grant date fair value measurement of the services received. Share options granted to suppliers of goods or services were under market condition. The condition has been taken into account in the grant date fair value measurement of the services received.

(c) Share Option Scheme 2014

The Company has a share option scheme ("Share Option Scheme 2014") which was adopted during 2014, including options granted in August 2014 and options granted in October 2014, respectively.

Options granted in August 2014

Under Share Option Scheme 2014, on 15 August 2014 ("the date of grant") the directors of the Company are authorised, at their discretion, to invite directors and employees of the Group, to take up options to subscribe for a total of 7,300,000 ordinary shares in the share capital of the Company, upon exercise of such option at an exercise price of HK$3.83 per share, which represents the higher of (1) the closing price of HK$3.83 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (2) the average closing price of HK$3.73 per share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

In August 2014, the options granted shall have an exercisable period of 5 years from the date of grant. The total number of options granted to directors will be vested immediately. And the total number of options granted to management and employees will be vested after the second anniversary of the date of grant.

(Expressed in RMB unless otherwise indicated)

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

(c) Share Option Scheme 2014 *(Continued)*

Options granted in October 2014

Under Share Option Scheme 2014, on 17 October 2014 ("the date of grant") the directors of the Company are authorised, at their discretion, to invite certain management and employees of the Group, suppliers and other individuals, to take up options to subscribe for a total of 7,000,000 ordinary shares in the share capital of the Company, upon exercise of such option at an exercise price of HK$3.444 per share, which represents the higher of (1) the closing price of HK$3.34 per share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant; and (2) the average price of HK$3.444 per share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

In October 2014, the options granted shall have an exercisable period of 5 years from the date of grant and 50% of the total number of options granted will be vested after the first anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2014 and the remaining 50% will be vested after the second anniversary of the date of grant conditional upon the Company meeting its profit target for the year 2015.

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

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors			
– on 15 August 2014	3,000,000	At grant	5 years
Options granted to management and employees			
– on 15 August 2014	4,300,000	2 years service	5 years
– on 17 October 2014	3,500,000	1 years service and meeting 2014 profit target	5 years
– on 17 October 2014	3,500,000	2 years service and meeting 2015 profit target	5 years
Total share options granted	14,300,000		

(Expressed in RMB unless otherwise indicated)

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

(c) Share Option Scheme 2014 *(Continued)*

(ii) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning and the end of the year	**HK$3.64**	**14,300,000**	HK$3.64	14,300,000
Exercisable at the end of the year	**HK$3.64**	**14,300,000**	HK$3.62	6,500,000

The options granted in 2014 outstanding at 31 December 2016 had a weighted average exercise price of HK$3.64 (2015: HK$3.64) and weighted average remaining contractual life of 2.71 years (2015: 3.71 years).

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

	Granted in August 2014	**Granted in October 2014**
Fair value of share options and assumptions		
Fair value at measurement date		
– Options granted to directors	HK$0.97	NIL
– Options granted to management and employees with 1 year service	NIL	HK$0.92
– Options granted to management and employees with 2 year service	HK$1.18	HK$1.00
Share price	HK$3.83	HK$3.444
Exercise price	HK$3.83	HK$3.444
Expected volatility	38.60%-40.09%	40.44%
Option life	5 years	5 years
Expected dividends	0%	0%
Risk-free interest rate	1.288%	1.050%-1.198%

The expected volatility is based on the historical volatility of the share prices of the Company. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service and non-market performance condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Deferred tax assets and liabilities recognised

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

	Depreciation in excess of the related depreciation allowances RMB'000	Amortisation of intangibles RMB'000	Research and development tax credits RMB'000	Impairment and provision RMB'000	Unrealised profit for inventories RMB'000	Unused tax losses RMB'000	Receipts by Instalment RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015 (as restated)	636	6,087	5,951	(5,157)	(781)	(329)	6,995	(244)	13,158
Charged/(credited) to the consolidated income statement (note 7(a))	–	–	–	(4,813)	450	–	–	–	(4,363)
Charged/(credited) to results from discontinued operation	184	(1,847)	1,624	(75)	253	(49)	–	(94)	(4)
Disposal of a subsidiary	(820)	(4,240)	(7,575)	341	–	378	–	338	(11,578)
At 31 December 2015	–	–	–	(9,704)	(78)	–	6,995	–	(2,787)
At 1 January 2016	–	–	–	(9,704)	(78)	–	6,995	–	(2,787)
Charged/(credited) to the consolidated income statement (note 7(a))	–	–	–	(3,800)	78	–	8,138	–	4,416
At 31 December 2016	–	–	–	(13,504)	–	–	15,133	–	1,629

	2016 RMB'000	2015 RMB'000
Represented by:		
Deferred tax assets	**(13,504)**	(9,782)
Deferred tax liabilities	**15,133**	6,995
	1,629	(2,787)

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

(b) Deferred tax assets not recognised

At 31 December 2016, in accordance with the accounting policy set out in note 2(u), the Company did not recognise deferred tax assets in respect of unused tax losses of RMB131,000,000 (2015: RMB105,851,000) and the Group did not recognise deferred tax assets in respect of unused tax losses of RMB140,502,000 (2015: RMB108,320,000), as it is not probable that future taxable profits against which the losses can be utilised will be available to the relevant tax entities. The tax losses of the Company do not expire under tax legislation. The remaining unrecognised tax losses of RMB9,502,000 will not expire until after 2018.

(c) Deferred tax liabilities not recognised

At 31 December 2016, no deferred tax liability was recognised on the taxable temporary differences in respect of the tax that would be payable on the distribution of the undistributed profits of certain subsidiaries of the Company amounting RMB833,880,000 (2015: RMB554,090,000), as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

According to the CIT Law and its implementation rules, non-PRC-resident enterprises are levied withholding tax at 10%, subject to any double tax treaty relief, on dividends from their PRC-resident investees for earnings accumulated beginning on 1 January 2008. According to the double tax treaty between the PRC and Singapore, the dividend withholding tax rate could be reduced to 5% provided that a Singapore parent company is the “beneficial owner” and holds directly at least 25% of the equity interest of a PRC company. Distributions of earnings generated prior to 1 January 2008 are exempt from such withholding tax.

25 DEFERRED INCOME

Deferred income of the Group mainly represents subsidies relating to the construction of property, plant and equipment, which would be recognised in other income on a straight-line basis over the expected useful life of the relevant assets.

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 Note 26(c)	Treasury shares RMB'000 Note 26(d)	Share-based compensation reserve RMB'000 Note 26(e)(iii)	Translation reserve RMB'000 Note 26(e)(ii)	Retained profits/ (accumulated losses) RMB'000	Total equity RMB'000
At 1 January 2015	629,544	–	18,252	(27,074)	(54,391)	566,331
Issuance of shares	592,097	–	–	–	–	592,097
Equity settled share-based transactions	–	–	9,388	–	–	9,388
Shares issued upon exercise of share options	25,348	–	(4,249)	–	–	21,099
Profit for the year	–	–	–	–	583,231	583,231
Other comprehensive income	–	–	–	83,195	–	83,195
At 31 December 2015	1,246,989	–	23,391	56,121	528,840	1,855,341
At 1 January 2016	**1,246,989**	**–**	**23,391**	**56,121**	**528,840**	**1,855,341**
Purchase of own shares	**–**	**(581)**	**–**	**–**	**–**	**(581)**
Equity settled share-based transactions	**–**	**–**	**3,363**	**–**	**–**	**3,363**
Dividends to equity shareholders of the Company	**–**	**–**	**–**	**–**	**(79,712)**	**(79,712)**
Shares issued upon exercise of share options	**7,920**	**–**	**(1,128)**	**–**	**–**	**6,792**
Forfeiture of share options	**–**	**–**	**(1,100)**	**–**	**1,100**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**1,413**	**1,413**
Other comprehensive income	**–**	**–**	**–**	**122,096**	**–**	**122,096**
At 31 December 2016	**1,254,909**	**(581)**	**24,526**	**178,217**	**451,641**	**1,908,712**

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during 2016 and 2015:

	2016 **RMB'000**	2015 RMB'000
Special dividend in respect of the previous financial year, approved and paid during 2016, of RMB0.10 per share (2015: NIL)	**79,712**	–

(c) Share capital

	2016 **Number of shares**	**Amounts RMB'000**	2015 Number of shares	Amounts RMB'000
Ordinary shares issued and fully paid:				
At 1 January	**795,272,189**	**1,246,989**	644,228,189	629,544
Issuance of shares (i)	**–**	**–**	128,994,000	592,097
Shares issued upon exercise of share options (ii)	**6,380,000**	**7,920**	22,050,000	25,348
At 31 December	**801,652,189**	**1,254,909**	795,272,189	1,246,989

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. All ordinary shares rank equally with regard to the Company's residual assets.

(i) On 12 May 2015, the Company issued a total of 128,994,000 shares at the price of HK$5.95 per share.

(ii) During 2016, a total of 6,380,000 (2015:22,050,000) shares were issued by the Company upon the exercise of shares options by certain grantees pursuant to the share option schemes at a consideration of HK$7,910,000 (RMB6,792,000 equivalent) (2015: HK$25,358,000, RMB21,099,000 equivalent) which was credited to share capital and HK$1,340,000 (RMB1,128,000 equivalent) (2015: HK$5,278,000, RMB4,249,000 equivalent) has been transferred from the share based compensation reserve to the share capital in accordance with policy set out in note 2(t)(ii).

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

(iii) Terms of unexpired and unexercised share options under the Share Option Scheme 2012, 2013 and 2014 at the end of reporting periods are as follows:

	2016		2015	
Exercise period	**Exercise price**	**Number of options**	Exercise price	Number of options
23 July 2014 to 22 July 2017	**HK$1.15**	**600,000**	HK$1.15	2,650,000
23 July 2015 to 22 July 2017	**HK$1.15**	**16,120,000**	HK$1.15	20,700,000
5 September 2015 to 4 September 2018	**HK$3.06**	**24,850,000**	HK$3.06	26,950,000
5 September 2016 to 4 September 2018	**HK$3.06**	**23,300,000**	HK$3.06	25,150,000
15 August 2014 to 14 August 2019	**HK$3.83**	**3,000,000**	HK$3.83	3,000,000
15 August 2016 to 14 August 2019	**HK$3.83**	**4,300,000**	HK$3.83	4,300,000
17 October 2015 to 16 October 2019	**HK$3.444**	**3,500,000**	HK$3.444	3,500,000
17 October 2016 to 16 October 2019	**HK$3.444**	**3,500,000**	HK$3.444	3,500,000
		79,170,000		89,750,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 23.

(d) Treasury shares

	2016 Number of shares	**Amounts RMB'000**
Treasury shares		
At 1 January	**–**	**–**
Shares repurchased to be cancelled	**234,000**	**581**
At 31 December	**234,000**	**581**

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Treasury shares *(Continued)*

During 2016, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
December 2016	234,000	2.90	2.86	677

The total amount paid on the repurchased shares of HK$677,235 (approximately RMB581,000 equivalent) was paid wholly out of capital.

(e) Nature and purpose of reserves

(i) Statutory reserves

Transfers from retained profits to statutory reserves are made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's PRC subsidiaries and were approved by the respective board of directors.

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the statutory reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owners.

The statutory reserve can be utilised to offset prior year's losses or converted into capital of the subsidiary.

(ii) Translation reserve

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

(iii) Share-based compensation reserve

Share-based compensation reserve represents the fair value of the share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in note 2(t)(ii).

(iv) Other reserves

Other reserves are resulted from transactions with equity holders in their capacity as equity holders. The balance comprises capital reserve movements arising from difference between fair value of consideration paid and the net assets acquired in a business combination under common control or the amount by which the non-controlling interests are adjusted to reflect the changes in its interests in the subsidiary.

(v) Distributable reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB451,641,000 (2015: RMB528,840,000). Special dividend of RMB0.1 per share, amounting to RMB79,712,000 in respect of the previous financial year has been approved and paid during 2016 (note 26(b)).

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company defines "capital" as including all components of equity and short-term and long-term loans. On this basis, at 31 December 2016, the amount of capital employed was RMB2,484,472,000 (2015: RMB2,452,198,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or dispose of assets to reduce debt.

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group requires certain customers to pay deposits upfront and the remaining trade receivables are due within 0-180 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2016, 6.6% (2015: 7.0%) and 10.4% (2015: 20.8%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

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

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants of each company, to ensure that it maintains sufficient reserves 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 table details the remaining contractual maturities at the end of reporting periods 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 reporting period) and the earliest date the Group can be required to pay:

	2016 Contractual undiscounted cash flow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables measured at amortised costs	1,151,524	–	–	–	1,151,524	1,151,524
Loans and borrowings	300,337	–	–	–	300,337	290,354
Obligations under finance leases	178	180	–	–	358	358
	1,452,039	180	–	–	1,452,219	1,442,236

	2015 Contractual undiscounted cash flow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Trade and other payables measured at amortised costs	1,312,898	–	–	–	1,312,898	1,295,570
Loans and borrowings	284,075	175,425	–	–	459,500	445,401
Obligations under finance leases	167	167	168	–	502	502
	1,597,140	175,592	168	–	1,772,900	1,741,473

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

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest bearing long-term receivables, obligations under finance leases, loans and borrowings and other payables at variable rates that expose the Group to cash flow interest rate risk and fixed rates that expose the Group to fair value 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 total borrowings at the end of reporting period:

	2016		2015	
	Effective interest rate %	Amounts RMB'000	Effective interest rate %	Amounts RMB'000
Fixed rate instruments:				
Loans and borrowings	**4.44**	**217,020**	4.42	153,652
Obligations under finance leases	**3.57**	**358**	3.57	502
		217,378		154,154
Variable rate instruments:				
Loans and borrowings	**4.35**	**73,334**	5.30	291,749
Other payables	**N/A**	**–**	4.35	478,017
Less: interest bearing long-term receivables	**6.65**	**(65,611)**	6.65	(101,611)
		7,723		668,155
Total net borrowings		**225,101**		822,309
Fixed rate borrowings as a percentage of total net borrowings		**96.6%**		18.7%

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB66,000 (2015: RMB5,679,000).

The sensitivity analysis above relates to 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, and the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest exposure or income of such a change in interest rates. The analysis is performed on the same basis for 2015.

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

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions related. The currencies giving rise to this risk are primarily Singapore Dollars, Hong Kong Dollars, Canadian Dollars and United States Dollars.

(i) Exposure to currency risk

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

	2016 Exposure to foreign currencies (expressed in RMB)			
	Singapore Dollars RMB'000	**Canadian Dollars RMB'000**	**United States Dollars RMB'000**	**Hong Kong Dollars RMB'000**
Trade and other receivables	**351**	**82,273**	**4,416**	**413**
Cash and cash equivalents	**21,791**	**21,951**	**18,053**	**3,266**
Trade and other payables	**(415)**	**–**	**–**	**(1,136)**
Net exposure arising from recognised assets and liabilities	**21,727**	**104,224**	**22,469**	**2,543**

	2015 Exposure to foreign currencies (expressed in RMB)		
	Canadian Dollars RMB'000	United States Dollars RMB'000	Hong Kong Dollars RMB'000
Trade and other receivables	73,121	3,995	387
Cash and cash equivalents	618,880	188,143	44,104
Trade and other payables	–	–	(1,650)
Net exposure arising from recognised assets and liabilities	692,001	192,138	42,841

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

(d) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of reporting period had changed at that date, assuming all other risk variables remained constant.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Singapore Dollars	**5%**	**902**	5%	–
	(5)%	**(902)**	(5)%	–
Canadian Dollars	**5%**	**4,325**	5%	28,718
	(5)%	**(4,325)**	(5)%	(28,718)
United States Dollars	**5%**	**968**	5%	8,230
	(5)%	**(968)**	(5)%	(8,230)
Hong Kong Dollars	**5%**	**106**	5%	1,788
	(5)%	**(106)**	(5)%	(1,788)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2015.

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

(e) Fair values

(i) Financial assets and liabilities measured at fair value

Fair valued hierarchy

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

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

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

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

	Fair value at 31 December 2016	**Fair value measurements at 31 December 2016 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
The Group				
Recurring fair value measurements				
Assets:				
Trading securities	**5,896**	**5,896**	**–**	**–**

	Fair value at 31 December 2015	Fair value measurements at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Recurring fair value measurements				
Assets:				
Trading securities	6,211	6,211	–	–

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value at 31 December 2016.

28 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016	2015
	RMB'000	RMB'000
Contracted for	**188,641**	304,461

(b) Operating lease commitments

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year	**11,883**	10,808
After 1 year but within 5 years	**5,730**	13,599
	17,613	24,407

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, at the end of which period all terms are negotiated. None of the leases includes contingent rentals at 31 December 2015 and 2016.

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

During the years ended 31 December 2015 and 2016, transactions with the following parties are considered as related party transactions:

Name of parties
THTF * (同方股份有限公司)
Tsinghua Tongfang Artificial Environment Co., Ltd. * ("Tongfang Artificial") (同方人工環境有限公司)
Liaoning Tongfang Security Technology Co., Ltd.* (遼寧同方安全技術有限公司)
Beijing Tongfang Property Management Co., Ltd.* (北京同方物業管理有限公司)
NUCTECH Co., Ltd.* (同方威視技術股份有限公司)
Tongfang Kawasaki Advanced Energy-saving Machine Co., Ltd.* ("Tongfang Kawasaki") (同方川崎節能設備有限公司)
Tongfang Technology Park Co., Ltd.* (同方科技園有限公司)

* The official name of these entities is in Chinese. The English translation of the name is for reference only.

THTF is the controlling shareholder of the Company, incorporated in the PRC and produces financial statements available for public use. Other related parties listed above are subsidiaries of THTF, except for Tongfang Kawasaki, which is an associate of THTF.

29 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Significant related party transactions

Particulars of significant related party transactions during the years ended 31 December 2016 and 2015 are as follows:

	2016 RMB'000	2015 RMB'000
Sales to THTF and its subsidiaries	47,124	108,314
Purchases from THTF and its subsidiaries	11,854	49,472
Purchases from Tongfang Kawasaki	–	43,690
Payment for miscellaneous products and services from THTF and its subsidiaries	6,722	18,111
Proceeds from loans from Tongfang Artificial	4,635	27,772
Repayment of loans to Tongfang Artificial	100,000	–
Corporate overhead allocations from THTF	–	41,536
Payments transferred by THTF to the Group	771,496	298,797
Payments transferred by the Group to THTF	531,960	112,478

Other than the above related party transactions, certain trademarks are used by the Group in the PRC licensed by THTF at nil consideration.

(c) Amounts due from/(to) related parties

At 31 December 2016 and 2015, the Group had the following balances with THTF and its subsidiaries:

	2016 RMB'000	2015 RMB'000
Trade and other receivables	54,537	90,326
Trade and other payables	(107,377)	(570,553)
Loans from related parties	(73,334)	(168,699)

The loans from related parties bear interest at loan interest rate stipulated by People's bank of China for the corresponding period, and are unsecured.

29 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's executive directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	**5,558**	6,881
Post-employment benefits	**83**	80
Share-based payments	**86**	375
	5,727	7,336

Total remuneration was included in "staff costs" (see note 6(b)).

(e) The related party transactions in respect of sales, purchases, payments transferred by THTF to the Group, payments transferred by the Group to THTF, and receipts of miscellaneous products and services above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the reports of the directors. The related party transaction in respect of financial assistance received from THTF and its associate above constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules, however they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

(f) Transactions with other state-controlled entities in the PRC

The controlling shareholder of the Company, THTF, is a state-controlled enterprise controlled by the PRC government. Apart from transactions with THTF and its subsidiaries and associate which were disclosed in Note 29(a) above, the Group also has transactions with other state-controlled entities, included but not limited to the following:

- sales of products and provision of services;
- purchase of materials; and
- bank deposits and borrowings.

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment		**1,302**	1,678
Intangible assets		**4**	4
Investments in subsidiaries		**1,724,195**	1,130,913
		1,725,501	1,132,595
Current assets			
Trading securities		**5,896**	6,211
Trade and other receivables		**79,870**	76,527
Cash and cash equivalents		**107,632**	671,592
		193,398	754,330
Current liabilities			
Loans and borrowings		**–**	20,237
Trade and other payables		**9,829**	10,845
Obligations under finance leases		**178**	167
		10,007	31,249
Net current assets		**183,391**	723,081
Total assets less current liabilities		**1,908,892**	1,855,676
Non-current liability			
Obligations under finance leases		**180**	335
NET ASSETS		**1,908,712**	1,855,341
CAPITAL AND RESERVES	26		
Share capital		**1,254,909**	1,246,989
Reserves		**653,803**	608,352
TOTAL EQUITY		**1,908,712**	1,855,341

Approved and authorised for issue by the board of directors on 13 March 2017.

Zhao Xiaobo)
Seah Han Leong) *Directors*
)

31 BUSINESS COMBINATION UNDER COMMON CONTROL

On 31 October 2015, the Group completed the acquisition of the Target Businesses in relation to providing intelligence integrated solutions which center around supervision and control systems in the fields of intelligent rail transit, intelligent building and intelligent urban heating network for a total consideration of RMB661,796,000, as adjusted and determined in accordance with the agreements.

The acquisition of the Target Businesses has been accounted for under merger accounting for business combination under common control in accordance with the accounting policy as set out in note 2(h) and the comparative amount in the consolidated financial statements are restated accordingly.

Recognised amounts of carrying value of identifiable assets acquired and liabilities assumed at the date of acquisition are as follows:

	RMB'000
Intangible assets	124,145
Other non-current assets	778
Other current assets	983,213
Current liabilities	(658,887)
Total identifiable net assets acquired	449,249

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty

The Group believes the following critical accounting policies involve the significant judgements and estimates used in the preparation of the financial statements.

Information about assumptions and estimation uncertainties that may have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 are included in the following notes:

(i) *Construction contracts*

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

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(ii) *Impairment of trade receivables*

The management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Management reassesses the impairment of trade receivables at the end of the reporting period.

Information about other judgements made and estimates applied are included in the following notes:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions. Management reassesses these estimations at the end of the reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(ii) Impairment losses of non-current assets

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, lease prepayments, and intangible assets, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flow generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and amount of operating costs.

(iii) *Depreciation*

Items of 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 value. The management 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.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(iv) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax liability was not recognised in respect of the withholding income tax that would be payable on the distribution of retained profits of the Company's subsidiaries as the Company considers that it is probable that such profits will not be distributed in the foreseeable future. Any changes in dividend policy may result in the recognition of the related deferred tax liabilities.

(v) Development costs

Critical judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at the end of the reporting period. In addition, all internal activities related to the research and development of new products is continuously monitored by the Group management.

(vi) Fair value of financial instruments

For financial liabilities designated at fair value through profit or loss, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, maturities credit spreads and historical volatilities. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is estimated based on the risk free interest rate plus credit spread of comparable bonds with similar credit rating, coupons and maturities. Where other pricing models are used, inputs are based on observable market data at each end of reporting period.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the end of reporting period that would have been determined by market participants acting at arm's length.

(Expressed in RMB unless otherwise indicated)

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

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments (2014)*	1 January 2018
HKFRS 16, *Leases (May 2016)*	1 January 2019
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	Unspecified

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

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

HKFRS 9, Financial instruments

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

(a) *Classification and measurement*

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

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

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

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

Currently, the Group does not have financial assets classified as "available-for sales".

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

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

HKFRS 9, Financial instruments *(Continued)*

(b) *Impairment*

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

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) *Timing of revenue recognition*

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

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

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

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

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

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

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

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

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

(b) *Significant financing component*

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

Currently, the Group would only apply such a policy when payments are significantly deferred, and the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group's arrangements with its customers.

However, the Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

HKFRS 16, Leases

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

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for property, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB17,613,000 for properties. Among which RMB5,730,000 is payable after 1 year but within 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

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