CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED
中國航天萬源國際（集團）有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code :1185)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The directors of China Energine International (Holdings) Limited (the "Company") are pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017** ***HK$'000***	2016 *HK$'000* *(Restated)*
Continuing operations			
Turnover	2	**283,374**	2,415,211
Cost of sales		**(246,535)**	(2,127,178)
Gross profit		**36,839**	288,033
Other income	4	**16,500**	32,481
Other gains and losses	5	**(144,495)**	(3,386)
Selling and distribution expenses		**(42,488)**	(116,712)
Administrative expenses		**(168,307)**	(155,482)
Finance costs	6	**(74,489)**	(78,039)
Share of results of associates		**(27,854)**	(26,534)
Share of results of joint ventures		**166,127**	153,770
(Loss) profit before taxation	7	**(238,167)**	94,131
Taxation	8	**(5,193)**	(12,367)
(Loss) profit for the year from continuing operations		**(243,360)**	81,764
Discontinued operation			
Loss for the year from discontinued operation	9	**(4,588)**	(2,440)
(Loss) profit for the year		**(247,948)**	79,324

	NOTES	**2017**	2016
	NOTES	***HK$'000***	*HK$'000*
			(Restated)
Other comprehensive income (expense):			
Item that will not be reclassified to profit or loss			
– exchange differences arising on translation to presentation currency		**151,807**	(146,704)
Total comprehensive expense for the year		**(96,141)**	(67,380)
(Loss) profit for the year attributable to owners of the Company			
– from continuing operations		**(235,394)**	76,930
– from discontinued operation		**(1,704)**	(906)
		(237,098)	76,024
(Loss) profit for the year attributable to non-controlling interests			
– from continuing operations		**(7,966)**	4,834
– from discontinued operation		**(2,884)**	(1,534)
		(10,850)	3,300
(Loss) profit for the year		**(247,948)**	79,324
Total comprehensive expense attributable to:			
Owners of the Company		**(90,776)**	(67,305)
Non-controlling interests		**(5,365)**	(75)
		(96,141)	(67,380)
(Loss) earnings per share – Basic	11		
From continuing and discontinued operations		**HK(5.43) cents**	HK1.74 cents
From continuing operations		**HK(5.39) cents**	HK1.76 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment properties		**149,538**	137,730
Property, plant and equipment		**303,926**	294,633
Goodwill		**2,004**	2,004
Intangible assets		**212,654**	225,085
Deferred tax assets		**1,784**	1,637
Interests in associates		**348,268**	353,265
Interests in joint ventures		**1,192,284**	1,100,344
Amount due from a joint venture		**106,468**	96,846
Available-for-sale investments		**5,144**	4,807
		2,322,070	2,216,351
Current assets			
Inventories		**163,526**	216,520
Trade and other receivables	12	**2,923,476**	3,120,499
Amounts due from associates		**303,467**	498,941
Amount due from a joint venture		**25,196**	26,504
Pledged bank deposits		**63**	2,233
Bank balances and cash		**107,871**	241,667
		3,523,599	4,106,364
Current liabilities			
Trade and other payables	13	**1,734,332**	2,006,126
Amounts due to associates		**60,939**	309,637
Amounts due to joint ventures		**4,030**	277
Government grants		**775**	839
Taxation payable		**3,256**	7,654
Warranty provision		**139,091**	136,731
Borrowings		**1,261,793**	856,225
Obligation under a finance lease		**22**	130
		3,204,238	3,317,619
Net current assets		**319,361**	788,745
Total assets less current liabilities		**2,641,431**	3,005,096

	2017	2016
	HK$'000	*HK$'000*
Non-current liabilities		
Government grants	**30,225**	28,939
Borrowings	**488,091**	745,660
Obligation under a finance lease	**—**	22
Deferred tax liabilities	**22,237**	20,312
	540,553	794,933
	2,100,878	2,210,163
Capital and reserves		
Share capital	**436,900**	436,900
Reserves	**1,597,229**	1,688,005
Equity attributable to owners of the Company	**2,034,129**	2,124,905
Non-controlling interests	**66,749**	85,258
Total equity	**2,100,878**	2,210,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to Hong Kong Accounting Standards ("HKAS") 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 - 2016 cycle

Except as described below, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations and amendments to standards which are not effective for accounting period beginning on 1 January 2017 and have not been early adopted by the Group.

2. TURNOVER

An analysis of the Group's turnover for the year from continuing operations is as follows:

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Sales of wind energy related products	**234,028**	1,785,678
Sales of energy storage and related products	**3,677**	541,335
Sales of goods	**19,960**	63,209
Sales of electricity from operation of wind power field	**25,709**	24,989
	283,374	2,415,211

3. SEGMENT INFORMATION

Information reported to the Group's Executive Directors, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

In prior year, there were 5 reportable and operating segments namely Wind Energy Related Products, Operation of Wind Farm, Rare-Earth Permanent Magnet Motor ("REPM") Products, Telecommunication Business and Energy Storage and Related Products.

During the year, the CODM has reviewed the Group's business operation and considered REPM Products segment was discontinued. Therefore, it is no longer a reportable and operating segment of the Group. The segment information reported below does not include any amounts for the discontinued operation, which are described in more details in note 8.

Specifically, the Group's operating and reportable segments for the year under HKFRS 8 "Operating Segments" are as follows:

Wind Energy Related Products	—	Manufacture and sales of wind energy related products
Operation of Wind Farm	—	Sales of electricity from operation of wind power field
Telecommunication Business	—	Development and distribution of communication products, information technology systems, broadband systems, equipment and accessories
Energy Storage and Related Products	—	Manufacture and sales of energy renewal products by combining wind energy, solar energy and energy storage

Information regarding these segments is presented below.

Segment revenue and results

The following is an analysis of the Group's turnover and results from continuing operations by operating and reportable segment.

For the year ended 31 December 2017

	Wind Energy Related Products *HK$'000*	Operation of Wind Farm *HK$'000*	Energy Storage and Related Products *HK$'000*	Tele-communication Business *HK$'000*	Consolidated *HK$'000*
Continuing operations					
TURNOVER					
External sales	234,028	25,709	3,677	19,960	283,374
RESULT					
Segment result	(222,383)	10,431	(9,251)	(12,201)	(233,404)
Unallocated corporate expenses					(107,535)
Unallocated other income					10,167
Finance costs					(74,489)
Share of results of a joint venture -unallocated portion					165,019
Gain from changes in fair value of investment properties					2,075
Loss before taxation					(238,167)

For the year ended 31 December 2016

	Wind Energy Related Products *HK$'000*	Operation of Wind Farm *HK$'000*	Energy Storage and Related Products *HK$'000*	Tele-communication Business *HK$'000*	Consolidated *HK$'000* *(Restated)*
Continuing operations					
TURNOVER					
External sales	1,785,678	24,989	541,335	63,209	2,415,211
RESULT					
Segment result	81,603	7,846	21,570	(3,680)	107,339
Unallocated corporate expenses					(105,509)
Unallocated other income					12,107
Finance costs					(78,039)
Share of results of a joint venture -unallocated portion					151,921
Gain from changes in fair value of investment properties					6,312
Profit before taxation					94,131

Segment results represent the (loss) profit before taxation incurred/earned by each segment, excluding finance costs, gain from changes in fair value of investment properties, share of results of a joint venture which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' salaries. Share of loss of associates of HK$27,854,000 (2016: HK$26,534,000) and share of profit of a joint venture of HK$1,108,000 (2016: HK$1,849,000) are allocated to reportable segments. This is the measure reported to the Group's Executive Directors for the purpose of resources allocation and assessment of segment performance.

4. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Other income mainly comprises:		
Government grants	**3,120**	9,021
Rental income from investment properties, net of negligible outgoings	**6,461**	6,464
Interest income		
- bank balances	**1,515**	1,990
- advance to a joint venture	**2,809**	3,015

5. OTHER GAINS AND LOSSES

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Gain from changes in fair value of investment properties	**2,075**	6,312
Gain (loss) on disposal of property, plant and equipment	**78**	(25)
Net exchange loss recognised	**(589)**	(9,673)
Impairment losses recognised in respect of trade receivables	**(93,919)**	—
Impairment loss recognised in respect of amount due from an associate	**(34,741)**	—
Impairment losses recognised in respect of intangible assets	**(17,399)**	—
	(144,495)	(3,386)

6. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on:		
- bank and other loans	**74,486**	78,030
- finance lease	**3**	9
	74,489	78,039

7. (LOSS) PROFIT BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
(Loss) profit before taxation from continuing operations has been arrived at after charging:		
Directors' emoluments	**5,646**	5,688
Other staff costs	**73,777**	72,955
Other staff's retirement benefits scheme contributions	**12,071**	11,090
	91,494	89,733
Auditor's remuneration	**3,050**	3,050
Amortisation of intangible assets	**23,623**	24,648
Cost of inventories recognised as an expense	**223,775**	2,100,922
Depreciation of property, plant and equipment	**28,616**	28,378
Minimum lease payments under operating leases in respect of land and buildings	**11,102**	13,564
Research and development expenses	**12,026**	5,080

8. TAXATION

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
Continuing operations		
Tax charge for the year comprises:		
PRC Enterprise Income Tax		
Current year	**3,743**	10,267
Underprovision in prior years	**907**	198
	4,650	10,465
Deferred tax charge	**543**	1,902
	5,193	12,367

No provision for Hong Kong Profits Tax is made as the Group has no assessable profits arising in or derived from Hong Kong for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

9. DISCONTINUED OPERATION

During the year ended 31 December 2017, the Group and the non-controlling shareholders of a subsidiary, 江蘇航天萬源科技有限公司 ("Jiangsu Energine"), which carried out the Group's REPM Products operation, agreed to change the proportion of directors in the board of directors of Jiangsu Energine. The number of directors that can be appointed by the Group has decreased from three to two out of five board members with effect from 22 December 2017. The Group has transferred the right to appoint a director irrevocably to other shareholders of Jiangsu Energine, with effect from 22 December 2017.

According to the revised Articles of Association of Jiangsu Energine, all decisions about operating and financial (which are relevant activities of Jiangsu Energine) require majority votes (i.e. three votes). As a result, the directors of the Company have concluded that Group has lost its ability to direct the relevant activities of Jiangsu Energine. The Group continues to hold 37.14% equity interest of Jiangsu Energine after the deemed disposal and accounted for it as an associate of the Group.

The loss for the period/year from the discontinued REPM Products operation is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the REPM Products operation as a discontinued operation.

	Period ended 22.12.2017 HK$'000	Year ended 31.12.2016 HK$'000
Loss for the period/year from discontinued operation	**(4,588)**	(2,440)

The results of REPM Products operation for the period from 1 January 2017 to 22 December 2017, which have been included in the consolidated statement of profit or loss and other comprehensive income, were as follows:

	Period ended 22.12.2017 HK$'000	Year ended 31.12.2016 HK$'000
Turnover	**16,296**	21,610
Cost of sales	**(14,381)**	(18,217)
Gross profit	**1,915**	3,393
Other income	**46**	104
Other gains and losses	**13**	4
Selling and distribution expenses	**(683)**	(894)
Administrative expenses	**(5,902)**	(5,050)
Loss before taxation	**(4,611)**	(2,443)
Taxation credit	**23**	3
Loss for the period/year	**(4,588)**	(2,440)
Loss for the period/year attribute to:		
Owners of the Company	**(1,704)**	**(906)**
Non-controlling interests	**(2,884)**	**(1,534)**
	(4,588)	**(2,440)**
Loss for the period/year from discontinued operation has been arrived at after charging:		
Other staff costs	**2,230**	1,700
Other staffs retirement benefits scheme contributions	**607**	643
	2,837	2,343
Cost of inventories recognised as an expense	**14,238**	18,014
Depreciation of property, plant and equipment	**302**	714
Minimum lease payments under operating leases in respect of land and buildings	**394**	302
Research and development expenses	**669**	368

10. DIVIDENDS

No final dividend in respect of year ended 31 December 2017 and 2016 has been proposed by the directors of the Company.

11. (LOSS) EARNINGS PER SHARE - BASIC

The calculation of the basic (loss) earnings per share attributable to owners of the Company is based on the following data.

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
From continuing operations		
(Loss) profit for the year attributable to owners of the Company	**(237,098)**	76,024
Add: Loss for the year from discontinued operation	**1,704**	906
(Loss) earnings for the purpose of basic (loss) earnings per share from continuing operations	**(235,394)**	76,930

	Number of shares	
	2017	2016
Weighted average number of shares for the purposes of basic (loss) earnings per share	**4,368,995,668**	4,368,995,668

	2017	2016
	HK$'000	*HK$'000*
		(Restated)
From continuing and discontinued operations		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic (loss) earnings per share	**(237,098)**	76,024

The denominators used are the same as those detailed above for basic (loss) earnings per share.

From discontinued operation

Basic loss per share for the discontinued operation is HK$0.04 cents per share (2016: HK$0.02 cents per share), based on the loss for the year from the discontinued operation of HK$1,704,000 (2016: HK$906,000) and the denominators detailed above for basic loss per share.

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding for both years.

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$1,612,727,000 (2016: HK$1,556,852,000) net of allowance for doubtful debts of HK$149,141,000 (2016: HK$65,247,000). The amount of trade receivables at 31 December 2017 included retention receivables for the sales of wind turbines and energy storage and related products to third parties of HK$413,267,000 (2016: HK$438,950,000). The balances will be settled upon the completion of warranty period of 1 to 5 years (2016: 1 to 5 years), of which HK$411,528,000 (2016: HK$388,555,000) will be settled after one year from the end of the reporting period. For the remaining balances of trade receivables, the Group allows credit periods for not more than six months to its customers for sales of goods. At the discretion of the executive directors, certain major customers are allowed to settle their balances beyond the credit terms up to one year. The following is an aged analysis of trade receivables, net of allowances, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**149,431**	674,711
Between 31 - 90 days	**7,804**	102,384
Between 91 - 180 days	**2,917**	5,889
Between 181 - 365 days	**712**	173,051
Over 1 year	**1,451,863**	600,817
	1,612,727	1,556,852

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$1,237,354,000 (2016: HK$1,290,739,000). The Group normally receives credit period for 30 to 90 days from its suppliers. The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**218,321**	574,256
Between 31 - 90 days	**15,368**	180,869
Between 91 - 180 days	**227,626**	129,831
Between 181 - 365 days	**163,222**	130,226
Over 1 year	**612,817**	275,557
	1,237,354	1,290,739

RESULTS SUMMARY

For the year ended 31 December 2017, the Group's turnover of continuing operations amounted to HK$283.37 million as compared to that of 2016 of HK$2,415.21 million, representing HK$2,131.84 million or 88.3% decrease in turnover; the loss for the year attributable to owners amounted to HK$237.10 million whereas the profit for the year attributable to owners of the Company of 2016 amounted to HK$76.02 million. The turnover for the year comprised sale of wind energy related products of HK$234.03 million, sale of electricity generated from wind farm of HK$25.71 million, sale of energy storage and related products of HK$3.67 million and HK$19.96 million related to sales of telecommunication products whereas that of 2016 comprised sale of wind energy related products of HK$1,785.68 million, sale of electricity generated from wind farm of HK$24.99 million, sale of energy storage and related products of HK$541.33 million and HK$63.21 million related to sales of telecommunication products.

BUSINESS REVIEW

Wind Power Generation Business

In 2017, as affected by the national reform at the supply side and overall slowed economic development, the new energy industry in high speed development presented a trend of continuous slowdown. Specifically, a batch of completed wind farms and photovoltaic power stations could not be put into operation and there was a high proportion of new energy power stations connected to power grid were subject to wind power and photovoltaic power curtailment. In order to cope with the severe situation, the National Energy Administration published the Results of Monitoring and Early Warning of Wind Power Investment in 2017 which identifies the six provinces (regions) including Inner Mongolia, Heilongjiang, Jilin, Ningxia, Gansu and Xinjiang (including the corps), in which wind power curtailment was mainly implemented, as the red alert areas for development and construction of wind power and specified to postpone the approval of new wind power projects before radial solution of consumption issue. Therefore, the Group's operation of wind power generation business in 2017 was seriously affected in Gansu, Inner Mongolia, Jilin, Ningxia and other provinces from which the Group's orders were mainly originated.

In light of tough market environment, the Group proactively conducted exploration, took the initiative to optimise the wind power resources layout, and established good cooperation relationship with Inner Mongolia, Hebei, Henan, Shanxi, Anhui, Shandong and other provinces (autonomous regions). It has successively entered into agreements on wind farm development with the government of Puyang, Henan Province; Baotou and Xilingol League, Inner Mongolia; Weixian, Hebei Province; Sanmenxia, Henan Province; Tongliao, Inner Mongolia to reserve a batch of wind power resources and provide market guarantee for the sustained development of wind power business of the Group.

Driven by the "One Belt, One Road" initiative, the Group proactively developed its overseas business including advancement of the wind power project in Kyrgyzstan, making efforts for the Group's participation in international market competition and international sales of proprietary products in 2018.

In addition, heating project brought about new development opportunities for the Group. On the basis of the 50,000KW pilot project in each of Damaoqi and Chayouqianqi, Inner Mongolia in 2016, the Group entered into a contract on sales of wind turbines in 2017 for the 50,000KW phase II project in Damaoqi, Inner Mongolia and won the bid for equipment of the wind power project in Sanruili, Ulanqab.

In light of the changes in national policy, industrial situation and the more rigorous market competition environment, the Group fully developed the domestic and overseas markets, comprehensively improved management and control, and vigorously explored the solution of bottleneck problems influencing the Company's development to enhance the Company's sustainable development capacity and lay a foundation for future development.

Research and Development of Technology

On the basis of the wind turbine portfolio with proprietary intellectual property rights consisting of 9 models in 5 types including 900KW, 1.5MW and 2MW excitation magnetic directdrive wind turbines and 2MW and 3MW permanent magnetic directdrive wind turbines, the Group further improved the performance of units, enriched product portfolio and proceeded with platform-based technology approval and research design of 2MW excitation magnetic/permanent magnetic wind power units.

In order to better respond to the changes in the current market demands, the Group conducted research and development for the application of high tower technology in areas with low wind speed and high shear wind resources. In 2017, the Group completed technology approval, plan review, main part design, determination of construction scheme and partial preparations before prototype installation for mixed tower and performed survey and exchange on the technical and economic feasibility of the application of all-steel flexible tower technology.

In terms of product certification, the Company completed type certification for 3MW permanent magnetic units and design certification for 110 type 2MW low-wind speed excitation magnetic directdrive wind turbines in 2017.

In respect of research and development of core technology, the Group has mastered the core technologies of wind turbines, carried out research and development of electric control system with proprietary intellectual property rights for wind turbines and formed characteristic master control system, variable pitch system and remote monitoring system. Moreover, the Group completed hardware assembly and software debugging and finished the fabrication and analog simulation test for the external controller which matches with the autonomous control system of 2MW excitation magnetic/permanent magnetic and 3MW permanent magnetic wind turbines independently for the first time.

In 2017, the Group implemented the refined quality management project and prepared the Measures and Requirements for Improvement of Quality Work for the Year. The amended new quality system procedures were reviewed and put into trial implementation. In terms of intellectual property management, the Group applied for 27 patents, 7 of which have been licensed, and applied for registration of 3 software copyrights.

Throughout the year, the Group completed formulating 11 enterprise standards, and presided over and completed the national standard Excitation Magnetic Directdrive Power Generation Units (GB/T 35207-2017).

Wind Farm Operations

The wind farms operated by the Group include the CASC Long Yuan (Benxi) wind farm which is controlled and operated by the Group, installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW, and three wind farms invested and constructed by the Group: the Jilin Longyuan Tongyu wind farm, installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW; the Jiangsu Longyuan Rudong wind farm, installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW and the Inner Mongolia Datang Wanyuan Xinghe wind farm, installed with 55 sets of 900KW directdrive wind turbines with a capacity of 49,500KW. The wind farm operations business made relatively stable contributions to the Group.

Energy Storage Business

Whilst vigorously tapping wind energy technology, the Group, in response to the state call for vigorous development of clean energy, is committed to the application of graphene and energy storage technologies. At present, the Group possesses oxidation-reduction method and mechanical exfoliation method with proprietary intellectual property rights for preparation of graphene and has made positive progress in preparation of graphene and graphene cladded lithium iron phosphate as anode material. The improvement of material technology has effectively reduced the electrical resistivity of materials and improved materials' cryogenic property, rate capability and cycle life.

In order to further optimise the properties of the Group's energy storage products, in 2017, the Company placed the focus of research and development on the battery material manufacturing technology. At present, small batch tests have been completed for the raw material lithium iron phosphate at laboratory. For cathode materials, the processing technology for artificial graphite has been finalized, and the Company has possessed the formula for preparation of electrolyte for energy storage battery.

The Group is planning cooperation with all parties in advancement of the development of energy storage business.

For the power battery for electric vehicles as developed by the Group, in order to meet the new requirements on the technologies of electric vehicles and power battery products under the Notice on Adjustment to the Fiscal Subsidies for Promotion of and Application of New Energy Vehicles jointly published by the Ministry of Finance, Ministry of Science and Technology, Ministry of Industry and Information Technology and State Development and Reform Commission, the Group re-modified the battery design scheme, arranged trial production and re-submitted the samples to the authorities in the industry for testing. The battery cell and battery pack of high specific energy have passed the certification by national authorities, which have issued a new mandatory testing report on battery pack.

In addition, the Group has launched the controller integrating motor controller, high voltage distribution and DCDC, and obtained the national mandatory testing report.

The Group has set up a special sales team to proactively develop the battery sales market, and sought for industrial cooperation with Fujian Motors Group and Zhongzhi Group.

Rare-earth Permanent Magnet Product Business

In 2017, Jiangsu Energine Technology Co. Ltd. ("Jiangsu Energine"), a subsidiary of the Group, actively negotiated with a traction machine agent of Korea to expand the sales channel for rare-earth permanent magnet gearless traction machines. In the second half of 2017, due to the equity integration of other shareholders of Jiangsu Energine, the composition of the board of directors shall be adjusted accordingly. As such business is not the core business of the Group, and after taking into account the previous performance and development prospects of the business, the Company has transferred the right of appointing one of the directors to the largest shareholder of Jiangsu Energine. Pursuant to which, the members of the board of directors which the Group is entitled to appoint reduced from three of five to two of five, and the Group ceased to exercise control over Jiangsu Energine with effect from 22 December, 2017. Therefore, Jiangsu Energine has changed from a subsidiary to an associate of the Company.

Business of Automotive Engine Management Systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd, a joint venture of the Group, is a leading supplier in the domestic automotive electronic fuel injection market with a stable market share and makes continuous stable contributions to the Group's results.

PROSPECTS

In order to solve the issues of wind power curtailment, the State has issued the policy of regulating the development of wind energy regions, the negative impacts of which on the Group has exceeded our expectation. It is expected that relevant impacts will continue in Gansu, Xinjiang and Jilin in 2018. However, with the stable improvement of the macro economic of the PRC, the "wind power curtailment" will be gradually alleviated. The wind power industry has revealed the signs of gradual recovery in 2018, which will provide new opportunities for the Company to reverse the adverse situation.

In order to cope with the global warming and alleviate environmental pollution, it has become a global consensus to develop renewable energy sources represented by wind power. The "Thirteenth Five-year" Plan for Wind Power Development as published by the National Energy Administration proposes the clear development objectives of wind power industry, indicating that the long-term development of wind power is still promising. It was stressed at the 2018 National Energy Working Conference to focus on green development, and vigorously solve the issue of clean energy consumption and advance the strategic project of energy structure adjustment, to promote the clean and efficient utilization of coal and greatly improve the clean development of energy. For the current difficulties in the industry, it was pointed out at the conference that the hydropower, wind power and photovoltaic power curtailment problem will be fundamentally solved nationwide by 2020.

Facing the increasingly fierce industrial competition, the Group will exert more efforts on research and development. On the one hand, guided by market demands, the Group will find out customers' demands and build its product portfolio to ensure that the wind turbine products can meet the changing market demands. On the other hand, the Group will enhance improvement and optimization of the electric control system with proprietary intellectual property rights. The research and development of high tower and research on distributed wind power generation technology will further improve the products' competitiveness in the market.

The Group will master national macro policy and industrial development information, plan future development in accordance with its strategies and build an organizational structure and strategic management system which can support the realization of the Company's strategic objectives to compressively enhance the organizing ability. At the same time, the Company will proactively explore new wind power development model and form a complete industrial chain for wind power development.

In September 2017, the National Development and Reform Commission, Ministry of Finance, Ministry of Science and Technology, Ministry of Industry and Information Technology, and the National Energy Administration jointly published the Guiding Opinions on Promoting Energy Storage Technology and Industrial Development, which elaborates the strategic significance of developing energy storage technologies and industries and proposes the guiding ideology and future development objectives to promote the sound development of energy storage technologies and industries, and support and propel energy reform. The Group will continue to intensify research on energy storage field and low-cost and long-cycle life battery materials to combine energy storage and wind power generation. The electricity output power curve of wind farm will be smoothened through frequency and peak load modulation to achieve peak-load shifting; the Group will also beef up the research and development of battery, anode and cathode materials, electrolyte, etc. and improve engineering realization capacity to expedite the process of industrialization.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2017, the Group had 24 employees (31 December 2016: 21 employees) in the Hong Kong head office and 559 employees (31 December 2016: 587 employees) in the Mainland China offices. The staff costs incurred for the year ended 31 December 2017 was approximately HK$85.85 million (for the year ended 31 December 2016: approximately HK$84.05 million). Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Group Finance

In December 2014, the Group proceeded a placing of the existing shares and subscription for new shares of 400 million shares, with the placing price of HK$0.75 per share (whereas HK$0.91 per share as quoted on the Stock Exchange on the last trading day of 15 December 2014), obtaining a net fund of approximately HK$291 million, which is mainly used for general working capital and to finance projects on energy storage including the development of wind and solar power storage integration and that on electric vehicle, thereby improving the Group's capital structure and enhancing the market value. The placing shares were placed to no less than six placees who are individual, institutional or professional investors and whose ultimate beneficial owners are (i) independent of and not connected with the Company and its connected persons; and (ii) third parties independent of and not acting in concert with Astrotech Group Ltd. or any person acting in concert with it. As of March 2018, the fund has been used to the extent of HK$225.58 million, comprising working capital for wind energy business in purchase of materials of wind turbine of HK$175.00 million, working capital for telecommunication business of HK$20.00 million, and dividend distribution of HK$30.58 million.

Liquidity and Financial Resources

Total borrowings of the Group as at 31 December 2017 were HK$1,749,884,000 (2016: HK$1,601,885,000), of which HK$169,570,000 (2016: HK$252,543,000) was floating-rate borrowings and the remaining was fixed-rate. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings over equity attributable to owners of the Company) as at 31 December 2017 was 86% (2016: 75%).

Financial Position

The capital structure of the Group at 31 December 2017 comprised total equity of HK$2,101 million (2016: HK$2,210 million) and non-current borrowings of HK$488 million (2016: HK$746 million) due within 1 to 5 years. This structure of net asset value of HK$2,101 million (2016: HK$2,210 million) coupling with gearing ratio of 86% (2016: 75%), current ratio 1.10 (2016: 1.24), quick ratio 1.05 (2016: 1.17) as well as bank and cash balance HK$108 million (2016: HK$242 million) presented a sound financial position of the Group as of 31 December 2017 with good liquidity position.

Distribution to Shareholders

There was no distribution to the Company's shareholders in the year 2017 (2016: nil).

Pledge of Assets

As at 31 December 2017, certain assets of the Group of HK$63,000 (2016: HK$2,233,000) have been pledged to secure bank facility.

Exchange Exposures

Most of the Group's business transactions were conducted in Renminbi. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore has not engaged in any hedging activities.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2017 (31 December 2016: nil).

EVENTS AFTER THE REPORTING PERIOD

Change of Director

Mr. Han Shuwang, Chairman of the Company, was re-designated from an Executive Director to a Non-executive Director of the Company with effect from 14 February 2018 due to re-arrangement of duties, and will resign as the Chairman of the Company, the Non-executive Director, the chairman of the Nomination Committee and the chairman of the Development and Investment Committee with effect from 29 March 2018.

Mr. Liu Xiaowei, a Non-executive Director of the Company, will be re-designated as an Executive Director of the Company. Meanwhile, he will be appointed as the Chairman of the Company, the chairman of the Nomination Committee and the chairman of the Development and Investment Committee, and will cease to be a member of the Audit Committee, with effect from 29 March 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance. The Company recognises that corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and enhance shareholder value. The Company has applied the principles and complied with all the code provisions of the CG Code throughout the year ended 31 December 2017 save the following.

According to the code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term subject to re-election. Mr. Fang Shili, a Non-executive Director retired on 2 June 2017, was not appointed for a specific term, but was subject to retirement and rotation and re-election at the Company's Annual General Meeting in accordance with the retirement provisions under the Articles of Association of the Company. The Company considers that sufficient measures have been taken in this regard to ensure that the Group's corporate governance practices are no less exacting than those in the Code.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the interim and annual results of the Group. The audited consolidated financial statements of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, Deloitte Tonche Tohmatsu.

PUBLICATION OF ANNUAL REPORT

A full text of the Company's 2017 Annual Report will be sent to the shareholders and published on the websites of The Stock Exchange of Hong Kong Limited and of the Company in due course.

By Order of the Board
Han Shuwang
Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the Board of the Company comprises Mr. Han Shuwang (Chairman) and Mr. Liu Xiaowei as Non-executive Directors, Mr. Wang Xiaodong (Vice-Chairman), Mr. Li Guang and Mr. Xu Jun as Executive Directors; Ms. Kan Lai Kuen, Alice, Mr. Gordon Ng and Mr. Li Dapeng as Independent Non-executive Directors.

* *For identification purpose only*