



Enice Holding Company Limited

**Directors' Report and
Financial Statements
For the year ended
31 December 2016**



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ENICE HOLDING COMPANY LIMITED

REPORT OF THE DIRECTORS

The board of Directors (the “Board”) herein present their report and the audited financial statements of Enice Holding Company Limited (the “Company”) and its subsidiaries for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The Company’s profit for the year ended 31 December 2016 and its state of affairs at that date are set out on the page 1 of the financial statements.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016.

SHARE CAPITAL

There was no change of share capital during the year ended December 31, 2016.

RESERVES

Details of movements in the Company’s reserves during the year are set out in the consolidated statement of changes in equity and note 20 to the financial statements respectively.

DIRECTORS

The directors of the Company during the year were:

YongJun Shen (“Mr. Shen”)

Dr Wei Yu

Dr Yihong Qi

Ross Benson (“Mr Benson”)

Simon Green

Alexander(Drew) Kelton

Jun Fan



Enice Holding Company Limited

In accordance with article 22 and article 23 of the Company's article of association, the directors retire and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

As at the date of report, the directors have the following interests in fully-paid shares/CDIs in the Company.

Director	Number of Shares and equivalent CDIs held directly	Number of shares and equivalent CDIs held indirectly
Mr. Shen	120,420,000	Nil
Dr Wei Yu	10,900,000	Nil
Dr Yihong Qi	20,690,000	Nil
Mr Benson	Nil	330,000
Simon Green	25,000	12,500
Alexander(Drew) Kelton	Nil	25,000
Jun Fan	Nil	Nil

None of the directors hold any partly-paid shares or options at the date of this report.

DIRECTORS' INTERESTS IN CONTRACTS

Mr Benson is the Executive Chairman of the Investorlink Group limited and has an interest in a contract for the provision of professional services to the Group. He is also the Non-Executive Chairman of ASX listed Enice Holding Limited.

Except as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Company to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Group are set out in Note 32 to the financial statements.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.



Enice Holding Company Limited

ON BEHALF OF THE BOARD

A handwritten signature in black ink, appearing to read "沈永军" (Shen Yong Jun), positioned above a horizontal dotted line.

Shen Yong Jun

Hong Kong, 29 March 2017

Enice Holding Company Limited

Consolidated Financial Statements

31 December 2016

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Independent auditors' report to shareholders of Enice Holding Company Limited

Opinion

We have audited the consolidated financial statements of Enice Holding Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 1 to 40, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Accounting Standards ("IASs") issued by IASB. 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 Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Independent auditors' report to shareholders of Enice Holding Company Limited

Key audit matters *continued*

Key audit matter	How our audit addressed the key audit matter
<i>Revenue recognition for projects</i>	
<p>The Group generates revenues from telecommunication projects which can take an extended period to complete. Accordingly the Group applies the percentage of completion method to account for such revenue streams. Revenue for projects accounted for approximately 21% of total revenue of the Group for the year ended December 31, 2016. A significant degree of management judgment is required to properly apply the percentage of completion method.</p> <p>The Group's disclosure about accounting policies of revenue recognition is included in Note 2.3 and about revenue breakdown in Note 6.</p>	<p>Our audit procedures, among others, included:</p> <ul style="list-style-type: none"> a) We evaluated internal controls over the revenue recognition process for projects, including controls over the status and completion percentage of individual projects at the end of each reporting period. We tested the design and operating effectiveness of the controls b) We also performed detailed procedures on individually significant projects including substantiating transactions with underlying documents and re-performing management's calculations to determine revenue recognition. We evaluated the significant estimates made by management, including contingent revenues, costs to completion and project margin whereby we examined project documentation and discussed the status of projects in progress with management, finance, and technical staff of the Company.

Independent auditors' report to shareholders of Enice Holding Company Limited

Key audit matters *continued*

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of trade receivables</i>	
<p>As at 31 December 2016, trade receivables were significant to the Group as these represent approximately 53% of its total assets. Approximately 29% of trade receivables' were aged over one year. The assessment of the impairment of trade receivables requires management judgment as to the collectability risks associated with individual customer account, in particular those past due accounts with receivable aging over one year.</p> <p>The Group's disclosures about trade receivables and related impairment provisions are included in Note 16 and about credit risk in Note 31.</p> <p>The focus of our work involved auditing the Group's credit analysis and associated impairment assessments of trade receivables that were either in default, significantly overdue or on credit watch at 31 December 2016.</p> <p>The Group's disclosures about trade receivables and related impairment provisions are included in Note 16 and about credit risk in Note 31.</p>	<p>Our work involved assessing the Group's credit analysis and associated impairment analysis of trade receivables that were either in default, significantly overdue or credit watch at 31 December 2016.</p> <p>Our audit procedures, among others, included:</p> <ul style="list-style-type: none"> a) We evaluated internal controls over the credit approval process and impairment assessments, including the quality of underlying data and systems. We tested the design and operating effectiveness of the controls over the credit approval process and impairment assessments, including the quality of underlying data and systems; b) We checked the aging analysis by customer. For trade receivables that were past due, we enquired of management as to the specific circumstances of each customer; c) we evaluated the financial strength of customers with significant overdue balances, we checked subsequent settlements and analyzed the customers' historic repayment pattern for anomalies; d) we reviewed management's expected future cash flows by customer by reference to the information obtained through the above procedures; e) We selected trade receivables with large balances where a provision for impairment of trade receivables was recognised and understood the rationale behind management's judgements. We verified whether balances were overdue, the customers' historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures. We also obtained correspondence supporting any disputes between the parties involved, attempts by management to recover the amounts outstanding and reports on the credit status of significant counterparties where available. f) Based on the results of the above procedures, the impairment charges taken for the identified exposures and the disclosures regarding the impairment provisions of trade receivables and the Group's exposure to credit risk.

Other information included in the Annual Report

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

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

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

Independent auditors' report to shareholders of Enice Holding Company Limited

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Independent auditors' report to shareholders of Enice Holding Company Limited

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Song Congyue.

Nanjing, the People's Republic of China
27 March 2017

Consolidated statements of profit or loss

For the year ended 31 December 2016

	Notes	2016	2015
		RMB'ooo	RMB'ooo
Revenue	6	503,767	423,740
Cost of sales	9	(398,178)	(331,330)
Gross profit		105,589	92,410
Marketing expenses	9	(4,878)	(4,419)
Administrative expenses	9	(34,617)	(56,285)
Other gains - net	7	1,186	5,715
Operating profit		67,280	37,421
Finance costs - net	8	(14,294)	(16,168)
Profit before income tax		52,986	21,253
Income tax expenses	11	(10,496)	(7,461)
Profit for the year		42,490	13,792
Profit attributable to:			
Equity holders of the parent		42,490	13,802
Non-controlling interests		-	(10)
		42,490	13,792
Earnings per share:			
Basic earnings for the period attributable to ordinary equity holders of the parent	19	RMB0.16	RMB0.09
Diluted earnings for the period attributable to ordinary equity holders of the parent	19	RMB0.16	RMB0.09

Consolidated statements of comprehensive income

For the year ended 31 December 2016

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Profit for the year	42,490	13,792
Other comprehensive income	-	-
Income tax effect	-	-
Total comprehensive income	42,490	13,792
Attributable to:		
Equity holders of the parent	42,490	13,802
Non-controlling interest	-	(10)
	<u>42,490</u>	<u>13,792</u>

Consolidated statements of financial position

As at 31 December 2016

Assets	Notes	2016	2015
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	12	59,808	59,646
Prepaid land lease payments	13	33,521	34,359
Intangible assets	14	1,241	520
Deferred tax assets	25	276	532
		<u>94,846</u>	<u>95,057</u>
Current assets			
Inventories	15	14,696	10,770
Trade receivables	16	470,722	341,633
Prepayments, deposits and other receivables	17	110,508	132,577
Amounts due from related parties	28	44,658	24,072
Restricted bank balances	18	6,295	1,946
Cash and cash equivalents	18	24,610	40,424
		<u>671,489</u>	<u>551,422</u>
Total assets		<u>766,335</u>	<u>646,479</u>
Equity and liabilities			
Equity			
Share capital	19	187,405	187,405
Other reserves	20	20,265	16,093
Accumulated profits		46,144	7,826
Equity attributable to equity holders of the parent		<u>253,814</u>	<u>211,324</u>
Non-controlling interests		-	-
Total equity		<u>253,814</u>	<u>211,324</u>
Non-current liabilities			
Other long-term borrowing	21	17,898	-
Total non-current liabilities		<u>17,898</u>	<u>-</u>
Current liabilities			
Trade payables	22	178,213	192,412
Advances and other current liabilities	23	70,290	42,818
Bank borrowings	24	207,030	185,100
Amounts due to related parties	28	471	281
Other long-term borrowing - current portion	21	14,623	-
Income tax payable		23,996	14,544
		<u>494,623</u>	<u>435,155</u>
Total liabilities		<u>512,521</u>	<u>435,155</u>
Total equity and liabilities		<u>766,335</u>	<u>646,479</u>

Yu Wei

Chief Executive Officer

Cheng Bo

Chief Financial Officer

Chen Juan

Financial Manager

Cheng Bo

Chen Juan

Wei Wei

Consolidated statements of changes in equity

For the year ended 31 December 2016

Notes	Attributable to the equity holders of the parent				Non-controlling interest RMB'000	Total Equity RMB'000
	Share capital	Other reserves	Accumulated Profits/(losses)	Total		
	RMB'000	RMB'000	RMB'000	RMB'000		
As at 1 January 2015	24,488	844	(2,711)	22,621	77	22,698
Profit for the year	-	-	13,802	13,802	(10)	13,792
Issuance of shares	177,122	-	-	177,122	-	177,122
Share issue expenses	(14,205)	-	-	(14,205)	-	(14,205)
Disposal of a subsidiary	-	-	-	-	(67)	(67)
Share-based compensation	-	11,984	-	11,984	-	11,984
Appropriation of statutory reserves	-	3,265	(3,265)	-	-	-
As at 31 December 2015	187,405	16,093	7,826	211,324	-	211,324
As at 1 January 2016	187,405	16,093	7,826	211,324	-	211,324
Profit for the year	-	-	42,490	42,490	-	42,490
Appropriation of statutory reserves	-	4,172	(4,172)	-	-	-
As at 31 December 2016	187,405	20,265	46,144	253,814	-	253,814

Consolidated statements of cash flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before income tax		52,986	21,253
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation of property, plant and equipment	12	2,652	2,941
Amortization of leasehold land	13	838	838
Amortization of intangible assets	14	159	183
Dividend income		-	(1,719)
Financial guarantee contracts gains		-	(238)
gain on disposal of property, plant and equipment		-	(16)
Gain on disposal of a subsidiary		-	(2,896)
Finance income	8	(64)	(986)
Finance costs	8	14,396	17,156
Provision for /(reversal of) write-down of inventories	15	220	(112)
Provision of impairment of trade receivables	16	896	-
Provision of impairment of other receivables	17	759	(359)
Share-based compensation expenses		-	11,984
Listing expenses charged to profit and loss		-	14,017
Exchange gain	8	(38)	(2)
Working capital adjustments:			
Increase in inventories	15	(4,146)	(1,515)
Return of pledged deposits	18	351	-
Increase in trade receivables, other receivables, deposits and prepayments		(109,283)	(241,985)
(Decrease)/Increase in trade payables, accruals, advances from customers and other current liabilities		(731)	62,400
Increase in amounts due to related parties for operating activities	28	190	152
		(40,815)	(118,904)
Interest received		676	5,537
Interest paid		(15,157)	(17,575)
Income tax paid		(789)	(299)
Net cash flows used in operating activities		(56,085)	(131,241)
Investing activities			
Proceeds from sale of property, plant and equipment		-	18
Purchase of property, plant and equipment	12	(2,814)	(2,686)
Purchase of Intangible assets	14	(880)	(494)
Proceeds from disposal of a subsidiary		-	4,828
Repayment of loans by related parties		-	8,084
Dividends from available-for-sale investment		-	1,719
Proceeds from disposal of available-for-sale investment		-	35,400
Net cash flows (used in)/ generated from investing activities		(3,694)	46,869

Consolidated statements of cash flows *continued*

For the year ended 31 December 2016

		2016	2015
	Notes	RMB'000	RMB'000
Financing activities			
Proceeds from employees for share incentive plan		14,990	
Proceeds from bank borrowings		368,030	335,200
Repayment of bank borrowings		(346,100)	(358,654)
(Increase) /Decrease in restricted bank balances pledged as security for notes payable and bank loans	18	(4,700)	4,414
Proceeds from issuance of shares		-	177,122
Share issue expenses paid		-	(22,306)
Purchase consideration paid in restructuring		-	(20,000)
Loans to related parties		(23,673)	(52,072)
Repayment of loans by related parties		3,086	35,786
Proceeds of borrowings from related parties		-	3,042
Repayment of borrowings from related parties		-	(5,227)
Net lending to third parties		-	(474)
Proceeds of other long-term borrowing, net	21	32,521	-
Net cash flows (used in)/ generated from financing activities		(44,154)	96,831
Increase /(net decrease) in cash and cash equivalents		(15,625)	12,459
Effect of foreign exchange rate changes		(189)	(221)
Cash and cash equivalents at 1 January	18	40,424	28,186
Cash and cash equivalents at 31 December	18	24,610	40,424

Notes to consolidated financial statements

1. Corporate information

The consolidated financial statements of Enice Holding Company Limited (the "Company") and its subsidiaries (together known as the "Group") for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the directors on 24 February 2017. The Company was incorporated by Mr. Shen Yong Jun ("Mr. Shen") with the registered capital of Hong Kong Dollars ("HKD") 1 on 29 October 2014 in Hong Kong Special Administration Region ("HK SAR"), the People's Republic of China ("China" or "PRC"). The address of its registered office is Flat B, 33/F, Block 4, Hillsborough Crt, 18 Old Peak Road, Hong Kong.

The Company is an investing holding company. The Group is principally engaged in the provision of telecommunications network engineering services and sales of related products in mainland China. The ultimate controlling party of the Group is Mr. Shen. Information on the Group's subsidiaries is provided in Note 5. Information on other related party relationships of the Group is provided in Note 28.

The Company's shares were converted to Chess Depository Interests ("CDI") and have been listed on the Australian Stock Exchange ("ASX") since 30 October 2015.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis and are presented in Renminbi Yuan ("RMB"). All values are rounded to the nearest thousand (RMB '000), except when otherwise indicated.

Inter-company transactions, balances, and unrealized gains/losses on transactions between group companies are eliminated on combination.

2.2 Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies

a) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets are classified as non-current assets.

Normal operating cycle refers to the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realized as part of the normal operating cycle even when they are not expected to be realized within twelve months after the reporting period. Current liabilities include liabilities (such as trade payables and other payables) that are settled as part of the normal operating cycle even when they are not expected to be settled within twelve months after the reporting period.

b) Fair value measurement

The Group measures financial instruments at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

b) Fair value measurement *continued*

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

c) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue/income is recognized.

Rendering of services

Revenue from rendering of service will be fully recognized when the service is completed and outcome of the transaction can be reliably estimated.

When the outcome of the transaction involving the rendering of service cannot be estimated reliably and it is probable that the costs incurred will be recovered, revenue shall be recognized only to the extent of the expenses recognized that are recoverable.

When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income

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

d) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

2.3 Summary of significant accounting policies *continued*

d) Leases *continued*

Notes to consolidated financial statements *continued*

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. Leases that do not transfer substantially all of the risks and rewards of ownership of an asset to the Group are classified as operating leases.

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all of the risks and rewards of ownership of an asset are classified as operating leases.

Rental income is recognized as revenue in the statement of profit or loss on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

e) Government grants

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

f) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Deferred tax

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

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

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

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

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

f) Taxes *continued*

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

g) Property, plant and equipment

Property, plant and equipment is initially stated at cost. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values at 3% of the costs over their estimated useful lives, as follows:

	Estimated useful life
Buildings	40 years
Machinery	5 years
Furniture, fixtures and office equipment	5 years
Vehicles	5 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

h) Prepaid land lease payments

All land in the mainland China is state-owned or collectively-owned. There is no individual land ownership right. The Group acquired the right to use certain land. The premiums paid for such right and the improvements related to the land are treated as prepayment for operating lease and recorded as prepaid land lease payments, which are amortized over the lease periods using the straight-line method.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

i) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Research and development costs are expensed as incurred.

Computer software costs recognized as assets are amortized using the straight-line method over their estimated useful lives ranging from 2 to 5 years.

The Group made upfront payments to purchase patents. The patents have been granted for a period of 10 years by the relevant government agency. Patents costs recognized as assets are amortized using the straight-line method over their estimated useful lives of 10 years.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

j) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year. Impairment losses including impairment on inventories are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

k) Financial assets

Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables', 'other receivables', 'amount due from related parties' and 'cash and cash equivalents' in the balance sheet.

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade - date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortized cost using the effective interest method. Available-for-sale assets of the Group include investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost less provision for impairment, if any.

Impairment of financial assets

(i) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

k) Financial assets *continued*

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

l) Inventories

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

m) Trade and other receivables

Trade receivables are amounts due from customers for service provided and merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in the normal operating cycle of the business, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

n) Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand and deposits held at call with banks.

o) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

p) Bank borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

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

q) Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions for project warranties granted by the Group on certain projects are recognized based on services or sales volume and past experience of the level of maintenance, discounted to their present values as appropriate.

r) Pensions and other post-employment benefits

The employees of the Group in Mainland China are required to participate in a central pension scheme operated by the local provincial government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Notes to consolidated financial statements *continued*

2.3 Summary of significant accounting policies *continued*

s) Foreign currencies

The Group's consolidated financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currencies of the Company and each subsidiary are all determined to be RMB.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions

2.4 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature of each new standard and amendment is described below:

IFRS 14	Regulatory Deferral Accounts
Amendments to IFRS 11	Joint Arrangements: Accounting for Acquisitions of Interests
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IAS 27	Equity Method in Separate Financial Statements
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs
Amendments to IAS 1	Disclosure Initiative
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group.

Notes to consolidated financial statements *continued*

2.5 Issued but not yet effective international financial reporting standards

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9	<i>Financial Instruments</i> ²
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ²
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
IFRIC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
Annual Improvements 2014-2016 Cycle	<i>Amendments to a number of IFRSs</i> ^{1 and 2}

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

3. Significant accounting judgments, estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revenue from rendering of services

When the outcome of the transaction cannot be estimated reliably and it is probable that the costs incurred will be recovered, revenue shall be recognized only to the extent of the expenses recognized that are recoverable. Because of the nature of the activities undertaken in rendering of services, the date at which the service activity is entered into and the date when the service is completed may fall into different accounting periods. Management's estimation of the cost incurred to date is primarily based on actual cost incurred by the outsourced suppliers and internal assessment report, where applicable. The Group regularly reviews the estimation of cost and corresponding revenue of services provided at each reporting date.

Notes to consolidated financial statements *continued*

3. Significant accounting judgments, estimates and assumptions *continued*

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are made on assessment of the recoverability of trade and other receivables. The identification of impairment allowances requires management judgment and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying value of the receivables and the impairment or reversal of the receivables in the period in which such estimate has been changed (Note 16 and 17).

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition as at the balance sheet date and the historical experience of manufacturing and selling products of similar nature (Note 15).

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a Discounted Cash Flow ("DCF") model. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Useful life of the property, plant and equipment

Useful life is the period over which an asset is expected to be available for use by an entity. The depreciable amount of an asset is allocated on a systematic basis over its useful life (Note 2.3).

The following factors are considered in determining the useful life of an asset:

- (i) Expected usage of the asset
- (ii) Expected physical wear and tear
- (iii) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset
- (iv) Legal or similar limits on the use of the asset

The useful life of an asset is reviewed at each financial year-end and, if expectations differ from previous estimates, the change will be accounted for as a change in an accounting estimate in accordance with 'IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors'.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The Group did not recognize deferred tax assets for unused tax losses as it is not probable that future taxable profit will be available against which such losses can be utilized (Note 25).

4. Capital management

Notes to consolidated financial statements *continued*

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

5. Group information about subsidiary

The consolidated financial statements of the Group include the Company and the following subsidiaries:

Name	Place and date of incorporation	Legal status	Principal activities	Issued and fully paid capital	% equity interest	
					2016	2015
Enice (Jiangsu) Communication Co., Ltd. ("Enice (Jiangsu)")	China 19 December 2014	Limited liability company	Telecom products and services	USD 18,000,000	100	100
Jiangsu Eastcentury Network Communication Co., Limited ("ENICE")	China 11 May 2000	Limited liability company	Telecom engineering services	RMB 148,000,000	100	100
CASSON International Limited ("CASSON")	British Virgin Islands ("BVI") 8 May 2006	Limited liability company	Investing	USD 1	100	100
Sunny Port (Nanjing) Electronic Company Limited ("Sunny Port")	China 11 May 2006	Limited liability company	Telecom products	USD 7,489,945	100	100

Notes to consolidated financial statements *continued***6. Sales and segment information**

The Group is principally engaged in the provision of telecommunications network engineering services and sales of related products in mainland China. All of the Group's business is of a similar nature and subject to similar risks and returns. For management purposes, the Group operates in one business unit based on its services and products, and has one reportable segment.

Since all of the Group's revenue was generated in Mainland China, no geographical information is presented in accordance with IFRS 8 - Operating Segments.

Revenue from continuing operations of approximately RMB122,723,000 (2015: RMB90,107,000), RMB84,339,000 (2015: RMB 56,267,000) and RMB81,973,000 (2015: RMB0) were derived from sales to 3 single customers, respectively.

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Advanced solutions	250,710	219,322
Network engineering services	132,339	132,689
Wireless and RF products	120,317	70,527
Other	401	1,202
Total	<u>503,767</u>	<u>423,740</u>

7. Other gains - net

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Other gains - net:		
Government grants	1,018	600
Disposal of a subsidiary	-	2,896
Dividend income	-	1,719
Financial Guarantees contracts gain	-	238
Net gain on disposal of property, plant and equipment	-	16
Others	168	246
Total	<u>1,186</u>	<u>5,715</u>

8. Finance costs - net

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Interest on debts and borrowings	13,058	14,706
Financial service fee and others	933	1,358
Discount interest	405	1,092
financial cost	<u>14,396</u>	<u>17,156</u>
Interest income	(64)	(986)
Exchange gain/loss	(38)	(2)
Financial Income	<u>(102)</u>	<u>(988)</u>
Net finance costs	<u>14,294</u>	<u>16,168</u>

Notes to consolidated financial statements *continued*

9. Expenses by nature

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

	2016	2015
	RMB'000	RMB'000
Cost of advanced solutions	208,541	183,246
Cost of network engineering services	94,978	62,544
Cost of wireless and RF products sold	92,539	52,479
Employee benefit expense (Note 10)	32,435	43,297
Depreciation of property, plant and equipment (Note 12)	2,652	2,941
Rental fee	2,252	2,849
Amortization of prepaid land lease payments (Note 13)	838	838
Provision of trade receivables (Note 16)	896	-
Provision of other receivables (Note 17)	759	(359)
Amortization of intangible assets (Note 14)	159	183
Provision of inventories (Note 15)	(220)	(112)
Listing expense	-	14,017

10. Employee benefit expense

	2016	2015
	RMB'000	RMB'000
Staff costs		
- Salaries	28,166	36,457
- Pension costs and other welfare	4,269	5,030
- Equity-settled share-based compensation	-	1,810
	32,435	43,297

The employees of the Group in China participate in a defined contribution retirement benefit plan organized by the relevant provincial government. For the year ended 31 December 2016, the Group is required to make monthly defined contributions to these plans subject to a certain ceiling.

The Group has no other obligations for the payment of retirement and other post-retirement benefits of employees or retirees other than the payments disclosed above.

Notes to consolidated financial statements *continued*

11. Income tax

The major components of income tax expense for the year ended 31 December 2016 are:

Consolidated statement of profit or loss	2016	2015
	RMB'000	RMB'000
<i>Current income tax:</i>		
Current income tax charge	10,240	7,573
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	256	(112)
Income tax expense reported in the statement of profit or loss	10,496	7,461

The enterprise income tax is calculated based on the statutory profit of group companies in accordance with the local tax laws and regulations, after adjustments on certain income and expense items, which are not assessable or deductible for income tax purposes.

The Company's applicable income tax rate of 2016 is 16.5%. No Hong Kong profits tax has been provided since the entity incorporated or trading in Hong Kong does not have assessable profits during the year.

CASSON is incorporated in BVI with limited liability under the International Business Companies Act Chapter 291 and, accordingly, is exempted from payment of BVI income tax.

ENICE's applicable income tax rate of 2016 is 15% (2015: 15%) as ENICE enjoys preferential tax rate as a high and new technology enterprise until 2018. Under Chinese tax laws and regulations, enterprises that are "high and new technology enterprises strongly supported by the State" are entitled to a reduced income tax rate of 15%, subject to approval by, and receipt of a qualification certificate from relevant authorities.

The income tax rate of Enice (Jiangsu) and Sunny Port is 25%.

Reconciliation of tax expenses and the accounting profits multiplied by PRC tax rate for 2016:

	Hong Kong	Tax rate	Mainland China	Tax rate	2016 Total	Tax rate	2015 Total	Tax Rate
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Accounting profit before income tax	3,369		49,617		52,986		21,253	
Taxation calculated at each statutory tax rate	556	16.5	12,404	25	12,960	25	6,901	32
Dividend income exempted from tax	-	-	-	-	-	-	(430)	(2)
Tax losses for which no deferred income tax asset was recognized	-	-	648	1	648	1	552	3
Non-deductible expenses	-	-	3,424	7	3,424	7	5,499	26
Tax impact of deemed interest income from related parties	-	-	1,491	3	1,491	3	884	4
Additional deduction	(556)	(16.5)	(1,370)	(3)	(1,926)	(4)	(1,977)	(9)
Preferential rate enacted by local authority	-	-	(6,101)	(12)	(6,101)	(13)	(3,968)	(19)
At the effective income tax rate	-	-	10,496	21	10,496	20	7,461	35

Notes to consolidated financial statements *continued*

12. Property, plant and equipment

	Machinery	Furniture, fixtures and office equipment	Buildings	Motor vehicles	Construction in process	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation						
At 1 January 2015	3,882	5,025	55,713	3,522	-	68,142
Additions	981	641	-	585	1,695	3,902
Disposals	(62)	-	-	-	-	(62)
At 31 December 2015	4,801	5,666	55,713	4,107	1,695	71,982
Additions	696	337	-	-	1,781	2,814
Disposals	-	-	-	-	-	-
At 31 December 2016	5,497	6,003	55,713	4,107	3,476	74,796
Depreciation and impairment						
At 1 January 2015	(3,322)	(4,078)	-	(2,055)	-	(9,455)
Depreciation charge for the year	(268)	(647)	(1,474)	(552)	-	(2,941)
Disposals	60	-	-	-	-	60
At 31 December 2015	(3,530)	(4,725)	(1,474)	(2,607)	-	(12,336)
Depreciation charge for the year	(366)	(373)	(1,473)	(440)	-	(2,652)
Disposals	-	-	-	-	-	-
At 31 December 2016	(3,896)	(5,098)	(2,947)	(3,047)	-	(14,988)
Net book value						
At 31 December 2015	1,271	941	54,239	1,500	1,695	59,646
At 31 December 2016	1,601	905	52,766	1,060	3,476	59,808

As at 31 December 2016, the gross carrying amount of fully depreciated property, plant and equipment that were still in use was RMB 10,020,000.00 (2015: RMB8,107,000).

As at 31 December 2016, buildings with carrying amount of RMB52,766,000 (2015: RMB54,239,000) were pledged as security for the Group's borrowings (Note 24).

Notes to consolidated financial statements *continued*

13. Prepaid land lease payments

	Prepaid land lease payments
	RMB'000
Cost	
At 1 January 2015	35,197
Acquisition of a subsidiary	-
At 31 December 2015 and 2016	<u>35,197</u>
Amortization and impairment	
At 1 January 2016	(838)
Amortization	(838)
At 31 December 2016	<u>(1,676)</u>
Net book value	
At 31 December 2015	<u>34,359</u>
At 31 December 2016	<u>33,521</u>

As at 31 December 2016, approximately RMB33,521,000 (2015:RMB34,359,000) of prepaid land lease payments were pledged as security for the Group's borrowings (Note 24).

14. Intangible assets

	Patent	Software	Total
	RMB'000	RMB'000	RMB'000
Cost			
At 1 January 2015	-	1,527	1,527
Additions	494	-	494
At 31 December 2015	<u>494</u>	<u>1,527</u>	<u>2,021</u>
Additions	-	880	880
At 31 December 2016	<u>494</u>	<u>2,407</u>	<u>2,901</u>
Amortization and impairment			
At 1 January 2015	-	(1,318)	(1,318)
Amortization	(36)	(147)	(183)
At 31 December 2015	<u>(36)</u>	<u>(1,465)</u>	<u>(1,501)</u>
Amortization	(36)	(123)	(159)
At 31 December 2016	<u>(72)</u>	<u>(1,588)</u>	<u>(1,660)</u>
Net book value			
At 31 December 2015	<u>458</u>	<u>62</u>	<u>520</u>
At 31 December 2016	<u>422</u>	<u>819</u>	<u>1,241</u>

Notes to consolidated financial statements *continued***15. Inventories**

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Raw materials	3,431	2,516
Finished goods	10,529	3,928
Work in progress of projects	2,173	5,543
	<u>16,133</u>	<u>11,987</u>
Provision		
Raw materials	(341)	(175)
Finished goods	(1,096)	(1,042)
	<u>(1,437)</u>	<u>(1,217)</u>
	<u>14,696</u>	<u>10,770</u>

During 2016, the Group recognized provision for inventory impairment of RMB220,000 (2015: provision of RMB112,000). Such expenses were recognized in cost of sales.

As at 31 December 2016, total inventories were disclosed at the lower of cost and net realizable value.

16. Trade receivables

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Trade receivables	471,618	341,633
Less: Impairment of trade receivables	(896)	-
	<u>470,722</u>	<u>341,633</u>

As at 31 December, the ageing analysis of trade receivables is, as follows:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Within 1 year	336,572	234,337
1 to 2 years	119,102	92,572
More than 2 years	15,944	14,724
	<u>471,618</u>	<u>341,633</u>

As at 31 December 2016, approximately RMB91,640,000 (2015: RMB104,100,000) were pledged as security for the Group's borrowings (Note 24).

Movements in the provision for impairment of trade receivables were as follows:

	<u>Total</u>
	RMB'000
At 1 January 2016	-
Impairment losses recognized	896
At 31 December 2016	<u>896</u>

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

Notes to consolidated financial statements *continued***17. Prepayments, deposits and other receivables**

	2016	2015
	RMB'000	RMB'000
Prepayments and others	75,215	93,048
Deposits	11,521	12,312
Deferred expense	473	631
Interest receivables from banks	-	607
	124,826	146,136
Less:		
Provision (i)	(14,318)	(13,559)
	110,508	132,577

(i) These receivables mainly comprise of amounts due from third parties with no interest and no fixed payment terms.

Included in the above provision for impairment of other receivables are provisions for individually impaired receivables of RMB14,318,000 (2015: RMB13,559,000) with a carrying amount before provision of RMB15,519,000 (2015: RMB13,913,000).

18. Cash and cash equivalents and restricted bank balances

	2016	2015
	RMB'000	RMB'000
Cash and cash equivalents	24,610	40,424
Restricted bank balances	6,295	1,946

As at 31 December 2016, restricted bank balances were composed of the following items:

- (i) Approximately RMB1,595,000 (2015: RMB1,946,000) were pledged as security for issuing letters of guarantee of the Group for rendering services to customers.
- (ii) Approximately RMB4,700,000 were pledged as security for short-term bank loans.

Notes to consolidated financial statements *continued*

19. Shares Capital

	Number of shares in issue	Share Capital RMB'000	Share premium account RMB'000	Total RMB'000
As at 1 January 2015	-	-	24,488	24,488
Issue of shares	259,300,000	259	176,863	177,122
Share issue expenses	-	-	(14,205)	(14,205)
As At 31 December 2015	259,300,000	259	187,146	187,405
As at 1 January 2016	259,300,000	259	187,146	187,405
Issue of shares	-	-	-	-
Share issue expenses	-	-	-	-
As At 31 December 2016	259,300,000	259	187,146	187,405

On 12 January 2015, the Group determined to issue 52,500,000 shares at the subscription price of HK\$0.001 per share, of which 17,500,000 shares were issued to professional service providers. The shares were issued on 20 March 2015 for a total cash consideration of HK\$52,500, equivalent to RMB42,000 and to settle payables for compensation expenses amounting to RMB10,174,000.

On the same day, Mr. Shen and certain senior executives subscribed for 122,500,000 shares of the Company at the price of RMB0.4898 per share, of which 19,580,000 shares were issued to senior executives. The shares were issued for a total cash consideration of RMB60,000,000, of which RMB24,488,000 was previously injected in 2014, and to settle payables for compensation expenses amounting to RMB1,810,000.

On 17 April 2015, certain investors subscribed for 20,800,000 shares of the Company at the price of AUD0.25, equivalent to RMB 1.14 per share for a total cash consideration of AUD5,200,000, equivalent to RMB24,902,000. The costs related to the share issue totaling RMB2,975,000 were deducted from the share premium account.

On 30 October 2015, the Company converted its shares to CDIs on a one for one basis and listed on the ASX. During this process, the Company also issued 63,500,000 CDIs and raised RMB116,666,000. Those costs directly related to and subject to allocation for this issuance (RMB11,230,000) were deducted from the share premium account.

There was no change of share capital during the year ended December 31, 2016.

Notes to consolidated financial statements *continued***19. Shares Capital *continued***

Earnings per share (EPS)

Basic EPS is calculated by dividing the earnings for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. The Group had no potentially dilutive ordinary shares in issue during 2016.

The following reflects the income and share data used in the basic loss per share computations:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the parent:	<u>42,490</u>	<u>13,802</u>
	2016	2015
Weighted average number of ordinary shares for basic EPS*	<u>259,300,000</u>	<u>158,249,000</u>

* The weighted average number of shares takes into account the weighted average effect of changes in share transactions during the year.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorization of these unaudited condensed consolidated interim financial statements.

20. Other reserves

	<u>Share-based compensation</u>	<u>Statutory reserve</u>	<u>Merger reserve</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015	-	-	844	844
Share-based compensation	11,984	-	-	11,984
Profit appropriation	<u>-</u>	<u>3,265</u>	<u>-</u>	<u>3,265</u>
As At 31 December 2015	<u>11,984</u>	<u>3,265</u>	<u>844</u>	<u>16,093</u>
As at 1 January 2016	11,984	3,265	844	16,093
Profit appropriation	<u>-</u>	<u>4,172</u>	<u>-</u>	<u>4,172</u>
As At 31 December 2016	<u>11,984</u>	<u>7,437</u>	<u>844</u>	<u>20,265</u>

As stipulated by regulations in the PRC and the Articles of Association of the Company's subsidiaries established in the PRC, the subsidiaries established in the PRC are required to appropriate 10% of their PRC GAAP after-tax profit (after offsetting prior years' losses) to statutory surplus reserve fund before distributing their profit. When the balance of such reserve reaches 50% of each subsidiary's share capital, any further appropriation is optional.

Notes to consolidated financial statements *continued***21. Other long-term borrowing**

The Company entered into several finance lease transactions during the year. During the year ended 31 December 2016, the Company sold the equipment acquired under the finance leases to third parties with the approval of the lessor. These payables in substance represented borrowings from other counterparties with repayment terms ranging from 2 to 4 years.

The total minimum payments as at 31 December 2016 and their present values were as follows:

	Minimum lease payments	Present value of minimum lease
	2016	2016
	RMB'000	RMB'000
Amounts payable:		
Within one year	15,220	14,623
More than one year	22,387	17,898
Total minimum finance lease payments	<u>37,607</u>	<u>32,521</u>
Future finance charges	(5,086)	
Total net finance lease payables	<u>32,521</u>	
Portion classified as current liabilities	<u>(14,623)</u>	
Non-current portion	<u>17,898</u>	

The effective interest rate of the other borrowing of the Group is 9.11% per annum.

The long-term borrowing were guaranteed by related parties, Mr. Shen, his wife and Nanjing Longgang Science and Technology Co., LTD ("Longgang").

22. Trade payables

	2016	2015
	RMB'000	RMB'000
Trade payables	<u>178,213</u>	<u>192,412</u>

An aged analysis of the trade payables as at the end of the reporting period is as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year	109,513	123,227
1 to 2 years	45,649	34,137
More than 2 years	23,051	35,048
	<u>178,213</u>	<u>192,412</u>

Notes to consolidated financial statements *continued*

23. Advances and other current liabilities

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Other payables	22,418	12,586
Business and other tax payables	37,170	20,700
Salary payables	10,136	9,381
Advance from customers	566	151
	<u>70,290</u>	<u>42,818</u>

24. Bank borrowings

	<u>2016</u>			<u>2015</u>		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Secured	4.35~6.44	2017	<u>207,030</u>	4.35~6.15	2016	<u>185,100</u>

The Group's bank loans were secured by:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Mortgaged over trade receivables of the Group and guaranteed by others (i)	75,000	50,000
Mortgaged by property and buildings (ii)	66,900	41,000
Guaranteed by others (iii)	60,900	94,100
Mortgaged over bank deposit (Note 18)	4,230	-
	<u>207,030</u>	<u>185,100</u>

(i) Guaranteed by related parties Mr. Shen and his wife, Nanjing Bei Hao Technology Co., Ltd. ("Nanjing Bei Hao") and third parties Nanjing JCNeng Network Science&Technology Co., LTD.

(ii) Mortgaged by Sunny Port's property and buildings (Note 12 & 13).

(iii) Guaranteed by related parties Mr. Shen and his wife, Mr. Shen Yongzheng and his wife, Nanjing Bei Hao and third parties China Mobile Communications Corporation, Nanjing Junjie Communication Technology Industrial Co. Ltd and Nanjing JCNeng Network Science&Technology Co., LTD.

Notes to consolidated financial statements *continued*

25. Deferred tax

The gross movement on the deferred income tax account is as follows:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Opening balance as of 1 January	532	420
Credited to the income statement	(256)	112
Closing balance as at 31 December	<u>276</u>	<u>532</u>

Deferred taxation is calculated on temporary differences under the liability method using the tax rate and the tax base that is consistent with the expected manner of recovery or settlement for the year ended 31 December 2016.

The movements in deferred tax assets during the year are as follows:

Deferred tax assets:

	Inventory provisions	Financial guarantee contracts	Accrual recorded in other payables	Discount expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	199	36	185	-	420
Credited/(charged) to the consolidated income statement	(16)	(36)	-	164	112
At 31 December 2015	183	-	185	164	532
Credited/(charged) to the consolidated income statement	32	-	(185)	(103)	(256)
At 31 December 2016	<u>215</u>	<u>-</u>	<u>-</u>	<u>61</u>	<u>276</u>

The Group has tax losses arising in the PRC of RMB10,253,834 (2015: RMB 9,851,612) that are available for offsetting against future taxable profits of the companies within five years from when the losses arose. No deferred tax assets have been recognized in respect of these losses due to the uncertainty of future available taxable profit of the subsidiaries to set against the unused tax losses. The available period of the unused tax losses will expire in one to five years for offsetting against future taxable profits.

At 31 December 2016, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totaled approximately RMB66,934,000 at 31 December 2016 (2015: RMB29,389,000).

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

Notes to consolidated financial statements *continued***26. Commitments****Operating lease commitments — Group as lessee**

The Group has entered into commercial leases on certain motor vehicles and office properties. Most of these leases are negotiated for terms ranging from one to two years, with no renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Within one year	1,621	1,135
After one year but not more than five years	278	226
	<u>1,899</u>	<u>1,361</u>

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	<u>59</u>	<u>1,230</u>
Authorised, but not contracted for:		
Plant and machinery	<u>930</u>	<u>1,891</u>

27. Financial guarantee contracts

As at 31 December 2016, the Group does not provide any guarantee relating to bank borrowings in favor of any related party or third party.

28. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Notes to consolidated financial statements *continued***28. Related party transactions *continued***

- (a) For the year ended 31 December 2016, the directors are of the view that the following companies and persons are related parties of the Group:

Name	Relationship with the Group
Mr. Shen	The controlling shareholder of the Group
Mr. Shen Yongzheng	Brother of Mr. Shen
Supeq (Nanjing)	Controlled by Mr. Shen
Nanjing Longgang Science&Technology Co., LTD ("Longgang")	Controlled by a family member of Mr. Shen
Zhuhai DBJ	Controlled by Mr. Shen
Beijing Xinhaiqianxun Information Technology Co., LTD ("Xinhaiqianxun")	Controlled by Mr. Shen
Nanjing Bei Hao	Significant influenced by a family member of Mr. Shen
Beijing Zhongguang Broadcasting and Television Technology Co. Ltd (Beijing Zhongguang)	Controlled by Mr. Shen's brother

- (b) Save as disclosed elsewhere in the consolidated financial statements, during the year ended 31 December 2016, the directors are of the view that the following significant related party transactions were carried out in the normal course of business of the Group:

	2016	2015
	RMB'000	RMB'000
<u>Rental income as lessor</u>		
Longgang	189	-
Supeq (Nanjing)	11	180
<u>Disposal of the equity investment of XIB</u>		
Longgang	-	35,400

The sales of goods to the related parties were made by reference to the published prices and conditions offered to other major customers of the Group. The purchases from the related parties were made according to the published prices of and conditions offered by the suppliers to their major customers.

	2016	2015
	RMB'000	RMB'000
<u>Purchase of goods</u>		
Zhuhai DBJ	5	-
<u>Rental fee as lessee</u>		
Supeq (Nanjing)	-	369
Xinhaiqianxun	-	70
Sunny Port	234	-
	234	439

Notes to consolidated financial statements *continued*28. Related party transactions *continued*

- (c) As at 31 December 2016, the directors are of the view that the following related party balances were attributable to the aforementioned related party transactions and financing transfers between the Group and related parties during the year:

- (i) Amounts due from related parties

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
<u>Balances relating to non-operating activities</u>		
Loan to related parties		
Beijing Zhongguang*	22,000	22,000
Longgang*	21,103	600
Zhuhai DBQ*	1,029	-
Shen Yongzheng*	526	526
Mr. Shen*	-	946
	<u>44,658</u>	<u>24,072</u>

The Group has received the repayments from Beijing Zhongguang and Longgang in March 2017.

- (ii) Amounts due to related parties

	<u>2016</u>	<u>2015</u>
	RMB'000	RMB'000
<u>Balances relating to non-operating activities</u>		
Mr. Shen*	201	-
<u>Balances relating to operating activities</u>		
Supeq (Nanjing)*	270	281
	<u>471</u>	<u>281</u>

* These balances were interest free and payable on demand.

Notes to consolidated financial statements *continued***28. Related party transactions *continued***

(d) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	2,980	1,665
Pension scheme contribution	173	197
Equity-settled share based compensation	1,810	1,810
	<u>4,963</u>	<u>3,672</u>

The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel.

(e) Directors' emoluments

The emoluments of every director for the years ended 31 December 2016, on a named basis, are set out as below:

Name	Fees RMB'000	Salaries, allowances and benefit-in kinds RMB'000	Employer's contribution to pension plan RMB'000	Total Emoluments RMB'000
Mr. Shen Yong Jun (Appointed on 23 Jun 2015)	-	208	-	208
Mr. Yu Wei (Appointed on 28 May 2015)	-	208	-	208
Mr. Qi Yihong (Appointed on 28 May 2015)	-	208	-	208
Mr Fan Jun (Appointed on 29 April 2016) *	-	250	-	250
Mr. Ross Kenneth Benson (Appointed on 12 Jun 2015) *	350	-	-	350
Mr. Simon Geoffrey Green (Appointed on 12 Jun 2015) *	350	-	-	350
Mr. Alexander Andrew Kelton (Appointed on 12 Jun 2015) *	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
	<u>950</u>	<u>874</u>	<u>-</u>	<u>1,824</u>

The emoluments of every director for the years ended 31 December 2015, on a named basis, are set out as below:

Name	Fees RMB'000	Salaries, allowances and benefit-in kinds RMB'000	Employer's contribution to pension plan RMB'000	Total Emoluments RMB'000
Mr. Shen Yong Jun (Appointed on 23 Jun 2015)	-	113	-	113
Mr. Yu Wei (Appointed on 28 May 2015)	-	113	-	113
Mr. Qi Yihong (Appointed on 28 May 2015)	-	113	-	113
Mr. Ross Kenneth Benson (Appointed on 12 Jun 2015) *	179	-	-	179
Mr. Simon Geoffrey Green (Appointed on 12 Jun 2015) *	179	-	-	179
Mr. Alexander Andrew Kelton (Appointed on 12 Jun 2015) *	<u>137</u>	<u>-</u>	<u>-</u>	<u>137</u>
	<u>495</u>	<u>339</u>	<u>-</u>	<u>834</u>

*Independent non-executive directors

None of the directors waived or agreed to waive any remuneration during the years ended 31 December 2016.

Notes to consolidated financial statements *continued*

29. Financial instruments by category

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

	<u>Loans and receivables</u>	<u>Loans and receivables</u>
	2016	2015
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Trade receivables (Note 16)	470,722	341,633
Deposits and other receivables (Note 17)	34,820	38,898
Amounts due from related parties (Note 28)	44,658	24,072
Restricted bank balances (Note 18)	6,295	1,946
Cash and cash equivalents (Note 18)	24,610	40,424
Total	581,105	446,973
	Financial liabilities	Financial liabilities measured
	measured at amortized	at amortized cost
	cost	at amortized cost
	2016	2015
	RMB'000	RMB'000
Liabilities as per consolidated balance sheet		
Trade payables (Note 22)	178,213	192,412
Other payables (Note 23)	22,418	12,586
Bank borrowings (Note 24)	207,030	185,100
Amounts due to related parties (Note 28)	471	281
Total	408,132	390,379

Notes to consolidated financial statements *continued***30. Fair values and fair values hierarchy of financial instruments**

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, financial liabilities included in trade and other payables, amounts due to related parties and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of other borrowings are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

	Carrying amount		Fair value	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Other borrowings	32,521	-	33,275	-

31. Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance leases, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, available for sale financial assets and other receivables and payables which arise from its business and financing operations. The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The director reviews and agrees policies for managing each of these risks as summarized below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's balances with related parties and third parties and bank borrowings. The Group does not use derivative financial instruments to hedge its interest rate risk. The following table demonstrates the sensitivity at the end of each year, to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	Increase/(decrease) in interest rate basic point	Increase /(decrease) in profit before tax	Increase / (decrease) in equity*
31 December 2016			
RMB	100	(350)	-
RMB	(100)	350	-
31 December 2015			
RMB	100	(100)	-
RMB	(100)	100	-

* Excluding retained earnings

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to credit risk arising from trade receivables is disclosed in Note 16.

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

Notes to consolidated financial statements *continued***31. Financial risk management objectives and policies *continued*****Credit risk *continued***

At the end of the reporting period, the Group had certain concentrations of credit risk as 22% (2015: 20%) and 70% (2015: 73%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. Certain customers are local subsidiaries of a telecommunications carrier in China, which the Group views as separate customers as it negotiates with, maintains and supports each of these entities given that each of them has separate decision-making authority and services procurement budget. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note 16 to the financial statements.

Liquidity risk

The Group monitors its cash flow positions on a regular basis to ensure that the cash flows of the Group are positive and closely controlled. The Group aims to maintain flexibility in funding by keeping committed credit lines available, and obtaining borrowing loans from banks and other financial institutions.

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

	Less than 1 year or on demand	1-2 years	2-5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2016				
Interest bearing loans and borrowings (Note 24) (i)	212,657	-	-	212,657
Trade payables (Note 22)	109,513	45,649	23,051	178,213
Other payables (Note 23)	22,418	-	-	22,418
Other long-term borrowing (Note 21)	14,623	10,241	7,657	32,521
Amount due to related parties (Note 28)	471	-	-	471
	<hr/>	<hr/>	<hr/>	<hr/>
	Less than 1 year or on demand	1-2 years	2-5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2015				
Interest bearing loans and borrowings (Note 24) (i)	188,334	-	-	188,334
Trade payables (Note 22)	123,227	34,137	35,048	192,412
Other payables (Note 23)	12,586	-	-	12,586
Amount due to related parties (Note 28)	281	-	-	281
	<hr/>	<hr/>	<hr/>	<hr/>

- (i) The interest on borrowings is calculated based on borrowings held as at 31 December 2016 and 2015 without taking into account extension or refinancing of the borrowings in future. Floating-rate interest is estimated using current interest rate as at 31 December 2016 and 2015 respectively.

32. Events after the reporting period

Except as disclosed elsewhere in this report, there is no material subsequent event undertaken by the Group after 31 December 2016.