研祥智能科技股份有限公司

EVOC Intelligent Technology Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code : 2308

Annual Report 2017

*for identification purpose only

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BOARD OF DIRECTORS

Executive Directors

Chen Zhi Lie *(Chairman)*
Tso Cheng Shun
Geng Wen Qiang

Independent non-executive directors

Yu Tat Chi, Michael
Wen Bing
Dong Li Xin
Zhang Da Ming

SUPERVISORS

Pu Jing *(Chairperson)*
Zhan Guo Nian
Zhang Zheng An
Ng Mun Hong
Kwok Ka Man

COMPLIANCE OFFICER

Geng Wen Qiang

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Tsui Chun Kuen *CPA, FAIA*

AUTHORIZED REPRESENTATIVES

Chen Zhi Lie
Tsui Chun Kuen *CPA, FAIA*

MEMBERS OF THE AUDIT COMMITTEE

Yu Tat Chi, Michael *(Chairperson)*
Dong Li Xin
Zhang Da Ming

MEMBERS OF THE REMUNERATION AND REVIEW COMMITTEE

Dong Li Xin *(Chairperson)*
Zhang Da Ming
Geng Wen Qiang

MEMBERS OF THE NOMINATION COMMITTEE

Chen Zhi Lie *(Chairperson)*
Dong Li Xin
Wen Bing

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

EVOC Technology Building
No.31, Gaoxinzhongsi Avenue,
Nanshan District, Shenzhen
PRC

LIAISON OFFICE IN HONG KONG

Unit No. 1619
16th Floor, Star House
3 Salisbury Road
Tsimshatsui
Kowloon
Hong Kong

H SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

BDO Limited
25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China
Shenzhen Branch
F4–8, 1st Floor
Tianji Building
Tian An Industrial Area
Shenzhen
PRC

LEGAL ADVISER TO THE COMPANY

Commerce & Finance Law Offices
1405, Tower B, Shen Fang Plaza
3005 Ren Min Nan Road
Shenzhen 518001
PRC

COMPANY HOMEPAGE/WEBSITE

http://www.evoc.com

STOCK CODE

2308

• *New Energy Solution*

• *Rail Transit Solution*

• *Wind Power Automation Control Solution*

CORPORATE BACKGROUND

EVOC Intelligent Technology Company Limited was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the PRC's Company Law. The Company's H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 10 October 2003. The Company transferred from the GEM to the Main Board of the Stock Exchange on 12 July 2010. The Company and its subsidiaries ("Group") are principally engaged in the research, development, manufacture and distribution of special computer products, trading of electronic products and accessories, and development of properties in the PRC. As at 31 December 2017, the registered capital of the company amounted to approximately RMB123.3 million with the Group's total assets to approximately RMB5.6 billion.

The Group is one of the leading domestic manufacturers of special computer products in the PRC, offers over 400 special computer products. Special computer is a computer system allowing users to adapt hardware and software applications to perform a dedicated function or a range of dedicated functions such as data processing, generating, interpreting and executing control signals, etc. and is embedded into a product, device or a larger system. special computer products manufactured and distributed by the Group are widely applied in, among others, telecommunication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance industries.

The Group has established an extensive distribution network through its subsidiaries, branches, offices, representative offices and sales agents spread out across various provinces and autonomous regions in the PRC. The Group has over 5,000 customers which include authorized distribution agents, system integrators, construction and building surveillance agents, software developers and IT manufacturers in the PRC.

CHEN ZHI LIE
Chairman

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS,

On behalf of the Board of directors, I am pleased to present the annual report of EVOC Intelligent Technology Company Limited and its subsidiaries ("our Company" or the "Company") for the year ended 31 December 2017 (the "Year") to our shareholders.

The Company engages in research, development, manufacture and sale of special computer products since 1993 with a 24-year history of continuous operation. The Company's shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 10 October 2003. The Company transferred to the Main Board of the Stock Exchange of Hong Kong on 12 July 2010 with the stock code 02308.HK.

• New Energy Solution

• Automated Production Line Solution

• Network Security Solution

BUSINESS REVIEW

During the period under review, the Company continued to engage in the research, development, manufacture and sale of special computer products in the People's Republic of China ("PRC"). We dedicated our efforts to enhance and transform the traditional industries in the PRC. Meanwhile, the Company was also engaged in trading of electronic products and accessories and development of properties in the PRC.

The Chinese economy was under steady development during the period under review. Compared to last year, the demand for special computer products had slightly shrunk, whereas the price surges in upstream Graphic Processing Unit ("GPU") and Random Access Memory ("RAM") were significant, consequently leading to a rapid increase in the costs of raw materials for computer products; due to the rise in the property prices in the Mainland China, the growth in the overall prices of goods in society as well as the costs of human resources was expedited. Thus, the entire industry was subject to an enormous challenge in terms of profitability. With the call on "Mass Innovation" by the Chinese government, the number of small and micro size new type companies as well as backyard companies rose within the industry, and hence the competition in the industry and price competition was intensified. This posed challenges to the Company's traditional product's market.

The Company had launched "One Belt and One Road, Cooperation for a Win-Win" to seek for the joint development between the Company and distributors so as to meet the market changes and face the challenges. The Company internally adjusted the product layout to strive for enhancement of efficiency. In face of the new market trends, the Company persists to uphold the "quality first" principle and refuses to compromise with low prices. The Company stringently complies with the quality control measures during the whole procedure comprehensively, without shortening the delivery time at the expense of quality for the market. Meanwhile, the Company has also fostered the intelligent manufacturing and increased its investment, along with the introduction of the advanced automatic production and testing equipment. This reduces the reliance on the operational staff, thereby addressing the rapid growth in the costs of human resources. At the same time, the Company still adheres to the diversified sales models including direct sales, agents, online sales and telephone sales to seek for market and customers which better fit and are more willing to pay for quality.

Development of Science and Technology Industrial Park and Other Properties

In 2017, the gross sales revenue including presales from the real estate projects amounted to approximately RMB89.7 million for the year. Section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi") has completed and covers a gross floor area of approximately 200,000 sq.m., while the multi-floor properties of section A2 of Wuxi with a floor area of approximately 140,000 sq.m. is expected to be completed in 2018. The phase 1 of Dianshan Lake in Kunshan had completed in 2015 with a total gross floor area of approximately 44,000 sq.m., while the mansions and offices in phase 2 of Dianshan Lake with a gross floor area of approximately of 126,000 sq.m. is expected to be completed in 2018. The first phase of the Nantong EVOC High Profile Office Park is consisted of 39 high-rise office buildings, with a total gross floor area of approximately 72,800 sq.m. is expected to be completed in 2018. Huaqiao International Finance Center in Kunshan has been designed as a 55-floor high-rise building which is 250-meter high and is expected to be completed in 2022.

Revenue from Leased Properties

As at the end of 2017, the total leased area of the Group reached 247,000 sq.m., and achieved total revenue from property rent amounting to approximately RMB153.8 million for the whole year. The EVOC City Plaza in Hangzhou had completed in 2016, with the total gross floor area of approximately 66,000 sq.m.. EVOC High Profile Office Park in Guangming Hi-tech Park of Shenzhen was completed at the beginning of 2014, and the gross floor area is approximately 245,000 sq.m.. The project includes a 22-floor research and development office building, two buildings of research and development plants and one apartment block with a gross floor area of approximately 58,000 sq.m., approximately 92,000 sq.m. and approximately 55,000 sq.m., respectively. Besides, it owns an underground parking lot occupying approximately 40,000 sq.m.. Shenzhen EVOC Technology Building was completed in 2007, with a total gross floor area of approximately 62,000 sq.m.. The offices (unit nos. 10B1 and 10B2) at Shenzhen Tianxiang Building have a total gross floor area of approximately 1,152 sq.m.. An gross floor area of approximately 50,000 sq.m. at the offices of section A1 of Wuxi as well as an gross floor area of 54,000 sq.m. of shops have been rented.

RESULT OF THE YEAR

In 2017, the Group recorded a turnover of approximately RMB1,305.2 million, representing an increase of approximately 14.3% as compared with last year, of which sales of special computer was approximately RMB360.1 million, trading of electronic products and accessories was approximately RMB531.5 million, sales of mobile phones and accessories was approximately RMB372.6 million while sales of properties was approximately RMB41.0 million. Profit attributable to owners of the Company was approximately RMB35.5 million. Excluding fair value changes on investment properties and transfer of properties held for sale to investment properties of approximately RMB79.3 million, core profit attributable to owners was approximately RMB114.8 million. Core profit margin attributable to owners was approximately 8.8%.

Research & Development and Products

During the period under review, the Company had been committed to independent innovation and continued to develop the research and applications of special computers. Several domestic research institutes were brought together by the Company to commence the development and industrialisation of safe and controllable new products. We had strengthened the suitable matching among hardware and software, as well as performing product research and development for the homemade Central Processing Unit ("CPU") platforms.

The Company also carried out research and analysis on major issues such as intelligent manufacturing, industry 4.0, network informatisation towards the development of Internet of Things and the artificial intelligent world. Besides, specific groups for certain technological issues at the Research and Development center were established, with the aim of conducting research on the common issues and technologies in relation to product application and industrial application. The Company focused on several researches on specific technologies, such as Baseboard Management Controller ("BMC") display-used main board equipment technology, machine vision testing system and the solutions about the Internet of Things. New key products of the Company under research and development during 2017 include:

1. ***Industrial and automated low-power consumption high-performance embedded machine***

   The product has a compact and robust structure. It is excellently sealed and dustproof with a cooling and vibration-resistant capacity. This satisfies the requirements of usage under adverse conditions such as those heavily polluted, dusty and with serious electro-magnetic interference, etc.. The product can be applied to various types of embedded technology field of mechanical inspection equipment, industrial automated control, etc..

2. ***Homemade-Central Processing Unit anti-adverse environment rugged laptop sample device***

   The sample device aims at research on the basis of the feasibility of the homemade Central Processing Unit ("CPU") rugged laptops in order to meet performance indicators such as all anti-adverse environment characteristics in respect of robustness, water tightness, dust prevention, vibration resistance, shock resistance, wide temperature, easy-to-carry, electromagnetic compatibility, etc..

3. ***Multiple-displays, low-power consumption and industrial fanless machine designated for railway transportation***

   This product is designed for the application of the main control units of terminal equipment under the metro's Automatic Fare Collection ("AFC") systems. The machine has a compact structure and reasonable internal arrangements. The product can be applied to the main control units of terminal equipment regarding the Automatic Gate Machine ("AGM"), Ticket Vending Machine ("TVM") and semi-automated Booking Office Machine ("BOM") under the metro's AFC systems.

4. ***Marine communication computing platform testing sample device***

   This sample device is developed catering to a new blade-type industrial-class computing platform for marine application. This aims at meeting the requirements of the marine electronic information industry, realising the control and command of the information floating platform and unmanned vessels.

Marketing and Brands

During the period under review, the Company adopted the diversified sales models including direct sales, agents, online sales and telephone sales and made full use of the online and offline resources for the full integration of marketing. By closely linking our marketing channels with the industry, the Company had focused on the areas of localisation as well as independence and controllability. Collaboration with upstream and downstream partners had been commenced.

In terms of online marketing, the Company promoted the brand image through its brand new revised official website for both PC and mobile terminals, which display the latest information and the newest products of "EVOC". The Company had also activated its official WeChat account to raise the brand exposure. In terms of new media, the Company utilised the Internet resources and collaborated with Baidu for promotion, 360 Search, search engine optimisation etc.. To improve the influence of the brand of the Company, the strength of overseas marketing promotion had been enhanced.

In terms of offline marketing, the Company performed on-the-ground event marketing and exhibition promotion by ways of meetings of distributors, seminars, professional exhibitions, etc. for communication. The meetings of distributors focused on communicating the latest distributor policy of the Company and analysis of market trends in order to achieve a win-win situation. In terms of seminars, the Company has proposed industry-specific seminars such as network seminars. Professional exhibitions allow the Company to display the latest industry solutions and products, as well as achieving direct communication and exchanging ideas with the industry players and customers.

The Company adopted a flattened mode of channel, which has been widely recognised by the distributing partners. The Company instantly understood the latest market trends and captured the key projects with the distributors for achievement of the results.

Outlook and Prospect

Currently, the world's economy is accelerating the changes in the economic activities towards the network information technology industry as the main contents. The digital economy is deeply altering the human their ways in manufacturing and living, which have become the new economic growth drivers. Developing the digital economy has already been a global consensus, which is widely concerned by various countries in the world, industries and walks of life in society. Looking forward, the Chinese economy runs with proactive changes that are still on a rise in number. The positive and stable trend of development is foreseeable.

The Company will continue to focus on the areas of the special computers striving to foster the strength of the brand and the reputation for quality. We pay attention to the development status of homemade CPU, while pending the growth opportunities in the market demand. The Company will impose adjustments on the traditional products in accordance with the competition trends, without precluding the reduction in the research and production of the unprofitable products.

APPRECIATION

I, hereby, on behalf of the Board of Directors, would like to take this opportunity to express the sincere thanks to the management and all staffs of the Company for their dedication and hard-work, and extend the heartfelt thanks to customers for their long-term attachment, and to shareholders for their trust and support to the Company, and also thank for the support for the Company from all walks of life. Looking forward to the future, we will continue to bear a positive and prudent attitude and constantly keep an eye on the development of the market and to go all out to develop the business so as to drive the growth.

Chen Zhi Lie
Chairman

Shenzhen, the PRC, 29 March 2018

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2017, the Group's reported a total revenue of approximately RMB1,305.2 million (2016: approximately RMB1,141.7 million) representing an increase of approximately 14.3%, analysed by product category as follows:

	2017 RMB'000	2016 RMB'000	Change percentage
Turnover			
Sales of special computer products	**360,072**	378,290	−4.8%
Sales of electronic products and accessories			
— Computer components	**531,501**	515,425	+3.1%
— Mobile phones and accessories	**372,615**	—	N/A
Sales of properties	**41,012**	247,951	−83.5%
	1,305,200	1,141,666	+14.3%

Cost of Sales and Gross Profit Margin

Cost of sales for the period increased to approximately RMB1,127.9 million, represents an increase of approximately 20.2% as compared to previous year.

Gross profit margin for the period decreased by approximately 4.2 percentage points to approximately 13.6%.

The decrease of gross profit margin was mainly due to decrease in higher profit margin properties development business.

Other Income

Other income for the period increased by approximately 10.8% from approximately RMB 180.1 million in 2016 to approximately RMB199.6 million in 2017. The increase was mainly due to increase in rental income from investment properties for the year.

Selling & Distribution Costs

The selling and distribution costs decreased by 9.0% from approximately RMB48.2 million in 2016 to approximately RMB43.9 million in 2017. It was due to the decrease in promotional and advertising cost.

Administrative Expenses

The administrative expenses increased by 10.6% from approximately RMB54.2 million in 2016 to approximately RMB60.0 million in 2017. The increase is due to increase in staff welfare expenses and transportation provided for employees in Guangming plant and office.

Research & Development Costs

The research and development costs increased by 28.7% from approximately RMB66.4 million in 2016 to approximately RMB85.4 million in 2017. The increase is mainly due to increase in the material parts consumables.

Fair Value Change

During the period, the Group recorded a fair value loss of approximately RMB93.7 million on investment properties and fair value gain of approximately RMB14.5 million on transfer of properties held for sale to investment properties.

Finance Costs

Finance costs net of interest capitalised were approximately RMB40.1 million in 2017, compared with approximately RMB36.0 million in 2016, representing an increase 11.4%.

Income Tax Expenses

Income tax expenses decreased by 95.6% from approximately RMB95.0 million in 2016 to approximately RMB4.2 million in 2017. It was mainly due to decrease in sales of properties.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company decreased from approximately RMB269.1 million in 2016 to approximately RMB35.5 million in 2017, representing a decrease of approximately 86.8%. The net profit margin has been decrease from 23.6% to 2.7%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operation with internally resource and banking facilities granted by bankers in the PRC. As at 31 December 2017, the Group's gearing ratio had increased to approximately 63% (calculated on the basis of the Group's total liabilities over total assets) from approximately 57% as at 31 December 2016. At the year end date the Group's total bank borrowings amounted to approximately RMB2,096.1 million (2016: approximately RMB1,546.6 million). The Group's cash and bank balances as at 31 December 2017 has increased to approximately RMB681.1 million (2016: approximately RMB426.6 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has decreased to approximately 1.23 as at 31 December 2017 (2016: approximately 1.33).

FOREIGN EXCHANGE EXPOSURES

Since most of the transactions of the Group were denominated in Renminbi, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review.

CONTINGENT LIABILITIES

The Group has no contingent liabilities at 31 December 2017.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had contracted but not provided for amounting to approximately RMB207.6 million (2016: RMB456.0 million) in respect of the construction of buildings and properties under development in Kunshan and Hangzhou.

PLEDGE OF ASSETS

At 31 December 2017, the Group has pledged certain of its property, plant and equipment, investment properties and construction in progress with a total carrying amount of approximately RMB2,949.0 million (2016: approximately RMB2,971.9 million) as security for bank borrowings and general banking facilities granted to the Group. Except for the above, there are no other charges on the Group's assets.

EMPLOYEE INFORMATION

As at 31 December 2017, the Group had total workforce of 838 (2016: 906). Employee benefit during the year were approximately RMB93.0 million.

The Group recognises the importance of high caliber and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration policies are mainly in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. The Group remunerates its employees based on performance, experience and prevailing industry practices. The Group also provides Mandatory Provident Fund benefits for its employees in Hong Kong and the Statutory Retirement Scheme for its employees in the PRC.

RISKS AND UNCERTAINTIES

The Company has identified principal risks and uncertainties that the Group faces with respect to economic risks, operational risks, regulatory risks, financial risks, and specific risks related to the Group's corporate structure.

The Group's business, future results of operations and future prospects could be materially and adversely affected by those risks and uncertainties. The following highlights the principal risks and uncertainties of the Group and it is not meant to be exhaustive. There may be other risks and uncertainties which are not known to the Group or which may not be material now but turn out to be material in the future.

Operational Risks

1. ***Demands for a Number of Professional Technologies***

   Special computer is the combination of computer, communication and software technologies. Development of this product requires cooperation of professionals in computer hardware, micro-electronics, network, software and precision machinery, and there are a number of special computer categories for the purposes of different industries. As a technology-intensive and capital-intensive industry with higher requirements on technologies of a single product, the yield of which is not large, its comprehensive entry barriers are high.

2. ***Industry Barriers***

   The development of special computer product requires a good knowledge of critical technologies in terms of computer, communication and software, extensive experience in product development and production management and a profound understanding of the knowledge on application of products in the target industries. Due to the aforementioned factors, the special computer market, as the main competitor, can only build its competitive edge relying on the gradual accumulation in the long-term development, production and operation practices, and construction of sales channel, as well as rich experience in industry application. As a result, the industry has higher entry barriers.

3. ***Competition Risks in the International Market***

   Despite the current top-ranking as a company in China in terms of the market share taken up in Mainland China, the Company is still at its development phase in respect of the international market. Accessing to the international market, the Company will unavoidably be in direct competition with the international giant companies. In view of sales experience, capital strength and production scale, there is still a gap between the Company and international giant companies, which leads to certain risks in the development of the international market.

Macroeconomic Risk

The recent slowed growth rate of global and Chinese economy due to the effects of macro-control posed certain impact against the traditional processing and manufacturing industry in the PRC. The economic development status under the "new norm" has forced manufacturing to transform and upgrade, additionally the Chinese government actively pushes a series of policies such as "Great Ocean Power", "One Belt and One Road", "Made in China 2025". These measures have brought extensive opportunities for the Chinese special computer industry. Facing the new market situation and environment, the Company endeavoured to convert crises into opportunities through continuous adjustments to the market structure and the good brand influence of EVOC. In addition, the main competitors are out of the PRC and exposed to the most adverse impact from the financial crisis as compared to the Company. The Company may take advantage of the occasion to enter more new special computer incremental markets.

Due to the import of certain raw materials required by the Company and part of the advanced equipment during development, and the export of some products, the exchange gain or loss of the Company is subject to the effects arising from fluctuations in price and exchange rate in the international market.

Capital Risk

Details of capital risk are set out in note 34 to the consolidated financial statements.

Financial Risk

Details of financial risk are set out in note 35 to the consolidated financial statements.

EXECUTIVE DIRECTORS

Mr. Chen Zhi Lie (陳志列), aged 54, the Chairman, an executive director and the Chairman of the nomination committee of the Group. He is the founder of the Company and is responsible for the overall strategy and planning for the business of the Company. Mr. Chen graduated with a bachelor degree of engineering in computer application from Shenyang Jianzhu University (瀋陽建築大學), in the PRC in 1984. He also obtained a master degree in computer science and computer engineering from the department of engineering in Northwestern Polytechnical University (西北工業大學) in 1990. Mr. Chen has over 34 years of experience in computer and automation of control systems.

In February 2003, Mr. Chen was awarded the prize of Guangdong Province Outstanding Entrepreneur of Domestic-owned Enterprises (廣東省優秀民營企業家) by Guangdong Province Government (廣東省人民政府). Mr. Chen was accredited as "Manager of Edges in Comprehensive Quality Control (全面質量管理優勢管理者)" by Quality Association of Shenzhen and as "Excellent Small Medium Enterprise of Shenzhen (深圳市優秀中小企業家)" by Association for Small Medium Enterprises of Shenzhen in 2004. In 2005, Mr. Chen was elected as a member of the Executive Committee of the Fourth Chinese People's Political Consultative Conference of Shenzhen (深圳市第四屆政協常委). In 2007, Mr. Chen was elected as a member of Guangdong Political Consultative Conference (廣東省政協委員). In 2008, Mr. Chen was accredited as 2007 CCTV's Man of the Year in Chinese Economics and awarded the prize of Innovation of the Year. In 2010, Mr. Chen was elected as a Nation commissar of the Chinese People's Political Consultative Conference (CPPCC). In 2012, Mr. Chen was elected as the President of the Commerce Association of Technology Equipment Industry under the All-China Federation of Industry & Commerce, the primary legal representative and the vice-chairman (vice-president) of the Guangdong Federation of Industry and Commerce (General Commerce Association). In 2013, Mr. Chen was elected to the BRICS National Business Council. In 2016, Mr. Chen was presented the outstanding award, "Shenzhen Entrepreneurs' Influential Leader in China* (影響中國的深商領袖)". In 2017, Mr. Chen was elected as the third President of the Council of the Commerce Association of Technology Equipment Industry under the All-China Federation of Industry & Commerce.

Mr. Tso Cheng Shun (曹成生), aged 89, the vice Chairman and an executive director of the Group. Mr. Tso graduated from Nan Tong Institute (南通學院) in the PRC and obtained a certificate in engineering in textile. He is responsible for corporate planning of the Company. Mr. Tso has been serving the Company since 1995. He is responsible for developing business strategy, preparing annual financial budget and monitoring financial status of the Group.

Mr. Geng Wen Qiang (耿穩強), aged 62, an executive director, the compliance officer and a member of remuneration and review committee of the Group. He is a professor-level senior engineer. He joined the Company since August 2007 and currently is the general manager of the Company's production center. Mr. Geng graduated with master degree in automation from Xi'an University of Technology (西安科技大學) in 1983. Mr. Geng has over 34 years in computer and automation of control system. In 2012, Mr. Geng was elected as executive vice president of Shenzhen Computer Industry Association and the representative of Shenzhen Nanshan National People's Congress. In July 2015, Mr. Geng was awarded Shenzhen Primary Computer Technology Contribution Award (深圳市一級計算機科技貢獻獎章).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Tat Chi, Michael (余達志), aged 53, an independent non-executive director and the Chairman of the audit committee of the Group. He holds a bachelor of commerce degree from the University of New South Wales, Australia. He is a fellow member of the CPA Australia and also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Yu is also a founding member of the The Hong Kong Independent Non-Executive Director Association. He has many years of experience in accounting, corporate finance and asset management. He has held senior management positions in several listed companies in Hong Kong. He is currently an independent non-executive director of Golden Resources Development International Limited (stock code: 677), Applied Development Holdings Limited (stock code: 519), China Netcom Technology Holdings Limited (stock code: 8071), and Lerado Financial Group Company Limited (stock code: 1225), all of these companies are listed in Hong Kong.

Mr. Dong Li Xin (董立新), aged 58, an independent non-executive Director, a member of the audit committee, a member of nomination committee and the chairperson of the remuneration and review committee of the Company. Mr. Dong graduated from Tsinghua University (清華大學) in the PRC with a bachelor degree in automation in 1984 and he currently holds a managerial position in the engineering department in Shenzhen World Miniature Co. Ltd. in the PRC.

Mr. Wen Bing (聞冰), aged 56, as an independent non-executive Director and a member of the nomination committee of the Company. Mr. Wen obtained a bachelor degree in computer studies from Liaoning Architectural and Civil Engineering Institute (遼寧建築工程學院) in the PRC in 1984. He has over 31 years of experience in computer engineering and had held various senior positions in state-owned enterprises and transnational corporation. He is currently an executive director and the general manager of ETechsoft Co., Ltd. (深圳市欣軼天科技有限公司) as well as the general manager and chief technical officer of Televoice China (Shenzhen) Limited (聲訊亞洲中國公司).

Mr. Zhang Da Ming (張大鳴), aged 44, an independent non-executive director, a member of audit committee and a member of remuneration and review committee of the Group. Mr. Zhang graduated from the Xiamen University in 2001 with a Master degree in law and graduated from Cheung Kong Graduate School of Business (長江商學院) in 2012 with a Master degree in business administration. Mr. Zhang has provided legal services for the banks in Shenzhen and Hong Kong and for state-owned assets management companies and he has rich experience in internal corporate governance. He is currently a senior partner of Beijing Jincheng Tongda & Neal (Shenzhen) offices (北京金城同達(深圳)律師事務所).

SUPERVISORS

Ms. Pu Jing (濮靜), aged 52, a staff representative supervisor and the Chairman of the supervisory committee of the Company. Ms. Pu graduated from Wuhan Iron and Steel University (武漢鋼鐵學院) in the PRC with a bachelor degree in engineering in electric automation in 1988. She has over 27 years of experience in industrial computer testing.

Mr. Zhan Guo Nian (詹國年), aged 47, a staff representative supervisor of the Company. Mr. Zhan graduated from Chengdu Geological College (中國成都地質學院) in the PRC with a bachelor degree in engineering in 1991. Mr. Zhan has over 26 years of experience in management and administration and he joined the Company for management and administration work in March 2001.

Mr. Zhang Zheng An (張正安), aged 42, an shareholders representative supervisor of the Company. Mr. Zhang was graduated from high school. Mr. Zhang is currently working in EVOC Hi-Tech Holding Group Co., Ltd. He has over 21 years of experience in management and administration.

Mr. Ng Mun Hong (吳滿康), aged 52, an independent supervisor of the Company. Mr. Ng obtained an Associateship in Textile Technology from Hong Kong Polytechnic in Hong Kong in 1992. He got Chartered and Associateship member qualification from The Textile Institute in U.K. in 1995. He is currently a director and project manager of Katz Limited in Hong Kong.

Ms. Kwok Ka Man (郭家文), aged 48, an independent supervisor of the Company. Ms. Kwok graduated from high school and has over 29 years of experience in management and administration. She is currently a secretary of Katz Limited in Hong Kong.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Tsui Chun Kuen (徐振權), aged 67, the chief financial controller, qualified accountant and company secretary of the Company. He obtained a master degree of business administration from University of East Asia in Macau in 1991. He is a fellow member of the Association of International Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has more than 29 years experience in finance and accounting. Mr. Tsui has served the Company as the financial controller, qualified accountant, company secretary and authorised representative during the period from July 2002 to August 2004 and from June 2007 till now.

SENIOR MANAGEMENT

Mr. Liu Zhi Yong (劉志永), aged 44, is the general manager and is the head of research and development department of the Company. He joined the Company since March 1999 and has served to perform duties as a software engineer, BIOS engineer, software manager, departmental head of technology R&D and vice president. Mr. Liu is a certificate holder in computer and the application from Nanchang University (南昌大學), and he obtained senior programmer qualifications of China Computer Application Software Practitioner Standard Examinations Board (中國計算機應用軟件人員水平考試委員會) in 1996. Mr. Liu has over 24 years of research and development experience in computer engineering, control systems integration and enterprise management, and he has a number of invention patents and access to the Shenzhen Municipal Technological progress First and Second Class Prize (深圳市科技進步一、二等獎) since he joined the Company.

Mr. Chen Xiang Yang (陳向陽), aged 51, the assistant general manager of the Company. He obtained a bachelor degree in wireless electronics technology from Chongqing University (重慶大學) in the PRC in 1988. He is in charge of the quality control and production functions of the Company. He has over 23 years of experience in the quality control of electronic products. He joined the Company in July 1999.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the research, development, manufacture and distribution of special computer products, trading of electronic products and accessories, and development of properties in the People's Republic of China ("PRC"). Details of the principal activities of the subsidiaries are set out in note 29 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2017, and an indication of likely future development in the Group's business, can be found in the "Chairman's Statement", "Management Discussion and Analysis", "Report of the Directors", "Environment, Social and Governance Report" and "Corporate Governance Report" sections of this Annual Report respectively. The above sections form part of this report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 117.

The Board of directors do not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the consolidated financial statements and in the consolidated statement of changes in equity on page 45.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to approximately RMB1,323 million.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 72.9% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 40.0% of the Group's revenue for the year. 64.7% of the Group's total purchases were attributable to the Group's five largest suppliers and purchases from the Group's largest supplier accounted for 20.5% of the Group's total purchases.

According to the best knowledge of the directors, neither the directors, their associates (as defined under the Listing Rules), nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers and five largest suppliers during the year.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year were:

Executive directors:

Mr. Chen Zhi Lie *(Chairman)*
Mr. Tso Cheng Shun
Mr. Geng Wen Qiang

Independent non-executive directors:

Mr. Yu Tat Chi, Michael
Mr. Dong Li Xin
Mr. Wen Bing
Mr. Zhang Da Ming

Supervisors:

Ms. Pu Jing *(Chairman)*
Mr. Zhan Guo Nian
Mr. Zhang Zheng An
Mr. Ng Mun Hong
Ms. Kwok Ka Man

The Company has received an annual confirmation of independence from each of its independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors to be independent.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors, supervisors and the senior management of the Group are set out under the section "Directors', Supervisors' and Senior Management's Profile" of the annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the director and supervisor of the Company has entered into a service contract with the Company with effect from the date of appointment of the respective director and supervisor, for a term of three years.

Apart from the foregoing, no director and supervisor of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a director, supervisor or controlling shareholder of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interest and short positions of the Directors, supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long position — interests in the Company

Director	Type of interests	Number of Shares	Class of Shares	Approximate percentage of holding of the relevant class of shares of the Company	Approximate percentage of holding of the total share capital of the Company
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	878,552,400 (Note1)	Domestic Shares	95.00%	71.25%
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	46,239,600 (Note2)	Domestic Shares	5.00%	3.75%

Notes:

1. These Domestic Shares are held by EVOC Hi-Tech. Holding Group Co., Ltd. which is owned as to 70.5% by Mr. Chen Zhi Lie (陳志列) ("Mr. Chen") and 29.5% by Ms. Wang Rong (王蓉), spouse of Mr. Chen. By virtue of Mr. Chen's holding of more than one-third interest in EVOC Hi-Tech. Holding Group Co., Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by EVOC Hi-Tech. Holding Group Co., Ltd. in the Company pursuant to Part XV of the SFO.

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen Zhi Lie (陳志列). By virtue of Mr. Chen's holding the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chenis deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

(b) Long position — interests in associated corporations

Directors	Associated corporation	Type of interests	Approximate percentage of holding of the total share capital of the associated corporation
Chen Zhi Lie (陳志列)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner Interest of spouse	70.5% 29.5%
Wang Rong (王蓉)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner Interest of spouse	29.5% 70.5%

Note:

Ms. Wang Rong (王蓉) is the spouse of Mr. Chen and therefore Mr. Chen is deemed to be interested in the shares held by Ms. Wang Rong (王蓉) and Ms. Wang Rong (王蓉) is deemed to be interested in the shares held by Mr. Chen by virtue of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, so far as the Directors are aware the persons who have an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO, are as follows:

Long positions in shares

Name of shareholder of the Company	Nature and capacity in holding shareholding interest	Number of shares	Class of Shares	Percentage of the relevant class of shares	Percentage of total registered share capital
EVOC Hi-Tech. Holding Group Co., Ltd. (Note 1)	Registered and beneficial owner of the Domestic Shares	878,552,400	Domestic Shares	95.00%	71.25%
Chen Zhi Lie (陳志列) (Note 1)	Interest of a controlled corporation	878,552,400	Domestic Shares	95.00%	71.25%
Shenzhen Haoxuntong Industry Co., Ltd. (Note 2)	Registered and beneficial owner of the Domestic Shares	46,239,600	Domestic Shares	5.00%	3.75%
Chen Zhi Lie (陳志列) (Note 2)	Interest of a controlled corporation	46,239,600	Domestic Shares	5.00%	3.75%

Notes:

1. Mr. Chen is the beneficial owner of 70.5% interests in EVOC Hi-Tech. Holding Group Co., Ltd. and is deemed to be interested in the Domestic Shares owned by EVOC Hi-Tech. Holding Group Co., Ltd. pursuant to Part XV of the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of EVOC Hi-Tech. Holding Group Co., Ltd..

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen Zhi Lie (陳志列). By virtue of Mr. Chen's holding the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

Save as disclosed above:

(i) As at 31 December 2017, none of the directors, supervisors or chief executives or their respective associates has any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (if any) (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (including interest which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and

(ii) As at 31 December 2017, so far as is known to any director or supervisor, there is no person (other than a Director or supervisor or chief executive of the Company) who have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Enlarged Group or any other substantial shareholders whose interest or short position were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

At no time during the year, the directors or supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meanings of the SFO Ordinance).

SHARE OPTION SCHEME

Up to 31 December 2017, the Company has not adopted any share option scheme or granted any option.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealing and the code of conduct for directors' securities transactions during the year ended 31 December 2017.

COMPETING INTERESTS

None of the directors, initial management shareholders or their respective associates (as defined in the Listing Rules) had any interests in any business which compete or may compete with the Group or any other conflicts of interest which any such person may have with the Group.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

BANK BORROWINGS

As at 31 December 2017, the bank borrowings of the Group are set out in note 24 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles and the related laws of the PRC, which oblige the Company to offer new shares on pro-rata basis to existing shareholders.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as the auditors of the Company.

By Order of the Board

EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED
Chen Zhi Lie
Chairman

Shenzhen, the PRC, 29 March 2018

Adhering to our corporate principle of “integrity and harmony, sustainable operation”, EVOC endeavors to combine its development with extensive social responsibilities to realize the harmony and unity of corporate interest and social objective. The Company cooperates with stakeholders and industrial value chains to jointly create a harmonious ecological environment suitable for the growth and development of the Company and the world.

A. ENVIRONMENT

A1: Emission

The Company highly values environmental protection practices. Constantly driven to go green, we invest special funding each year to make our production environmentally friendly. The Company upholds “green production”, regularly upgrading our production equipment not only to improve operating efficiency, but also to greatly reduce energy consumption. We work to contribute to air quality improvement by preventing direct emissions of dust generated during production process through collection and conversion techniques. The Company has also achieved a paperless office with our active promotion of office automation, as well as the introduction of the Manufacturing Execution System “MES” system, in conjunction with the Product Lifecycle Management “PLM”, System Applications and Products “SAP” and Office Automation System “OAS” systems.

Total Emission of Greenhouse Gases

In response to the widespread concern of the world over climate change, the Company actively adopts measures for carbon reduction and sequestration in accordance with the requirements relevant to greenhouse gas emission reduction, jointly facing the challenge of climate change with society. In 2017, the total emission of greenhouse gases of the Company amounted to 7,647 tons of carbon dioxide (calculated by electricity consumption).

Emission of Hazardous Waste

The Company reduces the emission of air, land and water pollutants by identifying, assessing and managing the waste generated during the production process. All of the hazardous waste generated by the Company is sent for treatment to the qualified agencies for handling hazardous waste, while the waste water generated in production is emitted to the sewage treatment station of the Company and then discharged after meeting the standards. In 2017, approximately 7,494 tons of waste water was treated and discharged and no hazardous solid waste was produced.

Emission of Non-hazardous Waste

The non-hazardous waste generated in 2017 totaled approximately 3.611 tons, all of which was treated by the entrusted companies recognized by the government departments. During the production process, materials are circulated by the way of reuse in order to reduce waste generation. For example, plastic frames and cabinets are reused during the production of products.

Emission Reduction Measures and Results

The Company is investing in solar heating for the industrial park, in order to effectively utilize new energy and reduce energy consumption. The Company actively promotes environmental practices during internal training sessions and meetings, equipping every employee with environmental awareness of energy conservation and emission reduction. The Company is already practicing new environmental laws that will come into effect, affirming our environmental protection responsibilities and the responsible parties. We comply with relevant regulations consciously, establishing and improving the responsibility system for pollution prevention.

A2: Resource Consumption

The market standing of an enterprise not only depends on the quantity and quality of the resources at its disposal, but also its efficiency in utilizing its resources. Focusing on internal management and system construction, the Company formulated various management systems including quality management, technology management, facilities management, financial management, and staff management, regulating the energy and resources used in our production, operations, and management activities, raising the Company's consumption efficiency and cost-effectiveness.

Use of Energy

The main source of energy of the Company is electricity with the total electricity consumption in 2017 being approximately 80,592,172.00 kWh.

Use of Water Resources

The Company applies the concept of "saving and reusing water" to every stage of its production and operations. The annual consumption of tap water is estimated to be approximately 140,000 cubic meters, and the total water consumption in 2017 was approximately 12.62 cubic meters.

Energy Conservation and Consumption Management

On the macro level, increasing efforts in energy conservation and consumption reduction is both the fundamental solution to the issue of China's resource scarcity, and the important security for rapid and healthy economic development. At the micro level, it is a vital practice for an enterprise to increase efforts in energy conservation and consumption reduction, both in terms of the importance to society as a whole, as well as to the sustainable development of the enterprise itself.

(a) Energy Conservation and Emission Reduction Measures

The Company vigorously promotes the spirit of energy saving and consumption reduction. We organize relevant educational activities to inculcate our staff with the mindset of energy conservation and consumption reduction. The Company incorporates the practice of "resource saving and environmental protection" in each step of production and office operations.

The Company incorporates the works of energy saving and consumption reduction in daily performance evaluation and applies them to every stage of operations, including energy saving for electricity, water, office equipment, appliances, facilities, and mechanic equipment. We conduct activities about "energy saving and emission reduction", as well as receiving reasonable suggestions from our staff on energy saving and emission reduction.

(b) Energy Conservation and Consumption Reduction Measures

The Company conducts water conservation education for employees, encouraging the reuse of water so as to minimize water resource consumption and reduce the generation of waste water at the source. We work to ensure proper assembly and prompt repair of water supply equipment to maintain them in optimum condition. The Company will immediately repair the pipes if any departments spot any leakage. By managing water usage in 2017, the Company saved approximately 13,800 cubic meters of water.

The use of power in the Company's production process complies strictly with the *Electric Power Law* of the People's Republic of China. Our production operations adhere to the principles of conservation, safety, high efficiency, and low consumption. Our dormitory/office operations maintain electricity saving policies. Lights are switched off when no one is around. Appliances not in use are promptly turned off. Office equipment, such as computers, copiers, and printers, are configured to automatically enter low energy-consumption and hibernation modes when not in use, and are powered off to reduce stand-by electricity consumption if they are not actively used.

The Company adopts paperless office and reuse of paper policies. Waste printing paper is used for printing documents for proofreading, and documents are also checked on the computer as much as possible before printing to avoid excessive use of paper. With the exception of formal documents and data, all departments adopt electronic files as far as possible. Paper is printed on both sides and materials not related to work are not allowed to be printed or copied at office.

Prudent Distribution and Comprehensive Utilization of the Resources

Following the principles of uniformity and centrality, the Company emphasizes streamlined management, minimizing communication cost, and improving the consolidation of resources.

The Company regularly convenes meetings for senior level management, exchanging working experiences, identifying and analyzing problems, and promptly crafting solutions, thereby optimizing resource allocation. Concurrent with our devotion towards making technological breakthroughs, the Company conducts regular meetings and spot checks to monitor work schedules and statuses, communicate up-to-date information, and work on prompt resolution of problems requiring coordination, thus strengthening the daily communication and coordination between relevant departments, realizing the mutual cooperation of various departments and project teams, and adding and creating value from available resources.

A3: Environment and Natural Resources

Considering the direct and indirect impact on the environment in the areas where the Company operates, we are devoted to reducing and alleviating any negative impact of the Company's activities as much as possible, continuously seeking performance improving methods. The Company promises to reduce environmental influence as much as possible on the resources, such as energy and water.

The Company implements numerous measures, including upgrading hardware equipment, using clean energy sources, and improving our administrative management system. Details can be found in the previous sections, under "Emissions" and "Resource Consumption". In addition to our compliance with the relevant laws and regulations and continuously enhancing product research and development, the Company is also dedicated to exploring the application of environmental friendly materials into its products.

B. SOCIAL

B1: Caring About Our Staff

People are the core competitiveness of enterprises and the development of any enterprise is inseparable from having excellent human resources. The Company provides a series of welfare protection for staff and always attaches importance to staff training. We adhere to the talent strategy of "people first", offering timely and reasonable returns to our employees according to their performance and contribution. We help our employees improve themselves by providing training and clear career development paths. In addition, we have an advanced communication channel for our employees. The Company attaches great importance to our employees' leisure, mental health, and family life, encouraging them to carry out various forms of corporate culture activities to enrich their lives outside of work.

(1) The Company not only provides competitive salary for employees, but also adjusts salary in a timely manner, by performing regular studies into external labor market changes and salary standard, and reviewing the Company's business and individual performance.

(2) The Company provides abundant compensation and welfare for employees. Employee dormitory is provided for free, with gym, yoga room, KTV, indoor constant-temperature swimming pool, cinema, basketball court, football court, as well as free group activities such as dancing, fitness group, and charity activities.

(3) The Company organizes monthly cultural and sports competitions, as well as large annual festivities, to allow staff to train physically, and to strengthen team cohesiveness. These include mountain-climbing competitions, "Running EVOC" sports meet, singing competitions, EVOC football competition, the "Man of the Year" awards party, and the Spring Festival Gala.

(4) The Company frequently carries out various forms of corporate culture activities such as corporate culture salons, baking classes, general family mobilizations, EVOC maker and creativity contests, fraternities for single employees, and tours to Europe for senior employees.

B2: Health and Safety

The Company is committed to providing a safe and healthy working environment for our employees and to improving work satisfaction. We regard the safety and health of employees as of utmost importance in various operations of the Company.

The Company has established and improved the safety and occupational health management systems, strictly abiding by the national labor, safety, occupational health and other laws, regulations, and standards. For managers at various levels of the Company, the employees' safety and health comes first and foremost; the safety responsibility is a part of the duties of managers at all levels. Each of the Company's safety practices is based on both humanitarian and economic concerns. The Company takes measures to prevent our employees from occupational injury and property loss as far as possible, protecting the Company, its customers, and the public from being harmed in case of accidents.

B3: Development and training

By implementing the practical and simple corporate culture of "unconventional management", the Company provides multiple career development paths for employees, so they can advance their career vertically or diagonally through various career paths, such as management, technology, business, and profession.

The Company regularly carries out diversified training activities, such as product knowledge training, one on one tutoring by experienced tutors, management knowledge training, external studying opportunities, and high-end exchange meeting.

B4: Labor Standards

The Company strictly complies with the *Labor Law*, the *Labor Contract Law*, the *Social Insurance Law* and other relevant laws and regulations, emphasizes human resource management, establishes a competitive salary and welfare system, and pays attention to employee career development. The Company also respects and protects the legal rights of employees, implementing labor contract signing, renewal, change, termination, cancellation, and other operations in accordance with relevant laws. The Company has established labor contract accounts, as well as reasonably setting performance evaluation indicators, fully paying monthly labor compensation, fully paying social insurance in accordance with laws, and guaranteeing legal working time. The Company provides welfares and security for employees in accordance with relevant national laws and regulations. The policy for selection and appointment of management is competition for posts, providing reasonable career development paths for employees, and giving professional titles to eligible employees.

B5: Supply Chain Management

Effective supply-chain management plays an important role in pushing the sustainable development of businesses. The Company is dedicated to improving product innovation, quality supervision, supply-chain response speed, and cost effectiveness, which are of great significance for business development. By improving supply chain management, the Company can provide products for customers more efficiently.

The Group has established good long-term partnerships with most of our raw material suppliers, signing long-term supply contracts to ensure stable supply, price, and primary technologies. Moreover, the Group purchases principal raw materials through multiple channels, avoiding reliance on a single supplier, while making selections at low price to control cost and quality of raw materials. According to the forecasts of actual market demands, the Company also formulates reasonable production plans and procurement plans of raw materials to determine a reasonable inventory and reduce the risk of overstock. In order to avoid negative influence of fluctuations on prices of raw materials of the Company, it will also improve manufacturing techniques, enhance internal management and cost control, improve product quality and reduce product costs.

B6: Product Liability

Taking "satisfying or exceeding customer expectation" as our operation goal, the Company treats customers sincerely to build a harmonious internal and external environment.

Intellectual Property

Over the 20 years of development, the Company has been honoured with numerous awards, including Innovation Enterprise, New High-tech Enterprise, Key Software Enterprise in the state planning, New Key High-tech Enterprise of National Torch Program, and National Advanced Grassroots Party Organization in 2012. The Company has a national special computer engineering and technological research center, a national engineering laboratory and the nationally recognized brand “EVOC”. The Company and its products has received numerous national, provincial and municipal awards. The Company has compiled 19 national standards and 2 industry standards issued by the special computer industry, and drafted development planning of the “12th Five-year Plan” of the computer industry as entrusted by the Ministry of Industry and Information Technology of China. The Company owns over 700 patents and nearly 1,000 non-patent core technologies, which effectively enhances its technological competitiveness among the peers. In November 2017, a patent of the Company, “An Industrial Control Computer”, won in the 19th “China Patent Awards”. In December 2017, the intellectual property management system of the Company met the standard of GB/T 29490-2013 and passed the certification. The Company was also awarded the title of National Intellectual Property Advantage Enterprise in 2017.

Quality Assurance

The Company regards “satisfying customers and quality first; responding quickly and prevention; improving continuously and pursuing excellence” as its quality management principle and promises “return and replacement within one month, one-year warranty, lifelong service, and response to customer demands for 24 hours”.

The Company has new plants, advanced production and testing equipment, outstanding human resource management, and comprehensive quality management system. The Quality Department of the Company deals with a series of quality control process from raw material inspection, process control, shipping inspection, final control of finished products, and analysis of customer complaint in supplied materials/goods/warehousing to guarantee product quality. The Quality Department has set up a quality inspection team which regularly conducts systematic examination on the production sites. Once failure to meet requirements of quality system is found in any department or step, the inspection team issues corrective and preventive reports and accountability units had to rapidly put forward solutions, take action, and locates the department that is responsible.

After-Sales Service

To improve the quality and efficiency of after-sales services, the Company is committed to providing customers the following reassuring services:

(1) Telephone service. The Company offers customers free telephone technical support service for life. The 24-hour service hotline is 4008809666.

(2) Delivery and repair service. This service allows customers to send machines or faulty units to the maintenance center of the Company for repair. It is also called the delivery and repair service or Return Merchandise Authorisation “RMA” service.

(3) Door-to-door service. The Company provides door-to-door service by engineers in Mainland China (excluding Xinjiang, Tibet, and Inner Mongolia). Customers who need door-to-door service can purchase the EVOC annual door-to-door service card to obtain such service.

(4) Delivery service. When it is confirmed that customers can replace damaged parts, keyboards, mouse and cable by themselves, the Company will deal with these situations by "delivery service".

(5) Customized service. The Company provides personalized service on top of basic service for customers who can purchase the service products along with the physical products. The Company currently offers various service products such as annual extended warranty card and annual door-to-door service card, in order to meet customers' diverse requirements for service offering.

B7: Anti-Corruption and Prevention of Commercial Bribery

The Company has preliminarily established relevant systems concerning anti-corruption and the prevention of commercial bribery, as well as managing our subsidiaries in a unified way. The particulars are as follows:

1. Strengthening Integrity

The Company has established a credit file system by post commitment and service commitment. In accordance with laws and regulations as well as self-regulation rules, employees involved in commercial bribery shall have their opportunities stripped and limited, as a way of making them pay the price, bear the corresponding risk, and suffer the appropriate consequences, while ensuring that honest, trustworthy, and law-abiding employees have their ethical behavior and interests protected and encouraged. An advanced accounting system has been established, and bill management has been improved to reduce cash transaction.

2. To Establish and Improve the System for Prevention of Commercial Bribery

The Company has formulated a code of conduct and professional standard, advocating the trust system of anti-commercial bribery, and strictly adheres to the rules of fair competition and lawful operation. The Human Resource Department regularly carries out relevant training of professional ethics education to raise the awareness of observing law for managers and staff and to familiarize related people with professional code of ethics, making them develop good occupational habits.

To encourage insiders to proactively report commercial bribery, the Company keeps the identity of whistleblowers strictly confidential and provides material rewards for the whistleblowers. The Company has set up reporting mailboxes to encourage staff and people in the same industry to make complaints and reports.

The Company stipulates that suppliers should be selected in an equitable manner (including bidding method) and reciprocal transactions are prohibited. If it is necessary to meet with suppliers, at least two people shall be present. The Company imposes penalties on and may even dismiss employees who violate the rules. The Company requires employees holding special positions to sign agreements and sets the rules of prohibition to prevent employees and cooperation units from bribing related people and stakeholders in work.

B8: Community Participation

The Company insists on giving back to the community in the course of our development, actively performing corporate social responsibility and taking part in social activities for public charity activities in various ways. During the period under review, the Company took part in a series of charity activities in the "Kexie Cup" of Shenzhen to promote physical health of employees, as well as demonstrating the spiritual well-being of the research team and the technical staff, achieving the goal of green health.

OPERATING PRACTICE

The Company values the cooperation and development between our partners and establishes good partnership with suppliers and clients. The Company has carried out a comprehensive cooperation with INTEL, organizing several kinds of marketing promotion activities and new products seminars with INTEL and assuming the Enterprise Architecture “EA” project of the INTEL to manufacture sample products for INTEL to release to its peers as references. The Company is Microsoft’s global gold partner, cooperating closely with Microsoft for many years to jointly promote the sales of copyrighted software in China. In addition, the Company has built long-term strategic cooperative relations with CNPC, Sinopec, CRS and CNR, etc.

The Company is a member of Industrial Control Computer Technical Committee and Severe Environment Computer Technical Committee of China Computer Federation. It established EVOC Intelligent Science and Technology Association, undertook building of Shenzhen Ocean Industry Association and set up the communication and cooperation platforms for more upstream and downstream relevant enterprises. As a leading brand of special computers, the Company attended all kinds of activities held by the association of Chinese computer users.

Leveraging on our own advantages, we entered into strategic partnership with domestic famous scientific research institutions, such as Institute of Computing Technology Chinese Academy of Sciences, National University of Defense Technology, Jiangnan Institute of Computing Technology, MPRC, Peking University, Beijing University of Aeronautics and Astronautics, Harbin Institute of Technology, Northwestern Polytechnical University, Sun Yat-Sen University and South China University of Technology and so on with a purpose to promote the application and development of domestic chip application engineering, network information security, Internet of Things, aerospace, ocean technology, cloud computing and other technologies. Especially this year, the Company entered into strategic cooperation with South China University of Technology to carry out the win-win co-operation, exert their own advantages and boost the application and development of robots; it visited College of Electronics and Information Engineering of Beihang University and proposed to co-build the aeronautics and astronautics computer technology joint laboratory, which is under the intensive promotion; it reached the agreement with Sun Yat-Sen University to recommend research and development and application of the intelligent industrial control platform facing the intelligent manufacturing.

The Company has close cooperation with and outsources part of the work to local small and medium-sized enterprises which are developing together with us, thus promoting our common development. We delivered our operation philosophy to suppliers through website, seminars, qualified supplier management system and various communications with suppliers, thus to promote the close cooperation between us.

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is a key factor in improving the confidence of existing and future shareholders, investors, employees, business partners and the community as a whole. The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules without any deviation. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the requirements set out in the Code at any time during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the behavioral code for the directors of our Company to perform securities transactions. All Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the period from 1 January 2017 to 31 December 2017.

THE BOARD

In accordance with good corporate governance principles, the Board convened regular and interim meetings in accordance with legal procedures and complied strictly with relevant laws, legal regulations and the Articles of Association of the Company in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders.

The main responsibilities of the Board include:

- To implement resolutions of the general meetings;
- To lay down the Group's management policies business strategies and investment plan;
- To review and approve the annual, interim and quarterly results of the Group;
- To monitor and control operating and financial performance through the determination of the annual budget;
- To review and approve the appointment of auditor of the Group;
- To review the amendment to the articles of association of the Company.

In addition, the Board carries the function of reviewing the corporate governance practice and disclosure system as follow:

- Develop and review the Company's policies and practices on corporate governance;
- Review and monitor the training and continuous professional development of directors and senior management;
- Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- Develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- Review the Company's compliance with the code and disclosure in the Corporate Governance Report.

BOARD COMPOSITION

The Board comprises seven directors, with three executive directors, four independent non-executive directors. The biographical details of all Directors are set out in pages 13 to 15 of this annual Report.

BOARD DIVERSITY POLICY

The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All directors are appointed for a specific term. All the executive directors and independent non-executive directors of the Company are engaged on a service contract/letter of appointment with the Company for a term of three years.

According to the Company's Articles of Association (the "Articles of Association"), all directors of the Company are subject to retirement by rotation at least once every three years and are eligible for re-election at annual general meetings of the Company. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the next general meeting and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting. Any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, the Company has appointed four Independent Non-executive Directors, at least one of whom has appropriate professional accounting qualifications. The Company has received from each of its Independent Non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers such directors to be independent in accordance with each and every guideline set out under the Listing Rules.

DIRECTORS' TRAINING

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

For the period from 1 January 2017 to 31 December 2017, all Directors provided their records of training to the Company. All Directors, namely Mr. Chen Zhi Lie, Mr. Tso Cheng Shun, Mr. Geng Wen Qiang; Mr. Yu Tat Chi, Michael, Mr. Wen Bing, Mr. Dong Li Xin and Mr. Zhang Da Ming, participated in this continuous professional development mainly by reading various materials regarding directors' responsibilities, prevention of breaching listing rules and disclosure of inside information, etc..

COMPANY SECRETARY'S TRAINING

Pursuant to Rule 3.29 of the Listing Rules, the Company Secretary must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary provided his training records to the Company indicating more than 15 hours of relevant professional development by means of attending in-house briefings, attending seminars and reading relevant guideline materials.

CHAIRMAN AND GENERAL MANAGER

The Chairman and general manager of the Company are Mr. Chen Zhi Lie and Mr. Liu Zhi Yong respectively. The roles of Chairman and general manager are separate and the division of responsibilities between the Chairman and general manager have been clearly established and set out in writing.

BOARD MEETING

The Board meets regularly and at least four times a year and notice of at least 14 days is given to all Directors. All Directors have access to the advice and services of the Company Secretary and secretary of the Board. Minutes of Board meetings are kept by the Company Secretary and secretary of the Board and sent to all directors for their comments and records.

The Company held six full Board meetings in the financial year ended 31 December 2017. The personal attendance record of the Board meetings by Directors is set out as follows:

	Number of meetings attended/ held during the Director's term of office			
	Board	**Audit committee**	**Remuneration and Review Committee**	**Nomination Committee**
Executive directors:				
Mr. Chen Zhi Lie *(Chairman)*	6/6			1/1
Mr. Tso Cheng Shun	6/6			
Mr. Geng Wen Qiang	6/6		1/1	
Independent non-executive directors:				
Mr. Yu Tat Chi, Michael	6/6	2/2		
Mr. Dong Li Xin	6/6	2/2	1/1	1/1
Mr. Wen Bing	6/6	1/1		
Mr. Zhang Da Ming	6/6	2/2	1/1	

BOARD COMMITTEES

The Company has established Audit Committee, Remuneration and Review Committee and Nomination Committee. The function of each specialized committee is to study pertinent issues in its area of expertise and to provide opinions and suggestions for consideration by the Board under defined terms of reference.

REMUNERATION AND REVIEW COMMITTEE

The remuneration and review committee of the Company comprises one executive director, Mr. Geng Wen Qiang and two independent non-executive directors, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Dong Li Xin is the Chairman of the remuneration and review committee. Written terms of reference of the remuneration and review committee which comply with the code provisions set out in the Code has been adopted by the Board. The remuneration and review committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board. The remuneration and review committee held one meeting during the year ended 31 December 2017.

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 10 to the consolidated financial statements.

NOMINATION COMMITTEE

The nomination committee of the Company comprises one executive director Mr. Chen Zhi Lie, and two independent non-executive directors, Mr. Dong Li Xin and Mr. Wen Bing. Mr. Chen Zhi Lie is the Chairman of the nomination committee. The nomination committee is primarily responsible for considering and recommending to the Board suitably qualified persons to become the members of the Board and also reviewing the structure, size and composition of the Board on a regular basis and as required. The nomination committee held one meeting during the year ended 31 December 2017.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Yu Tat Chi, Michael, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Yu Tat Chi, Michael is the Chairman of the audit committee. Rights and duties of the audit committee comply with the code provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting procedures and internal control system and providing advice and recommendations to the Board of Directors. The committee met on a semi-annual basis and the review covers the findings of internal auditors, internal controls, risk management and financial reporting matters. The audit committee reviewed and monitored the external auditor's independence and effectiveness of the audit process in accordance with applicable standard. The audit committee has discussed with the management and reviewed the annual results of the Group for the year ended 31 December 2017.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

A statement of Directors' responsibility for prepare financial statements is set out in "Independent Auditor's Report" of this report.

AUDITOR'S REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor. During the year under review, auditor's remuneration for audit services is approximately HK$2,076,000 (2016: HK$1,690,000). Other than audit, no services such as due diligence and other advisory services were provided.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The Company determines the remuneration of the directors on the basis of their qualifications, experience and contributions.

INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control system in order to safeguard the Group's assets and shareholders' interests and reviewing and monitoring the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate.

The Board conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management for the year ended 31 December 2017. The assessment was made by discussions with the management of the Company, its external and internal auditors and the review performed by the audit committee. The Board believes that the existing internal control system is adequate and effective.

SHAREHOLDERS' RIGHTS

Shareholders' Right to Propose Resolutions at General Meeting

Pursuant to Article 8.06 of the Articles of Association of the Company, shareholders holding more than five percent (including 5%) of the total voting shares of the Company are entitled to propose to the Company any new resolutions in writing, provided such resolution shall be submitted to the Company at least ninety days before convening the annual general meeting. The Company shall include, in the agenda of such meeting, those proposed matters which are within the terms of reference of the general meeting.

Shareholders' Right to Convene an Extraordinary General Meeting ("EGM") or Class Meeting of the Shareholders ("Class Meeting")

Pursuant to the Article 8.25 of the Articles of Association of the Company, two or more shareholders holding more than one-tenth (including 10%) of the voting shares at the meeting proposed to be held may, by signing one written request or several counterparts of same stating the subject matter of the meeting, require the Board of Directors to convene an extraordinary general meeting of shareholders or a class meeting of shareholders. Upon receipt of the foregoing written request(s), the Board of Directors shall proceed to do so as soon as possible accordingly. The foregoing number of voting shares referred to shall be calculated as at the date of the delivery of the written request(s);

If the Board of Directors fails to issue a notice of convening such a meeting within thirty days from the date of the receipt of the foregoing written request(s), the shareholders who have made the request may themselves convene such a meeting in a procedure as soon as possible same as that of such meetings to be convened by the Board of Directors, within four months from the date of receipt of such request(s) by the board. Any reasonable expenses incurred by the shareholders for convening and holding the meeting by reason of the failure of the Board of Directors to duly convene a meeting according to the foregoing request for holding the meeting shall be borne by the Company and shall be set off against any sums owed to the Directors in default by the Company.

Communication with the Board

Shareholders are encouraged to maintain direct communication with the Board. Shareholders who have any questions for the Board may send their enquiries by letter or fax to the attention of the Company Secretary at Unit No. 1619, 16th Floor, Star House, 3 Salisbury Road, Tsimshatsui, Kowloon, Hong Kong, China. Fax no. 852–23757238.

INVESTORS RELATIONS

The Company disclosed all necessary information to the shareholders in compliance with Listing Rules. Meeting with media and investors were conducted periodically as necessary. The Company also replied the inquiry from shareholders timely. Our corporate website www.evoc.com contains corporate data, interim and annual reports issued by the Group as well as recent developments of the Group which enable shareholders and investors to have timely and updated information of the Group.

REPORT OF THE SUPERVISORY COMMITTEE

To: All Shareholders

The supervisory committee of EVOC Intelligent Technology Company Limited ("the Company") has exercised its powers seriously to safeguard the interests of the Company and shareholders, complied with the principle of good faith, discharged its duties conscientiously and undertaken tasks in a diligent and proactive manner in accordance with the Company Law of the People's Republic of China ("PRC"), the relevant Hong Kong laws and regulations and the Company's articles of association.

The supervisory committee of the Company has reviewed in detail and approved the audited financial statements and this report which will be presented at the annual general meeting. Supervisors of the Company have reviewed prudently the operation and development plans of the Company, and carried out strict and effective supervision as regards whether major decision-making and exact decisions by the management of the Company are in compliance with the laws and regulations of the PRC and the articles of association and safeguard the interests of shareholders. Supervisors believe that during the year, the operating results of the Company were sufficient to reflect its position, and all expenses and costs incurred were reasonable. The provision for statutory surplus reserve made during the year has complied with the applicable laws and regulations of the PRC and the Company's articles of association.

During the year, supervisory committee had provided reasonable suggestions and opinions to the Board of directors in respect of the operation and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of its shareholders.

The supervisory committee of the Company is full of confidence in the future of the Company and would like to take this opportunity to express its gratitude to all shareholders, directors and staff for their strong support to the supervisory committee.

By order of the Supervisory Committee

Pu Jing
Chairperson

Shenzhen, the PRC, 29 March 2018

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TO THE SHAREHOLDERS OF 研祥智能科技股份有限公司
(known as EVOC Intelligent Technology Company Limited for identification purpose only)
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of EVOC Intelligent Technology Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 42 to 117, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Valuation of land and buildings and investment properties (Notes 14 and 15 to the consolidated financial statements)

The Group had land and buildings, and investment properties, which were stated at fair value or revalued amount less accumulated depreciation.

Management estimated the fair values of these land and buildings and investment properties to be RMB714,232,000 and RMB1,708,894,000 respectively as at 31 December 2017. Independent external valuations were obtained in order to support management's estimates. Valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates, market rents, market rental growth rates, discount rates, price and cost of construction per square meter.

Our response:

- Evaluating the independent external valuers' objectivity, competence and capabilities;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

We found the key assumptions were supported by the available evidence. We found the disclosures in Notes 14 and 15 to be appropriate.

Impairment assessment of properties under development and properties held for sale (Note 18 to the consolidated financial statements)

The Group had properties under development and properties held for sale with aggregate carrying amounts of RMB1,325,966,000 and RMB353,761,000 respectively as at 31 December 2017. Management concluded that the net realisable values were higher than their carrying amounts such that no impairment provision was required. Independent external valuations were obtained in order to support management's estimates. Valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates, market rents, market rental growth rates, discount rates and price per square meter. The valuations of properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin.

Our response:

- Evaluating the independent external valuers' objectivity, competence and capabilities;
- Assessing the methodologies used and the appropriateness of key assumptions based on our knowledge of the property industry; and
- Checking, on a sample basis, the accuracy and relevance of the input data used;
- Assessing the reasonableness of the costs to complete and sell estimated by the management based on our knowledge of the relevant development.

We found the key assumptions were supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants
Choi Man On
Practising Certificate Number: P02410

Hong Kong, 29 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Turnover	7	**1,305,200**	1,141,666
Cost of sales		**(1,127,868)**	(938,014)
Gross profit		**177,332**	203,652
Other income	7	**199,599**	180,104
Selling and distribution costs		**(43,871)**	(48,201)
Administrative expenses		**(59,952)**	(54,220)
Other operating expenses		**(114,031)**	(83,314)
Fair value (loss)/gain on investment properties	15	**(93,740)**	46,457
Fair value gain on transfer of properties held for sale to investment properties		**14,458**	155,589
Finance costs	8	**(40,078)**	(35,986)
Profit before income tax	9	**39,717**	364,081
Income tax expense	11(a)	**(4,236)**	(95,023)
Profit for the year attributable to owners of the Company		**35,481**	269,058
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of land and buildings	14 & 25	**15,013**	23,971
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		**(592)**	(184)
Other comprehensive income for the year, net of tax		**14,421**	23,787
Total comprehensive income for the year attributable to owners of the Company		**49,902**	292,845
Earnings per share — Basic and diluted (RMB)	13	**0.029**	0.218

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	14	**870,921**	826,856
Investment properties	15	**1,708,894**	1,619,097
Prepaid land lease payments	16	**43,537**	44,553
Deferred tax assets	25	**23,207**	23,025
Total non-current assets		**2,646,559**	2,513,531
Current assets			
Inventories	17	**31,874**	31,179
Properties under development	18	**1,325,966**	1,014,040
Properties held for sale	18	**353,761**	528,043
Prepaid land lease payments	16	**1,016**	1,016
Trade receivables	19	**149,570**	6,465
Bills receivable	19	**51,714**	30,888
Other receivables, deposits and prepayments	20	**348,516**	138,798
Income tax recoverable		**1,632**	3,932
Cash and bank balances	21	**681,100**	426,562
Total current assets		**2,945,149**	2,180,923
Current liabilities			
Trade payables	22	**729,996**	468,350
Bills payable	22	**1,277**	60,000
Other payables, accruals and receipts in advance	23	**336,293**	241,078
Bank borrowings	24	**1,300,880**	846,400
Income tax payable		**26,323**	24,295
Total current liabilities		**2,394,769**	1,640,123
Net current assets		**550,380**	540,800
Total assets less current liabilities		**3,196,939**	3,054,331
Non-current liabilities			
Bank borrowings	24	**795,172**	700,156
Deferred tax liabilities	25	**333,408**	335,718
Total non-current liabilities		**1,128,580**	1,035,874
NET ASSETS		**2,068,359**	2,018,457

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 RMB'000	2016 RMB'000
CAPITAL AND RESERVES			
Share capital	26	**123,314**	123,314
Reserves	27(a)	**1,945,045**	1,895,143
TOTAL EQUITY		**2,068,359**	2,018,457

On behalf of the directors

Chen Zhi Lie
Chairman

Tso Cheng Shun
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital RMB'000 (Note 26)	Share premium RMB'000 (Note 27(c)(i))	Statutory surplus reserve RMB'000 (Note 27(c)(ii))	Properties revaluation reserve RMB'000 (Note 27(c)(iii))	Translation reserve RMB'000 (Note 27(c)(iv))	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2016	123,314	8,586	79,942	405,591	1,221	1,125,455	1,744,109
Profit for the year	–	–	–	–	–	269,058	269,058
Other comprehensive income for the year	–	–	–	23,971	(184)	–	23,787
Total comprehensive income for the year	–	–	–	23,971	(184)	269,058	292,845
Dividend approved in respect of the previous year (Note 12)	–	–	–	–	–	(18,497)	(18,497)
Balance at 31 December 2016 and 1 January 2017	123,314	8,586	79,942	429,562	1,037	1,376,016	2,018,457
Profit for the year	–	–	–	–	–	35,481	35,481
Other comprehensive income for the year	–	–	–	15,013	(592)	–	14,421
Total comprehensive income for the year	–	–	–	15,013	(592)	35,481	49,902
Balance at 31 December 2017	123,314	8,586	79,942	444,575	445	1,411,497	2,068,359

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit before income tax		39,717	364,081
Adjustments for:			
Depreciation and amortisation		37,017	30,615
Interest expenses		39,996	35,917
Reversal of impairment loss on trade receivables		–	(173)
Government grants income		(45,726)	(53,773)
Loss on disposal of property, plant and equipment		184	8
Loss on written off of property, plant and equipment		58	152
Fair value loss/(gain) on investment properties		93,740	(46,457)
Fair value gain on transfer of properties held for sale to investment properties		(14,458)	(155,589)
Impairment on inventories		1,023	1,564
Interest income		(2,953)	(2,575)
Operating profit before working capital changes		148,598	173,770
Increase in inventories		(1,718)	(5,834)
Increase in properties under development and properties held for sale		(203,242)	(126,047)
(Increase)/decrease in trade receivables		(143,105)	99,590
Increase in bills receivable		(20,826)	(4,164)
Increase in other receivables, deposits and prepayments		(209,721)	(30,804)
Increase in trade payables		261,646	85,713
(Decrease)/increase in bills payable		(58,723)	59,735
Increase/(decrease) in other payables and accruals		38,527	(39,105)
Cash (used in)/generated from operations		(188,564)	212,854
Income tax paid		(7,349)	(19,806)
Net cash (used in)/generated from operating activities		(195,913)	193,048
Cash flows from investing activities			
Purchase of property, plant and equipment		(86,474)	(146,863)
Decrease/(increase) in pledged bank balances		2,393	(549)
Increase in restricted bank deposit		(5,321)	(12,257)
Proceeds from sale of property, plant and equipment		2,911	28
Interest received		2,953	2,575
Net cash used in investing activities		(83,538)	(157,066)
Cash flows from financing activities			
Repayment of bank borrowings		(1,055,900)	(1,418,400)
Interest paid		(86,935)	(86,610)
Proceeds from government grants		69,146	51,582
Proceeds from bank borrowings		1,605,396	1,431,161
Dividend paid to owners of the Company		–	(18,497)
Net cash generated from/(used in) financing activities		531,707	(40,764)
Net increase/(decrease) in cash and cash equivalents		252,256	(4,782)
Cash and cash equivalents at beginning of year		389,974	394,889
Effect of foreign exchange rate changes on cash and cash equivalent		(646)	(133)
Cash and cash equivalents at the end of year	21	641,584	389,974

1. GENERAL

EVOC Intelligent Technology Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC"). The address of its registered office and principal place of business is located at EVOC Technology Building, No 31 Gaoxinzhongsi Avenue, Nanshan District, Shenzhen, the PRC. At 31 December 2017, the directors of the Company consider the ultimate holding company of the Company to be EVOC Hi-Tech Holding Limited, which was incorporated in the PRC and the ultimate controlling shareholder of the Company to be Mr. Chen Zhi Lie.

The Group, comprising the Company and its subsidiaries, is principally engaged in the research, development, manufacture and distribution of special computer products, trading of electronic products and accessories and development of properties in the PRC. The principal activities of the subsidiaries are set out in Note 29 to the consolidated financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 January 2017

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014–2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the consolidated statement of cash flows, Note 31.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(a) Adoption of new/revised HKFRSs — effective 1 January 2017 (Continued)

Annual Improvements to HKFRSs 2014–2016 Cycle — Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 cycle[2]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarification to HKFRS 15)[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework 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 and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to each performance obligation

Step 5: Recognise revenue when each performance obligation is satisfied

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 — Revenue from Contracts with Customers (Continued)

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments HKFRS 15 — Revenue from Contracts with customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

Amendments to HKAS 40, Investment Property — Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at FVTOCI if specified conditions are met — instead of at FVTPL.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the assessment completed to date is based on the information currently available to the Group, the actual impacts upon the initial adoption of the standards may differ, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the financial report.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The Group does not have any financial liabilities designated at FVTPL and therefore the new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

HKFRS 15 Revenue from contracts with customer

The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the assessment completed to date, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 4(k). Currently, revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers, while revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers upon delivery of possession of the properties.

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

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

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 Revenue from contracts with customer (Continued)

(a) Timing of revenue recognition (Continued)

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

The Group has assessed that the adoption of HKFRS 15 will not have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group does not apply such a policy when payments are received in advance.

The length of time between the payment date and the date when the customers obtain control of the goods is usually a few months.

The Group has assessed that this component in the Group's customer deposits is not likely to be significant to the contract.

(c) Sales with a right of return

Currently when the customers are allowed to return the Group's products, the Group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The Group has assessed that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

(b) New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 Leases

Currently the Group classifies leases into operating leases, and accounts for the lease arrangements according to the nature of the lease. The Group enters into leases as the lessee and lessor.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of comprehensive income over the period of the lease. As disclosed in Note 30, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB4,886,000 for properties, among which RMB1,278,000 is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

Except the possible impacts of adoption of HKFRS 9, 15 and 16 as discussed above, the Group is not yet in a position to state whether the other new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the consolidated financial statements included applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) Basis of measurement

The financial statements have been prepared under the historical cost basis except for certain land and buildings and investment properties, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

(c) Functional and presentation currency

The consolidated financial statements are presented in Renminbi ("RMB"), which is both the functional currency and presentation currency of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (the "Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Business combination and basis of consolidation (Continued)

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

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

When the Group loses control of a subsidiary, the profit or loss on disposal 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 interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the Company and other parties who hold voting rights;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Property, plant and equipment

The land and buildings component of owner-occupied leasehold properties is stated at valuation less accumulated depreciation. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Increases in value arising on revaluation are recognised in other comprehensive income and accumulated in equity under the heading of properties revaluation reserve. Decreases in value arising on revaluation are first offset against increases on earlier valuations in respect of the same property and thereafter recognised in profit or loss. Any subsequent increases are recognised in profit or loss up to the amount previously charged and thereafter to the properties revaluation reserve.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties revaluation reserve to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment (Continued)

Other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated so as to write off their costs or valuation net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The principal annual rates are as follows:

Land and buildings	Over the shorter of lease terms of related leasehold land or 50 years
Leasehold improvements	18–20%
Plant and machinery	9–10%
Furniture, fixtures and equipment	18–20%
Motor vehicles	18–20%

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Investment property

Investment property is property held either to earn rentals or for capital appreciation or for both, but not held for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in profit or loss.

(e) Prepaid land lease payments

Payments for leasehold land under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

(f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and buildings as a finance lease of property, plant and equipment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

(h) Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

(ii) Impairment loss on financial assets (Continued)

Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

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 the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance for the relevant financial assets.

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and bills payables, other payables and accruals and bank borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(i) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Development cost of properties comprises cost of land use rights, construction costs, borrowing costs and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to be completed beyond normal operating cycle.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of estimated customer returns, rebates and other similar allowances and excludes value added tax.

(i) Revenue from the sale of goods is recognised on the transfer of risks and ownership, which is at the time of delivery and title is passed to customer.

(ii) Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(iii) Rental income from operating leases is recognised on straight-line basis over the terms of relevant lease.

(iv) Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for profit and loss items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. 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. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date.

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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Foreign currencies

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which the entity operates ("functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on monetary items that forms part of the Company's investment in a foreign operation, in which case, such exchange differences are reclassified to other comprehensive income in preparing the consolidated financial statements. Exchange differences arising on retranslation of non-monetary items carried at fair value are included in the profit and loss except for differences arising on retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Foreign currencies (Continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the translation reserve.

(n) Employees' benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

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

(o) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment under cost model;
- interests in leasehold land held for own use under operating leases; and
- investments in subsidiaries.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of other assets (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(p) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as liabilities in the statements of financial position and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions apply:

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

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

(iii) Both entities are joint ventures of the same third party,

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity,

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group,

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity),

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

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

(a) Critical judgements in applying accounting policies

Classification between investment properties and owner-occupied buildings

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Judgement is made on an individual property by property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made when determining that the portion used in the production or supply of goods or services or for administrative purposes is insignificant.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in the financial statements, other key sources of estimation uncertainty that have significant risks of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Estimated impairment of construction in progress and lease prepayments

The impairment loss for construction in progress and lease prepayments is recognised when the amount by which the carrying amount exceeds its estimated recoverable amount in accordance with the accounting policies stated in Notes 4(c) and 4(e) to the consolidated financial statements. The recoverable amounts have been determined based on the valuation conducted by an independent firm of professional valuers, with reference to the best available information obtained at the end of each reporting period. Any favourable or unfavourable changes to the assumptions of market conditions would result in changes in the carrying amounts of the assets.

Estimated impairment loss on trade and other receivables

The Group recognises allowance for impairment loss on trade and other receivables when the recoverability of the outstanding debts is uncertain. Such allowance estimated after taking into account various considerations including the age of the debts, creditworthiness of the debtors, past track records for recovery of debts with similar credit risk characteristics and market conditions. Where the expectation is different from the original estimates, such difference will impact the carrying amounts of receivables and allowance for impairment losses in the period in which such estimate had been changed.

Revaluation of investment properties and land and buildings

In determining the fair values of investment properties and land and buildings, the valuer has based on valuation techniques which involve, inter alia, certain estimates including comparable transactions in the relevant market, current market rents for similar properties in the same location and condition, appropriate discount rates and expected future market rents. In relying on the valuation report, directors have exercised judgement and are satisfied that the method of valuation is appropriate with reference to the current market condition.

Net realisable value of properties under development and properties held for sale

Management determines the net realisable value of properties under development and properties held for sale by using market valuation report available from independent qualified professional valuer. Such valuations are made based on certain assumptions, which are subject to uncertainties and might materially differ from the actual result. In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the reporting date. These estimates are regularly compared to actual market data and actual transactions in the market.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Key sources of estimation uncertainty (Continued)

PRC Enterprise Income tax

The Group is subject to enterprise income taxes in Mainland China. Due to the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provision in the period in which the differences realise.

PRC land appreciation tax ("LAT")

LAT in Mainland China is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sale of properties less deductible expenditures including land costs, borrowing costs, other property development expenditures.

When calculating the LAT, the Group needs to estimate the deductible expenditures and make judgement on the relevant tax rate on individual property basis under the relevant applicable tax laws and regulations. Given the uncertainties of the calculation basis of LAT to be interpreted by the local tax bureau, the actual outcomes may be higher or lower than that estimated. Where the final tax outcome of these matters is different for the amounts that were initially recorded, such difference will impact the LAT expense and LAT provision in the period in which the differences are realised.

6. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers (the "CODM") that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

— Research, development, manufacture and distribution of special computer products and trading of electronic accessories

— Development of properties

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Corporate expenses, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segments' profit, segments' assets and segments' liabilities that are used by the CODM for assessment of segment performance.

6. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2017

	Special computer products and electronic accessories RMB'000	Property development RMB'000	Total RMB'000
External revenue	1,264,188	41,012	1,305,200
Reportable segment profit/(loss)	68,276	(96,911)	(28,635)
Interest income	2,953	–	2,953
Other income	53,578	–	53,578
Depreciation and amortisation	(29,429)	(7,406)	(36,835)
Impairment loss on inventories	(1,023)	–	(1,023)
Fair value loss on investment properties	–	(64,851)	(64,851)
Fair value gain on transfer of properties held for sale to investment properties	–	14,458	14,458
Reportable segment assets	1,344,668	2,963,582	4,308,250
Additions to non-current assets	18,153	71,388	89,541
Reportable segment liabilities	(546,592)	(747,026)	(1,293,618)

For the year ended 31 December 2016

	Special computer products and electronic accessories RMB'000	Property development RMB'000	Total RMB'000
External revenue	893,715	247,951	1,141,666
Reportable segment profit	64,551	176,395	240,946
Interest income	2,270	305	2,575
Other income	61,347	–	61,347
Depreciation and amortisation	(28,419)	(2,196)	(30,615)
Reversal of impairment loss on trade receivables	173	–	173
Impairment loss on inventories	(1,564)	–	(1,564)
Fair value gain on investment properties	–	183	183
Fair value gain on transfer of properties held for sale to investment properties	–	155,589	155,589
Reportable segment assets	818,567	2,570,662	3,389,229
Additions to non-current assets	59,725	96,873	156,598
Reportable segment liabilities	(281,352)	(664,632)	(945,984)

6. SEGMENT INFORMATION (CONTINUED)

Notes:

(a) The following is an analysis of Group's revenue from its major customers which represent 10% or more of the Group's revenues during the year and is attributable to the reportable segment of "research and development, manufacture and distribution of special computer products and trading of electronic accessories":

	2017 RMB'000	2016 RMB'000
Customer A	523,079	480,270
Customer B	238,193	N/A

Note: Revenue from Customer B contributed less than 10% of revenue of the Group for the year ended 31 December 2016.

(b) **Reconciliation of reportable segment revenues, results, assets and liabilities**

	2017 RMB'000	2016 RMB'000
Revenue		
Total of reportable segments' revenue and consolidated revenue	1,305,200	1,141,666

	2017 RMB'000	2016 RMB'000
Profit before income tax		
Total of reportable segments' (loss)/profit	(28,635)	240,946
Other income	143,068	116,182
Fair value (loss)/gain on investment properties	(28,889)	46,274
Unallocated corporate expenses	(5,749)	(3,335)
Finance costs	(40,078)	(35,986)
Profit before income tax	39,717	364,081

6. SEGMENT INFORMATION (CONTINUED)

(b) Reconciliation of reportable segment revenues, results, assets and liabilities (Continued)

	2017 RMB'000	2016 RMB'000
Total of reportable segments' assets		
Reportable segment assets	4,308,250	3,389,229
Deferred tax assets	23,207	23,025
Property, plant and equipment	253,259	274,599
Investment properties	1,002,484	1,002,967
Unallocated corporate assets	4,508	4,634
Consolidated total assets	5,591,708	4,694,454

	2017 RMB'000	2016 RMB'000
Total of reportable segments' liabilities		
Reportable segment liabilities	1,293,618	945,984
Bank borrowings	1,870,000	1,370,000
Deferred tax liabilities	333,408	335,718
Tax payables	26,323	24,295
Consolidated total liabilities	3,523,349	2,675,997

(c) Geographic information

All revenue from external customers and non-current assets other than deferred tax assets are located in the PRC (place of domicile).

The geographical location of customers is based on the location at which the goods were delivered and the services were provided. The geographical location of the non-current assets other than deferred tax assets is based on the physical location of the assets.

7. TURNOVER AND OTHER INCOME

Turnover represents the invoiced value of goods sold and services provided to customers, net of customer returns, rebates and other similar allowances and excludes value added tax. The amounts of each significant category of revenue recognised during the year are as follows:

	2017 RMB'000	2016 RMB'000
Turnover		
Sales of special computer products	360,072	378,290
Sales of electronic products and accessories		
— Computer components	531,501	515,425
— Mobile phones and accessories	372,615	—
Sales of properties	41,012	247,951
	1,305,200	1,141,666
Other income		
Gross rentals from investment properties	153,789	124,554
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties reimbursed from tenants	(24,081)	(20,593)
	129,708	103,961
Bank interest income	2,953	2,575
Value-added tax ("VAT") concessions (Note (a))	10,408	10,149
Reversal of impairment loss on trade receivables	—	173
Government subsidies (Note (b))	45,726	53,773
Repairs and maintenance income	2,811	3,915
Sub-contracting income	208	170
Sundry income	7,785	5,388
	199,599	180,104

7. TURNOVER AND OTHER INCOME (CONTINUED)

(a) VAT refunds were obtained from local tax authority in respect of sales of approved software and integrated circuit products.

(b) Financial incentives were granted by the PRC government for development of high-technology products and purchase of specified property, plant and equipment for development of specified project. Included in the amount of government grants recognised as income for the year ended 31 December 2017, RMB16,510,000 (2016: RMB22,768,000) related to grants that were immediately recognised as income for the year as the Group has fulfilled the relevant granting criteria and the grant was not capital in nature, RMB17,235,000 (2016: RMB19,917,000) related to grants that were recognised as other income on systematic basis over the period that the costs were expensed for development of high-technology products and RMB11,981,000 (2016: RMB11,088,000) related to grants that were recognised as other income over the expected useful lives of the relevant specified property, plant and equipment for development of specified project.

8. FINANCE COSTS

	2017 **RMB'000**	2016 RMB'000
Interest on bank borrowings	**90,063**	86,610
Less: Interest capitalised	**(50,067)**	(50,693)
	39,996	35,917
Bank charges	**82**	69
	40,078	35,986

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.98% (2016: 5.02%) to expenditure on qualifying assets for the year ended 31 December 2017.

9. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2017 RMB'000	2016 RMB'000
Auditor's remuneration	**2,076**	1,690
Cost of inventories sold recognised as an expense (Note (a))	**1,089,705**	748,695
Cost of properties sold recognised as an expense	**38,163**	189,319
Depreciation of property, plant and equipment	**36,001**	29,599
Amortisation of prepaid land lease payments	**1,016**	1,016
Foreign exchange difference, net	**(1)**	(352)
Loss on disposal of property, plant and equipment	**184**	8
Loss on written off of property, plant and equipment	**58**	152
Reversal of impairment loss on trade receivables	**–**	(173)
Impairment on inventories	**1,023**	1,564
Minimum lease payments under operating leases	**4,948**	4,248
Research and development costs (Note (b))	**85,394**	66,364
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	**86,629**	77,413
Contributions to retirement benefits schemes	**6,348**	6,771
	92,977	84,184

Notes:

(a) Cost of inventories sold includes staff costs and depreciation of RMB19,958,000 (2016: RMB19,491,000) and RMB5,288,000 (2016: RMB5,415,000) respectively, which are also included in the total amounts disclosed above for each of these types of expenses.

(b) Research and development costs are included in other operating expenses which mainly consists of depreciation charge of RMB2,278,000 (2016: RMB2,268,000), consumable and material expenses amounting to RMB41,201,000 (2016: RMB31,355,000), staff costs amounting to RMB28,008,000 (2016: RMB23,613,000) and inspection fee amounting to RMB4,206,000 (2016: RMB4,498,000).

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments paid or payable to directors are as follows:

	2017 RMB'000	2016 RMB'000
Fees	**66**	67
Other emoluments:		
Salaries, allowances and benefits in kind	**535**	537
Contributions to retirement benefits schemes	**41**	45
	576	582
	642	649

(a) Independent non-executive directors

The directors' fees paid or payable to independent non-executive directors during the reporting period are as follows:

	2017 RMB'000	2016 RMB'000
Mr. Ling Chun Kwok	**–**	13
Mr. Yu Tat Chi, Michael	**30**	18
Mr. Wen Bing	**12**	12
Mr. Dong Li Xin	**12**	12
Mr. Zhang Da Ming	**12**	12
	66	67

There were no other emoluments payable to the independent non-executive directors during the reporting period (2016: Nil).

Mr. Ling Chun Kwok resigned as independent non-executive director with effective from 30 May 2016.

Mr. Yu Tat Chi, Michael was appointed as independent non-executive director with effective from 30 May 2016.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Executive directors

The emoluments of executive directors during the reporting period are set out below:

	Fees	Salaries, allowances and benefits in kind	Contributions to retirement benefits schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2017				
Mr. Chen Zhi Lie	**–**	**371**	**41**	**412**
Mr. Tso Cheng Shun	**–**	**30**	**–**	**30**
Mr. Geng Wen Qiang	**–**	**134**	**–**	**134**
Mr. Zhu Jun	**–**	**–**	**–**	**–**
	–	**535**	**41**	**576**
2016				
Mr. Chen Zhi Lie	–	330	37	367
Mr. Tso Cheng Shun	–	30	–	30
Mr. Geng Wen Qiang	–	125	2	127
Mr. Zhu Jun	–	52	6	58
	–	537	45	582

Salaries, allowances and other benefits paid to or for the executive directors are generally emoluments in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(c) Supervisors

The emoluments of supervisors during the reporting period are set out below:

	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefits schemes RMB'000	Total RMB'000
2017			
Ms. Pu Jing	**151**	**–**	**151**
Mr. Zhan Guo Nian	**81**	**19**	**100**
Mr. Zhang Zheng An	**12**	**–**	**12**
Mr. Wu Man Kang	**12**	**–**	**12**
Ms. Guo Jia Wen	**12**	**–**	**12**
	268	**19**	**287**
2016			
Ms. Pu Jing	144	–	144
Mr. Zhan Guo Nian	75	11	86
Mr. Zhang Zheng An	20	–	20
Mr. Wu Man Kang	12	–	12
Ms. Guo Jia Wen	12	–	12
	263	11	274

(d) During the reporting period, no emoluments were paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil). There were no arrangements under which any director or supervisor waived or agreed to waive any emoluments in respect of each of the reporting period.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(e) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one of them was director of the Company in respect of the reporting period (2016: one). The emoluments of the remaining four (2016: four) individuals, during the reporting period were as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,826**	1,740
Contributions to retirement benefits schemes	**48**	46
	1,874	1,786

The emoluments of each of the above highest paid employees were all within the band from HK$Nil to HK$1,000,000 (equivalent to approximately RMB836,000 (2016: approximately RMB895,000)) for the years ended 31 December 2017 and 2016.

During the year, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

11. INCOME TAX EXPENSE

(a) The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2017 RMB'000	2016 RMB'000
Current tax — the PRC		
Enterprise income tax ("EIT")		
Current year	**11,252**	21,078
Land appreciation tax ("LAT")		
Current year	**481**	5,812
	11,733	26,890
Deferred taxation (Note 25)		
Origination and reversal of temporary differences, net	**(7,497)**	68,133
Income tax expense	**4,236**	95,023

11. INCOME TAX EXPENSE (CONTINUED)

(a) (Continued)

In accordance with the PRC Enterprise Income Tax Law, the PRC EIT is calculated at 25% on the estimated assessable profit for the year. Certain of the Company's subsidiaries established in the PRC are exempted from income tax for two years starting from their first profit making year after utilisation of tax losses brought forward and are entitled to 50% relief on the income tax in the following three years. One of these subsidiaries is entitled to 50% relief on the income tax (2016: 50% relief from income tax).

The Company which has been approved as new and high technology enterprise is entitled to a concessionary tax rate of 15%. The Company needs to re-apply for the preferential tax treatment when the preferential tax period expires.

Other subsidiaries are subject to income tax rate of 25% (2016: 25%) during the reporting period.

The PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits during the reporting period. No Hong Kong profits tax has been provided for the year ended 31 December 2017 and 2016 as there was no estimated assessable profit.

(b) The income tax expense for the year can be reconciled to the profit before income tax per the consolidated statement of comprehensive income as follows:

	2017 RMB'000	2016 RMB'000
Profit before income tax expense	**39,717**	364,081
Tax at applicable tax rate at 25% (2016: 25%)	**9,929**	91,021
Effect of tax exemption, reduction and concessions	**(19,404)**	(15,861)
Tax effect of non-taxable income	**(3,077)**	(35)
Utilisation of tax losses and temporary differences previously not recognised	**–**	(308)
Tax effect of non-deductible expenses	**459**	825
Tax effect of tax losses and temporary differences not recognised	**15,842**	13,569
LAT	**487**	5,812
Income tax expense	**4,236**	95,023

12. DIVIDENDS

The board of directors do not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

13. EARNINGS PER SHARE

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

	2017	2016
Profit for the year attributable to the owners of the Company for the purpose of earnings per share calculation (RMB'000)	35,481	269,058
Weighted average number of domestic and H shares in issue	1,233,144,000	1,233,144,000
Basic and diluted earnings per share (RMB)	0.029	0.218

There was no potential domestic and H shares in issue during the reporting period, the amount of diluted earnings per share is the same as basic earnings per share for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:							
As at 1 January 2016	749,462	39,701	27,322	87,440	14,347	177,037	1,095,309
Additions	42,154	8,034	12	2,514	489	102,005	155,208
Transfer from construction in progress	4,586	–	–	–	–	(4,586)	–
Transfer from properties held for sale (Note (a))	1,207	–	–	–	–	–	1,207
Transfer to investment properties (Note (b))	(288,993)	–	–	–	–	(2,682)	(291,675)
Disposals	–	(387)	–	(325)	(67)	–	(779)
Written off	–	–	(32)	(901)	–	(15)	(948)
Revaluation surplus	8,187	–	–	–	–	–	8,187
As at 31 December 2016 and 1 January 2017	516,603	47,348	27,302	88,728	14,769	271,759	966,509
Additions	–	9,469	–	9,543	389	70,140	89,541
Transfer from construction in progress	221,351	–	–	–	–	(221,351)	–
Transfer from properties held for sale (Note (a))	2,066	–	–	–	–	–	2,066
Transfer to investment properties (Note (b))	(28,406)	–	–	–	–	–	(28,406)
Disposals	–	(413)	(34)	(3,681)	–	–	(4,128)
Written off	–	(51)	–	(127)	(124)	–	(302)
Revaluation surplus	2,618	–	–	–	–	–	2,618
As at 31 December 2017	714,232	56,353	27,268	94,463	15,034	120,548	1,027,898
Accumulated depreciation:							
As at 1 January 2016	–	34,229	12,244	71,002	12,500	–	129,975
Charge for the year	18,382	3,736	3,105	4,162	214	–	29,599
Written back on disposal	–	(387)	–	(296)	(59)	–	(742)
Written back on written off	–	–	(18)	(779)	–	–	(797)
Eliminated on revaluation upon transfer (Note (b))	(3,303)	–	–	–	–	–	(3,303)
Eliminated on revaluation	(15,079)	–	–	–	–	–	(15,079)
As at 31 December 2016 and 1 January 2017	–	37,578	15,331	74,089	12,655	–	139,653
Charge for the year	17,400	11,271	3,073	4,056	201	–	36,001
Written back on disposal	–	(387)	(30)	(616)	–	–	(1,033)
Written back on written off	–	(30)	–	(103)	(111)	–	(244)
Eliminated on revaluation upon transfer (Note (b))	(312)	–	–	–	–	–	(312)
Eliminated on revaluation	(17,088)	–	–	–	–	–	(17,088)
As at 31 December 2017	–	48,432	18,374	77,426	12,745	–	156,977
Carrying values:							
As at 31 December 2017	714,232	7,921	8,894	17,037	2,289	120,548	870,921
As at 31 December 2016	516,603	9,770	11,971	14,639	2,114	271,759	826,856

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) For the year ended 31 December 2017, the use of certain properties with a total carrying amount of RMB2,066,000 (2016: RMB1,207,000) have changed, as evidenced by commencement of self-occupation for office use by the Group and hence were transferred to property, plant and equipment from properties held for sale.

(b) For the year ended 31 December 2017, the use of certain properties with a total carrying amount of RMB28,406,000 (2016: RMB288,993,000) have changed to investment property purposes, as evidenced by the end of self-occupation for office use by the Group and hence these properties were transferred to investment properties.

(c) The fair value of the Group's land and buildings in the PRC at 31 December 2017 and 2016 were with reference to valuation carried out by qualified valuers from CBRE Limited, an independent firm of chartered surveyors.

The valuations were carried out in accordance with HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors. The revaluation surplus net of applicable deferred taxes was credited to properties revaluation reserve.

Had the revalued land and buildings been measured at historical cost less accumulated depreciation, the carrying values of the Group as at 31 December 2017 would have been RMB464,832,000 (2016: RMB284,206,000).

(d) The fair value of the Group's land and buildings is a level 3 recurring fair value measurements using significant unobservable inputs. During the years, there were no transfers of fair value measurements between level 1 and level 2, and no transfers into or out of level 3. A reconciliation of the opening and closing fair value balance is provided below.

	2017 RMB'000	2016 RMB'000
At beginning of year	**516,603**	749,462
Depreciation charge	**(17,400)**	(18,382)
Transfer from construction in progress	**221,351**	4,586
Transfer from properties held for sale	**2,066**	1,207
Transfer to investment properties	**(28,406)**	(288,993)
Additions	**–**	42,154
Revaluation gain included in other comprehensive income	**20,018**	26,569
At end of year	**714,232**	516,603

There were no changes to the valuation techniques during the year.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) (Continued)

For the Group's land and buildings in the PRC as at 31 December 2017 and 2016, the valuation of leasehold land and buildings was determined using depreciated replacement cost approach, a weight of income capitalisation approach and income approach — discounted cash flow approach, a weight of income approach — discounted cash flow approach and direct comparison approach, direct comparison approach and a weight of income capitalisation approach and income approach — discounted cash flow approach respectively.

For the buildings valued using the depreciated replacement cost approach, the fair value is based on estimated new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

For the land and buildings valued using the income capitalisation approach, the fair value is based on rental income derived from the existing leases with due allowance for the revisionary income potential of the leases, which are then capitalised into the value at appropriate rates. The key inputs are capitalisation rates and monthly rent using direct market comparables.

For the land and buildings valued using the income approach — discounted cash flow approach, fair value is based on assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of net cash flows on a property interest. A market-derived discount rate is applied to the projected net cash flow in order to establish the present value of the income stream associated with the asset.

For the land and buildings valued using a weight of income capitalisation approach and income approach — discounted cash flow approach, a suitable weighting has been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is capitalisation rate, discount rate, average market rent growth rate and market rent.

For the buildings valued using the direct comparison approach, the fair value is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The most significant input into this valuation approach is price per square feet and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc..

For the land and buildings valued using a weight of income approach — discounted cash flow approach and direct comparison approach a suitable weighting has been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is price per square meter.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) (Continued)

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below:

Description	Fair value (RMB'000) 2017	Fair value (RMB'000) 2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs 2017	Range of unobservable inputs 2016	Relationship of unobservable inputs to fair value
i) Buildings in the PRC	**147,088**	149,983	Depreciated replacement cost approach	Estimated cost of construction per square meter ("sq.m."), taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use	**RMB6,000/sq.m.**	RMB6,000/sq.m.	Higher the estimated cost of construction per sq.m. will result in correspondingly higher fair value
				Age adjustment on the cost of buildings, taking into account of remaining useful life of buildings	**20%**	18%	Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value
ii) Leasehold land and buildings in the PRC	**261,990**	295,808	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**5.75%**	5.75%	The higher the capitalisation rate, the lower the fair value
			Income approach — discounted cash flow approach	Average market rent per "sq.m.", taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB27/sq.m. to RMB57/sq.m.**	RMB27/sq.m. to RMB57/sq.m.	The higher the average market rent, the higher the fair value

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) (Continued)

Description	Fair value (RMB'000) 2017	2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs 2017	2016	Relationship of unobservable inputs to fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**9%**	9%	The higher the discount rate, the lower the fair value
				Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**4.6%**	6%	The higher the rental growth rate, the higher the fair value
iii) Leasehold land and buildings in the PRC	**26,654**	28,312	Income approach — discounted cash flow approach	Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB69/sq.m.**	RMB45/sq.m. to RMB69/sq.m.	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**8.50%**	8.50%	The higher the discount rate, the lower the fair value

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) (Continued)

Description	Fair value (RMB'000) 2017	2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs 2017	2016	Relationship of unobservable inputs to fair value
				Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**5%**	5%	The higher the rental growth rate, the higher the fair value
			Direct comparison approach	Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**RMB12,400/ sq.m.**	RMB13,500/ sq.m.	Higher the price per sq.m. will result in correspondingly higher fair value
iv) Buildings in the PRC	**42,500**	42,500	Direct comparison approach	Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**RMB8,000/sq.m.**	RMB8,000/sq.m.	Higher the price per sq.m. will result in correspondingly higher fair value
v) Leasehold land and buildings in the PRC	**236,000**	Nil	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**6.25%**	N/A	The higher the capitalisation rate, the lower the fair value

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(d) (Continued)

Description	Fair value (RMB'000) 2017	Fair value (RMB'000) 2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable inputs 2017	Range of unobservable inputs 2016	Relationship of unobservable inputs to fair value
v) Leasehold land and buildings in the PRC			Income approach — discounted cash flow approach	Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB45/sq.m. to RMB50/sq.m.**	N/A	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**10.5%**	N/A	The higher the discount rate, the lower the fair value
				Average market rental growth rate, taking into account of annual market rental income growth rate of comparable properties	**4.8%**	N/A	The higher the rental growth rate, the higher the fair value

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

(e) As at 31 December 2017, the Group had pledged the land and buildings with total carrying values of RMB428,706,000 (2016: RMB458,203,000) to secure banking facilities granted to the Group. Accordingly, land and buildings of the Group with carrying amount of RMB428,706,000 (2016: RMB458,203,000) were not freely transferable.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(e) An analysis of gross carrying amounts of the Group's property, plant and equipment:

	Land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Group							
At valuation	**714,232**	**–**	**–**	**–**	**–**	**–**	**714,232**
At cost	**–**	**56,353**	**27,268**	**94,463**	**15,034**	**120,548**	**313,666**
As at 31 December 2017	**714,232**	**56,353**	**27,268**	**94,463**	**15,034**	**120,548**	**1,027,898**
At valuation	516,603	–	–	–	–	–	516,603
At cost	–	47,348	27,302	88,728	14,769	271,759	449,906
As at 31 December 2016	516,603	47,348	27,302	88,728	14,769	271,759	966,509

15. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Carrying amount, at fair values		
At beginning of year	**1,619,097**	936,138
Transfer from property, plant and equipment (Note 14(b))	**28,406**	288,993
Transfer from construction in progress	**–**	2,682
Transfer from properties held for sale (Note(a))	**155,131**	344,827
(Decrease)/increase in fair value	**(93,740)**	46,457
At end of year	**1,708,894**	1,619,097

Notes:

(a) During the year ended 31 December 2017, the use of certain properties with a total carrying amount of RMB80,243,000 (2016: RMB189,238,000) have changed to investment property purposes, as evidenced by the entering into by the Group of long term lease agreements with tenants. Accordingly, these properties were transferred from properties held for sale to investment properties and fair value gain of RMB74,888,000 (2016: RMB155,589,000) was recognised in profit or loss at the date of transfer. The leases were commenced during the year.

(b) The fair value of the Group's Investment properties in the PRC at 31 December 2017 and 2016 were with reference to valuation carried out by qualified valuers from CBRE Limited, an independent firm of chartered surveyors.

The valuations were carried out in accordance with HKIS Valuation Standards issued by the Hong Kong Institute of Surveyors.

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) The fair value of investments properties is a level 3 recurring fair value measurements using significant unobservable inputs. During the years, there were no transfers of fair value measurements between level 1 and level 2, and no transfers into or out of level 3.

There were no changes to the valuation techniques during the year.

For the Group's investment properties in the PRC as at 31 December 2017 and 2016, the valuation was determined using direct comparison approach, depreciated replacement cost approach, a weight of income capitalisation approach and income approach — discounted cash flow approach and a weight of income approach — discounted cash flow approach and direct comparison approach.

For the investment properties using the direct comparison approach, the fair value is based on prices for recent market transactions in similar properties and adjusted to reflect the conditions and locations of the Group's properties. The most significant input into this valuation approach is price per square feet and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc..

For the investment properties using the depreciated replacement cost approach, the fair value is based on estimated new replacement cost of the buildings and other site works from which adjustments are then made to account for age, condition, and functional obsolescence, while taking into account the site formation cost and those public utilities connection charges to the properties. These adjustments are based on unobservable inputs. The key inputs are estimated cost of construction per square meter and age adjustment on the cost of buildings.

For the investment properties using the income capitalisation approach, the fair value is based on rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalised into the value at appropriate rates. The key inputs are capitalisation rate and monthly rent using direct market comparables.

For the investment properties using the income approach — discounted cash flow approach, fair value is based on assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of net cash flows on a property interest. A market-derived discount rate is applied to the projected net cash flow in order to establish the present value of the income stream associated with the asset. The key inputs are average market rent per square meter and discount rate.

For the investment properties using a weight of income capitalisation approach and income approach — the discounted cash flow approach, a suitable weighting have been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input are capitalisation rate, discount rate, average market rental growth rate and market rent.

For the investment properties using a weight of income approach — the discounted cash flow approach and direct comparison approach, a suitable weighting have been taken into consideration to the relative subjectivity of each approach, inputs and the degree of comparability between the interest properties and the comparable properties. The key input is price per square meter using market direct comparables.

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

Information about fair value measurements using significant unobservable inputs (Level 3) is provided below:

Description	Fair value (RMB'000) 2017	Fair value (RMB'000) 2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable input 2017	Range of unobservable input 2016	Relationship of unobservable inputs to fair value
i) Investment properties in the PRC	**31,400**	31,400	Direct comparison approach	Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**RMB27,300/sq.m.**	RMB27,300/sq.m.	Higher the price per sq.m. will result in correspondingly higher fair value
ii) Investment properties in the PRC	**126,112**	130,668	Depreciated replacement cost approach	Estimated cost of construction per sq.m., taking into consideration everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the valuation date, fit for and capable of being occupied and used for the current use	**RMB6,000/sq.m.**	RMB6,000/sq.m.	Higher the estimated cost of construction per sq.m. will result in correspondingly higher fair value
				Age adjustment on the cost of buildings, taking into account of remaining useful life of buildings	**20%**	18%	Higher the rate of age adjustment on the cost of buildings will result in correspondingly lower fair value

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

Description	Fair value (RMB'000) 2017	Fair value (RMB'000) 2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable input 2017	Range of unobservable input 2016	Relationship of unobservable inputs to fair value
iii) Investment properties in the PRC	**844,975**	840,899	Income capitalisation approach	Capitalisation rate, taking into account of relevant sales transactions and interpretation of prevailing market expectation	**5.75%**	5.75%	The higher the capitalisation rate, the lower the fair value
			Income approach – discounted cash flow method	Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB27/sq.m. to RMB57/sq.m.**	RMB27/sq.m. to RMB57/sq.m.	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**9%**	9%	The higher the discount rate, the lower the fair value
				Average market rental growth rate,taking into account of annual market rental income growth rate of comparable properties	**4.6%**	6%	The higher the average market growth rate, the higher the fair value

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

Description	Fair value (RMB'000) 2017	2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable input 2017	2016	Relationship of unobservable inputs to fair value
iv) Investment properties in the PRC	**694,750**	610,990	Income approach — discounted cash flow approach	Average market rent per sq.m., taking into account of direct market comparables and taking into account of age, location and individual factors, such as road frontage, size of property and design	**RMB69/sq.m.**	RMB45/sq.m. to RMB69/sq.m.	The higher the average market rent, the higher the fair value
				Discount rate, taking into account of market capitalisation of rental income potential, nature of the property, prevailing market condition with average rental growth rate of comparable properties	**8.50%**	8.50%	The higher the discount rate, the lower the fair value
				Average market rental growth rate,taking into account annual market rental income growth rate of comparable properties	**5%**	5%	The higher the average market growth rate, the higher the fair value

15. INVESTMENT PROPERTIES (CONTINUED)

Notes: (Continued)

(c) (Continued)

Description	Fair value (RMB'000) 2017	2016	Valuation technique(s)	Significant unobservable inputs	Range of unobservable input 2017	2016	Relationship of unobservable inputs to fair value
iv) Investment properties in the PRC			Direct comparison approach	Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**Office premises: RMB6,400/sq.m.** **Retail premises: RMB6,400/sq.m. to RMB11,700/ sq.m.**	Office premises: RMB7,300/sq.m. Retail premises: RMB7,400/sq.m. to RMB13,500/ sq.m.	Higher the price per sq.m. will result in correspondingly higher fair value
v) Investment properties in the PRC	**11,657**	5,140	Direct comparison approach	Price per sq.m., using market direct comparables and taking into account of time of transaction, location and other individual factors such as size of property, level of property, age of property, site view and building quality, etc.	**Office premises: RMB8,300/sq.m.**	Office premises: RMB8,000/sq.m.	Higher the price per sq.m. will result in correspondingly higher fair value

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

(d) All investment properties held by the Group were located in the PRC and held under medium term leases. All property interests held under operating leases are classified and accounted for as investment property.

(e) As at 31 December 2017, the Group had pledged investment properties with total carrying values of RMB1,194,293,000 (2016: RMB971,567,000), to secure general banking facilities granted to the Group. Accordingly, the investment properties of the Group with carrying value of RMB1,194,293,000 (2016: RMB971,567,000) are not freely transferable.

16. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At beginning and end of year	**50,813**	50,813
Accumulated amortisation and impairment:		
At beginning of year	**5,244**	4,228
Charge for the year	**1,016**	1,016
At end of year (Note)	**6,260**	5,244
Carrying values at end of year	**44,553**	45,569
Less: Current portion included under current assets	**(1,016)**	(1,016)
Non-current portion	**43,537**	44,553

Note:

Location

	2017 RMB'000	2016 RMB'000
Hangzhou, Zhejiang, the PRC	**7,608**	7,777
Shenzhen, Guangdong, the PRC	**4,509**	4,635
Nantong, Jiangsu, the PRC	**32,436**	33,157

All the land was acquired at a concessionary discount on land premium and is not freely transferable unless, among others, additional premium, if any, is paid and government approval is obtained.

17. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**27,456**	25,713
Work-in-progress	**6,518**	5,513
Finished goods	**4,948**	5,978
	38,922	37,204
Less: Allowance for inventories	**(7,048)**	(6,025)
	31,874	31,179

The cost of inventories recognised as an expense during the reporting period was RMB1,089,705,000 (2016: RMB748,695,000), of which RMB1,023,000 (2016: RMB1,564,000) was in respect of write-off of inventories made in prior years.

18. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

All properties under development and held for sale are located in the PRC.

As at 31 December 2017, the properties under development and held for sale with carrying amount of RMB1,325,966,000 and RMB353,761,000 (2016: RMB1,014,040,000 and RMB528,043,000) respectively were pledged as collateral for the Group's bank borrowings (Note 24).

As at 31 December 2017, properties under development amounting to approximately RMB677,185,000 (2016: RMB497,763,000) were not expected to be realised within twelve months from the end of the reporting period.

19. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables (Note (a))	**149,570**	6,465
Allowance for impairment losses (Note (c))	**—**	—
Trade receivables, net (Note (b))	**149,570**	6,465
Bills receivable (Note (d))	**51,714**	30,888
Total	**201,284**	37,353

Goods sold to customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranged from 30 days to 90 days, extending up to 180 days for major customers. Each customer has a maximum credit limit.

19. TRADE AND BILLS RECEIVABLES (CONTINUED)

(a) The ageing analysis of gross trade receivables at the end of reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
0 to 90 days	**149,392**	4,642
91 to 180 days	**86**	175
181 to 365 days	**–**	451
Over 1 year	**92**	1,197
Gross trade receivables	**149,570**	6,465

(b) The ageing analysis of trade receivables (net of impairment losses) which are past due but not impaired of the Group as the end of reporting period is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**91,886**	3,780
Within 90 days past due	**57,504**	1,850
91 to 180 days past due	**75**	71
181 to 365 days past due	**–**	741
Over 365 days past due	**105**	23
Amount past due but not impaired	**57,684**	2,685
	149,570	6,465

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

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

19. TRADE AND BILLS RECEIVABLES (CONTINUED)

(c) Movements in the allowance for impairment losses on trade receivables during the reporting period are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	–	173
Impairment loss recognised, net	–	(173)
Bad debts written off	–	–
At end of year	–	–

The Group recognised impairment on individual assessment based on the accounting policy stated in Note 4(h)(ii) to the consolidated financial statements.

(d) Bills receivable are with maturity of less than 6 months. At the end of reporting period, bills receivable of the Group amounting to approximately RMB49,503,000 (2016: RMB29,453,000) have been endorsed to suppliers. The carrying values of bills endorsed to suppliers continue to be recognised as assets in the financial statements as the Group is still exposed to credit risk on these receivables at the end of the reporting period. Accordingly, the liabilities associated with these bills, mainly payable, have not been derecognised in the financial statements. No bills receivables is past due as at 31 December 2017.

20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Other receivables (Note (a))	117,970	93,281
Non-trade deposits	7,168	7,156
Advance to suppliers (Note (b))	167,667	238
Prepayments	55,711	38,123
	348,516	138,798

Notes:

(a) Included in other receivables, RMB100,000,000 (2016: RMB84,333,000) was due from a company which is a customer of the Group in its special computer business and has long standing business relationship with the Group. The balance is unsecured, interest-free and repayable on demand. The amount was repaid in full on 4 January 2018.

(b) Advances to suppliers are mainly related to electronic products and accessories business. These suppliers are privately-owned companies located in the PRC that engaged in manufacturing of mobile phones or distribution of mobile phones and its accessories. Among the balance of RMB167,667,000, RMB66,022,000 (2016: Nil) was advanced to mobile phone manufacturers, while RMB47,681,000 (2016: Nil) was advanced to mobile phone distributors. The remaining balances amounting to RMB53,964,000 (2016: RMB238,000) are advances to mobile phone and electronic components suppliers who are manufacturers and distributors.

21. CASH AND BANK BALANCES

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**641,773**	392,556
Restricted bank deposit	**39,327**	34,006
	681,100	426,562
Less:		
Pledged bank balances (Note (a))	**(189)**	(2,582)
Restricted bank deposit for loan (Note (b))	**(17,581)**	(12,260)
Restricted bank deposit for construction projects (Note (c))	**(21,746)**	(21,746)
	(39,516)	(36,588)
Cash and cash equivalents	**641,584**	389,974

Notes:

(a) Pledged bank balances represent deposits placed in banks as a reserve for any compensation of the damages during the construction.

(b) Restricted bank deposit of RMB17,581,000 (2016: RMB12,260,000) represents the deposits pledged to banks to secure loan facilities.

(c) Restricted bank deposit of RMB21,746,000 (2016: RMB21,746,000) represents the deposits pledged to banks to secure specific construction projects required by the local authority.

(d) Cash at banks earns interest at floating rates based on daily bank deposit rates.

(e) At the end of reporting period, majority of the bank balances and cash of the Group are denominated in RMB. RMB is not freely convertible into other currencies. Under PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group are permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

22. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	**729,996**	468,350
Bills payable	**1,277**	60,000
	731,273	528,350

22. TRADE AND BILLS PAYABLES (CONTINUED

The ageing analysis of trade payables, based on invoice date, as of the end of reporting period is as follows:

	2017 RMB'000	2016 RMB'000
0 to 90 days	**671,351**	434,539
91 to 180 days	**1,846**	11,399
181 to 365 days	**2,814**	11,194
Over 1 year	**53,985**	11,218
	729,996	468,350

At the end of reporting period, the Group has endorsed certain bills receivable with recourse to suppliers and the liabilities relating to these bills receivable (Note 19(d)) continue to be recognised as trade payables.

23. OTHER PAYABLES, ACCRUALS AND RECEIPTS IN ADVANCE

	2017 RMB'000	2016 RMB'000
Construction and other payables	**146,360**	114,864
Receipts in advance from pre-sales of properties	**46,881**	18,949
Receipts in advance	**32,411**	24,570
Government grants (Note)	**94,491**	71,071
Accruals	**16,150**	11,624
	336,293	241,078

Note: The balance represents grants obtained from the PRC government in relation to the purchase of specified property, plant and equipment for development of specified project by the Group. At the end of reporting period, not all the conditions related to the above government grants have been fulfilled and the related income has not yet been recognised. As at 31 December 2017, government grants amounting to approximately RMB51,867,000 (2016: RMB55,360,000) were not expected to be realised within twelve months from the end of the reporting period.

24. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Secured bank borrowings	**2,096,052**	1,546,556

24. BANK BORROWINGS (CONTINUED)

At the end of reporting period, total bank borrowings were scheduled to be repaid as follows:

	2017 RMB'000	2016 RMB'000
On demand or within one year	1,300,880	846,400
After one year but within two years	123,920	598,400
After two years but within five years	246,252	101,756
More than five years	425,000	—
	795,172	700,156
	2,096,052	1,546,556

The Group has bank borrowings with fixed rate and floating rate which carry prevailing market interest rates.

	2017 Effective interest rate %	2017 RMB'000	2016 Effective interest rate %	2016 RMB'000
Fixed rate borrowings				
Bank borrowings	4.35%-4.79%	900,000	4.35%-5.85%	790,000
Floating rate borrowings				
Bank borrowings	4.52%-6.37%	1,196,052	4.52%-6.15%	756,556

At 31 December 2017, the secured bank borrowings and general banking facilities with carrying amount of RMB846,052,000 (2016: RMB377,556,000) are secured by way of charge over certain assets, including land and buildings, investment properties, leasehold land under operating leases, construction in progress and rental receivables, together with the personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company, his spouse and the ultimate holding company.

The remaining secured bank borrowings amounting to RMB1,250,000,000 (2016: RMB1,169,000,000) are secured by way of personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company, his spouse and the ultimate holding company.

At the end of reporting period, the Group had available undrawn committed borrowing facilities of RMB1,890,000,000 (2016: RMB1,480,000,000) in respect of which all conditions precedent had been met.

25. DEFERRED TAXATION

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

	Capitalised interests on borrowings	Unrealised profit on inter company transactions	Revaluation of properties	Allowance for impairment losses	Temporary difference on recognition of sales and relevant costs	Temporary difference on recognition of expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	5,116	(726)	263,266	(14,668)	(3,731)	(7,295)	241,962
Charged/(credited) to profit or loss	14,254	(120)	50,484	(156)	3,671	–	68,133
Charged to other comprehensive income	–	–	2,598	–	–	–	2,598
At 31 December 2016 and 1 January 2017	19,370	(846)	316,348	(14,824)	(60)	(7,295)	312,693
Charged/(credited) to profit or loss	**12,506**	**(121)**	**(19,821)**	**(121)**	**60**	**–**	**(7,497)**
Charged to other comprehensive income	**–**	**–**	**5,005**	**–**	**–**	**–**	**5,005**
At 31 December 2017	**31,876**	**(967)**	**301,532**	**(14,945)**	**–**	**(7,295)**	**310,201**

(a) Deferred tax balances are presented in the consolidated statement of financial position as follows:

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**(23,207)**	(23,025)
Deferred tax liabilities	**333,408**	335,718
	310,201	312,693

The Group has estimated unused tax losses arising in the PRC of RMB99,017,000 (2016: RMB61,577,000) that can be carried forward for five years for offsetting against its future taxable profits.

25. DEFERRED TAXATION (CONTINUED)

(a) (Continued)

The unused tax losses arising in the PRC will expire as follows:

	2017 RMB'000	2016 RMB'000
Year of expiry		
2017	–	4,089
2018	5,757	5,757
2019	37,519	37,519
2020	6,522	6,522
2021	7,690	7,690
2022	41,529	–
	99,017	61,577

No deferred tax assets have been recognised for the unused tax losses as the availability of future taxable profits to utilise the temporary differences is not probable.

26. SHARE CAPITAL

	Number of shares	RMB'000
Registered, issued and fully paid		
At 1 January 2016, 31 December 2016 and 2017	1,233,144,000	123,314
Of which:		
Domestic shares of RMB0.1 each	924,792,000	92,479
Overseas listed H Shares of RMB0.1 each	308,352,000	30,835
	1,233,144,000	123,314

Domestic shares and overseas listed H shares are both ordinary shares of the Company. However, overseas listed H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC whereas domestic shares may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 45.

(b) Company

	Share premium RMB'000 (Note (c)(i))	Statutory surplus reserve RMB'000 (Note (c)(ii))	Properties revaluation reserve RMB'000 (Note (c)(iii))	Translation reserve RMB'000 (Note (c)(iv))	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	8,586	69,260	384,251	1,115	1,112,322	1,575,534
Total comprehensive income for the year, net of tax	–	–	26,243	(292)	138,376	164,327
Dividend approved in respect of the previous year	–	–	–	–	(18,497)	(18,497)
At 31 December 2016 and 1 January 2017	8,586	69,260	410,494	823	1,232,201	1,721,364
Total comprehensive income for the year, net of tax	**–**	**–**	**2,223**	**401**	**82,693**	**85,317**
At 31 December 2017	**8,586**	**69,260**	**412,717**	**1,224**	**1,314,894**	**1,806,681**

(c) Nature and purpose of reserves

(i) Share premium

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share.

(ii) Statutory surplus reserve

In accordance with the PRC Company Law, the Company and its PRC subsidiaries are required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies). The statutory surplus reserve is non-distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(iii) Properties revaluation reserve

This has been set up and is dealt with in accordance with the accounting policy in Note 4(c).

(iv) Translation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. This reserve is dealt with in accordance with the accounting policy in Note 4(m).

28. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		485,521	525,016
Investment properties		1,002,484	1,002,967
Prepaid land lease payments		4,384	4,509
Investments in subsidiaries		1,078,743	1,078,743
Deferred tax assets		906	785
Total non-current assets		2,572,038	2,612,020
Current assets			
Inventories		36,508	35,006
Prepaid land lease payments		126	126
Trade receivables		146,628	5,281
Bills receivable		34,781	29,452
Other receivables, deposits and prepayments		278,506	92,055
Amounts due from subsidiaries		1,054,095	832,336
Cash and bank balances		544,264	364,814
Total current assets		2,094,908	1,359,070
Current liabilities			
Trade payables		332,801	60,785
Bills payable		1,277	60,000
Other payables, accruals and receipts in advance		198,063	144,337
Amounts due to subsidiaries		144,273	296,008
Bank borrowings		1,270,000	800,000
Income tax payable		12,517	10,781
Total current liabilities		1,958,931	1,371,911
Net current assets/(liabilities)		135,977	(12,841)
Total assets less current liabilities		2,708,015	2,599,179

28. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Bank borrowings		**600,000**	570,000
Deferred tax liabilities		**178,020**	184,501
Total non-current liabilities		**778,020**	754,501
NET ASSETS		**1,929,995**	1,844,678
CAPITAL AND RESERVES			
Share capital	26	**123,314**	123,314
Reserves	27(b)	**1,806,681**	1,721,364
TOTAL EQUITY		**1,929,995**	1,844,678

On behalf of the directors

Chen Zhi Lie
Chairman

Tso Cheng Shun
Chairman

29. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries, the business structure of which were corporations, as at 31 December 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up registered capital	Attributable equity interests held by the Company		Principal activities
			directly	indirectly	
深圳市研祥軟件技術有限公司 Shenzhen EVOC Software Technology Company Limited*	PRC	RMB6,000,000	100%	—	Investment holding
深圳市研祥新特科技有限公司 Shenzhen EVOC Xinteer Technology Company Limited*	PRC	RMB10,000,000	—	100%	Trading of electronic accessories
上海市研祥智能科技有限公司 Shanghai EVOC Intelligent Technology Company Limited*	PRC	RMB30,000,000	100%	—	Research, development, manufacture and distribution of special computer products
北京市研祥興業國際智能科技有限公司 Beijing EVOC Xingye International Technology Company Limited*	PRC	RMB30,000,000	100%	—	Research, development and distribution of special computer products
無錫深港國際服務外包產業發展有限公司 Wuxi SHIOC International Outsourcing Industry Development Company Limited*	PRC	RMB306,122,400	100%	—	Property development
昆山研祥智能科技有限公司 Kunshan EVOC Intelligent Technology Company Limited*	PRC	RMB100,000,000	90%	10%	Property development
浙江研祥智能科技有限公司 Zhejiang EVOC Intelligent Technology Company Limited*	PRC	RMB70,000,000	90%	10%	Property development

29. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the Company's principal subsidiaries, the business structures of which were corporations, as at 31 December 2017 are as follows: (Continued)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid up registered capital	Attributable equity interests held by the Company directly	Attributable equity interests held by the Company indirectly	Principal activities
江蘇研祥智能科技有限公司 Jiangsu EVOC Intelligent Technology Company Limited*	PRC	RMB100,000,000	90%	10%	Property development
南通研祥智能科技有限公司 Nantong EVOC Intelligent Technology Company Limited*	PRC	RMB50,000,000	90%	10%	Property development
深圳市研祥特種計算機工業有限公司 Shenzhen EVOC Special Computer Industry Company Limited*	PRC	RMB5,000,000	51%	49%	Research, development and distribution of special computer products
廣州市研祥智能科技有限公司 Guangzhou EVOC Intelligent Technology Company Limited*	PRC	RMB5,000,000	100%	–	Research, development and distribution of special computer products
深圳市研祥通軟件有限公司 Shenzhen EVOC STONE Software Company Limited*	PRC	RMB10,000,000	100%	–	Research, development, manufacture and distribution of special computer software products
深圳市特種計算機軟件有限公司 Shenzhen Special Computer Software Company Limited*	PRC	RMB3,000,000	100%	–	Research, development, manufacture and distribution of special computer software products
香港研祥國際科技有限公司 Hong Kong EVOC International Technology Company Limited	Hong Kong	HK$100,000	100%	–	Trading of electronic accessories

* For identification purpose only

All subsidiaries established in the PRC are companies incorporated with limited liability.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, would have a comparatively significant impact on the results, assets, or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

None of the subsidiaries had issued any debt securities at the end of reporting period.

30. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years (2016: one to five years).

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	3,608	3,865
More than one year but no later than five years	1,278	2,092
	4,886	5,957

As lessor

At the end of reporting period, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	2017 RMB'000	2016 RMB'000
Within one year	128,697	140,875
More than one year but no later than five years	140,350	114,350
Over five years	17,150	6,046
	286,197	261,271

31. NOTE SUPPORTING CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**641,773**	392,556
Restricted bank deposit	**39,327**	34,006
	681,100	426,562

(b) Reconciliation of liabilities arising from financing activities:

	Bank borrowings (Note 24) RMB'000
At 1 January 2017	1,546,556
Changes from cash flows:	
Repayment of bank borrowings	(1,055,900)
Proceeds from bank borrowings	1,605,396
Total changes from financing cash flows	549,496
At 31 December 2017	2,096,052

32. CAPITAL COMMITMENTS

	2017 RMB'000	2016 RMB'000
Contracted but not provided for:		
— Construction of buildings and properties under development	**207,644**	456,020

33. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the consolidated financial statements, during the year and in the ordinary course of business, the Group had the following material transactions with related parties:

(a) The Group's bank borrowings are secured by, among others, corporate guarantees given by the ultimate holding company and personal guarantees given by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director and his spouse.

(b) Rental income of RMB479,000 (2016: RMB428,000) was received from related companies controlled by Mr. Chen Zhi Lie, the ultimate controlling shareholder and an executive director of the Company. The rental was calculated with reference to market rate.

(c) Rental expense of RMB1,702,000 (2016: RMB2,083,000) was paid to a related company controlled by the ultimate holding company. The rental was calculated with reference to market rate.

(d) During the year, the Group made advances to 深圳市高智科科技有限公司(Shenzhen Gaozhike Technology Company Limited), a company controlled by Mr. Wen Bing, an independent non-executive director of the Group. The advances are unsecured, interest-free and repayable on demand. The maximum advance outstanding during the year ended 31 December 2017 was Nil (2016: RMB76,020,000). There was no outstanding balance as at 31 December 2017 (2016: Nil) and no provision has been made against the advances.

(e) **Compensation of key management personnel**

The emoluments of directors and the senior management during the year was as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	**1,429**	1,441
Contributions to retirement benefits schemes	**82**	76
	1,511	1,517

The emoluments paid or payable to the directors and the senior management were within the following bands:

	2017 No. of Individuals	2016 No. of individuals
Nil to HK$1,000,000	**16**	16

34. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-equity ratio. For this purpose, the Group defines net debts as total debt (which includes bank borrowings, trade payables, bills payables, other payables, accruals and receipts in advance), less cash and bank balances. Equity comprises share capital and reserves, less unaccrued proposed dividends, if any.

The gearing ratio at the end of reporting period was as follows:

	2017 **RMB'000**	2016 RMB'000
Debt	**3,163,618**	2,315,984
Cash and bank balances	**(681,100)**	(426,562)
Net debt	**2,482,518**	1,889,422
Equity	**2,068,359**	2,018,457
Net debt to equity ratio	**120%**	94%

35. FINANCIAL RISK MANAGEMENT

The main risks arising from the Group's financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate risk and currency risk.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to its trade, bills and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 75.1% and 96.1% (2016: 58.2% and 82.4%) of the total trade receivables was due from the Group's largest and five largest trade debtors respectively. These large trade debtors are privately-owned companies located in the PRC that are engaged in the distribution of mobile phones, telecommunication and information technology industries.

The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 19.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

The following table details the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017						
Trade payables	**729,996**	**729,996**	**729,996**	**–**	**–**	**–**
Bills payable	**1,277**	**1,277**	**1,277**	**–**	**–**	**–**
Other payables and accruals	**336,293**	**336,293**	**336,293**	**–**	**–**	**–**
Bank borrowings	**2,096,052**	**2,489,385**	**1,390,559**	**171,669**	**364,869**	**562,288**
	3,163,618	**3,556,951**	**2,458,125**	**171,669**	**364,869**	**562,288**
2016						
Trade payables	468,350	468,350	468,350	–	–	–
Bills payable	60,000	60,000	60,000	–	–	–
Other payables and accruals	241,078	241,078	241,078	–	–	–
Bank borrowings	1,546,556	1,640,413	903,779	626,501	110,133	–
	2,315,984	2,409,841	1,673,207	626,501	110,133	–

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile is monitored by management.

It is estimated that as at 31 December 2017, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year, retained profits by RMB4,300,000 (2016: RMB2,900,000).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis is performed on the same basis for 2016.

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Currency risk

The Group's main operations are in the PRC and have no significant exposure to any specific foreign currency.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2017 and 2016.

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2017 and 2016 may be categorised as follows:

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables		
— Trade receivables	149,570	6,465
— Bills receivables	51,714	30,888
— Other receivables and non-trade deposits	125,138	100,437
— Cash and cash equivalents	681,100	426,562
	1,007,522	564,352
Financial liabilities		
Financial liabilities measured at amortised cost		
— Trade payables	729,996	468,350
— Bills payables	1,277	60,000
— Other payables	146,360	114,864
— Bank borrowings	2,096,052	1,564,556
	2,973,685	2,207,770

37. EVENT AFTER THE REPORTING DATE

On 13 November 2017, the Group announced the possible voluntary general offer to acquire all the issued H Shares in the share capital of the Company, which if proceeded, could result in the delisting of the Group from the Stock Exchange in Hong Kong.

Up to the date of this annual report, the ultimate controlling shareholder remains in the process of obtaining the necessary approvals from the relevant authorities in the PRC and arranging appropriate funding through permitted local banks using onshore funds with respect to the payment of consideration for the possible voluntary general offer and making the necessary filings, registrations and notifications in such respects.

38. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2018.

PARTICULARS OF PROPERTIES

Name and location of property	Location	Purpose	Approximate gross floor area (square metres)	Contract term	Interest attributable to Group (%)
Major properties completed					
1 EVOC Building No 31, Gaoxinzhong Si Road, Nanshan District, Shenzhen	Shenzhen	R&D office building and parking lot	61,306	2053	100
2 Tianxiang Building Unit Nos. 10B1 and 10B2, Level 10, Tianxiang Building, Tianan Cyber Park, Chegongmiao, Futian District, Shenzhen	Shenzhen	Plant	1,152	2038	100
3 Guangming High Profile Office Park, Guangming Hitech Park, Boan District, Shenzhen	Shenzhen	R&D office building, plant and apartment, parking lot	245,482	2058	100
4 60 units in Fu'an Yayuan, Guanlan Street, Bao'an District, Shenzhen	Shenzhen	Residential use for staff quarters	5,311	2080	100
5 Wuxi SHIOC International Outsourcing Base Section A1 SHIOC International Section A1, Xishan District, Wuxi City, Jiangsu Province	Jiangsu	Commercial, office and apartment, parking lot	172,668	2044	100

Name and location of property	Location	Purpose	Approximate gross floor area (square metres)	Contract term	Interest attributable to Group (%)
Major properties in progress					
1 Nantong EVOC Intelligence Valley The development block located at East of Dasheng Road, West of Zilang College, Gangzha District, Nantong City, Jiangsu Province	Nantong	Industrial	234,466	2063	100
2 EVOC City Plaza in Hangzhou A parcel of development land located at the Northwest Corner of Cross of Jianghong Road and Binkang Road, Bin Jiang District, Hangzhou City, Zhejiang Province	Zhejiang	Industrial	65,510	2062	100
3 EVOC International Finance Center EVOC International Finance Center, Huaqiao Town, Kunshan City, Jiangsu Province	Jiangsu	Commercial and office	162,206	2052	100
4 Kunshan Dianshan Lake Project Hemashiwan Community, Dianshanhu Town, Kunshan City, Jiangsu Province	Kunshan	Commercial, business and residential	220,101	Commercial: 2053 Residential: 2083	100
5 Wuxi SHIOC International Outsourcing Base Section A2 SHIOC International Section A2, Xishan District, Wuxi City, Jiangsu Province	Jiangsu	Commercial	140,011	2044	100

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

RESULTS

Financial year		Year ended 31 December 2017	2016	2015	2014	2013
Revenue	RMB'000	**1,305,200**	1,141,666	1,444,099	2,312,702	1,814,780
Gross profit	RMB'000	**177,332**	203,652	219,051	239,975	279,797
Gross margin	%	**13.6**	17.84	15.17	10.38	15.42
Profit for the year	RMB'000	**35,481**	269,058	229,721	119,596	48,404
Net margin	%	**2.72**	23.57	15.91	5.17	2.67
Basic earnings per share (Note)	RMB	**0.029**	0.218	0.186	0.097	0.040
Net cash (used in)/generated from operating activities	RMB'000	**(195,913)**	193,048	239,084	(68,010)	(249,730)
Trade receivables turnover	Days	**56**	12	33	10	20
Dividend per share	RMB	**—**	—	0.015	0.015	0.015

FINANCIAL POSITION

Financial year		Year ended 31 December 2017	2016	2015	2014	2013
Total assets	RMB'000	**5,591,708**	4,694,454	4,220,481	3,997,007	3,854,618
Total liabilities	RMB'000	**3,523,349**	2,675,997	2,476,372	2,551,775	2,677,736
Total time deposits and cash and cash balances	RMB'000	**681,100**	426,562	418,671	251,750	804,102
Shareholders' funds	RMB'000	**2,068,359**	2,018,457	1,744,109	1,455,232	1,176,882
Net assets per share	RMB	**1.68**	1.64	1.414	1.172	0.954

Note:

The calculation of basic earnings per share is based on the profit attributable to owners of the Company for the year of RMB35,481,000 (2016: RMB269,058,000) and the 1,233,144,000 (2016: 1,233,144,000) ordinary shares in issue during the year.