中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

Financial Highlights

	Year ended 31 December 2016 ***RMB'000***	Year ended 31 December 2015 *RMB'000*	**Change**
Revenue	**8,966,049**	9,845,695	**-8.9%**
Gross Profit	**2,987,378**	3,198,021	**-6.6%**
Profit for the year attributable to owners of the Company	**1,108,995**	1,033,097	**7.3%**
Basic earnings per share (RMB)	**0.678**	0.632	**7.3%**
Proposed final dividend per share (HKD)	**0.23**	0.23	**—**

	At 31 December 2016 ***RMB'000***	At 31 December 2015 *RMB'000*	**Change**
Total Assets	**26,295,600**	25,292,081	**4.0%**
Total Liabilities	**15,055,252**	15,317,343	**-1.7%**
Net Assets	**11,240,348**	9,974,738	**12.7%**
Net Assets per share (RMB)	**6.9**	6.1	**13.1%**
Gearing Ratio*(%)	**57.3**	60.6	**-3.3 ppt**

*Gearing ratio = Total liabilities/Total assets

* *For identification purpose only*

The board (the "Board") of directors (the "Directors") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Period under Review") together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	**2016**	2015
		RMB'000	*RMB'000*
REVENUE	4	**8,966,049**	9,845,695
Cost of sales		**(5,978,671)**	(6,647,674)
Gross profit		**2,987,378**	3,198,021
Other income and net gains	4	**338,611**	427,831
Selling and distribution expenses		**(367,337)**	(392,555)
Administrative expenses		**(615,894)**	(612,333)
Research and development costs		**(360,520)**	(330,688)
Other expenses		**(132,152)**	(255,787)
Finance costs	6	**(495,585)**	(643,270)
Share of profits and losses of:			
Joint ventures		**11,663**	12,926
Associates		**1,309**	(56,945)
PROFIT BEFORE TAX	5	**1,367,473**	1,347,200
Income tax expense	7	**(308,038)**	(344,303)
PROFIT FOR THE YEAR		**1,059,435**	1,002,897

	Note	2016	2015
		RMB'000	*RMB'000*
OTHER COMPREHENSIVE INCOME			
Other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods			
Available-for-sale investments:			
Change in fair value		**678,133**	—
Income tax effect on change in fair value		**(169,533)**	—
Reclassification adjustments for impairment losses included in profit or loss		**—**	36,468
		508,600	36,468
Exchange differences on translation of foreign operations		**(778)**	307
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**507,822**	36,775
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,567,257**	1,039,672
Profit (loss) attributable to:			
Owners of the Company		**1,108,995**	1,033,097
Non-controlling interests		**(49,560)**	(30,200)
		1,059,435	1,002,897
Total comprehensive income (expense) attributable to:			
Owners of the Company		**1,613,655**	1,069,872
Non-controlling interests		**(46,398)**	(30,200)
		1,567,257	1,039,672
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic and diluted		**RMB0.678**	RMB0.632

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	NOTES	**2016**	2015
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**5,111,201**	5,520,057
Prepaid land lease payments		**702,842**	669,923
Goodwill		**2,991**	2,991
Other intangible assets		**138,564**	163,800
Interests in joint ventures		**1,008,254**	96,591
Interests in associates		**142,187**	157,277
Prepayment for acquisition of property, plant and equipment		**3,332**	3,656
Other receivable		**551,524**	519,874
Available-for-sale investments	10	**870,090**	196,174
Deposit for land lease		**191,800**	191,800
Deferred tax assets		**190,897**	232,385
Amount due from an associate		**—**	226,278
Total non-current assets		**8,913,682**	7,980,806
CURRENT ASSETS			
Inventories		**2,311,574**	2,075,239
Prepaid land lease payments		**16,250**	15,276
Trade and bills receivables	11	**6,964,944**	6,951,642
Prepayments, deposits and other receivables		**2,603,732**	1,985,146
Tax prepaid		**—**	3,459
Structured bank deposits		**209,000**	1,755,000
Pledged bank deposits		**2,531,395**	2,403,640
Bank balances and cash		**2,745,023**	2,121,873
Total current assets		**17,381,918**	17,311,275

	NOTES	2016 RMB'000	2015 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	12	6,570,740	4,773,443
Other payables and accruals		903,490	1,272,336
Receipts in advance and deposits received		418,698	365,432
Financial liabilities at fair value through profit or loss		—	596,656
Interest-bearing bank and other borrowings	13	5,273,847	5,618,194
Taxation payable		220,421	329,772
Finance lease payables		7,007	158,556
Warranty provision		101,248	100,342
Total current liabilities		13,495,451	13,214,731
NET CURRENT ASSETS		3,886,467	4,096,544
TOTAL ASSETS LESS CURRENT LIABILITIES		12,800,149	12,077,350
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	1,227,966	1,948,126
Deferred tax liabilities		238,095	51,319
Finance lease payables		—	6,516
Deferred income		93,740	96,651
Total non-current liabilities		1,559,801	2,102,612
Net assets		11,240,348	9,974,738
EQUITY			
Equity attributable to owners of the Company			
Share capital		119,218	119,218
Reserves		10,934,655	9,639,884
		11,053,873	9,759,102
Non-controlling interests		186,475	215,636
Total equity		11,240,348	9,974,738

NOTES

1. GENERAL

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 4 July 2007.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and financial liabilities at fair value through profit or loss which have been measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

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

These new standards and amendments have had no material impact on the financial position or performance of the Group.

2.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new and revised IFRSs that are issued, but not yet effective are described below. The Group intends to adopt these new and revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]

IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IAS 40	*Transfers of Investment Property*[2]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[2]
Annual Improvements to IFRSs 2014-2016 Cycle	*Amendments to the following three Standards* - *IFRS 12 Disclosure of Interests in Other Entities*[1] - *IFRS 1 First-time Adoption of International Financial Reporting Standards*[2] - *IAS 28 Investments in Associates and Joint Ventures*[2]

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

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

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

4 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group expects that the adoption of IFRS 9 and IFRS 15 will have impact on the accounting policies, and the financial statements of the Group.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors anticipate that the adoption of IFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets. The Group is still in the process of assessing the impact and such impact will be disclosed in the future financial statements upon the completion of a detailed review.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step 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 the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

On June 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

3. OPERATING SEGMENT INFORMATION

The Group is organised in one business division only. The Group's chief operating decision maker (the "CODM"), being the Company's Board of Directors, make decisions according to the revenue and operating results of each geographical area by location of customers and the related reports on the aging analysis of trade and bills receivables for the purposes of resources allocation and performance assessment. Accordingly the Group's operating segments are based on geographical location of customers.

No information of liabilities is provided to CODM for the assessment of performance of different geographical area. Therefore only segment revenue, segment results and segment assets are presented.

People's Republic of China ("PRC"), the United States of America (the "USA") and the Europe are three major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment results represent the gross profit (including depreciation of production plants), government grants, sales of scraps and materials, and selling and distribution expenses earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

Only trade and bills receivables of each segment are reported to the CODM for the purposes of resources allocation and performance assessment. Hence, total segment assets represent the trade and bills receivables of the Group while the unallocated assets represent the assets of the Group excluding trade and bills receivables. The related impairment loss on trade and bills receivables are not reported to the CODM as part of segment results.

Year ended 31 December 2016

	PRC	USA	Europe	Other countries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	**5,867,442**	**2,211,317**	**804,630**	**82,660**	**8,966,049**
Intersegment sales	**2,527,476**	**42,492**	**—**	**—**	**2,569,968**
Reconciliation:					
Elimination of intersegment sales					**(2,569,968)**
Revenue					**8,966,049**
Segment results	**1,603,680**	**779,353**	**289,195**	**17,555**	**2,689,783**
Reconciliation:					
Unallocated other income and net gains					**268,869**
Other expenses					**(132,152)**
Finance costs					**(495,585)**
Share of results of joint ventures					**11,663**
Share of results of associates					**1,309**
Corporation and other unallocated expenses					**(976,414)**
Profit before tax					**1,367,473**
Segment assets	**6,064,339**	**681,404**	**187,138**	**32,063**	**6,964,944**
Reconciliation:					
Corporate and other unallocated assets					**19,330,656**
Total assets					**26,295,600**

Other segment information:

	PRC	USA	Europe	Other countries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Write-down of inventories	80,652	—	—	—	80,652
Impairment losses recognised in profit or loss	127,935	—	—	—	127,935
Reconciliation:					
Corporate and other unallocated					4,217
Total impairment losses recognised in profit or loss					132,152
Depreciation and amortisation	598,991	2,949	202	417	602,559
Reconciliation:					
Corporate and other unallocated					35,507
Total depreciation and amortisation					638,066
Capital expenditure	392,904	32,826	2,850	766	429,346
Capital injection in a joint venture	900,000	—	—	—	900,000

Year ended 31 December 2015

	PRC	USA	Europe	Other countries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	7,683,862	2,011,910	110,562	39,361	9,845,695
Intersegment sales	169,315	31,375	—	—	200,690
Reconciliation:					
Elimination of intersegment sales					(200,690)
Revenue					9,845,695

	PRC	USA	Europe	Other countries	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment results	2,185,092	701,638	34,144	13,870	2,934,744
Reconciliation:					
Unallocated other income and net gains					298,553
Other expenses					(255,787)
Finance costs					(643,270)
Share of results of joint ventures					12,926
Share of results of associates					(56,945)
Corporate and other unallocated expenses					(943,021)
Profit before tax					1,347,200
Segment assets	6,493,305	250,839	152,042	55,456	6,951,642
Reconciliation:					
Corporate and other unallocated assets					18,340,439
Total assets					25,292,081
Other segment information:					
Write-down of inventories	30,507	7,659	872	326	39,364
Impairment losses recognised in profit or loss	196,798	—	—	—	196,798
Reconciliation:					
Corporate and other unallocated					58,989
Total impairment losses recognised in profit or loss					255,787
Depreciation and amortisation	629,209	1,260	33	502	631,004
Reconciliation:					
Corporate and other unallocated					37,183
Total depreciation and amortisation					668,187
Capital expenditure	563,618	50,380	230	67	614,295
Capital injection in a joint venture	—	158	—	—	158

Other geographical information

Non-current assets by the locations of the assets and excludes available-for-sale investments and deferred tax assets are detailed below:

	2016	2015
	RMB'000	*RMB'000*
PRC	**7,652,749**	7,370,280
USA	**168,250**	179,720
Europe	**2,992**	343
Other countries	**28,704**	1,904
	7,852,695	7,552,247

Revenue from major product and services

	2016	2015
	RMB'000	*RMB'000*
Wind gear transmission equipment	**7,362,287**	7,803,764
Industrial gear transmission equipment	**1,125,890**	1,361,932
Marine gear transmission equipment	**236,819**	410,154
Computer numerical controlled products	**106,693**	142,127
Diesel engine products	**134,360**	127,718
	8,966,049	9,845,695

Information about major customers

Revenue from customers of the corresponding years individually amounted to over 10% of the total sales of the Group is as follows:

	2016	2015
	RMB'000	*RMB'000*
Customer A[1]	**2,852,392**	2,075,114
Customer B[2]	**1,232,475**	1,214,821
Customer C[2]	**922,839**	1,198,406

1 Revenue from sale of wind gear transmission equipment in the segments of PRC, USA, Europe and other countries

2 Revenue from sale of wind gear transmission equipment in the PRC segment

4. REVENUE, OTHER INCOME AND NET GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and net gains is as follows:

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**8,966,049**	9,845,695
Other income		
Bank interest income	**119,712**	91,896
Gross rental income	**13,952**	21,312
Government grants*	**30,875**	38,339
Sale of scraps and material	**38,867**	90,939
Investment income	**33,024**	30,203
Others	**16,803**	53,773
	253,233	326,462
Net gains		
(Loss)/gain on disposal of property, plant and equipment, net	**(9,385)**	1,385
Fair value loss of financial liabilities at fair value through profit or loss	**—**	(7,232)
Deemed gain on dilution of equity interest in an associate	**—**	1,833
Loss on liquidation of an associate	**(5,432)**	—
(Loss)/gain on disposal of subsidiaries, net	**(27,670)**	82,422
Gain on disposal of an associate	**11,143**	—
Gain on disposal of available-for-sale investments	**10,047**	—
Foreign exchange differences, net	**106,675**	22,961
	85,378	101,369
	338,611	427,831

* There are no unfulfilled conditions or contingencies relating to these grants.

5. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**5,898,019**	6,608,310
Depreciation of property, plant and equipment	**582,265**	572,688
Amortisation of technical know-how (included in administrative expenses)	**2,263**	2,738
Amortisation of development costs (included in administrative expenses)	**38,017**	78,623
Amortisation of prepaid land lease payments	**15,521**	14,138
Auditor's remuneration	**5,180**	4,000
Employee benefit expense (including directors' and chief executive's remuneration)		
Wages and salaries	**922,796**	915,005
Pension scheme contributions	**248,361**	256,842
Other benefits	**219,085**	250,303
	1,390,242	1,422,150
Write-down of inventories to net realisable value (included in cost of sales)	**80,652**	39,364
Product warranty provision	**46,544**	53,236
Items included in other expenses:		
Impairment loss of property, plant and equipment	**65,784**	40,532
Impairment loss of other intangible assets	**5,094**	38,848
Impairment loss of available-for-sale investments	**4,217**	58,989
Impairment loss of trade and bills receivables, net	**58,713**	117,418
Reversal of impairment of other receivables	**(1,656)**	—

6. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**501,431**	665,451
Interest on finance leases	**5,644**	15,235
	507,075	680,686
Less: interest capitalised in property, plant and equipment	**(11,490)**	(37,416)
	495,585	643,270

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.15% (2015: 6.23%) per annum to expenditure on qualifying assets.

7. INCOME TAX EXPENSE

Income tax expense has been calculated at the rates of tax prevailing in the relevant tax jurisdictions in which the Group operates. The major components of income tax expense in profit or loss are:

	2016	2015
	RMB'000	*RMB'000*
Current — PRC		
Charge for the year	**249,312**	426,457
(Over provision)/under provision in respect of prior year	**(5)**	20,576
Current — USA		
Charge for the year	**—**	225
Deferred tax		
Charge (credit) for the year	**58,731**	(102,955)
Total tax charge for the year	**308,038**	344,303

PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2015: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2016.

The following subsidiaries are qualified as high technology development enterprises and thus subject to a preferential tax rate of 15% for 3 years from the date of approval:

Name of company	**Year ended during which approval was obtained**	**Year ended/ending during which approval will expire/expired**
Nanjing High Speed Gear Manufacturing Co., Ltd.("Nanjing High Speed")	31 December 2014	31 December 2016
Nanjing High Accurate Marine Equipment Co., Ltd.	31 December 2014	31 December 2016
Nanjing High Speed & Accurate Gear (Group) Co., Ltd.	31 December 2014	31 December 2016
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd.	31 December 2015	31 December 2017
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.	31 December 2015	31 December 2017
Zhenjiang Tongzhou Propeller Co., Ltd.	31 December 2016	31 December 2018

Hong Kong profits tax

No provision for Hong Kong profits tax has been made, as the Group did not generate any assessable profits arising in Hong Kong for the year ended 31 December 2016 (2015: nil).

Singapore corporate income tax

No provision for Singapore profits tax has been made, as the Group did not generate any assessable profits arising in Singapore for the year ended 31 December 2016 (2015: nil).

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows :

	2016	2015
	RMB'000	*RMB'000*
Profit before tax	**1,367,473**	1,347,200
Tax at the statutory tax rate of 25%	**341,868**	336,800
Lower tax rate for specific provinces or enacted by local authority	**(204,748)**	(171,960)
(Over provision) under provision in respect of prior year	**(5)**	20,576
Profits and losses attributable to joint ventures and associates	**(3,243)**	11,005
Income not subject to tax	**(7,343)**	(19,328)
Expenses not deductible for tax	**21,417**	63,650
Tax effect of tax losses not recognised	**116,900**	76,399
Utilisation of tax losses not recognised	**(7,501)**	(1,576)
Temporary differences not recognised	**33,805**	13,737
Effect of withholding tax at 5% on the undistributed earnings of the PRC subsidiaries	**16,888**	15,000
Tax charge at the Group's effective rate	**308,038**	344,303

8. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Proposed final — HK23 cents (2015: HK23 cents) per ordinary share	**336,437**	318,944

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend in respect of the year ended 31 December 2015 was proposed by the directors of the Company on 18 March 2016, and subsequently approved at the annual general meeting on 17 June 2016 and recognised as distribution during the year ended 31 December 2016.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company.

The calculations of basic and diluted earnings per share are based on:

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of the basic and diluted earnings per share calculation	**1,108,995**	1,033,097

	Number of shares	
	2016	2015
	'000	*'000*
Shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share calculation	**1,635,291**	1,635,291

No adjustment is made to the diluted earnings per share for the years ended 31 December 2016 and 31 December 2015 as there was no potential dilutive shares in issue.

10. AVAILABLE-FOR-SALE INVESTMENTS

		2016	2015
		RMB'000	*RMB'000*
Listed equity investments, at fair value	(a)	**781,508**	28,414
Unlisted equity investments, at cost	(b)	**88,582**	167,760
		870,090	196,174

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

Notes:

(a) (i) At 31 December 2016, the balance includes the Group's investment in 50,093,000 H shares of 國電科技環保集團股份有限公司 Guodian Technology & Environment Group Corporation Limited ("Guodian Tech"), in which an impairment loss of RMB4,217,000 (2015: aggregate impairment loss of RMB58,989,000 including RMB36,488,000 cumulative losses reclassified from other comprehensive income to profit or loss) was recognised in profit or loss during the year due to a prolong decline in the fair value of the investment below its costs. The carrying amount of investment in Guodian Tech amounts to RMB24,197,000 (2015: RMB28,414,000).

(a) (ii) At 31 December 2015, the Group's unlisted equity investments included investments in 16,962,000 shares of 日月重工股份有限公司 Riyue Heavy Industry Co., Ltd. ("Riyue Heavy") and 4,593,000 shares of 江蘇銀行股份有限公司 Bank of Jiangsu Co., Ltd. ("Bank of Jiangsu") amounting to RMB70,962,000 and RMB8,216,000 respectively. During the year ended 31 December 2016, the shares of Riyue Heavy and Bank of Jiangsu became listed on the Stock Exchange of Shanghai Limited. Accordingly, the Group's investments in Riyue Heavy and Bank of Jiangsu are then classified as listed equity investments and measured at fair value as at 31 December 2016, and fair value gain of RMB678,133,000 was recognised in other comprehensive income during the year.

(b) The amount represented the investments in unlisted equity securities issued by private entities established in the PRC and were held by the Group as non-current assets, which were measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors of the Company were of the opinion that their fair values could not be measured reliably.

11. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**4,154,615**	4,121,584
Bills receivable	**3,286,299**	3,248,346
Impairment	**(475,970)**	(418,288)
	6,964,944	6,951,642

The Group generally allows a credit period of 180 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and the date of issuance of the bills and net of provisions, is as follows:

	2016	2015
	RMB'000	*RMB'000*
0 - 90 days	**3,547,209**	3,991,092
91 - 120 days	**455,908**	867,774
121 - 180 days	**911,817**	628,491
181 - 365 days	**1,490,468**	1,072,427
1 - 2 years	**391,738**	261,436
Over 2 years	**167,804**	130,422
	6,964,944	6,951,642

Included in the Group's trade and bills receivable balances are debtors with aggregate carrying amount of RMB1,874,797,000 (2015: RMB1,464,285,000) which are past due at the end of the reporting period against which an impairment of RMB475,970,000 (2015: RMB418,288,000) had been made under collective assessment based on aging analysis of the trade and bills receivables. Individual impairment was not made, as these receivables relate to customers having good track record with the Group. There has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlements.

Aging of trade and bills receivables which are past due based on the overdue date and net of provisions of RMB475,970,000 (2015: RMB418,288,000) under collective assessment:

	2016	2015
	RMB'000	*RMB'000*
0 - 180 days past due	**1,489,674**	1,072,427
181 days to 1.5 years past due	**315,262**	261,436
Over 1.5 years past due	**69,861**	130,422
	1,874,797	1,464,285

The movements in provision for impairment of trade and bills receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
At beginning of year	**(418,288)**	(301,986)
Impairment losses recognised during the year, net	**(58,713)**	(117,418)
Amount written off as uncollectible	**1,031**	1,116
	(475,970)	(418,288)

The aging analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**5,090,147**	5,487,357

Transfers of financial assets

The following were the Group's bills receivable accepted by banks in the PRC (the "Endorsed Bills") that were endorsed to certain of the Group's suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

Bills receivable endorsed to suppliers with full recourse are as follows:

	2016	2015
	RMB'000	*RMB'000*
Carrying amount of transferred assets	**99,080**	40,377
Carrying amount of associated liabilities	**(99,080)**	(40,377)
Net position	**—**	—

In addition to the above, as at 31 December 2016 and 31 December 2015, the Group discounted certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to banks and transferred certain bills receivable to its suppliers to settle its payables through endorsing the bills to its suppliers, both with full recourse. The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable

Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The Group has derecognised these bills receivable and the payables to suppliers in their entirety as in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers under the relevant PRC practice, rules and regulations. In the opinion of the directors, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2016, the Group's maximum exposure to loss and cash outflow from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the Derecognised Bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB2,344,000,000 and RMB2,134,665,000, respectively (2015: RMB1,565,639,000 and RMB1,412,911,000). In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2016 and 31 December 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

Included in the Group's trade and bills receivables are amounts due from the Group's joint ventures and associates of RMB21,090,000 (2015: RMB12,270,000) and RMB3,413,000 (2015: nil), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

12. TRADE AND BILLS PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables	**1,906,234**	1,630,629
Bills payable	**4,664,506**	3,142,814
	6,570,740	4,773,443

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date and the date of issuance of the bills, is as follows:

	2016	2015
	RMB'000	*RMB'000*
0 - 30 days	**723,379**	1,107,968
31- 60 days	**1,463,639**	927,507
61 - 180 days	**3,966,120**	2,479,045
181 - 365 days	**156,224**	85,440
Over 365 days	**261,378**	173,483
	6,570,740	4,773,443

Included in the trade and bills payables are trade payables of RMB91,770,000 (2015: RMB9,000) due to the Group's associates and RMB194,000 (2015: RMB510,000) due to the Group's joint ventures which are repayable within 90 days.

The trade payables are non-interest-bearing and are normally settled on terms of 90 to 180 days.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016		2015	
	Effective interest rate		Effective interest rate	
	(%)	***RMB'000***	*(%)*	*RMB'000*
Current				
Bank loans — unsecured	**4.57~6.40**	**2,699,123**	4.57~6.60	1,648,455
Bank loans — secured	**1.48~6.55**	**2,314,030**	1.64~7.30	2,469,739
Guaranteed listed bonds (note)	**9.77**	**260,694**		—
Short-term commercial papers — unsecured		**—**	4.80~5.68	1,100,000
Private placement bond — unsecured		**—**	6.60	400,000
		5,273,847		5,618,194
Non-current				
Bank loans — secured	**5.78~6.15**	**227,966**	2.65~6.60	691,466
Guaranteed listed bonds (note)		**—**	9.77	256,660
Medium-term notes — unsecured	**6.20~8.50**	**1,000,000**	6.20~8.50	1,000,000
		1,227,966		1,948,126

Note: In November 2014, the Company issued guaranteed bonds (the "Guaranteed Bonds"), which are listed on the Hong Kong Stock Exchange, with a principal amount of RMB650,000,000 bearing interest at the coupon rate of 8.3% per annum, which will mature on 19 November 2017. The Guaranteed Bonds are guaranteed by subsidiaries of the Group, namely Goodgain Group Limited and China Transmission Holdings Limited. During the year ended 31 December 2015, the Group repurchased RMB385,370,000 principal amount of the Guaranteed Bonds. Subsequent to the year ended 31 December 2016, certain holders of the Guaranteed Bonds redeemed principal amount of RMB151,590,000 Guaranteed Bonds, and the redemption was completed on 12 January 2017. The aggregate amount of consideration paid by the Company in relation to the redemption was RMB154,898,000. Subsequent to the redemption, the principal of the Guaranteed Bonds remains outstanding is RMB113,040,000, and such outstanding Guaranteed Bonds remain listed on the Hong Kong Stock Exchange.

	2016	2015
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**5,013,153**	4,118,194
In the second year	**226,841**	356,841
In the third to fifth years, inclusive	**1,125**	334,625
	5,241,119	4,809,660
Other borrowings repayable:		
Within one year	**260,694**	1,500,000
In the second year	**500,000**	256,660
In the third to fifth years, inclusive	**500,000**	1,000,000
	1,260,694	2,756,660
	6,501,813	7,566,320

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	2016	2015
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within one year	**4,635,107**	4,825,536
More than one year	**1,227,966**	1,723,160
	5,863,073	6,548,696

In addition, the Group has variable-rate borrowings of RMB638,740,000 (2015: RMB1,017,624,000) which carry interest rates based on the rate of People's Bank of China prescribed interest rate, the Hong Kong Interbank Offered Rate (the "HIBOR") or the London Interbank Offered Rate (the "LIBOR").

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2016	2015
Effective interest rate:		
Fixed-rate borrowings	**3.90% — 9.77%**	4.57% — 9.77%
Variable-rate borrowings	**1.48% — 2.65%**	1.48% — 6.72%

As at 31 December 2016, the Group's borrowing denominated in currency other than RMB was USD20,000,000, which was equivalent to RMB138,740,000 (2015: bank borrowings of USD72,790,000 and HKD294,456,000, which were equivalent to RMB472,669,000 and RMB246,695,000 respectively). All other borrowings are denominated in RMB.

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 15.

14. CONTINGENT LIABILITIES

The Group entered an agreement (the "Agreement") effective from 1 January 2013 with a third party (the "Subcontractor"), pursuant to which, the Group assigns the Subcontractor and the Subcontractor agrees to repair certain of the wind gear products sold for the Group at a fixed fee at certain percentage of annual sales of those wind gear products of the Group (the "Fixed Fee"). The Group is not liable for any additional cost incurred by the Subcontractor in relation to the repair of those wind gear products, other than the Fixed Fee.

The Subcontractor however has not entered into any agreements with the customers of the wind gear products for the repair services. In the event of closure, liquidation, or inability of the Subcontractor to provide those repair services, the Group is still liable for such repair obligations should those customers claim for that against the Group. In the opinion of the directors, based on their experience, the financial position of the Subcontractor and their assessment of the current economic environment, the possibility of the default or inability by the Subcontractor to carry out the obligation is remote. Accordingly, no provision for the repair obligation of wind gear products has been made in the Group's financial statements at the end of the reporting period.

15. PLEDGE OF ASSETS

As at 31 December 2016, certain assets of the Group were pledged to secure certain banking facilities granted to the Group as follows:

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**239,583**	596,245
Bills receivable	**953,070**	960,656
Property, plant and equipment	**114,750**	127,500
Prepaid land lease payments	**178,482**	348,411
Structured bank deposits	**—**	100,000
Pledged bank deposits	**2,531,395**	2,403,640
	4,017,280	4,536,452

At 31 December 2016 and 31 December 2015, the Group also pledged its 25% equity interest in Nanjing High Speed, a wholly-owned subsidiary, for certain banking facilities granted to the Group.

16. COMMITMENTS

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

	2016	2015
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings	**90,277**	83,400
Plant and machinery	**274,316**	209,416
Capital contributions payable to an associate	**59,260**	59,260
	423,853	352,076

17. EVENTS AFTER THE REPORTING PERIOD

On 23 February 2017, the Group entered in to a sale and purchase agreement to dispose of its entire interest in Nanjing High Accurate Marine Equipment Co., Ltd., a subsidiary as at 31 December 2016, to an independent third party for a total consideration of RMB607,000,000. The gain on disposal before tax is expected to be approximately RMB49,000,000.

On 23 March 2017, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd., a wholly-owned subsidiary of the Group, issued a corporate bond of RMB900,000,000, which carries an interest rate of 6.47% per annum with a term of not more than 5 years.

18. COMPARATIVE AMOUNTS

During the year, certain comparative figures in respect of the year ended 31 December 2015 have been reclassified to conform with the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications. During the Period under Review, the Group recorded sales revenue of approximately RMB8,966,049,000 (2015: RMB9,845,695,000), representing a decrease of 8.9% from 2015. The gross profit margin was approximately 33.3% (2015: 32.5%). Profit attributable to owners of the Company was approximately RMB1,108,995,000 (2015: RMB1,033,097,000), representing an increase of 7.3% from 2015. Basic earnings per share amounted to RMB0.678 (2015: RMB0.632), representing an increase of 7.3% from 2015.

Principal business review

1. **Gear Segment**

(i) **Wind gear transmission equipment**

Large, diversified and overseas market development

The wind gear transmission equipment is a major product that has been developed by the Group. During the Period under Review, sales revenue of wind power gear transmission equipment business decreased by approximately 5.7% to approximately RMB7,362,287,000 (2015: RMB7,803,764,000) as compared with last year. The decrease in revenue was mainly due to the net effect of: (i) a decrease in the revenue from the sale of wind gear transmission equipment domestically due to the slowdown of the overall growth rate of domestic wind power industry in 2016 and the strengthening of credit control on customers of the Group at the end of the year in order to control delivery of products to customers who failed to meet their payment obligation; and (ii) a significant increase in the revenue from sale of wind gear transmission equipment overseas in 2016 as compared to last year due to our stable product quality and premium customer service.

The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750KW, 1.5MW, 2MW and 3MW wind power gear transmission equipment, which are sold in bulk to domestic and overseas customers. The product technology has reached an international advanced level and is well recognised by customers in general. In addition to provision of diversified wind power gear boxes to its customers, the Group also successfully developed and gained mastery of 5MW and 6MW wind power gear boxes, aligning with its international competitors in terms of product technological level.

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore and Canada to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in India to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

(ii) **Industrial gear transmission equipment**

Enhance market competitiveness through changes in production mode and sales strategies

The Group's traditional gear transmission equipment products are mainly supplied to customers in industries such as metallurgy, construction materials, traffic, transportation, petrochemical, aerospace and mining.

Owing to uncertainties of global economic environment and in light of the PRC governments conservative views on the future economic growth of the country, the equipment industry in the PRC remained in overcapacity during the Period under Review, therefore the Group adjusted the development strategy for traditional industrial gear transmission equipment. Above all, by leveraging its self-developed technologies, the Group focused on the development of energy-saving and environmentally-friendly products, and facilitated sales growth by standardizing and modularizing its products. Meanwhile, the Group strengthened its efforts to provide and sell parts and components of relevant products to its customers, helping them enhance the efficiency of its existing products without increasing capital expenditure, thereby maintaining its position as a major supplier in the traditional industrial transmission product market.

During the Period under Review, in respect of transmission equipment for high-speed rails, metro lines, urban train and tram segments, the Group received orders of metro gear boxes continuously from metro lines of various cities in

China and secured more orders of metro gear boxes from metro lines in Sydney. The Group has obtained International Railway Industry Standard (IRIS) certificate for its rail transportation products, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets. Currently its products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Qingdao, Dalian, Suzhou, Lanzhou, Nanchang, Shijiazhuang, Hong Kong, Singapore, Brazil, India, Mexico and Australia. The Group will continue to actively extend the transmission equipment business into high-speed rails, metro lines, urban train and tram segments, and accelerate the research and development of rail transportation gear equipment products. During the Period under Review, we had successfully developed two types of gear boxes for trams, and received the initial orders; and three types of gear boxes for 160km/h urban trains, one of which has been awarded domestic bulk orders. This type of gear boxes applies the unique gear modification technology and advanced heat treatment technical process, which meets the high reliability requirements during complex conditions. As a new platform, it will add new energy to the future development of the Company.

During the Period under Review, the industrial gear business segment generated sales revenue of approximately RMB1,125,890,000 for the Group (2015: RMB1,361,932,000), representing a decrease of 17.3% over last year.

2. **Marine gear transmission equipment**

Actively expand the domestic and overseas market

Although the current shipbuilding market goes downturn as a result of the decrease in oil prices and international political and economic factors, Nanjing High Accurate Marine Equipment Co., Ltd. ("NGC-MARINE"), a wholly-owned subsidiary of the Group, still achieved great performance in high, accurate and advanced products and major domestic project supporting. Recently, NGC-MARINE has equipped China Communications Construction Company Limited with the offshore wind power installation platform propeller system and the worldwide biggest cutter-suction dredger with gear box. At present, with the aim to be better, NGC-MARINE is playing a more and more important role in the domestic and international marine industry.

The Group continued to focus on research and development of new products and market expansion, and nine series of marine products have been applied in all equipment of overall ship propulsion system. During the Period under Review, the Group participated in the Asia Pacific Maritime on 16 March 2016, which was held in Marina Bay Sands Convention and Exhibition Center, Singapore and lasted for 3 days. NGC-MARINE and its wholly-owned subsidiary, NGC Marine Propulsion Southeast Asia Pte. Ltd. joined the exhibition together with a local partner, AME2 Pte. Ltd. NGC-MARINE demonstrated various propulsion and transmission products with proprietary intellectual property rights to exhibitor and customers from over 60 countries and districts, attracting a significant amount of visitors to consult and negotiate. The Group will continue to promote diversification of its marine gear transmission equipment products in order to leverage the momentum of market recovery to lay a solid foundation for its future development.

During the Period under Review, sales revenue of marine gear transmission equipment was approximately RMB236,819,000 (2015: RMB410,154,000), representing a decrease of 42.3% over last year.

3. **Computer numerical controlled ("CNC") machine tool products**

CNC machine tool products industry

Machine tool is the core equipment of the equipment manufacturing industry. The modernisation of equipment manufacturing industry of China depends on the development of its machine tool industry. We must enhance the manufacturing capacity of our machine tool to support the development of equipment manufacturing industry. Besides, the price for heavy machine tools is very high as the international market is dominated by few manufacturers. The Group intends to take the opportunity to develop heavy, precise and efficient machine tool products to establish its presence in the heavy and high-end market and provide advanced machine tools for the equipment manufacturing industry.

During the Period under Review, China's economy had no obvious improvement, and the equipment industry continued to see oversupply. As a result, the machine tool products business of the Group faced difficulties.

During the Period under Review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB106,693,000 (2015: RMB142,127,000), representing a decrease of 24.9% over last year.

4. **Diesel engine product industry**

In order to optimise the application of marine gear transmission equipment, the Group acquired Nantong Diesel Engine Co., Ltd. ("Nantong Diesel") in 2011, which is located in Nantong city of Jiangsu province that lies in the developed Yangtze delta area.

The products of Nantong Diesel cover a wide range of models, including marine diesel engines, diesel engines for power generation and gas engines. Its products are widely used in fishing vessels, inland river vessels, generating units, engineering machinery, agricultural irrigation and drainage facilities, air compression equipment and other ancillary machines.

Nantong Diesel possessed the proprietary intellectual property rights and was recognised as "Famous Brand Product of China Fishery Vessel & Machine Field", "China's Key New Product", "Jiangsu Province Key Protective Product" and "Jiangsu Province Credit Product". It was also awarded "Scientific & Technological Progress Prize of State Mechanical Industry".

Recovery in shipping industry was faltered because the global economy remained uncertain. As such, the sales of the Group's diesel engine products were also affected.

During the Period under Review, the Group's sales revenue from diesel engines amounted to approximately RMB134,360,000 (2015: RMB127,718,000), representing an increase of 5.2% over last year.

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB3,098,607,000 (2015: RMB2,161,833,000), representing an increase of 43.3% over last year. Overseas sales accounted for 34.6% to total sales (2015: 22.0%), representing an increase of 12.6 percentage points over the previous year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Japan. Although the economies in Europe and the U.S. were yet to be fully recovered during the Period under Review, the Group introduced different types of products in order to extend its coverage to the overseas markets.

PROSPECTS

Looking back to 2016, the global economy underwent a severe consolidation and the growth continued to slow down but diverse performance was seen in developed economies. Economic growth in emerging markets became stabilized and Asia-Pacific underpinned global economy to substantial extent. Against the backdrop of "new normal" phenomena, the PRC demonstrated a modest and improving economic progress and eventually retained its position as the country with the fastest growth. During 2016, the beginning year of the "Thirteenth Five-Year Plan", the PRC economic structure was keep on optimizing, significant achievements were accomplished under the initiative "Addressing Overcapacity, Destocking, Deleveraging, Lowering Corporate Costs, and Improving Weak Links (三去一降一補)". The supply side structure reform progressed forcefully and orderly. Destocking was thoroughly undertaken by various industry chains and the economy was further revitalized as a whole. Demand and supply dynamic in the country was refreshed again and fostered industry transformations and upgrades.

Over the past year, the PRC wind power industry added newly installed capacity of 23.4GW, making the cumulative installed capacity increase to 168.7GW and the country become the first nation who possessed installed capacity over 100GW in 2016. At the same time, the energy structure reform for the country was put forward vigorously. The wind power project of the "Thirteenth Five-Year Plan" announced that low-carbon energy would dominate new supply of energy in the future. Although the problem of wind curtailment improved marginally in 2016, it still hindered the development of the wind power industry. As such, the wind power project of the "Thirteenth Five-Year Plan" explicitly stated that the "consumption in the North, new installation in the South" approach. In the future, new capacity will be installed mostly in low wind speed areas in the south and wind power grid construction will also be strengthened. The focus of the industry is going to be utilization of existing capacity and inventory. It is expected that 2017 will be a year full of opportunities and challenges for wind power industry.

In 2016, as a world's leading manufacturer of wind power transmission equipment, the Group aligned with the national wind power development strategy to provide customers with high quality wind gear transmission equipment, actively promote research and development of wind power transmission equipment and optimize the production technical process to strengthen the development of wind power equipment business. During the Period under Review, the Company recorded a sales revenue from wind power products of RMB7,362 million. Meanwhile, the Group also established good cooperation with renowned domestic and international wind turbine manufacturers, including GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inbox Wind, Guodian United (國電聯合), Guangdong Mingyang (廣東明陽), Windey (運達風電), Shanghai Electric (上海電氣), Envision Energy (遠景能源), Dongfang Electric (東方電氣) and Goldwind (金風科技). The Group's high quality products and good services are widely recognized and trusted by domestic and overseas customers. Through relentless efforts of our wholly-owned subsidiaries in the US, Germany, Singapore and Canada and abiding by our sustainable development strategy, the Group strives for closer interactions and conservations with customers abroad. Recently, a wholly-owned subsidiary has been newly established in India to capture opportunities in emerging markets and further extend our diversified services to clients around the globe.

Industrial gear market is closely linked with the PRC economy development. Facing uncertainties in global economy and excess production capacity in the PRC's equipment industry, the Group adjusted our development strategy in the business of traditional industry gear transmission equipment. Both the production model and sales strategy were changed to enhance market competitiveness. In addition, a fast feedback mechanism was set up to handle deliveries to clients, optimizing an integrated operation system which incorporates sales, research and development and production functions.

Moreover, the Company will continue to adhere to our centralized control management program. By pruning and streamlining operation, our resources will be mainly devoted to gear transmission equipment segment and non-core business sectors with unsatisfactory performance will be disposed gradually, paving way to march forward without unnecessary burdens and strengthening our professional and premium image as a world-class gear supplier.

Looking forward to 2017, as more initiatives promoting new energy will be rolling out and the wind power project of the "Thirteenth Five-Year Plan" states that the initial planned cumulative grid-connected capacity will be 210GW by the end of 2020, of which the initial planned offshore wind power capacity will then be 5GW, the wind power industry has already pulled together its resources and got ready for future growth. It is expected there will be more positive measures for downstream wind power equipment manufacture market. The Group will keep abreast of changing market preferences to our products and proactively adjust ourselves to suit the "new normal" economic development by enhancement of product quality and furthering economies of scale, and simultaneously increase our market share in international markets to acquire a new high in our profits in core business.

FINANCIAL PERFORMANCE

The Group's sales revenue decreased by 8.9% to approximately RMB8,966,049,000 during the Period under Review.

	Revenue Year ended 31 December		
	2016	2015	*Change*
	RMB'000	*RMB'000*	
Gear Segment	**8,488,177**	9,165,696	-7.4%
— Wind Gear Transmission Equipment	**7,362,287**	7,803,764	-5.7%
— Industrial Gear Transmission Equipment	**1,125,890**	1,361,932	-17.3%
Marine Gear Transmission Equipment	**236,819**	410,154	-42.3%
CNC Machine Tool Products	**106,693**	142,127	-24.9%
Diesel Engine Products	**134,360**	127,718	5.2%
Total	**8,966,049**	9,845,695	-8.9%

Revenue

During the Period under Review, the Group's sales revenue was approximately RMB8,966,049,000, representing a decrease of 8.9% as compared with last year. The decrease was mainly due to the adverse effect of the sluggish economic recovery to the Group's business other than wind powers and the slowdown of the overall growth rate of domestic wind power industry in 2016.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB7,362,287,000 (2015: RMB7,803,764,000), representing a decrease of 5.7%; sales revenue from industrial gear transmission equipment was approximately RMB1,125,890,000, representing a decrease of 17.3% as compared with last year. The Group's sales revenue from marine gear transmission equipment was approximately RMB236,819,000, representing a decrease of 42.3% as compared with last year. During the Period under Review, the Group's sales revenue from CNC machine tool products and diesel engine products were approximately RMB106,693,000 and RMB134,360,000, representing a decrease of 24.9% and an increase of 5.2% as compared with last year, respectively.

Gross profit margin and gross profit

During the Period under Review, the Group's consolidated gross profit margin was approximately 33.3% (2015: 32.5%), representing an increase of 0.8 percentage point as compared with last year. Consolidated gross profit for the Period under Review amounted to approximately RMB2,987,378,000 (2015: RMB3,198,021,000), representing a decrease of 6.6% as compared with last year. During the Period under Review, the slight increase in gross profit margin was due to the effect of economies of scale and the decrease in the percentage of revenue generated from products with relatively lower gross profit margin. The decrease in consolidated gross profit was generally in line with the decrease in sales revenue.

Other income and net gains

During the Period under Review, the Group's other income was approximately RMB253,233,000 (2015: RMB326,462,000), representing a decrease of 22.4% as compared with last year. Other income is mainly comprised of bank interest income, investment income and sales of scraps and material. The decrease was mainly due to the decrease in sales of scraps and materials.

During the Period under Review, other gains and losses recorded a net gain of approximately RMB85,378,000 (2015: a net gain of 101,369,000), mainly comprised of net foreign currency exchange gains, gains and losses on disposal of subsidiaries, associates and available-for-sale investment, and gains and losses on disposal of property, plant and equipment.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses was approximately RMB367,337,000 (2015: RMB392,555,000), representing a decrease of 6.4% as compared with last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses and staff costs. The percentage of selling and distribution expenses to sales revenue for the Period under Review was 4.1% (2015: 4.0%), representing an increase of 0.1 percentage point as compared with last year.

Administrative expenses

During the Period under Review, the Group's administrative expenses was approximately RMB615,894,000 (2015: RMB612,333,000), representing an increase of 0.6% as compared with last year, which was mainly due to the increase in maintenance fee and legal and professional fee. The percentage of administrative expenses to sales revenue increased by 0.7 percentage point to 6.9% as compared with last year.

Finance costs

During the Period under Review, the Group's finance costs was approximately RMB495,585,000 (2015: RMB643,270,000), representing a decrease of 23.0% as compared with last year, which was mainly due to the decrease in bank loans and other borrowings.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2016, the equity attributable to owners of the Company amounted to approximately RMB11,053,873,000 (31 December 2015: RMB9,759,102,000). The Group had total assets of approximately RMB26,295,600,000 (31 December 2015: RMB25,292,081,000), an increase of 4.0% as compared with at the beginning of the year. Total current assets were approximately RMB17,381,918,000 (31 December 2015: RMB17,311,275,000), representing an increase of 0.4% as compared with the beginning of the year and accounting for 66.1% of total assets (31 December 2015: 68.4%). Total non-current assets were approximately RMB8,913,682,000 (31 December 2015: RMB7,980,806,000), representing an increase of 11.7% as compared with the beginning of the year and accounting for 33.9% of the total assets (31 December 2015: 31.6%).

As at 31 December 2016, total liabilities of the Group were approximately RMB15,055,252,000 (31 December 2015: RMB15,317,343,000), representing a decrease of approximately RMB262,091,000, or 1.7%, as compared with the beginning of the year. Total current liabilities were approximately RMB13,495,451,000 (31 December 2015: RMB13,214,731,000), representing an increase of 2.1% as compared with the beginning of the year, whereas total non-current liabilities were approximately RMB1,559,801,000 (31 December 2015: RMB2,102,612,000), representing a decrease of 25.8% as compared with the beginning of the year.

As at 31 December 2016, the net current asset of the Group was approximately RMB3,886,467,000 (31 December 2015: RMB4,096,544,000), representing a decrease of approximately RMB210,077,000, or 5.1%, as compared with the beginning of the year.

As at 31 December 2016, total cash and bank balances of the Group were approximately RMB5,485,418,000 (31 December 2015: RMB6,280,513,000), representing a decrease of approximately RMB795,095,000, or 12.7%, as compared with the beginning of the year. The cash and bank balances include pledged bank deposits of RMB2,531,395,000 (31 December 2015: RMB2,403,640,000), and structured bank deposits of RMB209,000,000 (31 December 2015: RMB1,755,000,000).

As at 31 December 2016, the Group had total borrowings of approximately RMB6,501,813,000 (31 December 2015: RMB7,566,320,000), representing a decrease of approximately RMB1,064,507,000, or 14.1%, as compared with that at the beginning of the year, of which borrowings within one year were RMB5,273,847,000 (31 December 2015: RMB5,618,194,000), accounting for approximately 81.1% (31 December 2015: 74.3%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings for the Period under Review ranged from 1.48% to 9.77% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB3,886,467,000, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) decreased from 60.6% as at 31 December 2015 to 57.3% as at 31 December 2016, mainly due to the increase in total assets and the decrease in borrowings.

Capital structure

The Group's operations were financed mainly by shareholders' equity, banking and other facilities available to the Group and internal resources. The Group will continue to adopt its treasury policy of placing its cash and cash equivalents as interest bearing deposits.

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and U.S. dollars. The Group's bank borrowings denominated in U.S. dollars as at 31 December 2016 amounted to approximately USD20,000,000.

During the Period under Review, the Group's borrowings with fixed interest rates to total borrowings was approximately 90.2%.

PLEDGE OF ASSETS

Save as disclosed in above note 15, the Group has made no further pledge of assets as at 31 December 2016.

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.23 (2015: HKD0.23) (tax inclusive) per ordinary share for the Period under Review by the Company to its shareholders. The proposed final dividend is expected to be paid to the shareholders of the Company on 9 June 2017. The Company will make separate announcement in respect of the record date of final dividend distribution and date of closure of register of members. The proposed final dividend will be paid subject to shareholders' approval at the Company's 2016 annual general meeting.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and the imported equipment which are transacted in U.S. dollars and Euros, the Group's domestic revenue and expense are denominated in Renminbi. Therefore, the Board is of the view that the Group's operating cash flow and liquidity during the Period under Review are not subject to significant foreign exchange rate risks. The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

The Group's bank borrowings denominated in U.S. dollars as at 31 December 2016 amounted to USD20,000,000. Therefore, the Group may be exposed to certain foreign exchange rate risks.

The net gain of foreign exchange recorded by the Group during the Period under Review was approximately RMB106,675,000 (2015: RMB22,961,000), including benefit from our export business denominated in U.S. dollars due to the depreciation of Renminbi against U.S. dollars during the Period under Review. The Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to exchange risks in 2017.

INTEREST RATE RISK

During the Period under Review, the loans of the Group are mainly sourced from bank borrowings and medium-term notes. Therefore, the benchmark lending rate announced by the People's Bank of China, the LIBOR and HIBOR will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels.

EMPLOYEES AND REMUNERATION

As at 31 December 2016, the Group employed approximately 8,186 employees (31 December 2015: 8,676). Staff cost of the Group for 2016 approximated to RMB1,390,242,000 (2015: RMB1,422,150,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

SIGNIFICANT INVESTMENT DURING THE YEAR

In December 2016, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive"), one of the Group's wholly-owned subsidiaries, set up a joint venture named as "Nanjing Dongbang Equipment Co., Ltd.*" (南京動邦裝備有限公司) ("Nanjing Dongbang") with two independent partners. Nanjing Drive invested RMB900,000,000 in Nanjing Dongbang. Although the Group owns 45% ownership interest in Nanjing Dongbang, significant matters of Nanjing Dongbang require unanimous approval of the shareholders. Hence, the Group obtained joint control over Nanjing Dongbang. For more details, please refer to the announcement published by the Company on 22 December 2016.

Save as disclosed above, there was no other significant investments held by the Group during the Period under Review.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed in above note 17, there are no other important events occurred subsequent to 31 December 2016.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this announcement have been agreed with the Group's auditor, Ernst & Young, which is consistent with the figures set out in the Group's consolidated financial statements for the year ended 31 December 2016 . The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") during the year ended 31 December 2016 except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and code provision A.6.7 which states that independent non-executive Directors and other non-executive Directors should attend general meetings of shareholders of the Company.

Since 1 December 2016, Mr. Hu Yueming, the Chairman of the Company has been re-designated from the position of executive Director to non-executive Director, and has resigned as the Chief Executive Officer of the Company. Since 5 December 2016, Mr. Hu Jichun, an executive Director has been appointed as the Chief Executive Officer of the Company. In the past, Mr. Hu Yueming was the Chairman and Chief Executive Officer of the Company. The Board considers that vesting the roles of both chairman and chief executive officer in Mr. Yueming is beneficial to the business development and management of the Group, enabling the Company to formulate and implement decisions promptly and efficiently while the balance of functions and power will not be impaired.

During the Period under Review, the Company's Chairman, some of the independent non-executive Directors, Chairman of the Audit Committee, Chairman of the Nomination Committee and external auditors have attended the 2015 annual general meeting, except Mr. Zhu Junsheng, the then independent non-executive Director, and Mr. Chen Shimin, the then independent non-executive Director and Chairman of the Remuneration Committee, who were absent from the 2015 annual general meeting due to other important matters.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code") as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

In November 2014, the Company issued 8.3% bonds due 19 November 2017 of a total principal amount of RMB650,000,000 with a listing on the Hong Kong Stock Exchange (the "Bonds"). As at 31 December 2015 and 31 December 2016, the outstanding principals of the Bonds amounted to RMB264,630,000.

On 30 November 2016, the Company issued an announcement to holders of the Bonds in relation to the occurrence of a relevant event. The relevant event was the change of control occurred on the Company on 29 November 2016. After the occurrence of the relevant event, a holder of the Bonds will have the right, at such holder of the Bonds option, to require the Company to redeem all, but not some only, of such bondholder's Bonds on 12 January 2017 at 101% of their principal amount together with accrued interest to 12 January 2017. As at 12 January 2017, the Company received valid put exercise notices from those holders of the Bonds holding such Bonds in the aggregate principal amount of RMB151,590,000 (the "Redeemed Bonds"). Settlement of the Redeemed Bonds (the "Redemption") was completed on 12 January 2017 (i.e., the Put Settlement Date) and the Redeemed Bonds were canceled on the same date. The aggregate amount of consideration paid by the Company in relation to the Redemption was RMB154,898,451.75. Subsequent to the cancellation of the Redeemed Bonds on the Put Settlement Date, the principal amount of Bonds remains outstanding is RMB113,040,000, and such outstanding Bonds remain listed on the Hong Kong Stock Exchange.

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

By order of the Board
China High Speed Transmission
Equipment Group Co., Ltd.
HU YUEMING
Chairman

Hong Kong, 30 March 2017

As at the date of this announcement, the executive Directors are Mr. Chen Yongdao, Mr. Gou Jianhui, Mr. Wang Zhengbing, Mr. Zhou Zhijin, Mr. Hu Jichun and Ms. Zheng Qing; the non-executive Directors are Mr. Hu Yueming and Mr. Yuen Chi Ping; and the independent non-executive Directors are Dr. Chan Yau Ching, Bob, Ms. Jiang Jianhua, Mr. Jiang Xihe and Mr. Nathan Yu Li.