

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD.**8 Shenton Way
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www.crowehorwath.com.sg**Report on the Audit of the Financial Statements*****Opinion***

We have audited the financial statements of Shanghai Turbo Enterprises Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 12 to 62, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with International Financial Reporting Standards (IFRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Emphasis of Matter

As disclosed in Note 1 to the financial statements, the majority of shareholders of the Company voted against the re-election of the former Executive Director of the Group during the annual general meeting held on 15 April 2017. The new management team appointed by the Board of Directors was unable to take over physical possession and operations of the factory during the period from 15 April to 20 September 2017 ("the Affected Period").

We refer to Note 31 to the financial statements which discloses that the Group has not fulfilled certain sales orders as a result of the suspension of operations during the Affected Period. The Group is in the process of negotiating with affected customers and the liability arising from unfulfilled sales orders, if any, cannot be presently determined.

In view of the above, there exists a material uncertainty whether the ongoing negotiations, the outcome of which is unknown, may have an impact to the Group. Accordingly, the extent of adjustments, if any, that may arise from unfulfilled sales orders, may have an effect on the financial statements of the Group for the financial year ended 31 December 2017. As of the date of this report, we were informed that these affected customers have not made any claims against the Group.

Our opinion is not qualified in respect of this matter.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2 to the financial statements, which indicates that for the financial year ended 31 December 2017, the Group experienced a significant decrease in revenue and incurred a net loss of RMB 156,070,000 as a result of the loss of revenue and additional expenses during the Affected Period and the impact thereafter. Consequently, the Group recorded operating cash outflows of RMB 12,877,000 during the year ended 31 December 2017. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Key Audit Matters

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Key Audit Matters (Continued)

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p><u>Credit risk concentration and recoverability of receivables</u></p> <p>Two major customers of the Group contributed 73% of the total revenue of the Group. As at 31 December 2017, the amount due from these two customers represented 98% of trade receivable of the Group (excluding bills receivable).</p> <p>A substantial impairment loss of RMB 50,166,000 has been recognised on one of the major customers, which represents 72% of the total impairment loss on receivables recognised in profit or loss for the year. The amount owing from the other major customer has been impaired for RMB 5,682,000, which represents 8% of the total impairment loss for the financial year.</p> <p>As disclosed in Note 1 to the financial statements, the Group has been severely affected by the period between 15 April and 20 September 2017 ("the Affected Period") which inevitably increases the credit risk and difficulty in recovering the Group's trade receivables. The management assessed the impact of the Affected Period on the impairment of trade receivables, based on evaluating the continuity of business relationship with each customer and other objective evidences available to the management at the point of assessment including historical collection pattern and subsequent receipts.</p> <p>The key judgement applied by management is disclosed in Note 3 to the financial statements and the relevant disclosures on the credit risk are disclosed in Note 33 (iii) to the financial statements.</p>	<p><u>Risk Response</u></p> <p>Our audit of impairment losses on trade receivables focused on challenging management's assessment of these material overdue debts and reviewing the computation of the impairment.</p> <p>Our key procedures applied includes:</p> <ol style="list-style-type: none"> 1. Testing the ageing report of the trade receivables for its accuracy and reliability. 2. Discussing with management to obtain understanding of the payment ability, trading pattern and whether there has been disputes with these two customers. 3. Examining evidence of receipts from these customers subsequent to year end date. 4. Evaluating management assumptions used to determine impairment loss amount with reference to turnover days, historical collection pattern, amount of receipts from customers and the existence of any new sales orders secured from these customers subsequent to the Affected Period. 5. Challenging the management's assumption on discount rate. <p>Based on the above audit procedures performed, we found the impairment losses provided on trade receivables to be reasonable. We have also considered the Group's disclosures about the estimation uncertainty and the credit risks to be sufficient.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Key Audit Matters (Continued)

<u>Inventories write down:</u>	<u>Risk Response</u>
<p>During the financial year, the Group recognised a provision on inventory obsolescence in profit or loss amounting to RMB 30,984,000, reducing the carrying amount of inventories as at 31 December 2017 to RMB 1,629,000 which mainly comprised of raw material.</p> <p>Suspension of operation during the Affected Period between 15 April and 20 September 2017, as disclosed in Note 1 to the financial statements, has significant impact on the net realisable values of inventory as all products of the Group are made-to-order.</p> <p>The management assessed the impact of disruption to sales and production during the Affected Period on the net realisable values of inventory and full allowance has been made on finished goods, in view of unfulfilled sales orders and the significant uncertainty over future orders.</p> <p>The key judgement applied by management is disclosed in Note 3 to the financial statements and the breakdown of inventories are disclosed in Note 12 to the financial statements.</p>	<p>Our audit of inventories valuation focused on challenging management's assessment of the inventories obsolescence.</p> <p>Our key procedures applied includes:</p> <ol style="list-style-type: none"> 1. Testing the inventories ageing report for its accuracy and reliability. 2. Discussing with management to obtain understanding of the management's assessment of the impact of the Affected Period, including the status of negotiations with customers and any alternative use of the finished goods. 3. Independently evaluating management assumptions used to determine the net realisable value, taking into consideration the amount of unfulfilled sales orders, the quantity and type of inventories of the sales order secured subsequent to the Affected Period to date. <p>Based on the above audit procedures performed, we found the inventory obsolescence provided in accordance with management's policy to be supportable on the basis of objective evidences available to the management at point of assessment.</p> <p>We have also considered the Group's disclosures about the estimation uncertainty to be sufficient.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Key Audit Matters (Continued)

<u>Impairment of non-current assets:</u>	<u>Risk Response</u>
<p>As at 31 December 2017, the Group's property, plant and equipment and land use right amounted to RMB 103,506,000 and RMB 9,167,000 respectively after impairment losses of RMB 4,803,000 and RMB 369,000 recognised in profit or loss during the year respectively.</p> <p>As disclosed in Note 1 to the financial statements, sales and production were disrupted during and subsequent to the Affected Period. Consequently, management has performed an impairment assessment as there is indication that the non-current assets may be impaired. The recoverable amount of the cash generating unit ("CGU") is compared with the carrying amount of the CGU to determine whether there is any impairment loss.</p> <p>We focused on this area because of the significant judgements required in estimating the expected future cash flows as the Group's business operation is still recovering from the effects of the disruption during Affected Period.</p> <p>The key judgement applied by management is disclosed in Note 3 to the financial statements and further details on the impairment losses on property, plant and equipment and land use right are disclosed in Note 9 and 11 to the financial statements respectively.</p>	<p>Our audit of the recoverable amounts of property, plant and machinery and land use right of the Group focused on the management's assessment of the recoverable amounts.</p> <p>Our key procedures applied include, amongst others:</p> <ol style="list-style-type: none"> 1. Challenge the reasonableness of the estimated revenue level for next financial year, the subsequent revenue growth rates and the discount rate used by management in the discounted cash flows of the subsidiary against the past and recent performance, macroeconomic analysis and the Group's marketing plan; 2. Perform sensitivity analysis to assess the impact on the recoverable amount of the CGU resulting from reasonably possible changes to the revenue level and growth rates and discount rate; and 3. Evaluate the basis and accuracy of impairment allocation among different categories of property, plant and equipment and land use right. <p>Based on the above audit procedures performed, we found that the key estimates adopted by the management are reasonable.</p>

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the 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. 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 financial statements.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the 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 management.
- Conclude on the appropriateness of management's 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 directors 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.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the 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 Goh Sia.

Crowe Horwath First Trust LLP

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

23 February 2018

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	4	55,409	55,409	55,409	55,409
Share premium	5	78,470	78,470	78,470	78,470
		<u>133,879</u>	<u>133,879</u>	<u>133,879</u>	<u>133,879</u>
Other reserves					
Statutory reserve	6	30,526	30,526	-	-
Translation deficit	7	(3,414)	(3,207)	-	-
		<u>27,112</u>	<u>27,319</u>	<u>-</u>	<u>-</u>
Retained earnings / (Accumulated losses)	8	1,380	160,884	(453)	-
TOTAL EQUITY		<u>162,371</u>	<u>322,082</u>	<u>133,426</u>	<u>133,879</u>
ASSETS					
Non-current assets					
Property, plant and equipment	9	103,506	126,332	-	-
Subsidiaries	10	-	-	156,236	156,236
Land use right	11	9,167	9,787	-	-
Current assets					
Inventories	12	1,629	33,582	-	-
Trade receivables	13	52,761	164,045	-	-
Other receivables, deposits and prepayments	14	3,438	4,713	-	96
Land use right	11	251	251	-	-
Cash and cash equivalents	29	28,612	50,402	2,858	2,294
		<u>86,691</u>	<u>252,993</u>	<u>2,858</u>	<u>2,390</u>
TOTAL ASSETS		<u>199,364</u>	<u>389,112</u>	<u>159,094</u>	<u>158,626</u>

The accompanying notes are an integral part of the financial statements.

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
AND SUBSIDIARIES

STATEMENT OF FINANCIAL POSITION (Continued)
AS AT 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	Group		Company	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
LIABILITIES					
Current liabilities					
Trade payables	15	27,247	52,409	-	-
Other payables and accruals	16	5,731	4,765	1,190	543
Bank term loan	18	-	7,000	-	-
Due to subsidiaries (non-trade)	19	-	-	24,478	24,204
Income tax payable		602	91	-	-
		33,580	64,265	25,668	24,747
Non-current liability					
Deferred capital grants	17	2,003	-	-	-
Deferred tax liability	20	1,410	2,765	-	-
		3,413	2,765	-	-
TOTAL LIABILITIES		36,993	67,030	25,668	24,747
NET ASSETS		162,371	322,082	133,426	133,879

The accompanying notes are an integral part of the financial statements.

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2017 RMB'000	2016 RMB'000
Revenue	21	35,229	136,977
Cost of sales		(35,929)	(106,333)
Gross (loss) / profit		(700)	30,644
Other operating income	22	1,004	2,783
Selling and distribution expenses		(5,011)	(2,866)
Administrative expenses		(41,308)	(20,684)
Other operating expenses	23	(109,899)	(4,664)
Finance costs		(98)	(226)
(Loss) / Profit before income tax	25	(156,012)	4,987
Income tax expense	26	(58)	(2,694)
(Loss) / Profit for the year		(156,070)	2,293
Other comprehensive (loss) / income			
Item that may be reclassified subsequently to profit or loss:			
- Currency translation differences arising from consolidation	7	(207)	165
Total comprehensive (loss) / income for the year, representing profit attributable to equity holders of the Company		(156,277)	2,458
(Loss) / Earnings per share (cents)			
Basic and diluted	27	(568.18)	8.35

The accompanying notes are an integral part of the financial statements.

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Attributable to equity holders of the Company					
	Share capital	Share premium	Statutory reserve	Translation deficit	Retained earnings	Total equity
	RMB'000 (Note 4)	RMB'000 (Note 5)	RMB'000 (Note 6)	RMB'000 (Note 7)	RMB'000	RMB'000
Balance at 1 January 2016	55,409	81,527	29,696	(3,372)	163,231	326,491
Profit for the year	-	-	-	-	2,293	2,293
<u>Other comprehensive income, net of tax</u>						
Currency translation differences arising from consolidation	-	-	-	165	-	165
Total comprehensive income for the year	-	-	-	165	2,293	2,458
Transfer to statutory reserve	-	-	830	-	(830)	-
Dividends (Note 28)	-	(3,057)	-	-	(3,810)	(6,867)
Total contributions by and distributions to owners	-	(3,057)	830	-	(4,640)	(6,867)
Balance at 31 December 2016	55,409	78,470	30,526	(3,207)	160,884	322,082
Balance at 1 January 2017	55,409	78,470	30,526	(3,207)	160,884	322,082
Loss for the year	-	-	-	-	(156,070)	(156,070)
<u>Other comprehensive loss, net of tax</u>						
Currency translation differences arising from consolidation	-	-	-	(207)	-	(207)
Total comprehensive loss for the year	-	-	-	(207)	(156,070)	(156,277)
Dividends, representing total contributions by and distributions to owners	-	-	-	-	(3,434)	(3,434)
Balance at 31 December 2017	55,409	78,470	30,526	(3,414)	1,380	162,371

The accompanying notes are an integral part of the financial statements.

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
(Loss) / Profit before income tax		(156,012)	4,987
Adjustments:			
Impairment loss on trade receivables		69,604	4,608
Impairment loss on trade receivables written back		-	(94)
Inventory written down included in cost of sales		-	2,700
Allowance for inventory obsolescence		30,984	-
Inventory written off		1,974	
Amortisation of land use right		251	251
Impairment loss on land use right		369	-
Exchange differences		282	(922)
Depreciation of property, plant and equipment		17,644	16,922
Loss on disposal of property, plant and equipment		-	26
Impairment loss on property, plant and equipment		4,803	-
Property, plant and equipment written off		497	-
Interest income		(67)	(107)
Interest expenses		98	226
Transfer from deferred capital grant	17	(223)	-
Operating (loss) / profit before working capital changes		(29,796)	28,597
Inventories		(1,005)	(6,064)
Trade and other receivables		42,955	(3,931)
Trade and other payables		(24,196)	(249)
Cash (used in) / generated from operations		(12,042)	18,353
Interest income received		67	107
Income taxes paid		(902)	(4,355)
Net cash (used in) / generated from operating activities		(12,877)	14,105
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		-	89
Purchase of property, plant and equipment		(118)	(32,343)
Receipt of capital grant from government for purchase of plant and equipment		2,226	-
Net cash from / (used in) investing activities		2,108	(32,254)

The accompanying notes are an integral part of the financial statements.

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
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CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

	Note	2017 RMB'000	2016 RMB'000
Cash flows from financing activities			
Dividends paid	28	(3,434)	(6,867)
Placement of pledged deposits	29	(7,093)	(9,894)
Withdrawal of pledged deposits	29	7,785	13,935
(Repayment of) / proceeds from bank term loan		(7,000)	7,000
Interest expenses paid		(98)	(226)
		<hr/>	<hr/>
Net cash (used in) / generated from financing activities		(9,840)	3,948
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(20,609)	(14,201)
Cash and cash equivalents at beginning of year		45,661	58,775
Effects of exchange rate changes in cash and cash equivalents		(489)	1,087
		<hr/>	<hr/>
Cash and cash equivalents at end of year	29	24,563	45,661
		<hr/>	<hr/>

The accompanying notes are an integral part of the financial statements.

SHANGHAI TURBO ENTERPRISES LTD.
(Incorporated in the Cayman Islands)
AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017
(Amounts in thousands of Chinese Renminbi ("RMB'000"))

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

Shanghai Turbo Enterprises Ltd. (the "Company") is a limited liability company domiciled and incorporated in the Cayman Islands and listed on the Main Board of the Singapore Exchange Securities Trading Limited. The address of the Company's registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is located at No.9, Yinghua Road, Zhonglou Economic Development Zone, Changzhou City, Jiangsu Province, 213016 the People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are shown in Note 10.

The financial statements for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 23 February 2018.

On 15 April 2017, majority of shareholders of the Company has voted against re-election of former director of the Group, Mr. Liu Ming. New management appointed by the Group Board ("New Management") was unable to take over management and operation of the factory during the period between 15 April and 20 September 2017 ("the Siege Period"). Consequently, sales, productions and other operations are severely affected during and after the Siege Period. With intervention from local government and police force, New Management has entered and resumed physical control of the factory on 20 September 2017.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group experienced a significant decrease in revenue and incurred a net loss of RMB 156,070,000 (2016: net profit of RMB 2,293,000) as a result of the loss of revenue and additional expenses during the Siege Period and the impact thereafter. Consequently, the Group recorded negative operating cash flows of RMB 12,877,000 (2016: positive operating cash flows of RMB 14,105,000) during the year ended 31 December 2017. In addition, certain customers, both domestic and overseas, have not placed new sales orders subsequent to the Siege Period, including one major customer of the Group.

These facts and circumstances indicate the existence of material uncertainties that may cast significant doubts over the ability of the Group and of the Company to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis. Management's assessment of the Group and the Company's ability to continue as a going concern includes the following key assumptions:

- (a) The Group is able to collect outstanding balances via cash or bill receivable from its customers; and
- (b) The Group is able to obtain factoring facility from a PRC bank to factor the bill receivable to be collected from its customers.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. FUNDAMENTAL ACCOUNTING CONCEPT (Continued)

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group may have to reclassify non-current assets as current assets, and to provide for further liabilities which may arise. No such adjustments have been made to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the International Financial Reporting Standards ("IFRS"). The financial statements are presented in Chinese Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) as indicated.

The preparation of the financial statements in conformity with IFRS requires management to exercise its judgement, in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

Adoption of new and revised standards

On 1 January 2017, the Group adopted the new or amended IFRS and Interpretations of IFRS ("IFRIC") that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC. The adoption of these new or amended IFRSs and IFRICs did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years, except as disclosed below.

Amendments to IAS 7: Disclosure Initiative

The amendments introduce additional disclosure requirement intended to enable users of financial statements to evaluate changes in liabilities arising from financial activities, including both changes arising from cash flows and non-cash changes.

The Group's liabilities arising from financing activities and a reconciliation between the opening and closing balances of these liabilities are set out in Note 18. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 18, the application of these amendments has had no impact on the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

<u>Descriptions</u>	<u>Effective for annual periods beginning on or after</u>
Annual improvements to IFRS Standards 2014-2016	1 January 2018
- Amendments to IFRS 1 <i>First-time Adoption of Financial Reporting Standards</i>	
- Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i>	
Amendments to IFRS 2: <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
Amendments to IFRS 4: <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	1 January 2018
Amendments to IAS 40: <i>Transfers of Investment Property</i>	1 January 2018
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRIC 22: <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019
IFRIC 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to IFRS 9: <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to IAS 28: <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to IAS 19: <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
Annual Improvements to IFRS Standards 2015 - 2017	1 January 2019
- Amendments to IFRS 3 <i>Business Combinations</i>	
- Amendments to IFRS 11 <i>Joint Arrangements</i>	
- Amendments to IAS 12 <i>Income Taxes</i>	
- Amendments to IAS 23 <i>Borrowing Costs</i>	
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to IAS 10 and IAS 28: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Postponed definitely

The directors expect that the adoption of the new or amended standards and interpretations above will have no material impact on the financial statements in the period of initial application, except for the impending changes in accounting policy on adoption of the following:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*, and introduces new requirements for classification and measurement, impairment and hedge accounting. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. IFRS 9 also introduces a new expected loss impairment model, and adds detailed guidance on impairment-related presentation and disclosures. IFRS 9 also contains new requirements on hedge accounting, which adopts a more principle-based approach, and allows entities to choose between applying hedge accounting requirements of IFRS 9 or continue to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Based on the Group's preliminary assessment, the Group is not expecting significant adjustment as the Group does not expect changes in measurement basis of financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model in accounting for revenue arising from contracts with customers, and will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective in 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers.

The application of IFRS 15 may have a material impact on the amounts reported and disclosures in the Group's consolidated financial statements. Based on the Group's preliminary assessment, the Group may need to reevaluate whether the sales contract represents single performance obligation and whether there is significant financing elements.

IFRS 16 Leases

This new standard on leases supersedes the previous standard (IAS 17) and interpretations and brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For leasees, IFRS 16 reforms lessee accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of this standard. The Group will apply the new IFRS 16 when it becomes effective in 2019. The Group does not expect a material impact on the amounts reported and disclosures in the Group's consolidated financial statements as the Group does not have significant leasing arrangement as leases.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 requires a foreign currency transaction to be recorded using spot exchange rate at the date of transaction. This interpretation clarifies that when an entity pays or receives consideration in advance in a foreign currency, the date of transaction for the purpose of determining the transaction rate on initial recognition of the related asset, expense or income (or part of it) is the date on which the entity initially recognises the non-monetary asset or liability (such as prepayment or deferred income) arising from the advance consideration. As such, no exchange gain will arise from the transfer of non-monetary asset or liability recognised for advance consideration to the related asset, expense or income at initial recognition. The interpretation applies to annual periods beginning on or after 1 January 2018, which an entity may elect to apply either retrospectively or prospectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting

Subsidiaries

(a) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- had power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and any non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(a) *Basis of consolidation (Continued)*

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) *Acquisition of businesses*

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement. Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

(c) *Disposals of subsidiaries or businesses*

The assets and liabilities of the subsidiary, including any goodwill, are derecognised when a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is the functional currency of the Company.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(iii) Translation of the Group's financial statements

The assets and liabilities of foreign operations are translated into Chinese Renminbi at the rate of exchange ruling at the reporting date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. When significant parts of property, plant and equipment is required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment except for leasehold buildings are stated at cost less accumulated depreciation and any accumulated impairment loss.

Construction in progress includes all cost of construction and other direct costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

Construction in progress are not depreciated. All other items of property, plant and equipment are depreciated using the straight-line method to write off the cost of the assets less estimated residual value over their estimated useful lives as follows: -

	<u>Useful lives</u> <u>(Years)</u>	<u>Estimated residual value</u> <u>as a percentage of cost (%)</u>
Leasehold buildings	5 to 20	10
Plant and machinery	2 to 10	10
Office equipment	2 to 5	10
Motor vehicles	4 to 5	10
Renovation	3	-

The residual value, estimated useful life and depreciation method are reviewed, and adjusted as appropriate, at each reporting date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between any sales proceeds and the carrying amounts of the asset and is recognised in the profit or loss within "other operating income / (expenses)".

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land use right

Land use right is initially measured at cost. Following initial recognition, land use right is measured at cost less accumulated amortisation and accumulated impairment losses. The land use right is amortised on a straight-line basis over the lease term of 50 years.

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 such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely dependent on those from other assets. Where the carrying amount of an asset or cash-generating unit 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 expected to be generated by the asset 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 to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit and loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

(i) Initial recognition and measurement

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of financial assets classified as held-to-maturity, directly attributable transaction costs.

(ii) Subsequent measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. As at the reporting date, the Group did not have any financial assets in the categories of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are classified as non-current assets. Loans and receivables comprise cash and cash equivalents as well as trade and other receivables, including amounts due from related companies, but exclude advances to suppliers, prepayments and VAT receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(iii) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

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

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amount charged to the allowance account is written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

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 recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials comprise purchase cost accounted for on a weighted average basis. Work-in-progress and finished goods comprise cost of direct materials, direct labour and an attributable proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to be incurred for selling and distribution.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. As at the reporting date, the Group did not have any financial liabilities in the category of financial liabilities at fair value through profit or loss.

(ii) Subsequent measurement

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised, and through the amortisation process.

(iii) Derecognition

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: 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, even if that right is not explicitly specified in an arrangement.

Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Share capital

Proceeds from issuance of ordinary shares are classified as share capital in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share capital.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue and the associated costs can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from subcontracting services is recognised over the period in which the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable. Dividend income is recognised when the Group's right to receive payment is established.

Employees' benefits

(i) Retirement benefits

The subsidiary, incorporated and operating in the PRC, is required to provide certain retirement plan contribution to their employees under the existing PRC regulations. Contributions are provided at rates stipulated by the PRC regulations and are managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees.

Borrowing

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried for at amortised costs using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the statement of financial position even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs consist of interest that an entity incurs in connection with the borrowing of funds.

Income tax

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income. Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets or liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(ii) Value-added-tax ("VAT")

The Group's sales of goods and service income in the PRC are subject to VAT at the applicable tax rate of 17% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other receivables" or "Other payables" in the statement of financial position. The Group's export sales are not subject to VAT.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants and deferred capital grant

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been complied with. When the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
 - (i) Has control or joint control over the Company;
 - (ii) Has significant influence over the Company; or
 - (iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand, deposits with financial institutions, excluding cash deposits pledged for a period of more than three months. Cash and cash equivalents are short term, highly liquid investments readily convertible to known amounts of cash and subjected to an insignificant risk of changes in value.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker responsible for allocating resources and assessing performance of the operating segments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment of loans and receivables*

Management reviews its loans and receivables for objective evidence of impairment at least annually. Significant financial difficulties of the debtor, and default or significant delay in payments resulting in receivables with excessively long turnover days as compared to credit term and normal business practice are considered objective evidence that a receivable is impaired. In determining this, management makes judgement by assessing the loans and receivables individually from historical trend whether there has been a significant change in the payment ability of the debtor, or whether the significant delay in payment which extends beyond one year results in impairment loss.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical trend and assumptions on the expected timing of collection based on specific receivables turnover days, taking into account also macro-economic industry factors.

As disclosed in Note 1 to the financial statements, the Group has been severely affected by the disruption period during the Siege Period in 2017 which inevitably increases the credit risk and difficulty in recovering the Group's trade receivables. Significant amount of judgement is applied by the management when determining the total allowance for impairment loss as at 31 December 2017.

The carrying amounts of the loans and receivables as at 31 December 2017 and the relevant credit risk information including factors in determining the impairment are disclosed in Note 13 and Note 33 (iii).

(b) *Net realisable values of inventory*

An assessment of net realisable values is made periodically on inventory for excess inventory, obsolescence and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to estimate future demand for the products and assessed the inventories obsolescence by taking into consideration the status of the completed or on-going sales contracts, the ageing and condition of the inventories by categories and by projects and the historical trend of replacement sales. This process is complex and subject to estimation uncertainty as it involves estimation of future events. Possible changes in these estimates could result in revisions to the valuation of inventory.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(b) *Net realisable values of inventory (Continued)*

Suspension of operation during the Siege Period between 15 April and 20 September 2017, as disclosed in Note 1 to the financial statements, has significant impact on the net realisable values of inventory as all products of the Group are made-to-order. The management assessed the impact of Siege Period on the net realisable values of inventory, based on assessing the future replacement demand for the batches of inventories and other objective evidences available to the management at point of assessment. Full allowance has been made on finished goods, in view of the impact from the disruption during the Siege Period including unfulfilled sales orders and the significant uncertainty over future orders and lack of alternative use. Significant amount of judgement is applied by the management when determining the total allowance for inventory obsolescence as at 31 December 2017.

As disclosed in Note 12, the net carrying amount of inventories of the Group as at 31 December 2017 is RMB 1,629,000 (2016: RMB 33,582,000), which is stated after a total allowance for inventory obsolescence of approximately RMB 34,325,000 (2016: RMB 3,341,000).

(c) *Impairment of non-financial assets*

As disclosed in Note 1 to the financial statements, sales and production were disrupted during and subsequent to the Siege Period. Consequently, management has performed an impairment assessment as there is indication that the non-current assets may be impaired.

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. In estimating the future cash flows, management has taken into account past and recent performance, macroeconomic analysis and the Group's marketing plan. The recoverable amount is most sensitive to the discount rate used for the discounted cash flows model and revenue level and growth rates.

The carrying amounts and further details of the key assumptions for the impairment assessment of property, plant and equipment and land use right are disclosed in Notes 9 and 11 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(d) *Income tax*

The Group is subject to income taxes in PRC. Significant judgement is required in determining the group-wide provision for income taxes. In determining the income tax liability, the management has estimated the amount of capital allowances and the deductibility of certain expenses. In determining the tax rate applied to the deferred tax assets and liabilities other than undistributed earnings, the management has estimated that the concessionary tax rate under "High Technology Enterprise" status will be successfully renewed. Where the final tax outcome of these matters is different from the estimates, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. The carrying amount of the income tax payable and deferred tax liability of Group as at 31 December 2017 are RMB 602,000 and RMB 1,410,000 (2016: RMB 91,000 and RMB 2,765,000) respectively.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The Group has unutilised capital allowances and tax losses totaling RMB 29,446,000 and RMB 16,922,000 respectively (2016: both Nil) relate to the PRC subsidiary which will expire in 2022. No deferred tax assets have been recognised in 2017 due to uncertainty of recovery. If the Group was able to recognise all unrecognised deferred tax assets, loss for the year would decrease by RMB 11,592,000 (2016: Nil).

The Group has also reversed the deferred tax assets on allowance for impairment of trade receivables and inventory obsolescence as the management is of the view that it is highly unlikely that the substantial allowance made in 2017 as an effect of the Siege Period will be allowed as deduction by the tax authorities.

Deferred tax liability on undistributed profits

In determining the amount of deferred tax liabilities on the undistributed earnings of the subsidiary, the management considers the dividend policy and cash flows needs for the corporate and treasury functions at the holding company level for the foreseeable future. Due to the impact of Siege Period disclosed in Note 1 to the financial statements and substantial loss suffered by the PRC subsidiary in 2017, the PRC subsidiary records accumulated loss of RMB 24,480,000 (2016: retained earnings of RMB 135,915,000). The management is in the opinion that there is no probable profits in the foreseeable future for distribution. Consequently, the Group has fully reversed deferred tax liability on undistributed profits in 2017 (2016: deferred tax liability of RMB 3,546,000) (Note 20).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(e) *Useful lives of plant and machinery*

The cost of plant and machinery for the manufacture of precision vane products are depreciated on a straight-line basis over the plant and machinery's estimated economic useful lives. Management estimates the useful lives of these plant and machinery to be within 2 to 10 years and the residual values to be 10% of the cost of these assets. These are common life expectancies and residual values applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's plant and machinery at 31 December 2017 was approximately RMB 87,179,000 (2016: RMB 106,026,000) (Note 9).

(ii) Critical judgements in applying the entity's accounting policies

The management is of the opinion that any instances of judgements, other than those arising from the estimates described above, are not expected to have significant effect on the amounts recognised in the financial statements.

4. SHARE CAPITAL

	Group and Company			
	2017	2016	2017	2016
	Number of ordinary shares at US\$0.25 each		US\$'000	
Authorised	200,000,000	200,000,000	50,000	50,000
Issued and fully paid				
At beginning and end of the year	27,468,473	27,468,473	6,867	6,867
Equivalent to (RMB'000)			55,409	55,409

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SHARE PREMIUM

	Note	Group and Company	
		2017 RMB'000	2016 RMB'000
At beginning of the year		78,470	81,527
Dividend paid	28	-	(3,057)
At end of the year		78,470	78,470

Under The Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

6. STATUTORY RESERVE

	Percentage of contribution from profit after tax	Group	
		2017 RMB'000	2016 RMB'000
Statutory reserve fund	10%	30,526	30,526

In accordance with the Foreign Enterprise Law of the PRC, the subsidiary, being a wholly foreign-owned enterprise is required to make contributions to a statutory reserve fund. At least 10 per cent of the statutory after-tax profits as determined in accordance with the applicable PRC accounting standards and regulations is required to be allocated to the statutory reserve fund. If the cumulative total of the statutory reserve fund reaches 50% of the subsidiary's registered capital, the enterprise will not be required to make any additional contribution.

The statutory reserve fund may be used to offset accumulated losses or increase the registered capital of the subsidiary, subject to approval from the relevant PRC authorities and is not available for dividend distribution to the shareholders. The PRC enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

7. TRANSLATION DEFICIT

	Group	
	2017 RMB'000	2016 RMB'000
At beginning of the year	(3,207)	(3,372)
Currency translation differences arising from consolidation	(207)	165
At end of the year	(3,414)	(3,207)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. RETAINED EARNINGS / (ACCUMULATED LOSSES)

	Note	Company	
		2017 RMB'000	2016 RMB'000
At beginning of the year		-	1,810
Profit for the year		2,981	2,000
Dividend paid	28	(3,434)	(3,810)
		<u>(453)</u>	<u>-</u>

9. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Renovation RMB'000	Total RMB'000
Cost						
As at 1.1.2016	32,580	205,448	4,416	4,561	1,731	248,736
Additions	-	38,384	73	-	3,066	41,523
Disposals	-	(907)	(94)	(149)	-	(1,150)
As at 31.12.2016	32,580	242,925	4,395	4,412	4,797	289,109
As at 1.1.2017	32,580	242,925	4,395	4,412	4,797	289,109
Additions	-	-	118	-	-	118
Written off	-	(3,379)	(1,287)	(327)	-	(4,993)
As at 31.12.2017	32,580	239,546	3,226	4,085	4,797	284,234
Accumulated depreciation						
As at 1.1.2016	15,431	123,938	3,171	3,189	1,161	146,890
Charge for the year	1,454	13,777	376	415	900	16,922
Disposals	-	(816)	(85)	(134)	-	(1,035)
As at 31.12.2016	16,885	136,899	3,462	3,470	2,061	162,777
As at 1.1.2017	16,885	136,899	3,462	3,470	2,061	162,777
Charge for the year	1,455	14,220	435	331	1,203	17,644
Written off	-	(2,985)	(1,218)	(293)	-	(4,496)
As at 31.12.2017	18,340	148,134	2,679	3,508	3,264	175,925

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Leasehold buildings	Plant and machinery	Office equipment	Motor vehicles	Renovation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated impairment losses						
As at 1.1.2016, 31.12.2016 and 1.1.2017	-	-	-	-	-	-
Impairment losses for the year	490	4,233	40	40	-	4,803
As at 31.12.2017	490	4,233	40	40	-	4,803
Net carrying amount						
As at 31.12.2017	13,750	87,179	507	537	1,533	103,506
As at 31.12.2016	15,695	106,026	933	942	2,736	126,332

Machinery with net carrying amount of RMB 25,851,000 (2016: RMB 17,683,000) that is included in plant and machinery is pledged in connection with bill payable facilities (Note 15).

Impairment of assets

As disclosed in Note 1 to the financial statements, sales and production were severely affected during and subsequent to the Siege Period. The Group experienced a significant decrease in revenue and incurred a net loss of RMB 156,070,000 (2016: net profit of RMB 2,293,000) as a result of the loss of revenue and additional expenses during the Siege Period and the impact thereafter. Consequently, management has performed an impairment assessment as there is indication that the non-current assets may be impaired.

An impairment loss of RMB 4,803,000 representing the write down of these property, plant and equipment to their recoverable amounts was recognised in "Other Operating Expenses" (Note 23) in the consolidated profit or loss for the financial year ended 31 December 2017. The recoverable amount of the property, plant and equipment was estimated based on its value in use at a pre-tax discount rate of 7.69%, sales growth within the forecast period of 6.5% and long-term growth rate of 3.3% per annum.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. SUBSIDIARIES

	Company	
	2017 RMB'000	2016 RMB'000
Unquoted equity shares, at cost	156,236	156,236

The details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country of incorporation and place of business	Proportion (%) of ownership interest	
			2017 %	2016 %
Held by the Company				
Best Success (Hong Kong) Limited ⁽¹⁾ ("Best Success")	Investment holding	Hong Kong	100	100
Held by Best Success				
Changzhou 3D Technological Complete Set Equipment Co., Limited ⁽²⁾ ("Changzhou 3D")	Manufacturing of vane products and relating subcontracting services	PRC	100	100

(1) Audited by S. W. Chan & Co, Hong Kong and reviewed by Crowe Horwath First Trust LLP for consolidation purpose.

(2) Audited by Changzhou Xinhuarui CPAs (常州新华瑞联合会会计师事务所), a firm of Certified Public Accountants registered in the PRC for statutory purpose and by Crowe Horwath First Trust LLP for consolidation purpose.

11. LAND USE RIGHT

	Group	
	2017 RMB'000	2016 RMB'000
Cost		
At beginning and end of the year	12,547	12,547
Accumulated amortisation		
At beginning of the year	2,509	2,258
Charge for the year	251	251
At end of the year	2,760	2,509
Accumulated impairment loss		
At beginning of the year	-	-
Impairment loss for the year	369	-
At end of the year	369	-
Net carrying amount		
At beginning of the year	10,038	10,289
At end of the year	9,418	10,038

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. LAND USE RIGHT (Continued)

	Group	
	2017 RMB'000	2016 RMB'000
Presentation on statement of financial position, based on amount to be amortised:		
- Not later than one year, current portion	251	251
- Later than one year but not later than five years	1,004	1,004
- Later than five years	8,163	8,783
Non-current portion	9,167	9,787

The Group has land use right over a plot of state-owned land in the PRC where the Group's manufacturing and storage facilities reside. The land use right is not transferable and has a remaining tenure of 39 years (2016: 40 years).

12. INVENTORIES

	Group	
	2017 RMB'000	2016 RMB'000
Statements of Financial Position:		
Raw materials	1,029	2,052
Work-in-progress	600	13,697
Finished goods	-	17,833
	1,629	33,582
	RMB'000	RMB'000
Consolidated Statement of Profit or Loss and Other Comprehensive Income:		
Inventories recognised as expense in cost of sales	9,671	35,074
Inclusive of following charge:		
- Inventory written down included in cost of sales	-	2,700
- Allowance for inventory obsolescence included in other operating expenses	30,984	-
- Inventory written off included in other operating expenses	1,974	-

The movement in allowance for inventory obsolescence is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
At beginning of the year	3,341	9,842
Allowance written off	-	(9,201)
Additional allowance provided	30,984	2,700
At end of the year	34,325	3,341

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. TRADE RECEIVABLES

	Note	Group	
		2017 RMB'000	2016 RMB'000
Trade receivables	A	120,864	135,402
Allowance for impairment of trade receivables	33 (iii)	(78,849)	(9,245)
		42,015	126,157
Bills receivable		10,746	37,888
		52,761	164,045

Note A

Included in the Group's trade receivables are unbilled trade receivables amounting to approximately RMB 9,399,000 (2016: RMB 11,244,000) arising entirely from revenue recognised on sales of goods but not invoiced to customers as at 31 December 2017 (in 2016, unbilled trade receivables are arising from sales of goods and subcontracting services amounting to RMB 3,731,000 and RMB 7,513,000 respectively). Unbilled receivable will normally be billed within 3 months from the time of revenue recognition. The directors are of the view that all unbilled receivable as at the reporting date are billable and collectible eventually.

14. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Advances to suppliers	667	473	-	-
Prepayments	69	601	-	96
Deposits	500	-	-	-
Advances to labour union	360	210	-	-
VAT receivables	1,451	3,261	-	-
Others	391	168	-	-
	3,438	4,713	-	96

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. TRADE PAYABLES

	Note	Group	
		2017 RMB'000	2016 RMB'000
Trade payables		20,868	15,822
Bills payable	A	6,379	36,587
		<u>27,247</u>	<u>52,409</u>

Note A

Machinery with net carrying amount of RMB 25,851,000 (Note 9) that included in the plant and machinery and cash deposits of RMB 4,049,000 (Note 29) are pledged in connection with bills payable facilities granted by banks for the year ended 31 December 2017.

16. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Accrued operating expenses	3,016	3,912	1,190	543
Advance from customer	433	259	-	-
Security fee payable	587	-	-	-
Legal fee payable	250	-	-	-
Electricity bill payable	140	-	-	-
Labour union expenditure payable	137	91	-	-
Other taxes payable	689	248	-	-
Others	479	255	-	-
	<u>5,731</u>	<u>4,765</u>	<u>1,190</u>	<u>543</u>

17. DEFERRED CAPITAL GRANTS

	Group	
	2017 RMB'000	2016 RMB'000
Balance at the beginning of financial year	2,226	-
Transfer to profit or loss	(223)	-
Balance at the end of financial year	<u>2,003</u>	<u>-</u>

This relates to import subsidies received from government for purchase of plant and machinery.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. BANK TERM LOAN

	Group	
	2017 RMB'000	2016 RMB'000
Secured borrowings	-	7,000

The bank term loan was fully repaid in April 2017.

Reconciliation of liabilities arising from financing activities

	As at 1 January 2017 RMB'000	Financing cash flows RMB'000	As at 31 December 2017 RMB'000
Bank term loan - current	7,000	(7,000)	-

19. DUE TO SUBSIDIARIES (NON-TRADE)

These non-trade balances are unsecured, interest-free and repayable on demand.

20. DEFERRED TAX LIABILITY

	Note	Group	
		2017 RMB'000	2016 RMB'000
At beginning of the year		2,765	2,413
(Reversed) / Recognised in the profit or loss	26	(1,355)	352
At end of the year		1,410	2,765
Presented after appropriate offsetting as follows:			
Deferred tax assets		-	(2,467)
Deferred tax liabilities		1,410	5,232
Deferred tax liabilities, net		1,410	2,765

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. DEFERRED TAX LIABILITY (Continued)

The components and movement of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group	Unbilled revenue	Provision for withholding tax	Total
	RMB'000	RMB'000	RMB'000
2017			
At beginning of year	1,686	3,546	5,232
Reversed in the profit or loss	(276)	(3,546)	(3,822)
At end of year	1,410	- *	1,410
2016			
At beginning of year	111	3,001	3,112
Recognised in the profit or loss	1,575	545	2,120
At end of year	1,686	3,546	5,232

* Due to the impact of Siege Period disclosed in Note 1 to the financial statements and substantial loss suffered by the PRC subsidiary in 2017, the PRC subsidiary records accumulated loss of RMB 24,480,000 (2016: retained earnings of RMB 135,915,000). The management is in the opinion that there is no probable profits in the foreseeable future for distribution. Consequently, the Group has fully reversed deferred tax liability on undistributed profits in 2017.

Deferred tax assets of the Group

	Accrued bonus	Accrued outsourcing charges and purchases	Allowance for impairment of trade receivables	Allowance for inventories obsolescence	Others	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
2017						
At beginning of year	(248)	(910)	(879)	(405)	(25)	(2,467)
Reversed in the profit or loss	248	910	879	405	25	2,467
At end of year	-	-	-	-	-	-
2016						
At beginning of year	(246)	(164)	(202)	-	(87)	(699)
Recognised in the profit or loss	(2)	(746)	(677)	(405)	62	(1,768)
At end of year	(248)	(910)	(879)	(405)	(25)	(2,467)

Others pertain to cost of sales related to unbilled revenue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21. REVENUE

	Group	
	2017 RMB'000	2016 RMB'000
Sale of goods	28,844	76,705
Subcontracting services	6,385	60,272
	<u>35,229</u>	<u>136,977</u>

22. OTHER OPERATING INCOME

	Note	Group	
		2017 RMB'000	2016 RMB'000
Impairment loss on trade receivables written back	33 (iii)	-	94
Gain on sale of scrap materials		240	214
Government grants		369	323
Transfer from deferred capital grants	17	223	-
Interest income		67	107
Foreign exchange gain, net		-	2,041
Others		105	4
		<u>1,004</u>	<u>2,783</u>

23. OTHER OPERATING EXPENSES

	Note	Group	
		2017 RMB'000	2016 RMB'000
Impairment loss on trade receivables	33 (iii)	69,604	4,608
Loss on disposal of property, plant and equipment		-	26
Impairment loss on property, plant and equipment		4,803	-
Impairment loss on land use right		369	-
Allowance for inventory obsolescence		30,984	-
Foreign exchange loss, net		899	-
Inventory written off		1,974	-
Other expenses		1,188	-
Others		78	30
		<u>109,899</u>	<u>4,664</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. PERSONNEL EXPENSES

	Group	
	2017 RMB'000	2016 RMB'000
Wages, salaries and bonuses *	24,589	25,611
Other personnel expenses	1,358	1,526
Short-term employees' benefits	25,947	27,137
Contributions to defined contribution plans	3,546	3,781
Termination benefits	5,301	-
	34,794	30,918

* This includes directors' remuneration as disclosed in Note 25 and 30.

25. (LOSS) / PROFIT BEFORE INCOME TAX

This is determined after charging / (crediting) the following:

	Note	Group	
		2017 RMB'000	2016 RMB'000
Impairment loss on trade receivables written back	33 (iii)	-	(94)
Inventory written down included in cost of sales		-	2,700
Allowance for inventory obsolescence		30,984	-
Inventory written off		1,974	-
Amortisation of land use right		251	251
Impairment loss on land use right		369	-
Audit fees			
- auditors of the Company		1,183	1,061
- other auditors		188	60
Depreciation of property, plant and equipment		17,644	16,922
Impairment loss on property, plant and equipment		4,803	-
Property, plant and equipment written off		497	-
Directors' fees			
- directors of holding company		1,802	1,458
- directors of subsidiaries		360	160
Directors' remuneration			
- directors of the Company		220	440
- directors of subsidiaries		383	409
Foreign exchange loss / (gain), net		899	(2,041)
Impairment loss on trade receivables		69,604	4,608
Personnel expenses	24*	34,794	30,918

* Includes directors' remuneration as disclosed in this note.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. INCOME TAX EXPENSE

Major components of income tax expense for the year ended 31 December were:

	Note	Group	
		2017 RMB'000	2016 RMB'000
Current tax			
- Current year		-	1,137
- Under provision in prior year		324	116
- Withholding tax on dividend income		1,089	1,089
		1,413	2,342
Deferred tax	20		
- Origination and reversal of temporary differences		907	352
- Over provision in prior year		(2,262)	-
		(1,355)	352
		58	2,694

The reconciliation of the tax expense and the product of accounting profit multiplied by the applicable rate is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
(Loss) / Profit before income tax	(156,012)	4,987
Tax at the PRC statutory tax rate of 25% (2016: 25%)	(39,003)	1,247
Tax effects of:		
- expenses not deductible for tax purpose	26,105	331
- expenses incurred in tax-free jurisdictions	2,213	1,216
- undistributed profit of PRC subsidiary	-	(187)
- deferred tax asset not recognised	11,592	-
- tax incentive	-	(1,118)
	907	1,489
Over provision of deferred tax in prior year	(2,262)	-
Under provision of current year income tax in prior years	324	116
Withholding tax on dividend income	1,089	1,089
Income tax expense	58	2,694

At the reporting date, the Group has unutilised tax losses and capital allowances of approximately RMB 29,446,000 and RMB 16,922,000 respectively (2016: both Nil) that are available for offsetting against future taxable profits of the Group, for which no deferred tax asset is recognised due to uncertainty of its recovery. The use of these tax losses and capital allowance is subject to the agreement of the tax authority and compliance with local tax regulations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. INCOME TAX EXPENSE (Continued)

The Company:

The Company is operating in a tax-free jurisdiction. The dividend received which is eliminated has no tax consequences; and the corporate expenses incurred are included in the "expenses incurred in tax-free jurisdiction" line item in the tax reconciliation above.

Subsidiaries:

- (i) Best Success, which is subject to Hong Kong tax rate of 16.5% (2016: 16.5%), does not have taxable profit since its incorporation on 23 April 2005.
- (ii) In accordance with the Income Tax Law of the PRC for High Technology Enterprises and various approval documents issued by the PRC Tax Bureau, Changzhou 3D being awarded the "High Technology Enterprise" status, enjoys a concessionary tax rate of 15%, as compared to the statutory tax rate for PRC companies of 25%. The concessionary income tax status is valid for 3 years and is subjected to renewal when it expires in August 2018. This benefit was disclosed under the tax incentive in the tax reconciliation during the year.

27. (LOSS) / EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2017	2016
Net (loss) / profit attributable to equity holders of the Company (RMB'000)	(156,070)	2,293
Weighted average number of ordinary shares outstanding for basic and diluted (loss) / earnings per share	27,468,473	27,468,473
Basic and diluted (loss) / earnings per share (RMB cents per share)	(568.18)	8.35

Diluted (loss) / earnings per share is the same as the basic (loss) / earnings per share as no share options, warrants or other compound financial instruments with dilutive effect were granted during the financial year or outstanding at the end of the financial year.

28. DIVIDENDS

	Group and Company	
	2017 RMB'000	2016 RMB'000
Final exempt (one-tier) paid in respect of previous financial year of RMB 0.125 per ordinary share (2016: RMB 0.25 per ordinary share)	3,434	6,867

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. CASH AND CASH EQUIVALENTS

	Note	Group	
		2017 RMB'000	2016 RMB'000
Cash in hand		71	55
Bank balances		28,541	50,347
<hr/>			
Cash and bank balances as stated in the statement of financial position		28,612	50,402
Less: Pledged deposits	A	(4,049)	(4,741)
<hr/>			
Cash and cash equivalents as stated in the consolidated statement of cash flows		24,563	45,661
<hr/>			

As at 31 December 2017, the Group has bank balances placed with banks in the PRC denominated in Chinese Renminbi ("RMB") amounting to RMB 15,595,000 (2016: RMB 31,047,000). The RMB is not freely convertible to foreign currencies. Under the People's Republic of China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorized to conduct foreign exchange business.

Note A

Bank balances of RMB 4,049,000 (2016: RMB 4,741,000) are pledged in connection with bills payable facilities (Note 15).

The movement in pledged deposits:

	Group	
	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	4,741	8,782
Placement of pledged deposits	7,093	9,894
Withdrawal of pledged deposits	(7,785)	(13,935)
<hr/>		
Balance at end of the year	4,049	4,741
<hr/>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. RELATED PARTY INFORMATION

Some of the arrangements with related parties (as defined in Note 3) and the effects of these bases determined between the parties are reflected elsewhere in this report. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

	Note	Group	
		2017 RMB'000	2016 RMB'000
<u>Key management personnel compensation</u>			
Directors of the Group:			
- Salaries and bonus		1,101	489
- Contributions to defined contribution plans		13	18
- Over provision of director's incentives in prior years		(49)	(625)
- Directors' fee	25	1,802	1,618
		<hr/>	<hr/>
		2,867	1,500
Other key management personnel			
- Salaries and bonus		1,048	1,015
- Contributions to defined contribution plans		8	11
		<hr/>	<hr/>
		3,923	2,526
<hr/>			
Total compensation comprise:			
Short-term employee benefits		3,902	2,497
Contributions to defined contributions plans		21	29
		<hr/>	<hr/>
		3,923	2,526
		<hr/>	<hr/>

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors, Financial Controller, General Manager and Deputy General Manager are considered key management personnel.

31. CONTINGENT LIABILITIES

As disclosed in Note 1 to the financial statements, the majority of shareholders of the Company voted against the re-election of the former Executive Director of the Group during the annual general meeting held on 15 April 2017. The new management team appointed by the Board of Directors was unable to take over physical possession and operations of the factory during the period from 15 April to 20 September 2017 ("the Siege Period").

The Group has not fulfilled certain sales orders as a result of the suspension of operations during the Siege Period. The Group is in the process of negotiating with affected customers and the liability arising from unfulfilled sales orders, if any, cannot be presently determined. As of the date of this report, we were informed that these affected customers have not made any claims against the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. SEGMENT INFORMATION

The Group operates in only one operating segment, i.e. the manufacture and sale of vane products and related subcontracting services. Subcontracting services are not separately reported to the CEO and the management, as it is considered as the same business with manufacturing activities due to shared technology and production processes. The products for which the Group provided subcontracting services are similar to the products that the Group manufactures. The subcontracting services arose due to four customer's arrangement to source for its own raw material.

The operating segment has been identified on the basis of internal management reports that are regularly reviewed by management of the Group. Management of the Group reviews the overall results of the Group as a whole to make decisions about resource allocation. Accordingly, no further analysis of this single reporting segment has been prepared.

Revenue of approximately RMB 3,246,000 (2016: RMB 26,046,000) and Nil (2016: RMB 3,804,000) are derived from overseas customers in Japan and Korea respectively. The major customers in the PRC contributing 10% or more to the Group's revenue is disclosed in Note 33 (iii). The Group's entire non-current assets are located in PRC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including foreign exchange risk and interest rate risk), liquidity risk and credit risk. The Group does not have a formal risk management policies and guidelines. However, the Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below. It is the Group's policy not to trade in derivative contracts.

(i) Market risk

(a) Foreign exchange risk

Currently, the PRC government imposes control over foreign currencies, RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. The Group has not entered into any derivative instruments for hedging or trading purposes. The Group's currency exposure is as follows:

Group 2017	Singapore dollars RMB'000	Chinese Renminbi RMB'000	United States dollars RMB'000	Hong Kong dollars RMB'000	Total RMB'000
<u>Financial assets</u>					
Cash and bank balances	2,858	15,665	9,793	296	28,612
Trade receivables	-	52,722	39	-	52,761
Other receivables	-	1,251	-	-	1,251
	<u>2,858</u>	<u>69,638</u>	<u>9,832</u>	<u>296</u>	<u>82,624</u>
<u>Financial liabilities</u>					
Trade payables	-	(27,247)	-	-	(27,247)
Other payables and accruals	-	(4,609)	-	-	(4,609)
	<u>-</u>	<u>(31,856)</u>	<u>-</u>	<u>-</u>	<u>(31,856)</u>
Net financial assets	2,858	37,782	9,832	296	50,768
Less: Net financial assets denominated in the respective entities' functional currencies	-	(37,782)	-	(296)	(38,078)
Foreign currency exposure	<u>2,858</u>	<u>-</u>	<u>9,832</u>	<u>-</u>	<u>12,690</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group 2016	Singapore dollars RMB'000	Chinese Renminbi RMB'000	United States dollars RMB'000	Hong Kong dollars RMB'000	Total RMB'000
<u>Financial assets</u>					
Cash and bank balances	2,294	31,102	16,659	347	50,402
Trade receivables	-	157,673	6,372	-	164,045
Other receivables	-	378	-	-	378
	<u>2,294</u>	<u>189,153</u>	<u>23,031</u>	<u>347</u>	<u>214,825</u>
<u>Financial liabilities</u>					
Trade payables	-	(52,409)	-	-	(52,409)
Other payables and accruals	(543)	(3,963)	-	-	(4,506)
Bank term loan	-	(7,000)	-	-	(7,000)
	<u>(543)</u>	<u>(63,372)</u>	<u>-</u>	<u>-</u>	<u>(63,915)</u>
Net financial assets	1,751	125,781	23,031	347	150,910
Less: Net financial assets denominated in the respective entities' functional currencies	-	(125,781)	-	(347)	(126,128)
Foreign currency exposure	<u>1,751</u>	<u>-</u>	<u>23,031</u>	<u>-</u>	<u>24,782</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company 2017	Singapore dollars RMB'000	Chinese Renminbi RMB'000	Total RMB'000
<u>Financial assets</u>			
Cash and bank balances	2,858	-	2,858
<u>Financial liabilities</u>			
Other payables and accruals	-	1,190	1,190
Due to subsidiaries (non-trade)	-	24,478	24,478
	-	25,668	25,668
Net financial assets / (liabilities)	2,858	(25,668)	(22,810)
Less: Net financial liabilities denominated in the Company's functional currency	-	25,668	25,668
Foreign currency exposure	2,858	-	2,858
Company 2016			
	Singapore dollars RMB'000	Chinese Renminbi RMB'000	Total RMB'000
<u>Financial assets</u>			
Cash and bank balances	2,294	-	2,294
<u>Financial liabilities</u>			
Other payables and accruals	-	543	543
Due to subsidiaries (non-trade)	-	24,204	24,204
	-	24,747	24,747
Net financial assets / (liabilities)	2,294	(24,747)	(22,453)
Less: Net financial liabilities denominated in the Company's functional currency	-	24,747	24,747
Foreign currency exposure	2,294	-	2,294

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 5% (2016: 5%) increase and decrease in the Chinese Renminbi against the relevant foreign currencies. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period.

If the Chinese Renminbi strengthens by 5% (2016: 5%) against the relevant foreign currencies with all the other variables held constant, (loss) / profit for the year will increase / (decrease) by:

	Singapore dollars	United States dollars	Total
	RMB'000	RMB'000	RMB'000
Group			
2017			
Loss for the year	121	418	539
2016			
Profit for the year	(74)	(979)	(1,053)
Company			
2017			
Loss for the year	143	-	143
2016			
Profit for the year	(115)	-	(115)

A weakening Chinese Renminbi against the above foreign currencies at 31 December would have had the equal but opposite effect on the above foreign currencies to the amounts shown above, on the basis that all other variables remain constant.

The Group is also exposed to currency translation risk arising from its net investment in its foreign operation in Hong Kong including intragroup balances. The Group's net investment in Hong Kong is not hedged as currency position in Hong Kong Dollar is considered to be long-term in nature.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) *Interest rate risk*

The Group's exposure to interest rate risk arises primarily from its fixed deposits included in cash and cash equivalents. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

The impact of changes in interest rate on the Group's financial assets and liabilities is minimal. As such, effect of a sensitivity analysis on the Group's loss for the year would be negligible.

(ii) Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. The Group actively manages its operating cash flows so as to finance the Group's operations. As part of its overall prudent liquidity management, the Group minimises liquidity risk by ensuring availability of funding through an adequate amount of committed credit facilities from a PRC bank and maintains sufficient level of cash to meet its working capital requirements.

All the financial liabilities of the Group as at 31 December 2017 and 2016 are repayable on demand or due within 1 year from the reporting date. The carrying amount recorded represents the contractual cash flows of these financial liabilities.

(iii) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's major class of financial assets are cash and cash equivalents, and trade and other receivables. Bank balances and fixed deposits are placed with regulated national or provincial financial institutions in the PRC and a Singapore-based multinational bank. Bills receivables (Note 13) are mainly redeemable from state-owned or listed commercial banks in the PRC. Therefore, credit risk arises mainly from the inability of its customers to make payments when due.

For trade receivables, the Group adopts the policy of dealing only with long time customers of appropriate credit history to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Board of Directors. The average credit period on sales of goods and subcontracting services is 90 days (2016: 90 days). No interest is imposed on overdue trade receivables.

As the Group and Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position. The amounts presented in the statement of financial position are net of allowances for impairment of trade receivables, estimated by management based on prior experience and the current economic environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The age analysis of trade receivables is as follows:

	Note	Group	
		2017 RMB'000	2016 RMB'000
<u>Not impaired</u>			
Neither past due nor impaired		7,519	34,134
Past due but not impaired			
- Past due less than 3 months		896	23,231
- Past due over 3 months		33,600	5,496
		34,496	28,727
<u>Impaired</u>			
Impaired trade receivables		78,849	72,541
Less: Allowance for impairment loss		(78,849)	(9,245)
		-	63,296
Net trade receivables	13	42,015	126,157

Neither past due nor impaired

The amounts that are neither past due nor impaired mainly represents the balances only from the Group's major customers in PRC and Japan, with active or established trading records with the Group and steady collection pattern.

Past due but not impaired

Trade receivables that are past due but not impaired are substantially companies who are customers with long trading history with the Group and have steady collection record. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been significant change in credit quality and the amount are still considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Impaired trade receivables

As disclosed in Note 1 to the financial statements, the Group has been severely affected by the Siege Period in 2017 which inevitably increases the credit risk and difficulty of collectability of the Group's trade receivables. The management assessed the impact of Siege Period on the impairment of trade receivables, based on evaluating the business relationship with each customer and other objective evidences available to the management at point of assessment. The Group has recognised impairment losses on trade receivables which are individually determined as follows:

(a) Impairment loss on a major customer but with significant delay in payment:

Total impairment allowance recognised on such debtor as at 31 December 2017 is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
<i>Representing balances which are:</i>		
Not past due	968	-
Past due less than 1 year	1,032	-
Past due over 1 year	3,682	-
	5,682	-

(b) Impairment loss on receivables with default in payments and has minimal transactions and/or no collection during the year and up to the date of this report:

Total impairment allowance recognised on such overdue balances as at 31 December 2017 amounted to RMB 73,167,000 (2016: RMB 9,245,000) which is inclusive of an amount of RMB 50,166,000 (2016: RMB 4,550,000) during the financial year on one former major customer recognised in profit and loss.

The Group does not hold any collateral over the amounts outstanding as at reporting date, and the management is of the view that from the past historical experience, such balances are not recoverable.

The ageing analysis of the trade receivables individually determined to be impaired and the movement in the related allowance for impairment loss are as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Allowance for impairment loss are made on debts which are:		
Not past due	13,399	1,485
Past due less than 1 year	33,219	3,231
Past due over 1 year	32,231	4,529
	78,849	9,245

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The movement in allowance for impairment loss is as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	9,245	4,731
Allowance made during the year	69,604	4,608
Allowance written back during the year	-	(94)
Balance at end of the year	78,849	9,245

Credit risk concentration and factors in determining impairment losses

The Group has 2 customers (2016: 2 customers) located in the PRC and principally engaged in development and manufacture of power equipment. Approximately RMB 12,735,000 and RMB 13,128,000 (2016: RMB 50,274,000 and RMB 41,572,000), representing 36% and 37% respectively (2016: 37% and 30% respectively) of the Group's revenue are generated from these 2 customers (2016: 2 customers) during the financial year.

The carrying amount of these 2 customers comprised 98% (2016: 85%) of the net trade receivables balance (excluding bills receivables) as at 31 December 2017, as follows:

- (a) A major customer has a net carrying amount of RMB 35,976,000 (stated after an impairment allowance of RMB 5,682,000 made during the financial year), out of which RMB 3,408,000 has been collected via bills receivables subsequent to the reporting period. The management is confident of continuing business relationships with this major customer which has resumed orders from the Group subsequent to the Siege Period. The management expects to collect the balance with similar significant delay as historical trend from this state-owned company. Therefore, management has taken into account the individual receivable turnover days when estimating expected cash flows from collection from this customer which extend beyond 1 year.
- (b) Carrying amount of balance owing from the other major customer (stated after a cumulative impairment allowance of RMB 54,716,000) is RMB 5,000,000 which has been fully collected via bills receivables subsequent to the reporting period. Impairment loss recognised in profit or loss for the financial year on this customer was RMB 50,166,000 (2016: RMB 4,550,000). In view of the impact from the disruption during the Siege Period including unfulfilled sales orders, the significant uncertainty over collection and any future orders, full allowance has been made on the remaining amount owing from this major customer.

The remaining net trade receivables balance (excluding bill receivables) mainly comprises balance owing from another local customer which has been fully collected via bills receivables subsequent to the reporting period.

In addition to the above 2 major customers, revenue of approximately RMB 4,327,000 is derived from another state-owned company in the PRC which exceeds 10% of the Group revenue for the current financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Bills receivables (Note 13)

Bills receivables of the Group received as a settlement for trade debts are issued by state-owned or listed commercial banks in the PRC. The remaining maturity period is ranging from 16 days to 10 months from the reporting date. As of the date of this report, those bills receivables with maturity period within 2 months from the reporting date amounting to RMB 1,050,000 (2016: 3 months from the reporting date amounting to RMB 10,839,398) had been fully recovered.

(iv) Financial instruments by category

The carrying amounts of the different categories of financial instruments are as follows:

	Group		Company	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial assets				
Loans and receivables (including cash and bank balances)	82,624	214,825	2,858	2,294
Financial liabilities				
Financial liabilities at amortised cost	31,856	63,915	25,668	24,747

Capital risk management policies and objectives

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, net of cash and cash equivalents, and the equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in Notes 4 to 8.

The Board of Directors reviews the capital structure on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on guidance of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt. The Group's overall strategy remains unchanged from 2016.

As disclosed in Note 6, the PRC incorporated subsidiary of the Group is required by the Foreign Enterprise Law of PRC to contribute to and to maintain a non-distributable statutory reserve fund, the utilisation of which is subject to approval of the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for the financial years ended 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. FAIR VALUES OF FINANCIAL INSTRUMENTS

(i) Fair value of financial instruments that are carried at fair value

As at reporting date, there are no financial instruments in this category.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of cash and bank balances, trade and other receivables, and trade and other payables (including amounts due to subsidiaries) are reasonable approximation of fair values due to the relatively short-term maturity of these financial instruments.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

As at reporting date, there are no financial instruments in this category.