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)

ANNUAL REPORT 2016

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Yongdao
Mr. Gou Jianhui
Mr. Wang Zhengbing
Mr. Zhou Zhijin
Mr. Hu Jichun *(Chief Executive Officer)*
Ms. Zheng Qing

Non-executive Directors

Mr. Hu Yueming *(Chairman)*
Mr. Yuen Chi Ping

Independent non-executive Directors

Dr. Chan Yau Ching
Ms. Jiang Jianhua
Mr. Jiang Xihe
Mr. Nathan Yu Li

AUDIT COMMITTEE

Mr. Jiang Xihe *(Chairman)*
Dr. Chan Yau Ching
Mr. Nathan Yu Li

REMUNERATION COMMITTEE

Dr. Chan Yau Ching *(Chairman)*
Mr. Jiang Xihe
Mr. Chen Yongdao

NOMINATION COMMITTEE

Mr. Hu Yueming *(Chairman)*
Mr. Jiang Xihe
Mr. Nathan Yu Li

REGISTERED OFFICE

4th Floor, Harbour Place
103 South Church Street
George Town
Grand Cayman KY1-1002
Cayman Islands

AUDITOR

Ernst & Young

LEGAL ADVISER

Li & Partners

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302
13th Floor
COFCO Tower
No.262 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, CPA (Aust.), FCPA

AUTHORISED REPRESENTATIVES

Mr. Hu Yueming
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

China Construction Bank
ICBC
China Minsheng Bank
China Merchants Bank
SPD Bank
Citibank
Australia and New Zealand Bank
BNP Paribas

WEBSITE

www.chste.com

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(the “Hong Kong Stock Exchange”)
(Stock Code: 658)

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	-3.3ppt

* Gearing ratio = Total liabilities/Total assets

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Business result					
Revenue	6,368,817	6,539,058	8,147,338	9,845,695	**8,966,049**
Profit for the year	128,472	31,157	175,682	1,002,897	**1,059,435**
Profit for the year attributable to owners of the Company	138,426	64,573	208,422	1,033,097	**1,108,995**

	At 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total Assets	19,882,234	22,970,686	25,299,504	25,292,081	**26,295,600**
Toal Liabilities	(12,137,671)	(14,208,985)	(16,429,402)	(15,317,343)	**(15,055,252)**
	7,744,563	8,761,701	8,870,102	9,974,738	**11,240,348**
Attributable to:					
Equity owners of the Company	7,539,438	8,513,877	8,688,371	9,759,102	**11,053,873**
Non-controlling interests	205,125	247,824	181,731	215,636	**186,475**
	7,744,563	8,761,701	8,870,102	9,974,738	**11,240,348**

CHAIRMAN'S STATEMENT

I am pleased to present the 2016 annual report (the "Annual Report") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company"). For the year ended 31 December 2016 (the "Period under Review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded sales revenue of approximately RMB8,966,049,000, representing a decrease of approximately 8.9% from 2015. Profit attributable to owners of the Company was approximately RMB1,108,995,000, representing an increase of approximately 7.3% from 2015. The Group continued to lead domestic wind power equipment industry by focusing on customers' need, keeping abreast of market demand, and optimizing product mix and cost control to sharpen our core competitive edges. The Company also proactively anchored its business to the industrial gear transmission equipment industry. As a result, remarkable results over the overall performance of the industry was achieved for 2016. During the Period under Review, the Group was honorably awarded the title of one of the "Top Enterprise Models" in the first round assessment of manufacturing business by MIIT.

In 2016, the global economy continued to grow slowly and sluggish recovery was seen in many sectors. Despite these "new normal" phenomena, the PRC maintained its mid-to-high single digit growth while seeking to make progress in structural reform of the supply front by optimization of its industrial structure. Equipment manufacturing industry was benefited and saw a solid growth momentum. Regarding to wind power industry, according to data from Chinese Wind Energy Association, in respect wind power for the country, the newly installed capacity amounted to 23.4GW for the year and the cumulative installed capacity by the end of 2016 amounted to 168.7GW, representing a decline of 24% year-on-year and a growth of 16% year-on-year, respectively. According to "Thirteenth Five-Year Plan", the initial planned wind power grid-connected capacity will be 210GW, of which the initial planned offshore wind power capacity will then be 5GW.

As clean energy investment in the PRC faltered in 2016, worldwide spending in clean energy cooled down last year. According to a report from Bloomberg New Energy Finance, the total investment in the global clean energy sector in 2016 was US$287.5 billion, down 18% from 2015 year on year. However, thanks to the development of large scale wind turbine and improvement of construction technology, the global investment in offshore wind power reached a record high in 2016, with a total investment of US$29.9 billion, an increase of 40% over 2015. Meanwhile, contrary to the decline in total investment, clean energy new capacity in the world was not reduced. Globally, new wind capacity was increased by 56.5GW in 2016, which is the second fastest expansion besides 2015. In response to the widespread popularity of intermittent clean energy systems, the PRC and the whole world were working on wind power grid construction, with a focus on handling overcapacity and promotion of power market reform to optimize the allocation of renewable energy power, so as to help renewable energy to play its full potential.

Looking back to 2016, against the backdrop of global economy slowdown, as a leading wind gear transmission equipment manufacturer in the world, the Group implemented business structure adjustments, and acquired a revenue of approximately RMB7,362,287,000 from wind power transmission equipment products. During the Period under Review, in addition to provision of large wind power gear boxes to its customers, the Group furthered the effectiveness of 5MW and 6MW wind power gear box transmission equipment, aligning with its international competitors in terms of technological level. Moreover, the Group launched NGC StanGear, the first serialized product platform for main gear boxes and yaw and pitch drives in the world as well as introduced a wind gear transmission box status monitoring system, leading the development of the industry. 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). We had delivered around 50,000 wind power main gear boxes and 300,000 yaw and pitch drives to approximately 40 major plants located in over 30 countries and regions, capturing a global market share of over 29%.

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 conversations 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. In the future, provision of high quality products will still be the thrust of our business. While maintaining the dominate domestic market share, the Group will continue to pursue for global expansion by sharpening our edges to compete in international markets and to extend our leading position.

Further, as a global leader in wind gear transmission equipment, the Group always endeavors to render value-added solutions to customers for fostering a healthier and sustainable development for the entire wind power industry. During the Period under Review, the Group formally launched 3.X MW platform gear box products which were developed specifically for the low wind speed market. Also, we successfully developed and established NGC StanGear, a serialized product platform for wind energy gear boxes which can reduce the cost of research and development of new products and shorten the development cycle, demonstrating our competitive advantage in low-cost and rapid launching of products.

During the Period under Review, in response to 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 industrial gear transmission equipment. By utilization of self-developed technology, most of our new products emphasized features like energy saving and environmental friendliness. The products were standardized and modularized in order to boost sales. Marketing efforts in sales of components and parts were strengthened to enhance customers' existing production efficiency as well as to consolidate our position as a major supplier in traditional industrial transmission products. 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. On the basis of business restructuring, the Group adopted a prudent and pragmatic approach in capital management, achieving a strategic synergy between business development and capital management and an optimized financial structure for the Group.

Looking ahead, as wind power policies under "Thirteenth Five-Year Plan" and new energy development policies will be rolling out, 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. This is a favorable external environment for the development of our Group. Innovative business like us can realize its potentials in branding, sufficient funding, technological innovation, etc. The Group will keep on strengthening our gear transmission business model in terms of both size and capability under our new development strategy to enjoy economies of scale and render high quality products and services. By our prudent and pragmatic operational strategy, efficient business structure and a great sense of responsibility to our shareholders, it is certain that the Group is able to secure forthcoming market opportunities and continue to propel the development of the industry.

During the Period under Review, Fullshare Holdings Limited (Stock Code: 607 ("Fullshare"), a company incorporated in the Cayman Islands with limited liability), through its wholly-owned subsidiary, made a voluntary conditional share exchange offer to acquire all of the issued shares of the Group. As at 31 December 2016, Fullshare and parties acting in concert with it indirectly held approximately 74.99% shareholding in the Company. The Group has excellent standing in the industry and is regarded highly by investors, and we wish the cooperation will take our business to the next level. Through the share exchange, the Group is enabled to share the international network and fund raising platform of Fullshare. In respect of the future business development and merger and acquisition projects of the Group, Fullshare can also fully support us by sharing its experiences and expertise in finance and organization matters.

I would like to express my heartfelt thanks to the management and all staff of the Group, and the board (the "Board") of directors (the "Director(s)"), shareholders and investors of the Company who have contributed to and put faith in the Group as well as our business partners who have been supportive of the Group.

Hu Yueming
Chairman
30 March 2017

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. ("Nanjing Marine"), a wholly-owned subsidiary of the Group, still achieved great performance in high, accurate and advanced products and major domestic project supporting. Recently, Nanjing 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, Nanjing 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. Nanjing Marine and its wholly-owned subsidiary, NGC Marine Propulsion Southeast Asia Pte. Ltd. ("NGC Marine") joined the exhibition together with a local partner, AME2 Pte. Ltd. Nanjing 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.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its advanced technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As at 31 December 2016, a total of 351 patents were granted by the State. In addition, 62 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 quality management system certification, ISO14001:2004 environmental management system certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. Nanjing Marine has strictly complied with international standards and the requirements of various classification societies in designing and manufacturing marine products. Its products have passed the inspection of and obtained certifications from classification societies such as China Classification Society (CCS), Bureau Veritas (BV) in France, American Bureau of Shipping (ABS) in the United States, Lloyd's Register of Shipping (LR) in the UK, Registro Italiano Navale (RINA) in Italy, Det Norske Veritas (DNV) in Norway, Russian Maritime Register of Shipping (RMRS) in Russia and Nippon Kaiji Kyokai (NK) in Japan. The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), a wholly-owned subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (DNVGL), Offshore and Certification Centre of Deutsches Windenergie-Institut (DEWI-OCC), CE and ETL, and its rail transportation products have obtained certifications from International Railway Industry Standard (IRIS).

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: RMB101,369,000), 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 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%.

SIGNIFICANT EVENT – VOLUNTARY CONDITIONAL SHARE EXCHANGE OFFER

On 19 September 2016, Five Seasons XVI Limited (the Offeror, a direct wholly-owned subsidiary of Fullshare) proposed to the Board that the Offeror would, subject to fulfillment of certain conditions, make a voluntary conditional share exchange offer to acquire all of the issued shares in the share capital of the Company (other than those already owned by the Offeror and parties acting in concert with the Offeror) (the "Voluntary Conditional Share Exchange Offer"). All of the conditions of the Voluntary Conditional Share Exchange Offer had been fulfilled and the Voluntary Conditional Share Exchange Offer became unconditional in all respects on 21 November 2016. The minimum public float of the Company was restored on 16 December 2016 by way of disposal of an aggregate of 130,672,000 shares of the Company by Glorious Time Holdings Limited, details of which are disclosed in the announcement of the Company dated 16 December 2016.

Details of the Voluntary Conditional Share Exchange Offer are disclosed in (i) the announcements dated 19 September 2016, 24 October 2016, 31 October 2016, 17 November 2016, 18 November 2016, 21 November 2016 and 5 December 2016, the composite document dated 31 October 2016, and the supplemental document dated 18 November 2016, all jointly published by the Offeror, Fullshare and the Company; and (ii) the announcement dated 16 December 2016 published by the Company.

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 kept 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Over the past year, the PRC wind power industry added newly installed capacity of 23.4GW, the cumulative installed capacity increased to 168.7GW. 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 promoted research and development of wind power transmission equipment and optimized 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 conversations 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 the downstream wind power equipment manufacturing 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.

PLEDGE OF ASSETS

Save as disclosed in note 42 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2016.

CONTINGENT LIABILITIES

Save as disclosed in note 41 to the consolidated financial statements, as at 31 December 2016, the Directors were not aware of any other material contingent liabilities.

COMMITMENTS

As at 31 December 2016, the Group had capital commitments contracted for but not provided in the consolidated financial statements in respect of acquisition of land and buildings, plant and machinery and capital contribution payable to an associate, and outstanding commitments payable under non-cancellable operating lease in respect of rented land and premises and office equipment of approximately RMB423,853,000 and RMB3,304,000 respectively (31 December 2015: RMB352,076,000 and RMB3,951,000). Details are set out in notes 44 and 43 to the consolidated financial statements respectively.

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 POLICY

As at 31 December 2016, the Group employed approximately 8,186 employees (31 December 2015: 8,676 employees). Staff cost of the Group for 2016 amounted to approximately RMB1,390,242,000 (31 December 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.

The remuneration committee of the Company is responsible for making recommendations to the Board on the Company's remuneration policy and structure, the remuneration packages of executive Directors and senior management and the remuneration packages of non-executive Directors.

The Group's criteria in relation to the determination of directors' remuneration take into consideration factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management.

The Group has adopted incentive programmes (including the Share Option Scheme) to encourage employee performance and a range of training programmes for the development of its staff.

PENSION SCHEME

The employees of the Group in Mainland China are members of state-managed pension scheme operated by the local government in China. The Group is required to contribute a specific percentage of their payroll costs to the pension scheme for the funding of the scheme. The sole responsibility of the Group in respect of this pension scheme is making specific contribution to this scheme. The Group also operates a Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

CHANGE OF AUDITOR

As the Board took the view that it would be in the best interests of the Company and its shareholders to appoint the same auditor as the one engaged by Fullshare, of which the Company is an indirect non wholly-owned subsidiary of it, Deloitte Touche Tohmatsu ("Deloitte") resigned as auditor of the Group with effect from 29 December 2016. The Board appointed Ernst & Young as the new auditor of the Group on 9 January 2017 to fill the vacancy following the resignation of Deloitte.

Save as disclosed above, the Company did not change its auditor in the past three years.

SIGNIFICANT INVESTMENT DURING THE YEAR

In December 2016, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive" or "NGC"), 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.

MATERIAL ACQUISITION AND DISPOSAL

During the Period under Review, the Group had no material acquisition or disposal of subsidiaries and associated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at the date of the Annual Report, the Group did not enter into any agreement in respect of any proposed acquisitions and did not have any other future plans relating to material investment or capital asset.

DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as of 31 December 2016 are listed as follows:

EXECUTIVE DIRECTORS

Mr. Chen Yongdao, aged 54, is an executive Director and a member of the Remuneration Committee of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. He served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and the deputy general manager of NGC since March 2007. Mr. Chen also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate"), Nanjing High Speed, Nanjing Marine, Nanjing Dongalloy Machinery & Electronics Co., Ltd., Nanjing Ningkai Mechanical Co., Ltd., Nantong Diesel, Zhenjiang Tongzhou Propeller Co., Ltd., China Transmission Holdings Limited (中傳控股有限公司) ("China Transmission Holdings") and NGC Marine. He is also the general manager of Nanjing Marine. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for over 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Gou Jianhui, aged 54, is an executive Director of the Company. He is a holder of Ph. D. degree in Engineering. He graduated from Harbin Institute of Technology and obtained a Bachelor's degree in Engineering and a Master's degree in Engineering in 1982 and 1986 respectively. He obtained a Ph. D. degree in Engineering from Technical University of Braunschweig in 1997. He held various positions at Harbin Institute of Technology, including teacher of School of Mechatronics Engineering, the person-in-charge of Germany FAG China Project, managing director and chief technical officer of FAG Hong Kong Project as well as chief representative of its Beijing Representative Office, the managing director and president of Industrial Division of Schaeffler Greater China. He has received the honorary title of one of "Most Influential Leaders" in automation, logistics, driver fields of China and awarded one of "Asian Brand Management Luminaries". Dr. Gou joined the Group in May 2013 and is the vice general manager of NGC and general manager of Nanjing High Speed. Dr. Gou has been served as a director of NGC since November, 2015.

Mr. Wang Zhengbing, aged 45, is an executive Director of the Company. He is a holder of university degree. He graduated from Zhejiang University and obtained a Bachelor's degree in Mental Material & Heat Treatment in 1993 and a Master's degree in Engineering in Nanjing University of Science and Technology in 2011 as a senior engineer. Mr. Wang has joined Nanjing High Speed Gear Factory since August 1993 and held various positions, including deputy director and director of the workshop since January 1999. He has served as the vice general manager of Nanjing High Speed since July 2003. Mr. Wang has been served as a director of NGC since November 2016.

Mr. Zhou Zhijin, aged 44, is an executive Director of the Company. He graduated from Nanjing Industrial School in 1991 and joined Nanjing High Speed Gear Factory in August 1991. Mr. Zhou was appointed as vice director of personnel department in January 1999. He was promoted as deputy director of human resource department in September 2001. He served as the assistant to general manager of Nanjing High Speed and office head since July 2003. He has served as the vice general manager of Nanjing High Speed since July 2006. Mr. Zhou has been served as a director of NGC since November 2016.

Mr. Hu Jichun, aged 37, is an executive Director and the Chief Executive Officer of the Company. He is a holder of postgraduate degree. Mr. Hu graduated from Shanghai University in Control Theory and Control Engineering and obtained a Master's degree in Engineering in 2004. Mr. Hu has been served as the vice general manager of Nanjing E-crystal Energy Co., Ltd. since January 2012 and an executive Director of the Company since June 2015. Also, Mr. Hu has been served as a director of NGC since November 2016 and the chairman and the general manager of NGC since December 2016. Mr. Hu is the son of Mr. Hu Yueming, the Chairman, a non-executive Director, the chairman of the Nomination Committee and an authorized representative of the Company under Rule 3.05 of the Listing Rules.

Ms. Zheng Qing, aged 49, is an executive Director of the Company and a fellow member of the Association of Chartered Certified Accountants. She graduated from Nanjing Audit University in 1989. She obtained a Bachelor's (Honours) degree in Applied Accounting from Oxford Brookes University in 2005 and further obtained a Master degree in Business Administration from the Chinese University of Hong Kong in 2012.

Ms. Zheng engaged in financial affairs and operation of international trade business from 1989 to 2002. From September 2002 to May 2005, she was the financial controller and secretary to the board of directors of Junma Tyre Cord Company Limited. She was the chief financial officer of Asia Silk Holdings Limited from November 2005 to May 2008. From June 2008 to May 2015, she was the chief financial officer and the assistant to the president of Nanjing Goldenhighway International SCM Corporation* (南京金海威國際供應鏈管理股份有限公司) where she was mainly responsible for the managing and monitoring the financial affairs of the group. Since June 2015, Ms. Zheng has been the financial controller of Nanjing office of Fullshare. She joined the Company as an executive Director in December 2016.

NON-EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 67, is the Chairman, a non-executive Director and the chairman of the Nomination Committee of the Company. Mr. Hu is a university graduate and was graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a senior engineer. He has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory (南京工藝裝備廠) and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. From March 2007 to December 2016, he served as the chairman and the general manager of NGC. Mr. Hu also holds directorship in certain subsidiaries (see the note below) of the Group. Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network (中國新能源發電網), a council member of China General Machine Components Industry Association (中國機械通用零部件工業協會), the vice chairman of Gear Manufacturers Association (齒輪專業協會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and chairman of Nanjing Renewable Energy Association (南京可再生能源協會). He has been awarded the "National May 1 Labour Medal" (全國五一勞動獎章) and title of "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家).

Note: Including subsidiaries namely, Nanjing High Accurate, Nanjing High Speed, Nanjing Marine, Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. (formerly known as Nanjing Sky Electronic Enterprise Co., Ltd.) ("Gaochuan Sky"), Nantong Diesel, AE&E Nanjing Boiler Co., Ltd. (formerly Known as Nanjing Boiler Works) ("AE&E Nanjing"), NGC Transmission Equipment (America), Inc. ("NGC (US)"), Eagle Nice Holdings Limited and China Transmission Holdings.

Mr. Yuen Chi Ping, aged 37, is a non-executive Director of the Company and he joined the Company as a non-executive Director on 1 December 2016. He has been a qualified solicitor in Hong Kong since 2004 and in England and Wales since 2010. Mr. Yuen has over twelve years of practicing experience and has extensive experience in corporate law, China-related public and private mergers and acquisitions, and capital market transactions. Mr. Yuen obtained his Bachelor's degree in Laws in November 2001 from the University of Hong Kong and completed the PCLL programme in June 2002. Afterwards, Mr. Yuen undertook his traineeship and worked as a lawyer in various international law firms. Mr. Yuen worked as a special counsel in the Shanghai office of Baker & McKenzie from 2011 to 2014, responsible for the firm's securities practice in Shanghai.

Mr. Yuen was appointed as the head of investment and legal departments of Fullshare International Group Limited in May 2014 and subsequently as the chief operating officer of Fullshare Holdings. Since July 2016, Mr. Yuen has been a non-executive director of Hin Sang Group (International) Holding Co. Ltd. (stock code: 6893), which principally engaged in the business of children's health care, Chinese medicines and traditional Chinese medical related projects. Since September 2016, Mr. Yuen has been an executive director and chief executive officer of Applied Development Holdings Limited (stock code: 519), which principally engaged in the business of property investment, resort and property development and investment holding.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yau Ching, Bob, aged 54, is a non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company and joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Doctorate degree in Finance. Dr. Chan graduated from the Chinese University of Hong Kong and obtained a Bachelor's degree in Business Administration in 1984. Dr. Chan further obtained a Master degree in Business Administration from the University of Wisconsin-Madison, the United States of America ("US") in 1986, and a Doctorate degree in Finance from Purdue University, US in 1994. Dr. Chan is a member of the Chartered Financial Analyst Institution and the Hong Kong Society of Financial Analysts. Since April 2009, Dr. Chan has been a licenced representative/responsible officer engaging in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Dr. Chan was appointed as an executive director and the chief strategic officer of Celestial Asia Securities Holdings Limited (stock code: 1049) from August 2002 to February 2005, and later as the investment director from November 2005 to July 2010, where he was mainly responsible for strategic investment projects and asset management.

Dr. Chan was appointed as a managing director of Pricerite Group Limited (stock code: 996, currently known as Carnival Group International Holdings Limited) from November 2003 to November 2004, which primarily engaged in the retail of furniture and household products. During 2005 to 2007, Dr. Chan was appointed as the chief financial officer of Moli Group Limited* (摩力集團有限公司), Shanghai, the PRC (a wholly-owned subsidiary of Celestial Asia Securities Holdings Limited), which was a developer, operator and distributor of online games, where he was mainly responsible for building accounting, finance and control procedures and policies and in charge of the human resources. Dr. Chan was later appointed as the chief executive officer of Moli Group Limited from July 2010 to October 2012, where he was mainly responsible for the re-focusing of the company's business covering online and mobile entertainment.

Dr. Chan was appointed as the deputy chief executive officer and an executive director of Celestial Asia Securities Holdings Limited from November 2012 to July 2013, and later as the director of investments and corporate development from August to November 2013, where he was mainly responsible for the overall business development and the design and development of algorithm trading strategies respectively.

Since January 2002, Dr. Chan has been appointed as an independent non-executive director of Lee's Pharmaceutical Holdings Limited (stock code: 950), which principally engaged in the research, development, manufacturing and distribution of biopharmaceutical drugs in China.

Dr. Chan is currently a managing director and a responsible officer of KBR Fund Management Limited, which, as at the date of the Annual Report, a licensed corporation carrying out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Ms. Jiang Jianhua, aged 52, is an independent non-executive Director of the Company and she joined the Company as an independent non-executive Director in 31 December 2012. She is a holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor degree, majoring in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a Master degree of management. She studied and obtained a Doctor degree of management from Nanjing Agricultural University from September 2006 to December 2008.

From July 1986 to September 2013, she held various positions at Nanjing Audit University, including the head of finance teaching section, the assistant to department director, the deputy director of the finance department, the deputy dean of the finance school, the secretary of the Communist Party of China at the audit school, the dean of Nanjing Golden Audit School, a teaching assistant, lecturer, an associate professor and a professor at Nanjing Audit School. Ms. Jiang specialized in the areas of finance and accountancy and had written many articles and books and participated in a number research projects in these areas. She won several awards in relation to her academic and teaching excellence, including Candidate for Potential Young and Middle-aged Academic Leaders in the "Green and Blue Project" of Jiangsu Province, Candidate for Aspirants of "333 Project" of Jiangsu Province, Third Level.

Currently, Ms. Jiang serves as an independent director of Nanjing Yunhai Special Metals Co., Ltd., a company listed on the Shenzhen Stock Exchange, Nanjing Baose Co., Ltd., a company listed on the Shenzhen Stock Exchange, Sainty Marine Corporation Ltd., a company listed on the Shenzhen Stock Exchange, and Jiangsu Holly Corporation, a company listed on the Shanghai Stock Exchange.

Mr. Jiang Xihe, aged 58, is an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 8 June 2007. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association and a standing member of Jiangsu Accounting Association.

He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University (南京師範大學), head of Accounting and Financial Development Research Centre of Nanjing Normal University (南京師範大學) and the party committee secretary of Jinling Girl's College, Nanjing Normal University (南京師範大學).

He is also an independent director of Hongbaoli Group Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Nathan Yu Li, aged 45, is an independent non-executive Director and a member of the Audit Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Master degree in Science and a Master degree in Business Administration.

Mr. Li graduated from Zhejiang University and obtained a Bachelor's degree in Science in May 1993. Mr. Li obtained a Master degree in Science from Boston University in May 1995, and further obtained a Master degree in Business Administration from Babson College in May 2009.

Mr. Li was a senior software engineer from August 1995 to May 2001 at Brooks Automation Inc., where he was principally responsible for leading the software team to design semiconductor manufacturing robots.

Between June 2001 to March 2006, Mr. Li held various positions at Axsun Technologies Inc., including as principal software engineer, R & D manager and senior technical marketing manager. During his service, optical communication equipment and near infrared laser source product lines of the company were launched.

From March 2006 to August 2010, Mr. Li was a director of sales and marketing at Copley Controls Corporation and a director of business development of its parent company, Analogic Corporation, responsible for business of medical diagnostic imaging products, aviation security and motion control products.

Mr. Li was the vice president of business development from August 2010 to August 2011 at Nanjing Fullshare Dazu Technology Company Limited* (南京豐盛大族科技股份有限公司) based in Nanjing, PRC, where he was mainly responsible for designing the business plan and growth strategy for the healthcare sector of the company's group. From August 2011 to October 2012, Mr. Li founded Across Globe Works LLC and assisted companies with unique technology in the US to access the international markets.

In October 2012, Mr. Li co-founded with partners and has since then been the general manager of Bowing Medical Technologies LLC, where Mr. Li is mainly responsible for formulation of business development strategy and budget planning.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 54, is a chief financial officer and company secretary and an authorised representative of the Company. He graduated from York University with a Bachelor of Arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Group.

Ms. Zhou Jingjia, aged 53, is the financial controller of NGC. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms Zhou joined the Group in July 2006. She became the director of NGC in March 2007. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, Gaochuan Sky, Nantong Diesel, Zhong-Chuan Heavy Duty Machine Tool Co., Ltd., AE&E Nanjing, NGC (US) and China Transmission Holdings.

The Directors are pleased to present the Directors' report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group are principally engaged in design, production and sale of gear transmission equipment products. Details of the principal activities of the subsidiaries, joint ventures and associates of the Company are set out in notes 1, 17 and 18 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 9 to 21 of the Annual Report. These discussions form part of this Directors' Report.

The Group is of the view that with the progress of economy and society, the Company is not only responsible for its business operation, but also responsible for environment. The Group values the environment and is committed to minimizing the carbon footprint arising from the Company's businesses in different ways, including (among others) by adopting new standards, new materials, new designs in project construction, improving the environmental awareness of employees, and also actively calling for our business partners to enhance environmental protection concept, with aims to enable the objective of environmental protection to penetrate into all levels of the Company's business.

The Group has complied with relevant PRC laws and regulations relating to environment, and has adopted the ISO14001 environment management system. The Company has strictly followed the environmental requirements and established relevant system to ensure legal treatment and disposal of various types of waste, and regularly submits environment statistics to relevant environmental protection authority. The Group conducts construction of new projects according to the latest national standards of environmental protection, engages design institute with Grade A qualification to design the environmental protection plans, and conscientiously implements the concept of "three concurrents", namely concurrent design, concurrent construction and concurrent acceptance, to ensure the principle of the problems encountered will be solved immediately, avoid repeating work and wasting resources, and reduce the unnecessary carbon emissions. In respect of past projects, the Company also put considerable human and financial resources to conduct inspections and improvements. During the Period under Review, the discharge and treatment of various types of waste of the Company met the relevant requirements of environmental protection authority.

Nanjing High Speed, our subsidiary, obtained the ISO14001 certification every year since 2008, passed the Environmental-Friendly Enterprise Assessment organized by Nanjing Environmental Protection Agency in the end of 2012 and passed the Clean Production Enterprise Assessment in the end of 2013. The Company established the duties of environmental protection for staff at all levels, and established emergency response plans for various types of environmental accidents and regularly conducts drills, to really penetrate the work of environmental protection into the Company's business. While our business grows, we will minimize the impact on environment.

The Group maintains good relationships with our clients and suppliers. As for human resources, in order to protect the interest and benefit of our staff, staff participated in the social protection system established and administered by government authorities according to the regulations in PRC. The Group have contributed the social insurance contribution (including basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident fund.

The Company has established and implemented a human resources policy that is beneficial to our sustainable development. We consider code of ethics and professional abilities as an important criteria for staff employment and promotion. We practically reinforced staff training and continuous education, built up a rotation and interaction system and developed comprehensive knowledge and skill of professionals so as to constantly improve the quality of staff. We focus on development opportunity of internal staff when appointing and selecting outstanding talents. We view the continuous training of professional manager team with high level of professionalism, enthusiasm and responsibility as an important mission of our development.

At the company level, the Group has complied with the requirements of the Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Securities and Futures Ordinance ("SFO"), including information disclosures and corporate governance, the Group has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code").

KEY RISKS AND UNCERTAINTIES

Apart from the risk of foreign exchange rate fluctuation and interest rate risk set out in the Management Discussion and Analysis on pages 19 and 20 of the Annual Report, the following lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, the Annual Report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

The Group sells wind gear transmission equipment to our customers who are wind turbine manufacturers, and then they provide wind power to wind energy companies which rely on local grid companies to offer connection, transmission and dispatch services and to purchase the electricity they generate. If these wind energy companies fail to establish effective connection with the power grid or sell the electricity they generate, the demand for our wind gear transmission equipment could decrease, and therefore our business operations may be adversely affected.

The commercial feasibility and profitability of the wind gear transmission equipment business of the Group are significantly dependent on the PRC government's policies and regulatory framework supporting renewable energy development. However, the PRC government may change or abolish such policies and regulatory framework.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed in note 49 to the consolidated financial statements, there are no other important events occurred subsequent to 31 December 2016.

OPERATING RESULTS AND APPROPRIATIONS

The operating results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 80 and 81 of the Annual Report.

The Board recommends the payment of a final dividend of HKD0.23 (tax inclusive) in cash per ordinary share for the year ended 31 December 2016 (2015: HKD0.23) and proposes that the remaining profit for the year be retained. It is expected that the final dividend will be paid to shareholders of the Company on 9 June 2017. The record date of proposed final dividend distribution and date of closure of register of members are set out in the circular of the Company to be dispatched to the shareholders of the Company on or before 13 April 2017. The proposed final dividend will be paid subject to shareholders' approval at the Company's 2016 annual general meeting.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2016 was approximately RMB4,908,811,000 (2015: RMB5,027,848,000).

FIVE-YEAR FINANCIAL SUMMARY

The summary of business result and assets and liabilities of the latest five financial years of the Group are set out on page 5 of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2016 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 34 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as set out on pages 33 to 35 of the Annual Report, no equity-linked agreements were entered into by the Group or existed during the Period under Review.

BORROWINGS

Details of the borrowings of the Group are set out in note 29 to the consolidated financial statements.

TAXATION

Details of the taxation of the Group are set out in note 10 to the consolidated financial statements.

DONATION EXPENDITURE

During the Period under Review, the donation expenditure of the Group was approximately RMB416,000 (2015: RMB423,000).

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 the option of such holder of the Bonds, 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 RMB154,898,000. 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.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company (the "Share Option Scheme"). Share options do not confer rights to the holders to receive dividends or vote at shareholder's meetings.

A summary of the Share Option Scheme disclosed pursuant to the Listing Rules is as follows:

	Share Option Scheme
Purpose of the Share Option Scheme	The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions of the eligible participants who have had or may have made to the Group. The Share Option Scheme will provide the eligible participants with an opportunity to have a personal stake in the Company with the view to (i) motivating the eligible participants to optimize their performance and efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.
Participants of the Share Option Scheme	Eligible participants can be any of the following classes of persons or entities: (i) any full-time or part-time employee, executive or officer of the Company or any of its subsidiaries; (ii) any director (including non-executive director and independent non-executive director) of the Company or any of its subsidiaries; (iii) any adviser, consultant, supplier, customer and agent of the Company or any of its subsidiaries; and (iv) such other persons who, in the opinion of the Board, will contribute or have contributed to the Group. Their assessment criteria are: – contribution to the development and performance of the Group; – quality of work performed for the Group;

	– initiative and commitment in performing his/her duties; and – length of service or contribution to the Group.
Total number of shares available for issue under the Share Option Scheme and percentage of the issued shares as at the date of the Annual Report	As at the date of the Annual Report, the Company had granted share options to subscribe for 12,000,000 shares in the Company under the Share Option Scheme. The total number of shares available for issue under the Share Option Scheme is 108,000,000 shares, representing approximately 6.60% of the total number of issued shares in the Company as at the date of the Annual Report.
Maximum entitlement of each participant under the Share Option Scheme	The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the share in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to approval by shareholders.
The period within which the shares must be taken up under an option	Options granted must be taken up within 12 months from the date of grant.
The minimum period (if any) for which an option must be held before it can be exercised	The exercise period of share options shall be determined by the Board, but shall not be more than ten years from the date of grant of share options.
The amount payable on application or acceptance of share options and the period within which payments or calls must or may be made or loans for such purposes must be paid	HKD1 shall be paid for each share option on or before the relevant date of acceptance of share options.

The basis of determining the exercise price	The exercise price is determined by the Board, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.
The remaining life of the Share Option Scheme	The Share Option Scheme shall expire on 8 June 2017.

The Company did not issue any share option during the Period under Review. As at 31 December 2016, the Company had no outstanding share option.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2016, the purchase amount (not of a capital nature) from the Group's top five suppliers accounted for less than 30% of our total purchase amount.

Revenue from sales of goods to the Group's top five customers and the largest customer accounted for 65.4% and 31.8% of our total revenue from sales of goods during the year ended 31 December 2016, respectively. All transactions between the Group and relevant customers were carried out on normal commercial terms. To the best knowledge of the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their close associates (within the meanings of the Listing Rules) had any interests in the top five customers during the Period under Review.

DIRECTORS' SERVICE CONTRACTS

All Directors have entered into service contracts with the Company with a term of three years starting from the listing date of the Company or the date of appointment or re-election of the Directors.

Under the Cayman Islands Companies Law, at every annual general meeting of the Company, no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to the offer themselves for re-election. In addition, according to code provision A.4.3 of the Corporate Governance Code, if an independent non-executive Director serves more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

None of the Directors intending to seek re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS AND THEIR TERMS

The Board members and the Directors in office and their terms for the Period under Review and up to the date of the Annual Report are as follows:

Executive Directors:

Mr. Chen Yongdao	Three years from the date of his re-election on 17 June 2016
Mr. Gou Jianhui	Three years from the date of his re-election on 17 June 2016
Mr. Wang Zhengbing	Three years from the date of his re-election on 17 June 2016
Mr. Zhou Zhijin	Three years from the date of his re-election on 17 June 2016
Mr. Hu Jichun	Three years from the date of his re-election on 17 June 2016
Ms. Zheng Qing	Three years from the date of her appointment on 1 December 2016
Mr. Liao Enrong	Resigned on 3 June 2016

Non-Executive Directors:

Mr. Hu Yueming	Three years from the date of his re-election on 26 June 2015
Mr. Yuen Chi Ping	Three years from the date of his appointment on 1 December 2016

Independent Non-Executive Directors:

Dr. Chan Yau Ching	Three years from the date of his appointment on 1 December 2016
Ms. Jiang Jianhua	Three years from the date of her re-election on 26 June 2015
Mr. Jiang Xihe	Three years from the date of his re-election on 17 June 2016
Mr. Nathan Yu Li	Three years from the date of his appointment on 1 December 2016
Mr. Zhu Junsheng	Resigned on 1 December 2016
Mr. Chen Shimin	Resigned on 1 December 2016

The biographies of the Directors as of 31 December 2016 are set out on pages 22 to 27 of the Annual Report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service contracts disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity related to a Director of the Company had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the Period under Review.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 31 December 2016, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

As at 31 December 2016, none of the Directors and chief executives of the Company or any of their associates had any interests in any securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors and chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

At no time during the Period under Review was the Company or its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 31 December 2016, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Five Seasons XVI Limited (Note)	Beneficial owner	1,208,577,693 (Long Position)	73.91 (Long Position)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES *(Continued)*

Note: The issued share capital of Five Seasons XVI Limited, a company incorporated in the British Virgin Islands, is owned as to 100% by Fullshare while the issued share capital of Fullshare is owned as to 46.58% by Magnolia Wealth International Limited, a company incorporated in the British Virgin Islands, whose entire issued share capital is in turn beneficially owned by Mr. Ji Changqun. Glorious Time Holdings Limited, a company incorporated in the British Virgin Islands, is interested in 17,890,000 shares of the Company, representing approximately 1.09% of the entire issued share capital of the Company while the entire issued share capital of Glorious Time Holdings Limited is beneficially owned by Mr. Ji Changqun. Accordingly, Mr. Ji Changqun is interested in 1,226,467,693 shares of the Company, representing approximately 74.99% of the entire issued share capital of the Company.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2016, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed herein, no contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders and their subsidiaries at any time during the Period under Review.

CONNECTED TRANSACTIONS

The related party transactions set out in note 45 to the consolidated financial statements were not disclosable connected transactions under Chapter 14A of the Listing Rules.

The Directors of the Company (including our independent non-executive Directors) believe that the related party transactions set out in the note 45 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Period under Review.

During the Period under Review, the Company has put in place appropriate insurance cover in respect of Directors' liability.

MANAGEMENT CONTRACTS

As at 31 December 2016, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

PRE-EMPTION RIGHTS

Though there are no restrictions on the grant of pre-emption right under the Cayman Laws, the Company did not grant any pre-emption rights in accordance with the Articles of Association.

SUFFICIENT PUBLIC FLOAT

References are made to (i) the composite document dated 31 October 2016; (ii) the supplemental document dated 18 November 2016; and (iii) the announcement dated 5 December 2016 of the Company, all jointly issued by Five Seasons XVI Limited (the "Offeror"), Fullshare and the Company, in relation to, among other things, the close of the voluntary conditional share exchange offer by BaoQiao Partners Capital Limited for and on behalf of the Offeror to acquire all of the issued shares of the Company (other than those already owned by the Offeror and parties acting in concert with the Offeror) (the "Offer").

Upon the close of the Offer and after the completion of the disposal of 50,000,000 Offeree Shares by Glorious Time Holdings Limited to independent third parties on 5 December 2016, the Company could not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules. However, on 7 December 2016, the Hong Kong Stock Exchange granted a temporary waiver to the Company from strict compliance with Rule 8.08(1)(a) of the Listing Rules for the period from 5 December 2016 to 26 December 2016.

As at 16 December 2016, immediately upon completion of the disposal of an aggregate of 130,672,000 shares of the Company by Glorious Time Holdings Limited to independent third parties, the minimum public float of the Company of 25% of the total issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules had been restored.

Save as disclosed above, based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the Listing Rules throughout the year and before publishing the Annual Report.

AUDITOR

As the Board took the view that it would be in the best interests of the Company and its shareholders to appoint the same auditor as the one engaged by Fullshare, Deloitte resigned as auditor of the Group with effect from 29 December 2016.

The Board formally appointed Ernst & Young as the new auditor of the Group on 9 January 2017 to fill the vacancy following the resignation of Deloitte.

The financial statements for the year ended 31 December 2016 was audited by Ernst & Young.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as our auditor for 2017.

MATERIAL LITIGATIONS AND ARBITRATIONS

During the Period under Review, the Group had no material litigations and arbitrations.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 30 March 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognizes the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving high standards of corporate governance in the interest of the shareholders of the Company. This report describes the corporate governance practices of the Group, explains the applications and deviation (if any) of the principles of the Corporate Governance Code.

The Company has complied with the code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to 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 deviation from 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. Hu 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 of the Company, 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.

CORPORATE STRATEGY AND BUSINESS MODEL

The Group has been focusing on the proprietary research and development, design, manufacture and sales of gear transmission products with high technology. Our products are widely applied in various industrial areas, customers of the Company are distributed in a number of equipment manufacturing industries around the world. In future development, the Group will strengthen the research and development, enhance product quality and increase products of different models on the basis of the original gear transmission equipment products, increase added value to products and seek diversified developments in the Group's products. At the same time, the Group will establish subsidiaries in various regions across the world to coordinate with the Group's strategy of sustainable development and increase our comprehensive corporate competitiveness.

COMPOSITION AND PRACTICES OF THE BOARD

The Board collectively takes responsibility to all the shareholders in respect of managing and supervising the business of the Group so as to enhance value for our shareholders.

The Board is responsible for the leadership and control of the Company, and monitoring the business, decision-making and performance of the Group. The management was authorized by the Board the power and responsibility to manage the day-to-day affairs of the Group. The Directors specifically delegate the management to deal with major corporate affairs, including the preparation of interim report and annual report and announcement to the Board for approval, the implementation of business strategies and measures adopted by the Board, the implementation of adequate internal controls and risk management procedures, as well as the compliance of relevant statutory and regulatory requirements, rules and regulations.

The Board comprises twelve Directors, including six executive Directors, two non-executive Directors and four independent non-executive Directors. The Board held five meetings and passed four written resolutions during the Period under Review. Each of the Directors and members of all committees and their attendance at the meetings were as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2015 Annual General Meeting
No. of meetings held	5	2	2	2	1
Executive Directors					
Mr. Chen Yongdao	5/5		2/2		1/1
Mr. Gou Jianhui	5/5				0/1
Mr. Wang Zhengbing	5/5				0/1
Mr. Zhou Zhijin	5/5				0/1
Mr. Hu Jichun *(Chief Executive Officer)*	5/5				0/1
Ms. Zheng Qing *(Appointed on 1 December 2016)*	0/0				0/0
Mr. Liao Enrong *(Resigned on 3 June 2016)*	2/2				0/0
Non-Executive Directors					
Mr. Hu Yueming *(Chairman)*	5/5			2/2	1/1
Mr. Yuen Chi Ping *(Appointed on 1 December 2016)*	0/0				0/0

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2015 Annual General Meeting
Independent Non-Executive Directors					
Dr. Chan Yau Ching					
*(Appointed on 1 December 2016)**	0/0	0/0	0/0		0/0
Ms. Jiang Jianhua	5/5				1/1
Mr. Jiang Xihe	5/5	2/2	2/2	2/2	1/1
Mr. Nathan Yu Li					
*(Appointed on 1 December 2016)**	0/0	0/0		0/0	0/0
Mr. Zhu Junsheng					
*(Resigned on 1 December 2016)**	4/5	2/2		1/2	0/1
Mr. Chen Shimin					
*(Resigned on 1 December 2016)**	3/5	2/2	1/2		0/1

* *Change in the composition of the Board committees are due to changes in Directors on 1 December 2016*

The biographies of each of Directors are set out on pages 22 to 27 of "Directors and Senior Management" in the Annual Report.

Each of the executive Directors has entered into a service contract with the Company, and each of independent non-executive Directors has entered into a letter of appointment with the Company with a term of three years. Each of the Directors (including the one with a specific service term) shall retire from office by rotation at least once every three years yet subject to re-election. In any event, such service term can be terminated subject to the articles of association of the Company and/or applicable laws.

Save as disclosed in the Annual Report, there is no financial, business, family or other major/related relationships among the members of the Board. The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent. The Company has also complied with the requirements in respect of independent non-executive directors under the Rule 3.10 and Rule 3.10A of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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. Hu 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. Mr. Hu Yueming, being the Chairman of the Company, will continue to lead the Board while Mr. Hu Jichun, being the Chief Executive Officer of the Company, will continue to lead the formulation of the overall strategies and policies of the Company to enable efficient operation and discharge of duties of the management of the Company.

NON-EXECUTIVE DIRECTORS

The service term of the current non-executive Director is:

Mr. Hu Yueming	Three years from the date of his re-election on 26 June 2015, re-designated from executive Director to non-executive Director on 1 December 2016
Mr. Yuen Chi Ping	Three years from the date of his appointment on 1 December 2016
Dr. Chan Yau Ching	Three years from the date of his appointment on 1December 2016
Ms. Jiang Jianhua	Three years from the date of her re-election on 26 June 2015
Mr. Jiang Xihe	Three years from the date of his re-election on 17 June 2016
Mr. Nathan Yu Li	Three years from the date of his appointment on 1 December 2016

EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

The five highest paid individuals of the Group for the Period under Review are all Directors, details of their emoluments are set out in notes 8 and 9 to the consolidated financial statements.

The emoluments of the senior management of the Group (other than the Directors) whose profiles are included in the "Directors and Senior Management" section of the Annual Report were within the following bands:

	No. of employees
RMB2,000,001 to RMB3,000,000	2

REMUNERATION COMMITTEE

The Company established the remuneration committee on 8 June 2007. The remuneration committee currently comprises three members, namely Dr. Chan Yau Ching, Mr. Jiang Xihe and Mr. Chen Yongdao, two of which are independent non-executive Directors. Dr. Chan Yau Ching, an independent non-executive Director, is the chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations to the Board on the Company's remuneration policy and structure, the remuneration packages of individual executive Director and senior management and the remuneration of non-executive Directors.

During the Period under Review, the remuneration committee held two meetings and passed one resolution, which made proposals on the remuneration of Directors and senior management and the remuneration of the newly appointed Directors during the Period under Review. The attendance record of each member of the committee is set out in the section entitled "Composition and Practices of the Board" on pages 42 and 43 of the Annual Report.

NOMINATION COMMITTEE

The Company has established the nomination committee with effect from 1 April 2012. The nomination committee currently comprises three non-executive Directors, namely Mr. Hu Yueming, Mr. Jiang Xihe and Mr. Nathan Yu Li, two of which are independent non-executive Directors. Mr. Hu Yueming, Chairman of the Company, is the chairman of the nomination committee.

The primary duties of the nomination committee are to study the proposed candidates, the selection criteria and procedure of the Company's Directors and senior management and give recommendations, and review the structure, number and composition of the Board at least once annually to implement the Company's corporate strategies.

During the Period under Review, the nomination committee held two meetings to review the structure, number, composition and policy for diversity on the Board in respect of the Company's corporate strategy, and to make recommendations to the Board in respect of newly appointed candidates of directors during the Period under Review. The Company adopted the board diversity policy on 1 September 2013 and strives to select the most appropriate candidates to be appointed as a member of the Board. The nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained and neither the Board nor the nomination committee has set any measurable objective implementing the board diversity policy. When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference not only to the skills, experience, education background, professional knowledge, personal integrity and time commitments but also the gender, age, cultural background and ethnicity of the proposed candidates. The attendance record of each member of the committee is set out in the section entitled "Composition and Practices of the Board" on pages 42 and 43 of the Annual Report.

AUDIT COMMITEE

The Company established the audit committee on 8 June 2007 with written terms of reference updated on 29 December 2015 which have been adopted for the purpose of reviewing and providing supervision on the financial reporting process, risks management and internal controls of the Company as well as nominating and supervising the external auditor and offering advice and recommendations to the Board.

The audit committee currently comprises three members, namely Mr. Jiang Xihe, Dr. Chan Yau Ching and Mr. Nathan Yu Li, all of them are independent non-executive Directors. Mr. Jiang Xihe is the chairman of the audit committee.

During the Period under Review, the audit committee held two meetings and passed one written resolution to (i) review the internal control review reports, and review the annual report for the year 2015 and the interim report for the year 2016 of the Group and report the review conclusions to the Board; (ii) review the independence of external auditors; (iii) consider and approve the external auditor's fees and the letter of appointment for the year 2016 ; and (iv) make recommendations to the Board in respect of the appointment of external auditors. The attendance record of each member of the committee is set out in the section entitled "Composition and Practices of the Board" on pages 42 and 43 of the Annual Report.

The Annual Report had been reviewed by the audit committee.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for formulation of the Company's corporate governance policies and undertakes the following corporate governance roles:

(i) to develop and review the Group's corporate governance policy and practices and propose in this regard;

(ii) to review and monitor the training and ongoing professional development of the Directors and senior management;

(iii) to review and monitor the compliance of the Group's policy and practice with all laws and regulations, if applicable;

(iv) to develop, review and monitor the code of conduct and compliance guidance (if any) applicable for all employees of the Group and Directors; and

(v) to review the compliance of the Group with the disclosure requirements on corporate governance code and corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in 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.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, company secretary, is responsible for facilitating the procedures of the Board and the communication among Directors, and between Directors and shareholders and the management. The biography of the company secretary is set out on page 28 of "Directors and Senior Management" in the Annual Report. During the year 2016, the company secretary received in aggregate more than 15 hours professional trainings to update his skills and knowledge.

INDUCTION TRAINING AND DEVELOPMENT

The Company arranges induction trainings for all new Directors based on his/her experience and background, these trainings generally include the brief introduction of the Group's structure and business, corporate governance practices and directors' responsibilities under the Listing Rules, etc. In addition, the Company encourages all Directors to attend relevant training programs at the Company's expenses.

During the Period under Review, the Directors received the updated information on the Group's business and operation, the directors' responsibilities under the regulations and common law, the Listing Rules, the law and other regulatory requirements. During the Period under Review, the Company arranged training sessions and/or provided training materials for Directors and the contents mainly include introduction of directors' responsibilities and the Corporate Governance Code under the Listing Rules. With effect from April 2012, all Directors shall provide his/her training record to the Company annually.

During the Period under Review, the individual training record of each Director is set out as follows:

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/ director's responsibilities attended or participated
Executive Directors		
Mr. Chen Yongdao	✓	✓
Mr. Gou Jianhui	✓	✓
Mr. Wang Zhengbing	✓	✓
Mr. Zhou Zhijin	✓	✓
Mr. Hu Jichun *(Executive Director)*	✓	✓
Ms. Zheng Qing *(Appointed on 1 December 2016)*	✓	✓
Mr. Liao Enrong *(Resigned on 3 June 2016)*	✓	✓
Non-Executive Directors		
Mr. Hu Yueming *(Chairman)*	✓	✓
Mr. Yuen Chi Ping *(Appointed on 1 December 2016)*	✓	✓
Independent Non-Executive Directors		
Dr. Chan Yau Ching *(Appointed on 1 December 2016)*	✓	✓
Ms. Jiang Jianhua	✓	✓
Mr. Jiang Xihe	✓	✓
Mr. Nathan Yu Li *(Appointed on 1 December 2016)*	✓	✓
Mr. Zhu Junsheng *(Resigned on 1 December 2016)*	✓	✓
Mr. Chen Shimin *(Resigned on 1 December 2016)*	✓	✓

REMUNERATION OF AUDITOR

For the year ended 31 December 2016, the fees payable by the Group to the auditors for their statutory audit services amounted to approximately RMB5,180,000 (2015: RMB4,000,000). The non-audit service fees included the fees for the following services:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Tax services	**331**	220
Review of interim results	**1,214**	1,330
	1,545	1,550

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

All Directors acknowledge their responsibility for the preparation of the financial reports of the Group. They also ensure the preparation is in compliance with the relevant laws, regulations and accounting principles and its publication are made in due course.

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 78 to 79 in the Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board takes full responsibility to maintain a sound and efficient risk management and internal control system for the Group and is obligated to review the validity of the system to protect the shareholders' investment and the Group's assets, which is in the interest of the shareholders. The risk management and internal control system of the Group targets at management instead of elimination of the risk of failure in achieving our business goals, and it can only make reasonable but not absolute assurance that there would not be material misrepresentation or loss.

The successful management of risks is essential for the long-term growth and sustainability of the Group's business. The Group has established a risk management organizational structure, which consisted of the Board, the Audit Committee and the senior management of the Group (the "Senior Management"). The Board determines the risk nature and degree shall be borne by the Group for achieving its strategic objective, and the Senior Management is responsible for the design, implementation and monitor of risk management and internal control systems. The Board, through the Audit Committee, evaluates and reviews the effectiveness of the relevant systems at least once a year, such evaluation includes taking into account the adequacy of resources, qualification and experience of staff of functions such as accounting, internal audit and financial reporting, and their training programmes and budget.

The main features of the risk management and internal control systems of the Group are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has formulated and adopted risk management policy in providing directions in identifying, evaluating and managing significant risks. At least on an annual basis, the Senior Management identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The Group has engaged an independent professional advisor to assist the Board and the Audit Committee in ongoing monitoring of the risk management and internal control systems of the Group and in performing the internal audit functions for the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the Audit Committee and the Board on a timely basis to ensure prompt remediation actions are taken. Internal control review report is submitted to the Audit Committee and the Board at least twice a year.

The Board, through the Audit Committee, had performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems were sufficient and effective during the Period under Review.

HANDLING OF INSIDE INFORMATION

The Group is aware of its obligations under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and the Listing Rules, and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the safe harbours as provided in the SFO.

The Group conducts its affairs with close regard to the applicable laws and regulations and the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts. The Group has conveyed the implementation of the relevant corporate information discloseable policy to all the relevant personnel and provided relevant training.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Bye-laws during the Period under Review.

SHAREHOLDERS' RIGHTS

General meetings shall be convened on the written requisition of any two or more shareholders or a member, which is a recognised clearing house member (or its nominee(s)), of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, all requisitionist(s) or any of them representing one-half of the total voting rights of all of them, may convene the general meeting in the same manner as that in which meetings may be convened by the Board.

There are no provision allowing shareholders to propose new resolutions at general meetings under the Cayman Islands Companies Law or the Bye-laws of the Company. Shareholders who wish to propose a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards the procedure of nominating a person for election as a director, please refer to the procedures available on the websites of the Company.

Shareholders of the Company may at any time send their enquiries and questions to the Board in writing through the Company Secretary or make enquiries with the Board at the general meetings of the Company.

Contact details of the company secretary are as follows:

China High Speed Transmission Equipment Group Co., Ltd.
Room 1302, 13th Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong
Tel: (852) 2891 8361
Fax: (852) 2891 8760
Email: ir@chste.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the first Environmental, Social and Governance ("ESG") Report (the "Report") of China High Speed Transmission Equipment Group Company Limited ("China Transmission", the "Company", "We" or "Us") to outline our policies, strategies and performance in sustainability. We believe that this Report could serve as an effective communication platform allowing us to collect valuable opinions from different stakeholders and contribute to the continuous improvement of our sustainability.

Unless otherwise stated, this Report covers the reporting period from 1 January 2016 to 31 December 2016 (the "Reporting Period") and it only covers the ESG performance of our major business segment – manufacturing of wind power gear and industrial transmission equipment. We seek to expand our reporting scope to cover our other business segments in the future. In preparation of this Report, we have adhered to the Environmental, Social and Governance Reporting Guide (the "ESG Guide") under Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), to describe our sustainability achievements in material and related aspects during the Reporting Period.

As a responsible corporation, we devote to integrate the concept of sustainability into every aspects of our operations and we are open to opinions and suggestions from people of all circles.

CORPORATE INTRODUCTION

About China Transmission

China Transmission specializes 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. After more than 40 years of efforts since its establishment in 1969, our operations distribute across China and all over the world, ranked top 100 for core competitiveness in China's mechanical industry. Our transmission devices are the basic and indispensable component to various industries and widely used in different industries such as wind power generation, shipping, transportation, aerospace, metallurgy, petrochemical, building, and mining. We hope we can transmit power to civilization.

Our wind power gear box is a critical component in wind-driven generator, it is able to suffer from extreme conditions, such as bitter cold or torrid heat, high altitude, low wind speed and marine climate, and produce reliable clean energy. We offer wind power gear boxes at different power capacity range from 750 kW, 1.5 MW, 2MW and 3 MW. Meanwhile, our products have been distributed to customers in China and all over the world, adopting the world-class leading advanced technologies, our products are highly recommended by our customers. In addition to the ability in mass production of wind power gear boxes products as mentioned above, we have mature ability and technology in producing wind power gear boxes in 5 MW and 6 MW, which indicated that our production technology is competitive with the first class international competitors. In 2016, the installed capacity of our wind power gear boxes reached 15.2 GW, which is equivalent to the reduction of 28 million tons of carbon dioxide emission or saving 11 million tons of coal. By the end of 2016, our accumulated installed capacity of our wind power gear boxes reached approximately 84 GW, which is equivalent to the reduction of 650 million tons of carbon dioxide emissions or saving 260 million tons of coal.

Our Sustainability Vision

Our Mission	Transmitting power to civilization
Our Goal	Being a world-class enterprise

We devote ourselves in developing wind power gear boxes, our corporate mission is to "transmitting power to civilization". We are eager to introduce better quality and efficient products, drive the renewable energy industry and, at the same time, committed ourselves to sustainability. We implement our sustainability vision in four dimensions: green production, quality assurance, people oriented, and corporate responsibility.

Green Production	• Minimize the impact to environment
Excellent Quality	• Being responsible, do it right the first time
People Oriented	• Create and share values with employees
Corporate Responsibility	• Bear corporate and social responsibilities

Corporate Governance

Optimal corporate governance structure could protect the interests of our shareholders and other stakeholders. We have established a sound governance structure, on-going monitoring risks at the board level and maintaining an effective internal control system. For further details, please refer to the relevant section in our "Corporate Governance Report" in the Annual Report.

We uphold and proud of our professional ethics and integrity. Our staff handbook has clearly stated the provisions on the conduct of employees' behavior and zero tolerance towards misconduct such as corruption, blackmail, fraud, and money laundering. Our employees are also required to keep the commercial and technical secrets of the company and shall not disclose any confidential document or other undocumented operating condition or financially sensitive data to any third party in any form without authorization. We have proactively trained our employees to maintain honesty, abide by the law, and assume social responsibility. We have also established a whistle-blowing channels for complaining about and reporting illegal activities and misconduct among employees via phone, email or correspondence. We keep the informants and the information they provided confidentially and safeguard their legitimate rights and interests, to encourage our staffs to report illegal behaviors and purifying our business environment.

Awards and Honors

Our outstanding performance has been widely recognized. The following table listed some of the significant awards and certificates we obtained as of 31 December 2016.

Award/Certification	Institute
National Science and Technology Award	The State Council
National Key New Products	Ministry of Science and Technology, Ministry of Environmental Protection, Ministry of Commerce, General Administration of Quality Supervision, Inspection and Quarantine
National Demonstration Company of Technological Innovation	Ministry of Industry and Information Technology
Manufacturing Industry Single Championship Demonstration Company	Ministry of Industry and Information Technology
National-Recognized Enterprise Technology Center	National Development and Reform Commission
Demonstration Base for Innovation of Heat Treatment Technology	Chinese Mechanical Engineering Society Heat Treatment Branch
Technological Innovation Awards for Companies in Jiangsu Province	The People's Government of Jiangsu Province
Jiangsu's Top 50 Proprietary Industry Brands	Co-organized by the Information Office of the People's Government of Jiangsu Province, Jiangsu Economic and Information Technology Commission, Jiangsu Provincial Administration for Industry & Commerce, and the Administration of Quality and Technology Supervision of Jiangsu Province
Jiangsu Province's Excellent Management Innovation Companies	Jiangsu Economic and Information Technology Commission
Tech Awards for Enterprise Innovation in Jiangsu Province	Jiangsu Provincial Department of Science and Technology
Jiangsu Energy Work Advanced Institute	Jiangsu Development & Reform Commission
Jiangsu's Prioritized International Famous Brands	Department of Commerce of Jiangsu Province
China Torch Program Key Hi-Tech Company	Torch High Technology Industry Development Center, Ministry of Science & Technology
Jiangsu Key Technology Engineering Research Center of High Speed, Heavy Duty Mechanical Transmission System	Jiangsu Provincial Department of Science and Technology
Nanjing Intellectual Property Model Enterprise	Nanjing Intellectual Property Administration
Nanjing Engineering Technology Research Center	Nanjing Science & Technology Commission
Nanjing University "MBA Best Partner" Awards	Nanjing University Business School
Second Prize for Science and Technology Jiangsu Province	The People's Government of Jiangsu Province
First Prize for Science and Technology Shanghai Municipality	Shanghai Municipal People's Government
Special Awards for Science and Technology by China Machinery Industry Federation	China Machinery Industry Federation and Chinese Mechanical Engineering Society

GREEN PRODUCTION

Environmental Protection Policies

While zealously developing wind power gear boxes and promoting the use of renewable energy sources, we hope to minimize the impact of our businesses on environment. To accomplish green production, we have defined our objectives clearly:

- Comply with all applicable environment-related laws
- Regularly review and improve our green production management structure
- Collect and report our emissions of exhaust gas, greenhouse gas, wastewater, and solid wastes
- Establish various prevention and treatment measures to reduce emissions
- Proactively manage resource consumption, and encourage recycling and energy saving
- Implement green purchase, select environmental friendly products and equipment
- Provide environmental protection trainings to our employees to raise their awareness

Green Production Management

We have established an Environmental Health and Safety ("EHS") department, the EHS department reviews regularly our green production management structure, organizes and manages production safety, enforces environmental protection and monitors occupational health and safety issues. The EHS department formulates annually targets, rules and requirements regarding production safety, occupational health, energy saving and emission reduction; centralizes management and monitoring implementation work; regularly inspects each departments and production line; organizes and follows up the remediation to problems identified.

Emission Management

We advocate three principles in handling waste disposal, namely "hazard-free treatment, reclamation, and minimization". We have set up stringent regulations in handling various wastes and defined responsibilities to relevant departments. We classify different waste to enable proper handling. Hazardous wastes should be treated properly by qualified vendor; non-recyclable wastes should be collected by a licensed company; recyclable wastes should be provided to relevant department to used internally or contact licensed vendor for recycling. Office supplies should be managed centrally and promote saving behavior to all departments, such as printing on both sides and using scrap paper to print informal documents. Furthermore, we are concerned with water pollution, as well as discharge of exhaust gas and dust, therefore we have requested head of all departments and production lines to be responsible for reducing the department's own emission. The EHS department is responsible for monitoring and supervising, regularly collect emission data and compare to our emission standards, analyzing the causes of non-conformity (if any) and taking timely corrective measures.

Exhaust and Greenhouse Gas

During our production, exhaust gas such as non-methane hydrocarbon and acidic gas might be produced, our used of electricity might also produce greenhouse gas indirectly. We collect and monitor exhaust gases, neutralize them and then discharge it to the upper air to ensure compliance to the national emission standards. For indirect greenhouse gas emission, we actively establish energy saving plan to reduce unnecessary waste of energy, in order to reduce greenhouse gas emission in every aspect of our production.

Wastewater

We established wastewater treatment station to properly treat the wastewater produced before discharge, we adopt "physicochemical + biochemical" technologies and only discharge the wastewater to specified sewerage outfall, we measure to ensure the treated wastewater satisfied the national wastewater standard before allowing them to go through the urban sewage pipes. Our monitoring systems have been connected in real time to the local environmental protection bureau.

Solid Wastes

We collect and classify solid wastes into general industrial solid wastes, hazardous wastes and household garbage. For general industrial solid wastes, we will consider recycling before sending them to the waste collection vendor for proper treatment, while hazardous wastes will be recycled and handled by competent hazardous wastes vendor. Other household garbage is duly cleared to ensure hygiene.

Resource Consumption Management

Our resource consumption mainly comes from using of electricity in machining and heat treatment processes, as well as illuminating the production area. We also consume other resources like water, nitrogen, diesel and compressed air. Our production center is responsible to record and supervise the water and power consumption. Production lines and warehouse are responsible for controlling their own energy and resource consumption. Through continuous effort in optimizing our production process, we reduce the unit product consumption and improve our production efficiency to achieve energy saving. We also adopt high-efficiency and energy-saving heating, cooling and cleaning equipment, enhance our water supply, power supply and illuminating systems, such as equipping water regulators in our facilities and equipment, enhancing circuit area control, using energy-saving illuminating system and reducing illumination area, to achieve resource saving purpose.

Select High-Efficiency Equipment

As our resource consumption mainly derives from machining and heat treatment processes, it is important to adopt high-efficiency and energy-saving equipment. For machining processes, we imported computer numerical control equipment such as gear grinding machine, gear shaping machine, high-precision lathe and spiral bevels to improve the efficiency of machining. For heat treatment process, we set up concentrated heat treatment center, using high energy-efficiency heating, cooling and cleaning equipment, large scale heat treatment process and carefully positioning our equipment to smooth the heat treating process such that energy use could be minimized. We conform to the requirements of "using new energy-saving technologies and products" in the National Policy for Energy Saving Technology (2007) and prevent using obsolete equipment as indicated in the Guidance Directory for Adjustment of Industrial Structures (2011 edition) (Revised), List of Power-Rich Backward Electrical Equipment (Products), Directive List of Backward Production Process Equipment and Products in Some Industries and List of Production Capacity, Process and Products Restricted and Eliminated in Industry and Commerce Field of Jiangsu Province.

Use Dry-Type Transformer

We adopt SCB10 dry-type transformer, its high and low-voltage coils insulated with thin epoxy resin to provide high conductivity, better cooling and heat resistance. The transformer is excellent in energy saving, with stand-by energy loss 35% lower than the national standard. In addition, its features of low partial discharge, soft boot and dynamic varies compensation technology can provide further energy saving.

Use Green Lighting Lamps

The design of our illumination systems requires minimizing the loss of light and maximizing the use of light without affecting visibility in working place or the lighting quality. We save the energy from lighting by fully utilizing natural light, use energy-efficient lamps, avoid increasing brightness unnecessarily, install switch to enable regional light control and make use of optoelectronics lighting or voice operated switches conditionally.

Effective use of water

For the use of water resources, we implemented recycling of water, adopted high-efficient cleaning equipment, enhanced water supply system and installed water regulator to our facilities and equipment to save our water resources.

EXCELLENT QUALITY

Do it right the first time

We advocate a rigorous working attitude of “being responsible, do it right the first time” to reduce the possibility of product deflect to avoid losses from shutdown, disassembly, return, repairing and re-installation. We diligently inspect raw materials we received, import advanced deflect detection equipment from Germany, Switzerland, Demark and United State. We refine the quality control effort to production process and procedures, integrate hardware with software, to avoid faulty items entering the next process, ensure customer satisfactory to our product quality and achieve our target of “Zero deflect”.

QUALITY MANAGEMENT CERTIFICATION

We have obtained ISO 9001:2008 Quality Management System Certification, ISO 14001:2004 Environmental Management System Certification and OHSAS 18001:2007 Occupational Health and Safety Management System Certification.

ISO 9001:2008

Quality Management System

ISO 14001:2004

Environmental Management System

OHSAS 18001:2007

Occupational Health and Safety Management System

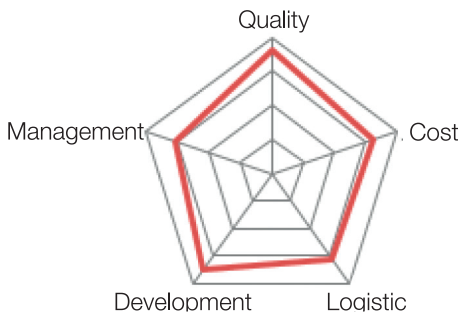
To enable continuous improvement of our product quality and satisfy the increasing demands from our customers, our wind power gear boxes have certified by the China Classification Society (CCS), China General Certification (CGC), Technische Uberwachungsvereine (TUV), Germanischer Lloyd (DNVGL) and DEWI Offshore Wind Power and Wind Turbine Certification Center (DEWI-OCC). We have also obtained CE certification and ETL certification and our rail transportation products have obtained the IRIS (International Railway Industry Standard) certification.

Supply Chain Management

Suppliers' performance contribute significantly to our product quality, to ensure our product quality and effectiveness of our production, we established a rigorous supply chain management system and pledge to have an effective communication. Building up strategic relationship and mutual benefits.

Supplier Evaluation

We evaluate our suppliers by considering factors like quality, cost, logistic, development and management, we also consider their performance in environmental protection, morality and social responsibility. We assess all new suppliers and regularly review our existing suppliers. We will request suppliers with unsatisfactory evaluation result to execute remediation plan, we will follow up and consider their improvement status. If the supplier still fails to meet our requirements, we will, depends on the severity, lower the priority to use the supplier or even remove them from our approved supplier list.



Green Supplier

We advocate to adopt best practice in environmental protection and social responsibility, we expect our business partners could share the same core values with us, protecting environment, strictly complying with all laws and regulations and treating their employees fairly. Furthermore, we distribute the Codes of Conduct for Suppliers which specifies the basic requirements on our business partners, in order to impose positive impact on our supply chain.

Advanced Detection

We introduced advanced deflect detection equipment from Germany, Switzerland, Demark and United State including carburizing furnace with control system, large coordinate measuring machine, 3.6 MW infinite loop load test platform with a complete set of data testing facility, as well as material and thermal treatment analysis and testing instruments. We established a research laboratory center equipped with advanced detection equipment like metallurgical microscope and magnetic particle inspection equipment. Applying scientific and various detection methods during our material inspection, production and quality control process, we deliver high quality products to satisfy our customers.

Research and Development Capability

Currently, we employed 407 researchers, including 105 postgraduates and 9 engineers with PhDs. Meanwhile, we have established broad technological cooperation in scientific researches, product designs and new products development with national and international universities, designing institutes and enterprises, including Tsinghua University, Southeast University, Nanjing University of Aeronautics and Astronautics, Wuhan Transportation University, China Shipbuilding Industry Corporation 703 Research Institute, Jiangsu Machinery Design and Research Institute, Maanshan Iron and Steel Design Institute, Beijing Iron and Steel Design Institute, SMS Company, Mitsubishi Heavy Industries, KONE Company of Finland and so on. Some of our cooperated projects is listed as follows:

S/N	Items	Cooperating Academies/institutes
1.	Research for Modification of Gear Surfaces	Technical University of Denmark
2.	Technology Upgrading of Materials Application and Improvement of Purchase Quality	East China Branch of Iron and Steel Research Institute
3.	Research for Nb Microalloying	East China Branch of Iron and Steel Research Institute, Citic Metal Co., Ltd.
4	CMS Gcare Software Development, Feature Algorithm Extraction of the Pitting Corrosion Signal and Troubleshooting of Machine Learning Artificial Intelligence	Hunan University, Nanjing University, National University of Defense Technology and Taiyuan University of Technology
5.	Analysis of Transmission System of Wind Power Gearbox with Flexible Pins	Chongqing University
6.	Test for Surface Load Capacity of Gears	Chongqing University
7.	Key Projects in the National Science & Technology Pillar Program during the Eleventh Five-Year Plan Period—Key Technologies and Industrialization of Transmission Devices of High-end Heavy-duty Gear	Chongqing University
8.	Key Projects in the National Science & Technology Pillar Program during the Eleventh Five-Year Plan Period—Research and Development of Industrialization and Key Technologies of 7MW Wind Power Gearbox and Main Shaft Bearing	Chongqing University
9.	Research and Development and Industrialization of Gear Transmission Devices of Intelligent Urban Rail Transit	Hunan University, Southwest Jiaotong University
10.	Stress Test for Wind Power Gearbox	Beijing University of Technology

Currently, we obtained 351 national patents and with 62 patents application in progress. Patents newly obtained in 2016 includes:

- Sealing Devices on Input End of Pitch Gearbox
- Step-up Gearbox of Tidal Current Driven Power Generator
- Structures for Providing Forced Lubrication for Spline Meshing by Female Splined Shaft
- Sealing on End of Wind Power Generator Gearbox
- Lubricant Circuit for Meshing of Annular Gear of Planetary Gear System
- Step-up Gearbox of 2MW Wind Power Generator
- Planetary Gear Assembly Established by built-in Gear Ring
- Planetary Gear Speed Changer Applied for Wind Power Generation
- Planetary Gear Reducer Applied in Gearbox of Wind Power Generator
- Input Structure of Gearbox of High-Power Wind Turbine
- Yawing and Variable Pitch Driven Unit Set up with Overload Protection
- Flange on Input End of Yawing and Variable Pitch Gearbox-Monitoring Leaks from Oil Seal
- Input End of Yawing and Variable Pitch Gearbox

PEOPLE ORIENTED

Our employees serve as our pillar for implementing our business missions and strategies as well as the key to realize quality assurance. We have been recruiting talents from all circles, and developing our talent structure in the direction of knowledge and integration. We adopt diversifying and zero discrimination recruitment principles, all candidates should have equal opportunity to be selected and equally offer disregarding their age, gender, belief or race. We provide competitive salaries and healthy career development. We conduct talents reviews regularly and seek for talents for our talent pool and put emphasis on training key talents of high potential and performance to build a complete development ladder. We conduct employee performance evaluation at least once a year, and the result of performance is served as the basis for adjustment in position and salary of staff, promotion and training arrangement. The knack for us to keep talents is to provide opportunities for them to use their strengths and get promotion, which can contribute to the development our human resources. By making full use of our talents and strengthens, we maximize our corporate value. We believe that effective supply of human resources form as the key element to achieve our business targets.

We strictly prohibit employing child labor and forced labor. We abide by all laws and regulations on child labor and forced labor. The human resources department is responsible for reviewing recruitment measures annually and supervising recruitment to ensure full compliance with the relevant regulations. If illegal child labor or forced labor is found, we will set up a dedicated team to handle the case as soon as we discover, in order to ensure the protection to the child labor or forced labor. We will also punish the responsible staff and report the case to the local labor welfare department to ensure that the case is properly handled.

Employee Overview

As at 31 December 2016, we have in total 5,910 employees[1], of which 92% are males because our business nature is heavy manufacturing industry. In 2016, our employee turnover is 143 with employee turnover ratio of 2.39%.

2016 Staff Statistics (As at 31 December 2016)		**Numbers of Employees**	**Percentage**
Total Number		5,910	100%
By geographical region	China (Including Hong Kong)	5,781	98%
	Overseas	129	2%
By gender	Male	5,437	92%
	Female	473	8%
By age group	Under 25	295	5%
	25-35	3,664	62%
	36-50	1,537	26%
	Above 50	414	7%
By employment type	Managerial	306	5%
	Engineering and technical	690	12%
	Clerical	513	9%
	Administrative (production lines)	961	16%
	Production lines workers	3,412	58%
	Others	28	Less than 1%

1 Number of employees only includes our major business segment – manufacturing of wind power gear and industrial transmission equipment. As of 31 December 2016, the total number of employees of the Group is 8,186.

Interactive Communication

We proactively adopt advice and suggestion from our staff and promote two-way communication. We have launched employee satisfaction survey, general manager's mailbox, internal communication publication Gao Chi Era, established bulletin board, and internal WeChat public platform so as to enhance effectiveness and transparency of communication. Besides, we take zero tolerance towards sex discrimination, racial discrimination, disability discrimination and workplace harassment. We actively create an equal and diversified working environment without discrimination, and establish a clear employee complaint mechanism. During the Period under Review, we did not received any complaint from our employee.

Employee Welfare

We are glad to share fruitful results with staff and maintain a clear and fair salary review system. In addition to the social security insurances, critical illness insurance and high temperature allowance, our staff also enjoys seniority allowance, housing allowance, women allowance, festival allowance, transportation allowance, rent allowance and so on. In every two years, we arrange physical examination for our staff as well as gynecological examination for female staff in an effort to ensure a good health of our staff.

In order to help our staff balancing their work and life, we offer paid leaves to our staffs in addition to public holidays, including annual leave, injury leave, sick leave, marriage leave, funeral leave, nursing leave and family planning leave. We also have strict requirements in working overtime and we do not encourage our staff to work overtime, we ensure our staff to have at least 1 day off each week and duration of work overtime should not exceed 3 hours each day. If overtime working is not avoidable, the staff should receive compensation leave or payment in lieu as regulatory requirements. In 2016, we held activities such as Family Day activity, Women's Day activity, festival activities and tug of war. And during these activities, we handed out ball playing cards to the staff, held dinner parties and expansion activities so as to strengthen team spirit and realize a company with one heart and synergetic development. Furthermore, we set up staff union, salvation fund for love, and regularly organize staff caring activities, visit and help staff with injuries and poor living standard, convey condolence to relatives of staff who passed away and visit retired elderly staff who live alone.

Occupational Health and Safety

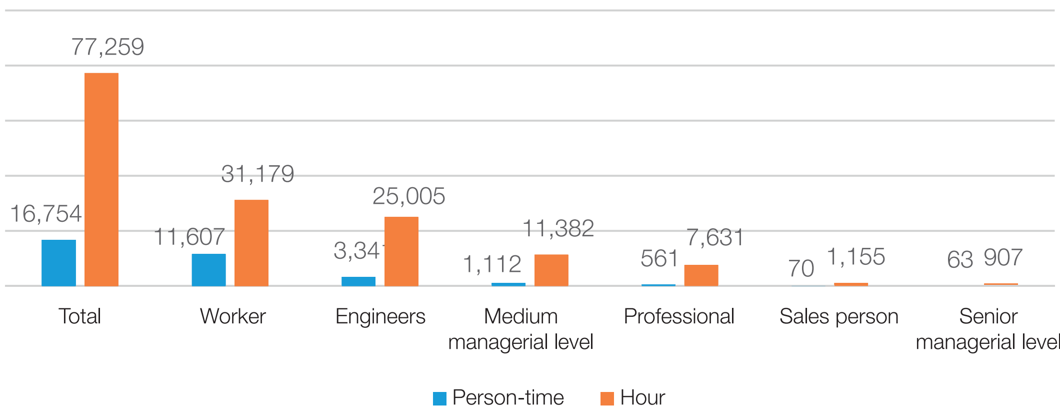
Our production processes involve heavy equipment, high-temperature processing and use of chemicals such as strong acid. Production safety is our first priority. We pay high attention to production safety, in addition to establishing the EHS department, adopt production safety accountability mechanism, with the general manager acting as the ultimately responsible personnel for production safety, safety manager should be appointed to ensure the safety of production site, the EHS department is responsible for regular safety risk assessment, reviewing safety policy, monitoring the implementation of safety control procedures (including the use of safety equipment), inspect safety equipment to ensure properly functioning and arrange safety training to increase staff awareness.

We concern our safety training work. We established a 3-tier safety training programme, which includes orientation training, production site training, pre-job training. Every year, we organize different kinds of safety training courses, safety training for designated positions and safety compliance training. Each morning, our production team holds regular briefing to review safety issues and share safety updates before starting their work. Visitors must wear safety protective clothes, protective shoes, helmet, and safety goggles. Visitors must also watch the safety briefing video before entering to the production area.

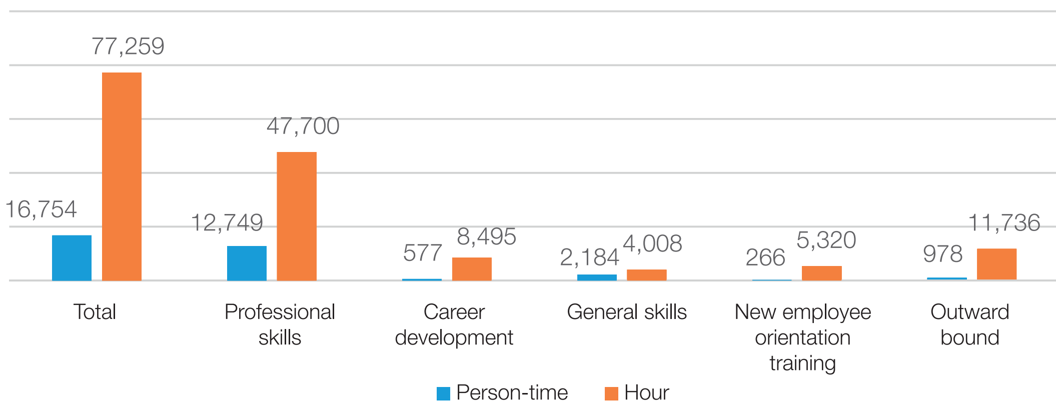
Equip Our Talents

Learning and development of employees not only contribute to their own career prospects, but also to our business development. Mutual benefit can be achieved by investing into employee training and talents cultivating. We help our staff to plan their career, let them grow with the company, fully tap their potential and provide them with diversified career development channels. We offer comprehensive and diversified training courses, including new employee orientation training, skill training, quality control training, managing personnel training of each level, safety training and expert forums. We are preparing to establish company training center, formulating systematic course development, implementation and assessment to further improve our training work. In 2016, we held 525 courses, including 370 internal training courses and 155 external training courses with training hours of 77,259 in total and around 13 hours per staff in average.

Training overview (by employee category)



Training overview (by course nature)



CORPORATE RESPONSIBILITY

Accomplish Youth Dreams, Build Green Home

As an enterprise full of social responsibility, we pay a lot attention to social issues and we are active in community serving. We help children and youth to accomplish their dreams, creating a better future, focusing on social environmental protection and maintaining environmental sustainability.

YOUth

Make a better future for children and youth to accomplish their dreams

- Pfrang financial aid for students in poverty
- School and home visit to students in poverty
- Winter clothing donation for children

all4 YOUth

Earth

Provide efforts for environmental protection
Maintain sustainable development of the environment

- Green plants
- Green energy
- Climate and environment protection

Education aiding program

Since 2015, we, with the assistance of the Amity Foundation and Pfrang in Nanjing, have been sponsoring 10 high school students in the rural areas of northern Jiangsu province with tuition fees and living expenses, for 2 years helping them to accomplish their dreams. This year, our volunteer team, together with representatives from the Amity Foundation and Pfrang, have visited the students' families again to bring our greetings and blessings, provide daily necessities to their family and help their senior family member to solve their problems.

Education support

We collaboratively cooperate with Nanjing University, Southeast University and Nanjing University of Aeronautics and Astronautics. We proactively provide MBA students from State key Laboratories and Sino-Dutch International Business Center of Nanjing University with hands-on instruction and our company is honored as "The Best MBA Partner" award by the Sino-Dutch International Business Center of Nanjing University. Meanwhile, we have established a sound R&D partnership with many well-known universities such as Tsinghua University and National University of Defense Technology.

Social benefit activities

In 2016, we organized/participated in the following social benefit activities:

- We organized a volunteer team to visit and convey condolence to families that are supported by us in Donghai County, Lianyungang of Jiangsu Province and sent winter gifts as an expression of condolence.
- We organized "Winter Cotton-padded Clothes Donation for Children", received more than 250 cotton-padded clothes and sent to Houqiao Ethnic Primary School of Houqiao Town, Tengchong County of Yunnan Province with the help of the Amity Foundation and Yunnan Office of Poverty Alleviation and Development.
- We proactively supported Jiangning District and Jianning High-tech Industrial Park to collaboratively conduct various recreational and cultural activities in terms of personnel, site, and expenditure.

HKEX ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

Subject Areas, Aspects, General Disclosures and KPIs		Chapter/statement	Page
A. Environment			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Green Production – Emission Management We abide by all the relevant laws and regulations	57-58
Key performance indicator A1.1	The types of emissions and respective emissions data.	Recommended disclosure, not cover this year	N/A
Key performance indicator A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Recommended disclosure, not cover this year	N/A
Key performance indicator A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Recommended disclosure, not cover this year	N/A
Key performance indicator A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Recommended disclosure, not cover this year	N/A
Key performance indicator A1.5	Description of measures to mitigate emissions and results achieved.	Green Production – Emission Management Recommended disclosure, results achieved is not covered this year	57-58
Key performance indicator A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Green Production – Emission Management Recommended disclosure, results achieved is not covered this year	57-58

Subject Areas, Aspects, General Disclosures and KPIs		Chapter/statement	Page
A. Environment			
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Green Production – Resource Consumption Management	58-59
Key performance indicator A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Recommended disclosure, not cover this year	N/A
Key performance indicator A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Recommended disclosure, not cover this year	N/A
Key performance indicator A2.3	Description of energy use efficiency initiatives and results achieved.	Green Production – Resource Consumption Management Recommended disclosure, results achieved is not covered this year	58-59
Key performance indicator A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Recommended disclosure, not cover this year	N/A
Key performance indicator A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Recommended disclosure, not cover this year	N/A
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Green Production	57-59
Key performance indicator A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Recommended disclosure, not cover this year	N/A
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	People Oriented – Employee Overview We abide by all the relevant laws and regulations	64
Key performance indicator B1.1	Total workforce by gender, employment type, age group and geographical region.	People Oriented – Employee Overview	64
Key performance indicator B1.2	Employee turnover rate by gender, age group and geographical region.	People Oriented – Employee Overview Recommended disclosure, employee turnover rate by age group and geographical region is not covered this year	64

Subject Areas, Aspects, General Disclosures and KPIs		Chapter/statement	Page
B. Social			
Employment and Labour Practices			
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety We abide by all the relevant laws and regulations	65-66
Key performance indicator B2.1	Number and rate of work-related fatalities.	Occupational Health and Safety No work-related death incident occurs during the Reporting Period	65-66
Key performance indicator B2.2	Lost days due to work injury.	Recommended disclosure, not cover this year	N/A
Key performance indicator B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	65-66
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	People Oriented – Equip Our Talents	66
Key performance indicator B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	People Oriented – Equip Our Talents	66
Key performance indicator B3.2	The average training hours completed per employee by gender and employee category.	People Oriented – Equip Our Talents	66

Subject Areas, Aspects, General Disclosures and KPIs		Chapter/statement	Page
B. Social			
Employment and Labour Practices			
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	People Oriented	64
Key performance indicator B4.1	Description of measures to review employment practices to avoid child and forced labour.	People Oriented	64
Key performance indicator B4.2	Description of steps taken to eliminate such practices when discovered.	People Oriented	64
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Excellent Quality – Supply Chain Management	61
Key performance indicator B5.1	Number of suppliers by geographical region.	Recommended disclosure, not cover this year	N/A
Key performance indicator B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Recommended disclosure, not cover this year	N/A

Subject Areas, Aspects, General Disclosures and KPIs		Chapter/statement	Page
B. Social			
Operating Practices			
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Excellent Quality We abide by all the relevant laws and regulations	60-63
Key performance indicator B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Recommended disclosure, not cover this year	N/A
Key performance indicator B6.2	Number of products and service related complaints received and how they are dealt with.	Recommended disclosure, not cover this year	N/A
Key performance indicator B6.3	Description of practices relating to observing and protecting intellectual property rights.	Recommended disclosure, not cover this year	N/A
Key performance indicator B6.4	Description of quality assurance process and recall procedures.	Recommended disclosure, not cover this year	N/A
Key performance indicator B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Recommended disclosure, not cover this year	N/A

Subject Areas, Aspects, General Disclosures and KPIs		Chapter/statement	Page
B. Social			
Operating Practices			
Aspect B7: Anticorruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	About China Transmission - Corporate Governance We abide by all the relevant laws and regulations	55
Key performance indicator B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	During the Reporting Period, no corruption lawsuit against the Company or the Company's employees occurs.	N/A
Key performance indicator B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	About China Transmission - Corporate Governance	55
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Corporate Responsibility	67-68
Key performance indicator B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Corporate Responsibility	67-68
Key performance indicator B8.2	Resources contributed (e.g. money or time) to the focus area.	Recommended disclosure, not cover this year	N/A

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 188, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Impairment on trade and bills receivables As at 31 December 2016, the Group had trade and bills receivables of approximately RMB6,965 million after an allowance for impairment of approximately RMB476 million. The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. We identified the impairment of trade and bills receivables as a key audit matter because the carrying amount of trade and bills receivables are significant and the identification of bad and doubtful debts requires significant management judgements and estimates. The significant accounting judgements and estimates and disclosures for the recognition of impairment of trade and bills receivables are included in notes 3 and 23 to the consolidated financial statements.	We evaluated the design and implementation of management's controls over assessment of recoverability of trade and bills receivables and making provisions. We sent trade receivable and bills receivable confirmations and checked bank receipts for the payment received subsequent to the end of the current financial year on a sampling basis. We assessed the assumptions used to calculate the impairment provision for trade and bills receivables by checking the aging of receivables. We also tested aged balances where no provision was recognised for any indicators of impairment by reviewing payments received since the end of the current financial year, historical payment patterns and, if information available, the financial ability of customers.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories As at 31 December 2016, the Group held inventories of approximately RMB2,312 million at the lower of the cost and net realisable value. We identified the determination of net realisable value of inventories as a key audit matter because the carrying amount of inventories is significant and the calculation of inventories' net realisable value requires significant management estimation based on future market demands and estimated selling prices. The significant accounting judgements and estimates and the balance of inventories are disclosed in notes 3 and 22 to the consolidated financial statements.	We evaluated the design and implementation of management's controls over assessment of the net realisable values of inventories. We obtained an understanding of the Group's inventory provision policy and checked the calculation of the inventory provision based on the Group's policy. We evaluated management's assumptions used to calculate the provision by checking the aging of inventories, subsequent sales and usage of inventories on a sampling basis. We also checked the subsequent selling prices to the sales orders and invoices on a sampling basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lawrence K. W. Lau.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**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	5	**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	7	**(495,585)**	(643,270)
Share of profits and losses of:			
Joint ventures		**11,663**	12,926
Associates		**1,309**	(56,945)
PROFIT BEFORE TAX	6	**1,367,473**	1,347,200
Income tax expense	10	**(308,038)**	(344,303)
PROFIT FOR THE YEAR		**1,059,435**	1,002,897
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

continued/···

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
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			
Basic and diluted	12	**RMB 0.678**	RMB 0.632

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**5,111,201**	5,520,057
Prepaid land lease payments	14	**702,842**	669,923
Goodwill	15	**2,991**	2,991
Other intangible assets	16	**138,564**	163,800
Interests in joint ventures	17	**1,008,254**	96,591
Interests in associates	18	**142,187**	157,277
Prepayment for acquisition of property, plant and equipment	24	**3,332**	3,656
Other receivable	19	**551,524**	519,874
Available-for-sale investments	20	**870,090**	196,174
Deposit for land lease	21	**191,800**	191,800
Deferred tax assets	33	**190,897**	232,385
Amount due from an associate	24	**—**	226,278
Total non-current assets		**8,913,682**	7,980,806
CURRENT ASSETS			
Inventories	22	**2,311,574**	2,075,239
Prepaid land lease payments	14	**16,250**	15,276
Trade and bills receivables	23	**6,964,944**	6,951,642
Prepayments, deposits and other receivables	24	**2,603,732**	1,985,146
Tax prepaid		**—**	3,459
Structured bank deposits	25	**209,000**	1,755,000
Pledged bank deposits	25	**2,531,395**	2,403,640
Bank balances and cash	25	**2,745,023**	2,121,873
Total current assets		**17,381,918**	17,311,275

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	26	**6,570,740**	4,773,443
Other payables and accruals	27	**903,490**	1,272,336
Receipts in advance and deposits received		**418,698**	365,432
Financial liabilities at fair value through profit or loss	28	**—**	596,656
Interest-bearing bank and other borrowings	29	**5,273,847**	5,618,194
Taxation payable		**220,421**	329,772
Finance lease payables	30	**7,007**	158,556
Warranty provision	32	**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	29	**1,227,966**	1,948,126
Deferred tax liabilities	33	**238,095**	51,319
Finance lease payables	30	**—**	6,516
Deferred income	31	**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	34	**119,218**	119,218
Reserves	35	**10,934,655**	9,639,884
		11,053,873	9,759,102
Non-controlling interests	37	**186,475**	215,636
Total equity		**11,240,348**	9,974,738

Hu Jichun
Director

Chen Yongdao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital RMB'000 (note 34)	Share premium* RMB'000 (note 35)	Deemed capital contribution reserve* RMB'000 (note 35)	Statutory surplus reserve* RMB'000 (note 35)	Capital reserve* RMB'000 (note 35)	Investment revaluation reserve* RMB'000	Other reserve* RMB'000 (note 35)	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	119,218	5,010,141	77,651	366,306	149,289	(36,468)	52,335	(1,133)	2,951,032	8,688,371	181,731	8,870,102
Profit (loss) for the year	—	—	—	—	—	—	—	—	1,033,097	1,033,097	(30,200)	1,002,897
Other comprehensive income for the year:												
Impairment loss on available-for-sale investments reclassified to profit or loss	—	—	—	—	—	36,468	—	—	—	36,468	—	36,468
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	307	—	307	—	307
Total comprehensive income (expense) for the year	—	—	—	—	—	36,468	—	307	1,033,097	1,069,872	(30,200)	1,039,672
Acquisition of a subsidiary (note 38)	—	—	—	—	—	—	—	—	—	—	(31)	(31)
Acquisition of non-controlling interests	—	—	—	—	859	—	—	—	—	859	(1,995)	(1,136)
Disposal of subsidiaries (note 39)	—	—	—	—	—	—	—	—	—	—	(33,038)	(33,038)
Disposal of partial interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	97,209	97,209
Appropriation	—	—	—	152	—	—	—	—	(152)	—	—	—
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	1,960	1,960
At 31 December 2015	119,218	5,010,141	77,651	366,458	150,148	—	52,335	(826)	3,983,977	9,759,102	215,636	9,974,738

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Attributable to owners of the Company											
	Share capital RMB'000 (note 34)	Share premium* RMB'000 (note 35)	Deemed capital contribution reserve* RMB'000 (note 35)	Statutory surplus reserve* RMB'000 (note 35)	Capital reserve* RMB'000 (note 35)	Investment revaluation reserve* RMB'000	Other reserve* RMB'000 (note 35)	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	119,218	5,010,141	77,651	366,458	150,148	—	52,335	(826)	3,983,977	9,759,102	215,636	9,974,738
Profit (loss) for the year	—	—	—	—	—	—	—	—	1,108,995	1,108,995	(49,560)	1,059,435
Other comprehensive income (expense) for the year:												
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	505,438	—	—	—	505,438	3,162	508,600
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(778)	—	(778)	—	(778)
Total comprehensive income (expense) for the year	—	—	—	—	—	505,438	—	(778)	1,108,995	1,613,655	(46,398)	1,567,257
Final 2015 dividend declared (note 11)	—	(318,944)	—	—	—	—	—	—	—	(318,944)	—	(318,944)
Acquisition of non-controlling interests	—	—	—	—	60	—	—	—	—	60	(1,060)	(1,000)
Appropriation	—	—	—	337,798	—	—	—	—	(337,798)	—	—	—
Disposal of subsidiaries (note 39)	—	—	—	—	—	—	—	—	—	—	10,896	10,896
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	7,401	7,401
At 31 December 2016	119,218	4,691,197	77,651	704,256	150,208	505,438	52,335	(1,604)	4,755,174	11,053,873	186,475	11,240,348

* These reserve accounts comprise the consolidated reserves of RMB10,934,655,000 (2015: RMB9,639,884,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,367,473	1,347,200
Adjustments for:			
Write-down of inventories	6	80,652	39,364
Finance costs	7	495,585	643,270
Share of profits and losses of joint ventures and associates		(12,972)	44,019
Interest income	5	(119,712)	(91,896)
Investment income	5	(33,024)	(30,203)
Loss/(gain) on disposal of property, plant and equipment, net	5	9,385	(1,385)
Gain on disposal of available-for-sale investments	5	(10,047)	—
Loss/(gain) on disposal of subsidiaries, net	5	27,670	(82,422)
Gain on disposal of an associate	5	(11,143)	—
Loss on liquidation of an associate	5	5,432	—
Fair value change on financial liabilities at fair value through profit or loss	5	—	7,232
Deemed gain on dilution of equity interest in an associate	5	—	(1,833)
Depreciation of property, plant and equipment	13	582,265	572,688
Net foreign exchange gain arising from bank borrowing		—	23,505
Amortisation on prepaid land lease payments	14	15,521	14,138
Amortisation of technical know-how	16	2,263	2,738
Amortisation of development costs	16	38,017	78,623
Impairment of property, plant and equipment	6	65,784	40,532
Impairment of available-for-sale investments	6	4,217	58,989
Impairment of other intangible assets	6	5,094	38,848
Impairment of trade and bills receivables, net	6	58,713	117,418
Reversal of impairment of other receivables	6	(1,656)	—
Release of deferred income		(3,728)	(4,328)
		2,565,789	2,816,497
(Increase) decrease in inventories		(363,847)	134,234
(Increase) decrease in trade and bills receivables		(109,258)	317,176
Increase in prepayments, deposits and other receivables		(438,492)	(49,751)
Increase in trade and bills payables		1,842,132	1,563,748
(Decrease) increase in other payables and accruals		(250,639)	471,710
Increase in provision for product warranties		906	561
Cash generated from operations		3,246,591	5,254,175
Income tax paid		(355,207)	(158,451)
Net cash from operating activities		2,891,384	5,095,724

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash from operating activities		**2,891,384**	5,095,724
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement in pledged bank deposits		**(9,038,432)**	(10,825,293)
Investment in structured bank deposits		**(579,600)**	(1,755,000)
Withdrawal of pledged bank deposits		**8,910,677**	11,177,854
Withdrawal of structured bank deposits		**2,125,600**	1,097,399
Purchase of other investment		**—**	(500,000)
Prepayment for acquisition of property, plant and equipment		**—**	(280,736)
Expenditure on other intangible assets		**(20,398)**	(21,817)
Expenditure on prepaid land lease payments		**(51,062)**	—
Purchases of property, plant and equipment		**(346,072)**	(255,365)
Proceeds from disposal of property, plant and equipment		**63,158**	82,751
Proceeds from liquidation of an associate	18	**4,480**	—
Acquisition of interest in an associate		**—**	(31,291)
Capital injection in a joint venture	17	**(900,000)**	(158)
Inflow from acquisition of a subsidiary	38	**—**	69
Interests received		**119,712**	91,896
Other investment income received		**—**	10,329
Disposal of subsidiaries	39	**71,685**	400,181
Disposal of available-for-sale investments		**310,047**	—
Purchase of available-for-sale investments		**(300,000)**	(63,004)
Receipt of government grants		**817**	19,155
Loans to third parties		**(550,000)**	—
Repayment from third parties		**550,000**	—
Net cash from (used in) investing activities		**370,612**	(853,030)

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**5,923,026**	8,103,015
Capital contribution by non-controlling shareholders		**7,401**	1,960
New from financial liabilities at fair value through profit or loss		**—**	1,299,612
Repayment of bank and other borrowings		**(6,987,533)**	(11,299,471)
Repayment of financial liabilities at fair value through profit or loss	28	**(596,656)**	(1,037,260)
Interest paid		**(507,075)**	(680,686)
Repayment of finance lease payables		**(158,065)**	(156,560)
Acquisition of additional interests in subsidiaries		**(1,000)**	(1,136)
Dividends paid		**(318,944)**	—
Net cash used in financing activities		**(2,638,846)**	(3,770,526)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**623,150**	472,168
Cash and cash equivalents at beginning of year	25	**2,121,873**	1,649,705
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**2,745,023**	2,121,873

1. CORPORATE AND GROUP INFORMATION

China High Speed Transmission Equipment Group Co., Ltd. (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 registered office of the Company is located at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands. The head office and principal place of business is located at Room 1302, 13th Floor, COFCO Tower, No.262 Gloucester Road, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that is used in wind power and a wide range of industrial appliances.

In the opinion of the directors, the immediate holding company is Five Seasons XVI Limited, a limited company incorporated in the British Virgin Islands ("BVI"), the intermediate holding company is Fullshare Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands, and the ultimate holding company of the Company is Magnolia Wealth International Limited ("Magnolia"), a limited company incorporated in the BVI.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company		Principal activities
			2016 %	2015 %	
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate") 南京高精齒輪集團有限公司***	People's Republic of China ("PRC") 16 August 2001	RMB693,800,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed") 南京高速齒輪製造有限公司*	PRC 8 July 2003	RMB2,000,000,000	100	100	Manufacture and sale of gear, gear box and fittings

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company 2016 %	2015 %	Principal activities
Nanjing Ningkai Mechanical Co., Ltd. 南京寧凱機械有限公司*	PRC 19 November 2002	RMB41,077,000	**85.83**	85.83	Engineering processing and manufacturing
Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine") 南京高精船用設備有限公司*	PRC 2 February 2007	RMB500,000,000	**100**	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive") 南京高精傳動設備製造集團有限公司**	PRC 27 March 2007	USD448,300,000	**100**	100	Sale of gear box and fittings
Nanjing Zhong-Chuan Shipping Drive Equipment Co., Ltd. 南京中傳船舶設備有限公司***	PRC 10 June 2008	USD45,600,000	**100**	100	Manufacture and sale of shipping drive equipment
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. 北京中傳首高冶金成套設備有限公司*	PRC 25 April 2008	RMB30,000,000	**75**	75	Metallurgical engineering and manufacturing
Nantong Diesel Engine Co., Ltd. 南通柴油機股份有限公司*	PRC 27 November 1993	RMB300,000,000	**89.36**	89.36	Manufacture and sale of diesel engines
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. 南京高傳四開數控裝備製造有限公司*	PRC 27 February 1993	RMB26,000,000	**99.16**	99.16	Engineering processing and manufacturing
Zhenjiang Tongzhou Propeller Co., Ltd 鎮江同舟螺旋槳有限公司*	PRC 24 November 2005	RMB50,000,000	**76.33**	76.33	Manufacture and sale of propellers

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company 2016 %	2015 %	Principal activities
Zhong-Chuan Heavy Duty Machine Tool Corporation Ltd. 中傳重型機床有限公司***	PRC 11 October 2010	USD31,380,000	**90**	90	Manufacture and sale of heavy duty machine tools
AE&E Nanjing Boiler Co., Ltd. 南京奧能鍋爐有限公司***	PRC 25 January 1991	RMB128,824,800	**90**	90	Manufacture and sale of industrial boilers, heat recovery equipment and related products
New Best Zhong-Chuan Technology Co., Ltd. ("New Best") 江蘇新貝斯特中傳科技有限公司*#	PRC 27 December 2011	RMB200,000,000	**—**	63	Manufacture and sales of machine tools
Nanjing Jingjing Photoelectric Science & Technology Co., Ltd. 南京京晶光電科技有限公司*	PRC 15 March 2012	RMB300,000,000	**100**	100	Manufacture and sale of LED products
Nanjing Handa Import and Export Trading Co., Ltd. 南京翰達進出口貿易有限公司*	PRC 25 April 2012	RMB41,000,000	**100**	100	Trading business
China Transmission Holdings Limited 中傳控股有限公司	Hong Kong 7 November 2007	HKD100	**100**	100	Investment holding and sale of gear box and fittings

* Demostic enterprise established in the PRC

** Wholly-foreign owned enterprise established in the PRC

*** Sino-foreign owned enterprise established in the PRC

\# During the year, the Group disposed of its 63% equity interest in New Best. Further details of this disposal are included in note 39 to the financial statements.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

The statutory financial statements of the above subsidiaries incorporated in the PRC prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC, were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These 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 the 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 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 standard and amendments have had no material impact on the financial position or performance of the Group.

2.3 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 9 *Financial Instruments* *(Continued)*

- 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IFRS 15 *Revenue from Contracts with Customers* *(Continued)*

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interests in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's interests in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interests in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's interests in associates or joint ventures.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates and joint ventures *(Continued)*

If an interest in an associate becomes an interest in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an interest in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its certain financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.8% - 6.5%
Leasehold improvements	Over the shorter of the lease terms or 3 years
Plant and machinery	9.7% - 19.4%
Furniture and fixtures	9.7% - 19.4%
Motor vehicles	16.2%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Freehold land is stated at cost less any impairment losses and is not amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technical Know-how

Technical Know-how are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 5 years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and net gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to profit or loss in net gains. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments *(Continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include financial liabilities at fair value through profit or loss, trade and bills payables, other payables, finance lease payables, bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

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

(d) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. These subsidiaries are required to contribute certain fixed percentages of their payroll costs to the central pension scheme or the MPF Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme and the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. At 31 December 2016, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB49,087,000 (2015: RMB32,199,000).

Control over Tianjin Chuanzai Jingtong Financial Leasing Co., Ltd. ("Tianjin Chuanzai")

At 31 December 2016, Tianjin Chuanzai is considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest (note 37). Based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Tianjin Chuanzai that has the power to direct the relevant activities of Tianjin Chuanzai. Therefore, the directors of the Company concluded that the Group has the practical ability to direct the relevant activities of Tianjin Chuanzai unilaterally and hence the Group has control over Tianjin Chuanzai.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Useful lives and residual value of property, plant and equipment

The Group reviews the estimated useful lives and residual value of property, plant and equipment at the end of the reporting period. During the reporting period, management is satisfied that there is no change in the estimated useful lives of the property, plant and equipment from prior year. The carrying amount of property, plant and equipment at 31 December 2016 was RMB5,111,201,000 (2015: 5,520,057,000). Further details are given in note 13.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2016, the carrying amount of capitalised development costs was RMB112,591,000 (2015: RMB135,564,000).

Useful lives of intangible assets

The intangible assets are amortised on the straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related amortisation for its intangible assets. The estimation is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions, with consideration of market condition. Management will increase the amortisation when useful lives become shorter than previously estimated.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The outcome of their actual utilisation may be different. The net carrying value of deferred tax assets relating to recognised deductible temporary differences at 31 December 2016 was RMB190,897,000 (2015: RMB232,385,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade and bills receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of estimates. Where the expectation of future cash receipts is different from the original estimate, such difference will impact the carrying amounts of trade and bills receivables and doubtful debts expenses in the year in which such estimate is changed. At 31 December 2016, the provision for impairment of trade and bills receivables was approximately RMB475,970,000 (2015: RMB418,288,000).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at the end of each reporting period. At 31 December 2016, the carrying value of inventories was approximately RMB2,311,574,000 (2015: RMB2,075,239,000).

4. 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.

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.

4. OPERATING SEGMENT INFORMATION *(Continued)*

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 described in note 2. 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 RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total 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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
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:					
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

4. OPERATING SEGMENT INFORMATION *(Continued)*

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
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

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015	PRC	USA	Europe	Other countries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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

4. OPERATING SEGMENT INFORMATION *(Continued)*

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 RMB'000	2015 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 RMB'000	2015 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 RMB'000	2015 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

5. 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:

	Notes	2016 RMB'000	2015 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	18	**(5,432)**	—
(Loss)/gain on disposal of subsidiaries, net	39	**(27,670)**	82,422
Gain on disposal of an associate	18	**11,143**	—
Gain on disposal of available-for-sale investments	20(b) (ii)	**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.

6. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**5,898,019**	6,608,310
Depreciation of property, plant and equipment	13	**582,265**	572,688
Amortisation of technical know-how			
(included in administrative expenses)	16	**2,263**	2,738
Amortisation of development costs			
(included in administrative expenses)	16	**38,017**	78,623
Amortisation of prepaid land lease payments	14	**15,521**	14,138
Auditor's remuneration		**5,180**	4,000
Employee benefit expense (including directors' and			
chief executive's remuneration (note 8)):			
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	32	**46,544**	53,236
Items included in other expenses:			
Impairment loss of property, plant and equipment	13	**65,784**	40,532
Impairment loss of other intangible assets	16	**5,094**	38,848
Impairment loss of available-for-sale investments	20	**4,217**	58,989
Impairment loss of trade and bills receivables, net	23	**58,713**	117,418
Reversal of impairment of other receivables		**(1,656)**	—

7. FINANCE COSTS

	2016 RMB'000	2015 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.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	**586**	550
Other emoluments:		
Salaries, allowances and benefits in kind	**17,298**	21,452
Pension scheme contributions	**371**	583
	17,669	22,035
	18,255	22,585

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Jiang Xihe	**150**	150
Mr. Zhu Junsheng (note)	**150**	150
Mr. Chen Shimin (note)	**150**	150
Ms. Jiang Jianhua	**100**	100
Mr. Nathan Yu Li (note)	**18**	—
Dr. Chan Yau Ching (note)	**18**	—
	586	550

There were no other emoluments payable to the independent non-executive directors during the year (2015: nil).

Note: On 1 December 2016, Mr. Nathan Yu Li and Dr. Chan Yau Ching were appointed as independent non-executive directors of the Company, and Mr. Zhu Junsheng and Mr. Chen Shimin resigned as independent non-executive directors of the Company.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016			
Executive directors:			
Mr. Chen Yongdao	3,097	53	3,150
Mr. Liao Enrong (note 3)	1,260	53	1,313
Mr. Gou Jianhui	6,037	53	6,090
Mr. Wang Zhengbing	1,467	53	1,520
Mr. Zhou Zhijin	1,367	53	1,420
Mr. Hu Jichun (note 1)	637	53	690
Ms. Zheng Qing (note 3)	18	—	18
	13,883	318	14,201
Non-executive directors:			
Mr. Hu Yueming (notes 1 & 3)	3,397	53	3,450
Mr. Yuen Chi Ping (note 3)	18	—	18
	3,415	53	3,468
	17,298	371	17,669

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015			
Executive directors:			
Mr. Hu Yueming	3,397	53	3,450
Mr. Chen Yongdao	3,097	53	3,150
Mr. Liao Enrong	3,097	53	3,150
Mr. Gou Jianhui (note 4)	3,067	53	3,120
Mr. Wang Zhengbing (note 4)	707	53	760
Mr. Zhou Zhijin (note 4)	657	53	710
Mr. Hu Jichun (note 4)	292	53	345
Mr. Lu Xun (note 4)	1,522	53	1,575
Mr. Li Shengqiang (note 4)	1,522	53	1,575
Mr. Liu Jianguo (note 4)	2,572	53	2,625
Mr. Jin Maoji (note 4)	1,522	53	1,575
	21,452	583	22,035

Note 1: As at 31 December 2016, Mr. Hu Jichun is also the Chief Executive of the Company as Mr. Hu Yueming resigned as the Chief Executive of the Company on 1 December 2016, and Mr. Hu Jichun was appointed as the Chief Executive of the Company on 5 December 2016. Mr. Hu Jichun's emoluments disclosed above include those for services rendered by him as the Chief Executive.

Note 2: There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Note 3: On 3 June 2016, Mr. Liao Enrong resigned as director of the Company. On 1 December 2016, Mr. Yuen Chi Ping and Ms. Zheng Qing were appointed as directors of the Company and Mr. Hu Yueming resigned as executive director of the Company and was appointed as non-executive director of the Company.

Note 4: On 27 June 2015, Mr. Gou Jianhui, Mr. Zhou Zhijin, Mr. Hu Jichun and Mr. Wang Zhengbing were appointed as directors of the Company and Mr. Lu Xun and Mr. Jin Maoji resigned as directors of the Company. On 26 June 2015, Mr. Li Shengqiang resigned as director of the Company. On 20 October 2015, Mr. Liu Jianguo resigned as director of the Company.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all directors (2015: five directors), details of whose remuneration are set out in note 8 above. Their emoluments were within the following bands:

	Number of employees	
	2016	2015
HK$1,500,001 to HK$2,000,000		
(equivalent to RMB1,342,001 to RMB1,789,000)	**2**	—
HK$2,500,001 to HK$3,000,000		
(equivalent to RMB2,236,001 to RMB2,684,000)	**—**	1
HK$3,500,001 to HK$4,000,000		
(equivalent to RMB3,131,001 to RMB3,578,000)	**2**	4
HK$6,500,001 to HK$7,000,000		
(equivalent to RMB5,814,001 to RMB6,262,000)	**1**	—

10. 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 (note 33)	**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.

10. INCOME TAX EXPENSE *(Continued)*

PRC corporate income tax *(Continued)*

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	31 December 2014	31 December 2016
Nanjing Marine	31 December 2014	31 December 2016
Nanjing High Accurate	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).

Withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB5,881 million at 31 December 2016 (2015: RMB4,798 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

10. INCOME TAX EXPENSE *(Continued)*

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 RMB'000	2015 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

11. DIVIDENDS

	2016 RMB'000	2015 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.

12. 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 RMB'000	2015 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 '000	2015 '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.

13. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	2,360,681	15,268	5,038,029	230,379	281,514	992,229	8,918,100
Accumulated depreciation and impairment	(383,452)	(1,162)	(2,577,312)	(173,790)	(238,676)	(23,651)	(3,398,043)
Net carrying amount	1,977,229	14,106	2,460,717	56,589	42,838	968,578	5,520,057
At 1 January 2016, net of accumulated depreciation and impairment	1,977,229	14,106	2,460,717	56,589	42,838	968,578	5,520,057
Additions	1,231	—	59,578	10,677	731	285,669	357,886
Depreciation provided during the year	(80,950)	(4,702)	(460,061)	(19,590)	(16,962)	—	(582,265)
Disposal of subsidiaries (note 39)	(22,510)	—	(19,941)	(551)	(981)	(2,167)	(46,150)
Disposals	—	—	(72,004)	(160)	(379)	—	(72,543)
Transfers	85,323	—	205,743	34,123	1,457	(326,646)	—
Impairment provided during the year	(12,431)	—	(53,353)	—	—	—	(65,784)
At 31 December 2016, net of accumulated depreciation and impairment	1,947,892	9,404	2,120,679	81,088	26,704	925,434	5,111,201
At 31 December 2016:							
Cost	2,440,678	15,268	5,095,596	272,876	269,497	949,085	9,043,000
Accumulated depreciation and impairment	(492,786)	(5,864)	(2,974,917)	(191,788)	(242,793)	(23,651)	(3,931,799)
Net carrying amount	1,947,892	9,404	2,120,679	81,088	26,704	925,434	5,111,201

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Freehold land and buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015:							
Cost	2,329,975	1,162	5,002,086	221,388	288,514	925,821	8,768,946
Accumulated depreciation and impairment	(309,913)	(1,162)	(2,117,174)	(154,421)	(223,645)	(23,119)	(2,829,434)
Net carrying amount	2,020,062	—	2,884,912	66,967	64,869	902,702	5,939,512
At 1 January 2015, net of accumulated depreciation and impairment	2,020,062	—	2,884,912	66,967	64,869	902,702	5,939,512
Additions	73	15,734	29,978	4,084	1,818	509,007	560,694
Depreciation provided during the year	(75,181)	—	(455,591)	(21,399)	(20,517)	—	(572,688)
Disposal of subsidiaries (note 39)	—	—	(29,479)	(1,382)	(949)	(27,475)	(59,285)
Disposals	(16,414)	(1,628)	(251,182)	(204)	(1,423)	(36,793)	(307,644)
Transfers	48,689	—	322,079	8,523	(960)	(378,331)	—
Impairment provided during the year	—	—	(40,000)	—	—	(532)	(40,532)
At 31 December 2015, net of accumulated depreciation and impairment	1,977,229	14,106	2,460,717	56,589	42,838	968,578	5,520,057
At 31 December 2015:							
Cost	2,360,681	15,268	5,038,029	230,379	281,514	992,229	8,918,100
Accumulated depreciation and impairment	(383,452)	(1,162)	(2,577,312)	(173,790)	(238,676)	(23,651)	(3,398,043)
Net carrying amount	1,977,229	14,106	2,460,717	56,589	42,838	968,578	5,520,057

The net carrying amount of the Group's fixed assets under finance leases included in the total amounts of plant and machinery at 31 December 2016 was RMB42,310,000 (2015: RMB432,426,000).

The Group is in the process of obtaining property certificates for the buildings above with carrying amount of RMB1,207,690,000 (2015: RMB1,227,000,000) at the end of the reporting period.

During the year, as a result of poor performance of the LED and diesel engine manufacturing and sales, the Group carried out a review of the recoverable amount (being the higher of value in use and fair value less costs of disposal) of the manufacturing plant and the related equipment, which represent the value in use of the smallest cash-generating unit in which those assets are included. The recoverable amount of the cash-generating unit which had impairment indicator was RMB832,698,000 (2015: RMB898,482,000), and the review led to the recognition of an impairment loss in profit or loss of RMB65,784,000 (2015: RMB40,532,000). The discount rate used in measuring the recoverable amount was 11% (2015: 11%) per annum.

The freehold land is located in the USA.

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**685,199**	610,539
Additions (credit)	**51,062**	(202)
Transfer from deposit for land lease	—	89,000
Disposal of a subsidiary (note 39)	**(1,648)**	—
Release during the year	**(15,521)**	(14,138)
Carrying amount at 31 December	**719,092**	685,199
Current portion	**16,250**	15,276
Non-current portion	**702,842**	669,923
	719,092	685,199

The above prepaid land lease payments are land use rights located in the PRC. At 31 December 2016, the Group is in the process of obtaining land use rights certificates in respect of land use rights located in the PRC with carrying amount of RMB317,876,000 (2015: RMB303,706,000)

15. GOODWILL

	RMB'000
At 1 January 2015, 31 December 2015 and 31 December 2016:	
Cost	17,715
Accumulated impairment	(14,724)
Net carrying amount	2,991

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the cash-generating unit of engineering processing and manufacturing for impairment testing.

The recoverable amount of the engineering processing and manufacturing cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 11% (2015: 11%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2015: 5%), which was the same as the long term average growth rate of the infrastructure industry.

Assumptions were used in the value in use calculation of the engineering processing and manufacturing cash-generating units for 31 December 2016 and 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the unit.

16. OTHER INTANGIBLE ASSETS

	Technical Know-how RMB'000	Development costs RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation and impairment	28,236	135,564	163,800
Additions	—	20,398	20,398
Disposal of a subsidiary (note 39)	—	(260)	(260)
Amortisation provided during the year	(2,263)	(38,017)	(40,280)
Impairment provided during the year	—	(5,094)	(5,094)
At 31 December 2016	25,973	112,591	138,564
At 31 December 2016:			
Cost	41,782	758,731	800,513
Accumulated amortisation and impairment	(15,809)	(646,140)	(661,949)
Net carrying amount	25,973	112,591	138,564
31 December 2015			
At 1 January 2015:			
Cost	41,623	683,132	724,755
Accumulated amortisation and impairment	(10,649)	(483,572)	(494,221)
Net carrying amount	30,974	199,560	230,534
Cost at 1 January 2015, net of accumulated amortisation and impairment	30,974	199,560	230,534
Additions	—	53,803	53,803
Disposal of a subsidiary (note 39)	—	(328)	(328)
Amortisation provided during the year	(2,738)	(78,623)	(81,361)
Impairment provided during the year	—	(38,848)	(38,848)
At 31 December 2015	28,236	135,564	163,800
At 31 December 2015 and at 1 January 2016:			
Cost	41,623	736,573	778,196
Accumulated amortisation and impairment	(13,387)	(601,009)	(614,396)
Net carrying amount	28,236	135,564	163,800

16. OTHER INTANGIBLE ASSETS *(Continued)*

During the year, as a result of insufficient sales order for certain development projects, the Group carried out a review of the recoverable amount of the related development costs. The review led to the recognition of an impairment loss in profit or loss of RMB5,094,000 (2015: RMB38,848,000). The recoverable amount of the relevant assets which had impairment indicator was RMB1,717,000 (2015: RMB10,000,000), which has been determined on the basis of their value in use. The discount rate used in measuring value in use was 11% (2015: 11%) per annum.

17. INTERESTS IN JOINT VENTURES

	2016 **RMB'000**	2015 RMB'000
Share of net assets	**1,008,254**	96,591
Goodwill on acquisition	—	—
	1,008,254	96,591

In December 2016, Nanjing Drive set up a joint venture named as "南京動邦裝備有限公司 Nanjing Dongbang Equipment Co., Ltd." ("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, the decisions about the relevant activities of Nanjing Dongbang require unanimous consent of the parties sharing control, hence the Group obtained joint control over Nanjing Dongbang.

The Group's trade receivable balances due from the joint ventures are disclosed in note 23 to the financial statements.

17. INTERESTS IN JOINT VENTURES *(Continued)*

Particulars of the Group's material joint ventures are as follows:

2016

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Nanjing High Accurate Construction Equipment Co., Ltd ("Nanjing Construction")	Registered capital of RMB20,000,000	PRC	50%	50%	50%	Metallurgical engineering and manufacturing
Nanjing Dongbang	Registered capital of RMB2,000,000,000	PRC	45%	45%	45%	Engineering processing and manufacturing of machine

2015

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Nanjing Construction	Registered capital of RMB20,000,000	PRC	50%	50%	50%	Metallurgical engineering and manufacturing
Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd. ("Shandong Heavy Duty")	Registered capital of RMB57,000,000	PRC	50%	50%	50%	Heavy duty mine equipment manufacturing

The above investments are indirectly held by the Company.

17. INTERESTS IN JOINT VENTURES *(Continued)*

Nanjing Construction, which is considered a material joint venture of the Group is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Nanjing Construction adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	20,076	28,197
Other current assets	341,332	377,605
Current assets	361,408	405,802
Non-current assets, excluding goodwill	1,676	2,220
Goodwill on acquisition of the joint venture	—	—
Financial liabilities, excluding trade and other payables	—	—
Other current liabilities	(219,300)	(286,288)
Current liabilities	(219,300)	(286,288)
Non-current liabilities	—	—
Net assets	143,784	121,734
Reconciliation to the Group's interest in Nanjing Construction:		
Proportion of the Group's ownership	50%	50%
Carrying amount of the Group's interest in Nanjing Construction	71,892	60,867
Revenue	191,857	249,518
Interest income	22	304
Depreciation and amortisation	(603)	(489)
Finance costs	(961)	(230)
Income tax expenses	(4,083)	(4,302)
Profit and total comprehensive income for the year	22,050	24,376
Dividend from Nanjing Construction	—	—

17. INTERESTS IN JOINT VENTURES *(Continued)*

Nanjing Dongbang, which is considered a material joint venture of the Group is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Nanjing Dongbang adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2016 RMB'000
Cash and cash equivalents	—
Other current assets	2,000,000
Current assets	2,000,000
Non-current assets, excluding goodwill	—
Goodwill on acquisition of the joint venture	—
Net assets	2,000,000
Reconciliation to the Group's interest in Nanjing Dongbang:	
Proportion of the Group's ownership	45%
Carrying amount of the Group's interest in Nanjing Dongbang	900,000
Profit and total comprehensive income for the year	—
Dividend from Nanjing Dongbang	—

17. INTERESTS IN JOINT VENTURES *(Continued)*

Shandong Heavy Duty, which was considered a material joint venture of the Group for the year ended 31 December 2015 is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Shandong Heavy Duty adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements as 31 December 2015:

	2015 RMB'000
Cash and cash equivalents	394
Other current assets	77,852
Current assets	78,246
Non-current assets, excluding goodwill	32,248
Goodwill on acquisition of the joint venture	—
Financial liabilities, excluding trade and other payables	—
Other current liabilities	(39,858)
Current liabilities	(39,858)
Non-current liabilities	—
Net assets	70,636
Reconciliation to the Group's interest in Shandong Heavy Duty:	
Proportion of the Group's ownership	50%
Carrying amount of the Group's interest in Shandong Heavy Duty	35,318
Revenue	103,527
Interest income	2
Depreciation and amortisation	(4,150)
Finance costs	—
Income tax expenses	(329)
Profit and total comprehensive income for the year	970
Dividend from Shandong Heavy Duty	—

17. INTERESTS IN JOINT VENTURES *(Continued)*

The following table illustrates the aggregate financial information of the Group's other joint ventures that are not individually material:

	2016 RMB'000	2015 RMB'000
Share of the joint ventures' profit and total comprehensive income for the year	**638**	253
Aggregate carrying amount of the Group's interests in the joint ventures	**36,362**	406

18. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**135,982**	141,051
Goodwill on acquisition	**6,205**	16,226
	142,187	157,277

In December 2016, 南京蘇陽光電薄膜有限公司Nanjing Suyang Optoelectronics Co., Ltd. ("Suyang") completed its liquidation. After the liquidation, the Group recovered RMB4,480,000 bank and cash, and as at that day, the investment cost in Suyang was RMB13,435,000, accumulated share of post-acquisition losses was RMB3,523,000. The liquidation has resulted to a loss of RMB5,432,000.

On 31 August 2016, the Group disposed of its 30% equity interest in 長源 (南京) 鑄造有限公司 Changyuan (Nanjing) Casting Co., Ltd. ("Changyuan") to one of the shareholders in Changyuan at an agreed price of RMB11,143,000. At the date of disposal, the investment cost in Changyuan was RMB31,260,000, accumulated share of post-acquisition losses was RMB31,260,000. The transaction has resulted in a gain of RMB11,143,000. Out of the total consideration of RMB11,143,000, the Group has received RMB7,000,000 subsequent to the end of the reporting period and the remaining consideration is agreed to be settled on or before 30 June 2017.

18. INTERESTS IN ASSOCIATES *(Continued)*

The Group's trade receivable and payable balances with the associates are disclosed in notes 23 and 26 to the financial statements, respectively.

The Group has discontinued the recognition of its share of losses of associate, 南京伊晶能源有限公司Nanjing E-crystal Energy Co., Ltd. ("Nanjing E-crystal"), an associate of the Group because the share of losses of Nanjing E-crystal exceeded the Group's interest in Nanjing E-crystal and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of loss of the associates for the current year and cumulatively were RMB1,212,000 (2015: RMB2,052,000) and RMB3,264,000 (2015: RMB2,052,000), respectively.

Particulars of the Group's material associate are as follows:

2016 & 2015

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
南通富來威農業裝備有限公司 Nantong FLW Agriculture Equipment Co., Ltd. ("Nantong FLW")	Registered capital of RMB159,645,000	PRC	49.58%	Manufacture and sale of agriculture equipment

Nantong FLW is accounted for using the equity method.

18. INTERESTS IN ASSOCIATES *(Continued)*

The following table illustrates the summarised financial information in respect of Nantong FLW adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

	2016 RMB'000	2015 RMB'000
Current assets	**81,915**	84,051
Non-current assets, excluding goodwill	**71,654**	78,544
Goodwill on acquisition of the associate	**1,470**	1,470
Current liabilities	**(18,132)**	(28,233)
Net assets	**136,907**	135,832
Net assets, excluding goodwill	**135,437**	134,362
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**49.58%**	49.58%
Group's share of net assets of the associate, excluding goodwill	**67,149**	66,616
Goodwill on acquisition (less cumulative impairment)	**1,470**	1,470
Carrying amount of the Group's interest in Nantong FLW	**68,619**	68,086
Revenue	**61,015**	38,824
Profit (loss) and total comprehensive income (expense) for the year	**1,075**	(845)
Dividend from Nantong FLW	**—**	—

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 RMB'000	2015 RMB'000
Share of the associates' profit (loss) and total comprehensive income (expense) for the year	**776**	(58,578)
Dividend from an associate	**5,897**	—
Aggregate carrying amount of the Group's interests in the associates	**73,568**	89,191

19. OTHER RECEIVABLE

	2016 RMB'000	2015 RMB'000
Other receivable	**551,524**	519,874

At 31 December 2016 and 31 December 2015, the amount represented an advance made to an insurance company in the PRC, which will mature in 2018, and carries interest at an annualised fixed rate at 6.33% per annum. Interest and the principal amount are repayable at the maturity date. It is stated at amortised cost less impairment, if any, at the end of the reporting period.

20. AVAILABLE-FOR-SALE INVESTMENTS

		2016 RMB'000	2015 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).

(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 ("Shanghai Stock Exchange"). 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.

20. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes: *(Continued)*

(b) (i) 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.

(ii) During the year ended 31 December 2016, the Group has entered into an agreement with Nanjing E-crystal, and three other parties, namely 南京豐盛產業控股集團有限公司Nanjing Fengsheng Industrial Holding Group Co., Ltd., 南京豐盛大族科技股份有限公司 Nanjing Fengsheng Dazu Technologies Inc., and 杭州基建華融投資合夥企業(有限合夥) Hangzhou Huarong Infrastructure Investment Partnership (Limited Partnership) (“Hangzhou Huarong”), to establish 杭州國京匯章股權投資基金合夥企業(有限合夥) Hangzhou Guojing Huizhang Equity Investment Fund Partnership (Limited Partnership) (the “Partnership”). The Group has invested RMB300,000,000 to the Partnership during the current year. Other than Hangzhou Huarong which is a general partner, all the other partners are limited partners.

The Group has 33% equity interest in the Partnership. In the opinion of the directors of the Company, the Group could not control the Partnership because the Group does not have the ability to affect the Group’s returns through its power over the Partnership, and the Group does not participate in the financial and operating decisions, the Group could neither exercise significant influence nor joint control over the Partnership, therefore, in the opinion of the directors of the Company, the Partnership is classified as an available-for-sale investment.

In December 2016, the Group disposed of its 33% equity interest in the Partnership to an independent third party with a resulting gain of RMB10,047,000 being recognised in profit or loss.

21. DEPOSIT FOR LAND LEASE

The amount represents deposit for land lease paid partly in relation to the acquisition of land leases situated in the PRC and the transfer is subject to the approval of the PRC government. During the year ended 31 December 2015, deposit for land lease amounted to RMB89,000,000 had been transferred to prepaid land lease payments. There was no movement during the current year for the deposit.

22. INVENTORIES

	2016 RMB’000	2015 RMB’000
Raw materials	620,292	444,348
Work in progress	785,948	647,788
Finished goods	905,334	983,103
	2,311,574	2,075,239

23. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 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 RMB'000	2015 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

At 31 December 2016, retentions receivable included in trade receivables amounted to RMB294,351,000 (2015: RMB311,629,000), which are repayable within terms ranging from one to five years. Included in retentions receivable of RMB33,946,000 (2015: RMB77,096,000) were expected to be recovered after more than one year

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.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

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

23. TRADE AND BILLS RECEIVABLES *(Continued)*

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 RMB'000	2015 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.

23. TRADE AND BILLS RECEIVABLES *(Continued)*

Transfers of financial assets *(Continued)*

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: RMB14,270,000) and RMB3,413,000 (2015: nil), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	**1,274,066**	1,235,697
Deposits and other receivables	**297,142**	315,990
Value-added tax recoverable	**131,684**	165,099
Amounts due from the Group's joint ventures	**191,156**	25,000
Amounts due from the Group's associates	**713,016**	473,294
	2,607,064	2,215,080
For reporting purpose:		
Current portion	**2,603,732**	1,985,146
Non-current portion	**3,332**	229,934
	2,607,064	2,215,080

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

The financial assets included in the above balances relate to receivables for which there was no recent history of default. None of the above assets is either past due or impaired.

All the amounts due from the Group's joint ventures and associates are unsecured, interest-free and repayable within 180 days.

25. CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS AND STRUCTURED BANK DEPOSITS

a) Cash and cash equivalents and pledged bank deposits

	2016 RMB'000	2015 RMB'000
Bank balances and cash	**2,745,023**	2,121,873
Pledged bank deposits	**2,531,395**	2,403,640
	5,276,418	4,525,513
Less:		
Pledged bank deposits	**(2,531,395)**	(2,403,640)
Cash and cash equivalents	**2,745,023**	2,121,873

At the end of the reporting period, the bank balances and cash and pledged bank deposits of the Group denominated in RMB amounted to RMB1,847,546,000 (2015: RMB1,535,501,000) and RMB2,531,395,000 (2015: RMB2,403,640,000) respectively. The RMB is not freely convertible into other currencies, however, subject to the relevant rules and regulation of foreign exchange control projected by the PRC government, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

b) Structured bank deposits

At the end of the reporting period, structured bank deposits of RMB209,000,000 (2015: RMB1,755,000,000) represent financial instruments placed by the Group to two banks in the PRC for a term within one year. The structured bank deposits contain embedded derivatives representing return which would vary with market exchange rates or investment return. Considering the principal-protected or short maturity nature of the deposits, the directors of the Company consider that the fair value of the embedded derivatives is minimal and hence no derivative financial instrument is recognised. The structured bank deposits were fully redeemed subsequent to the end of the reporting period and the changes on redeemed amounts are not significant.

26. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 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 RMB'000	2015 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.

27. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Deferred income	10,326	10,326
Accruals	146,082	123,266
Amounts due to the Group's joint ventures	31,096	—
Amounts due to the Group's associates	28,208	1,879
Other tax payables	85,708	50,261
Purchase of property, plant and equipment	140,008	160,477
Payroll and welfare payables	156,559	152,200
Receipt from government for land resumption (note 50)	180,728	507,495
Other payables	124,775	266,432
	903,490	1,272,336

All the amounts due to the Group's joint ventures and associates are unsecured, interest-free and repayable within 180 days.

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 RMB'000	2015 RMB'000
Financial liabilities designated as fair value through profit or loss	—	536,982
Derivative financial liabilities	—	59,674
	—	596,656

During the year ended 31 December 2015, Nanjing High Speed entered into several gold commodity agreements with three banks for financing purpose. According to terms of the agreement, Nanjing High Speed borrowed commodity gold from the banks, which permitted such gold commodity to be sold to third parties, and Nanjing High Speed was obliged to return gold within one year with same quality and weight to the banks when the agreement expired. The obligation to return the gold was recognised as financial liability. The financial liabilities extinguished upon the expiry of the agreement during the year ended 31 December 2016.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016		2015	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	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 approximately 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.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	2016 RMB'000	2015 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 RMB'000	2015 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").

29. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

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 42.

30. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its manufacturing and sales of gear. The lease is classified as finance lease and have remaining lease terms for half year (2015: two finance leases of remaining lease terms for 1.5 years and 1 year respectively).

Interest rate is carried at 8.51% per annum (2015: two leases of 9.53% and 5.26% per annum).

The Group has the option to purchase property, plant and equipment for a notional amount at the end of the lease terms. No arrangements have been entered into for contingent rental payment.

At 31 December 2016, the total future minimum lease payment under finance lease and its present value was as follows:

	Minimum lease payments 2016 RMB'000	Minimum lease payments 2015 RMB'000	**Present value of minimum lease payments 2016 RMB'000**	Present value of minimum lease payments 2015 RMB'000
Amounts payable:				
Within one year	**7,170**	163,702	**7,007**	158,556
In more than one year But not more than two years	**—**	7,290	**—**	6,516
Total minimum finance lease payments	**7,170**	170,992	**7,007**	165,072
Future finance charges	**(163)**	(5,920)		
Total net finance lease payables	**7,007**	165,072		
Portion classified as current liabilities	**(7,007)**	(158,556)		
Non-current portion	**—**	6,516		

31. DEFERRED INCOME

At the end of the reporting period, the amount represented the grants received from the PRC government for the Group's acquisition of assets for technology development, and such amount will be released to income over the useful lives of the relevant assets.

32. WARRANTY PROVISION

	Product warranties RMB'000
At 1 January 2015	99,781
Additional provision	53,236
Amounts utilised during the year	(52,675)
At 31 December 2015, and 1 January 2016	**100,342**
Additional provision	**46,544**
Amounts utilised during the year	**(45,638)**
At 31 December 2016	**101,248**

At the end of the reporting period, the amount represents the directors' best estimate of the expected cost that will be required under the Group's obligations for warranties under sale of goods. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

33. DEFERRED TAX

(a) Details of the major deferred tax assets recognised in the consolidated statement of financial position and movements during the year are as follows:

	Taxable loss RMB'000	Impairment of trade receivables RMB'000	Write-down of inventories RMB'000	Deferred income arising from land resumption RMB'000	Provisions RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	(5,975)	(64,326)	(40,771)	(76,124)	(39,788)	(24,178)	(3,222)	(254,384)
Deferred tax (credited) charged to profit or loss during the year	(7,378)	(12,884)	(6,203)	49,015	25,664	404	204	48,822
Gross deferred tax assets at 31 December 2016	(13,353)	(77,210)	(46,974)	(27,109)	(14,124)	(23,774)	(3,018)	(205,562)

	Taxable loss RMB'000	Impairment of trade receivables RMB'000	Write-down of inventories RMB'000	Deferred income arising from land resumption RMB'000	Provisions RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	(11,249)	(51,103)	(51,161)	—	(14,255)	(22,814)	(5,058)	(155,640)
Deferred tax charged (credited) to profit or loss during the year	5,274	(13,223)	10,390	(76,124)	(25,533)	(1,364)	1,836	(98,744)
Gross deferred tax assets at 31 December 2015	(5,975)	(64,326)	(40,771)	(76,124)	(39,788)	(24,178)	(3,222)	(254,384)

At 31 December 2016, the Group has unused tax losses of RMB992,746,000 (2015: RMB677,528,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB53,415,000 (2015: RMB23,902,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB939,331,000 (2015: RMB653,626,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. During the year ended 31 December 2016, the temporary differences not recognised are RMB135,220,000 (2015: RMB54,948,000).

33. DEFERRED TAX *(Continued)*

(b) Details of the major deferred tax liabilities recognised in the consolidated statement of financial position and movements during the year are as follows:

	Development costs RMB'000	Withholding taxes RMB'000	Fair value change on available-for-sale investments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	21,170	32,199	—	19,949	73,318
Deferred tax (credited) charged:					
to profit or loss during the year	(6,462)	16,888	—	(517)	9,909
to other comprehensive income during the year	—	—	169,533	—	169,533
Gross deferred tax liabilities at 31 December 2016	14,708	49,087	169,533	19,432	252,760

	Development costs RMB'000	Withholding taxes RMB'000	Fair value change on available-for-sale investments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	39,864	17,199	—	20,466	77,529
Deferred tax (credited) charged to profit or loss during the year	(18,694)	15,000	—	(517)	(4,211)
Gross deferred tax liabilities at 31 December 2015	21,170	32,199	—	19,949	73,318

33. DEFERRED TAX *(Continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2016	2015
	RMB'000	RMB'000
Net deferred tax assets presented in the consolidated statement of financial position	**(190,897)**	(232,385)
Net deferred tax liabilities presented in the consolidated statement of financial position	**238,095**	51,319
	47,198	(181,066)

34. SHARE CAPITAL

Shares

	Number of shares (in thousand)	Amount USD'000	Equivalent to RMB'000
Ordinary shares of USD0.01 each			
Authorised:			
At 1 January 2015, 31 December 2015 and 31 December 2016	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2015, 31 December 2015 and 31 December 2016	1,635,291	16,352	119,218

35. RESERVES

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

(a) Share premium

The share premium represents the excess of the proceeds received upon issuance and allotment of the Company's shares over their nominal values.

(b) Deemed capital contribution reserve

The deemed capital contribution reserve arose from a deemed capital contribution from shareholders in year 2006.

(c) Statutory surplus reserve

In accordance with the PRC Company Law and the PRC subsidiaries' articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit as determined in accordance with relevant statutory rules and regulations applicable to enterprises established in the PRC (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory reserve must be maintained at a minimum of 25% of the capital after such usages.

(d) Capital reserve

The capital reserve represents the difference between the consideration given and the decrease in net assets of subsidiaries attributable to non-controlling interest upon acquisition of additional interests in subsidiaries

(e) Other reserve

The other reserve represents the net assets of Nanjing High Accurate, which was contributed to the Group by the founder shareholders of Nanjing High Accurate when the founder shareholders obtained control of Nanjing High Accurate as well as the subsequent acquisition of additional equity interest in Nanjing High Accurate and contributed to the Group by the founder shareholders of Nanjing High Accurate.

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 8 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 8 June 2017. Under the Scheme, the Board of Directors of the Company may grant options to:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board of Directors, will contribute or have contributed to the Group. The assessment criteria of which are:

– contribution to the development and performance of the Group;
– quality of work performed for the Group;
– initiative and commitment in performing his/her duties; and
– length of service or contribution to the Group.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders to refresh the said limit to not exceed 30% of the issued share capital of the Company from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of their associates in excess of 0.1% of the Company's share capital or with a value in excess of HKD 5 million must be approved in advance by the Company's shareholders.

Option granted must be taken up within 12 months of the date of grant, upon payment of HKD1 per grant. Options may be exercised at any time after the date upon which the option is deemed to be granted and accepted and prior to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No share option was granted in 2015 and 2016, and there were no outstanding share options at 31 December 2015 and 31 December 2016.

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests of Tianjin Chuanzai*	53.04%	53.04%

	2016 RMB'000	2015 RMB'000
Loss for the year allocated to non-controlling interests of Tianjin Chuanzai	(29)	—
Dividend paid to non-controlling interests of Tianjin Chuanzai	—	—
Carrying amount of the non-controlling interests of Tianjin Chuanzai as at 31 December	97,180	97,209

The following tables illustrate the summarised financial information of Tianjin Chuanzai. The amounts disclosed are before any inter-company eliminations:

	2016 RMB'000	2015 RMB'000
Revenue	—	—
Total expenses	(56)	(302)
(Loss)/profit and total comprehensive (expense) income for the year	(53)	5
Current assets	184,690	184,758
Non-current assets	—	—
Current liabilities	(1,471)	(1,486)
Non-current liabilities	—	—
Net cash used in operating activities	(214)	(873)
Net cash from investing activities	—	—
Net cash from financing activities	—	—
Decrease in cash and cash equivalents	(214)	(873)

* At 31 December 2016, Tianjin Chuanzai is considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest. Based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Tianjin Chuanzai that has the power to direct the relevant activities of Tianjin Chuanzai. Therefore, the directors of the Company concluded that the Group has the practical ability to direct the relevant activities of Tianjin Chuanzai unilaterally and hence the Group has control over Tianjin Chuanzai.

38. BUSINESS COMBINATION

Year ended 31 December 2015:

On 18 March 2015, New Best acquired from an independent third party, 100% equity interest in 南京德馬斯賓納數控機床有限公司 Nanjing Tema Spinner Digital Control Equipment Manufacturing Co., Ltd. ("Nanjing Tema"). Nanjing Tema is principally engaged in the provision of digital control equipment maintenance services and was acquired so as to continue the expansion of the Group's activities on digital control equipment.

The Group has elected to measure the non-controlling interest in Nanjing Tema at the non-controlling interest's proportionate share of Nanjing Tema's identifiable net assets.

The fair values of the identifiable assets and liabilities of Nanjing Tema as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Bank balances and cash	69
Inventory	3,622
Prepayments and other receivables	1,648
Other payables and accruals	(4,870)
Total identifiable net assets at fair value	469
Non-controlling interests	31
Goodwill on acquisition	—
Satisfied by cash	—
Set-off of an amount receivable to the former shareholder	500

38. BUSINESS COMBINATION *(Continued)*

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	—
Bank balances and cash acquired	69
Net inflow of cash and cash equivalents included in cash from investing activities	69

Since the acquisition, Nanjing Tema contributed RMB7,179,000 to the Group's revenue and caused a loss of RMB28,000 to the consolidated profit for the year ended 31 December 2015.

Had the combination taken place at the beginning of the year ended 31 December 2015, the revenue of the Group and the profit of the Group for the year would have been RMB9,853 million and RMB1,006 million, respectively.

39. DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2016:

During the year, Nanjing High Speed entered into an agreement with an independent third party to dispose of the Group's 100% equity interest in 南京寧宏建機械有限公司 Nanjing Ninghongjian Machinery Co., Ltd. ("Nanjing Ninghongjian"). The disposal was completed on 30 April 2016.

During the year, Nanjing Drive entered into an agreement with the other shareholder of New Best to dispose of the Group's 63% equity interest in New Best. The disposal was completed on 30 December 2016.

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

The net assets of Nanjing Ninghongjian and New Best at the date of disposal and the resulting loss on disposal recognised were as follows:

	New Best RMB'000	Nanjing Ninghongjian RMB'000	Total RMB'000
Net assets disposed of:			
Property, plant and equipment	9,201	36,949	46,150
Prepaid land lease payments	—	1,648	1,648
Interest in an associate	590	—	590
Other intangible assets	260	—	260
Inventories	46,860	—	46,860
Tax prepaid	8	—	8
Bank balances and cash	3,360	9,459	12,819
Trade and bills receivables	37,243	—	37,243
Prepayments and other receivables	6,204	16,446	22,650
Trade payables	(44,835)	—	(44,835)
Other payables and accruals	(26,422)	(39,297)	(65,719)
	32,469	25,205	57,674
Non-controlling interests	10,896	—	10,896
Loss on disposal recognised in profit or loss	(25,365)	(2,305)	(27,670)
Net consideration	18,000	22,900	40,900
Satisfied by:			
Cash	—	7,000	7,000
Deferred cash consideration (Note)	18,000	15,900	33,900
	18,000	22,900	40,900

Note: For the disposal of New Best, the first instalment of RMB12,000,000 was settled in January 2017. For the disposal of Nanjing Ninghongjian, the deferred consideration is agreed to be settled on or before 30 June 2017.

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	New Best	Nanjing Ninghongjian	Total
	RMB'000	RMB'000	RMB'000
Cash consideration	—	7,000	7,000
Bank balances and cash disposed of	(3,360)	(9,459)	(12,819)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(3,360)	(2,459)	(5,819)

Year ended 31 December 2015:

(i) On 20 January 2015, Nanjing Drive entered into an agreement with an independent purchaser (the "Purchaser"), pursuant to which Nanjing Drive sold its entire 60% equity interest in Zhong-Chuan Heavy Duty Equipment Co., Ltd. ("Zhong-Chuan") and 100% equity interest in Nanjing Gaote Gear Box Manufactory Co., Ltd. ("Nanjing Gaote") for an aggregate consideration of RMB450 million. In addition, the Purchaser repaid trade payable of RMB1,000 million owed by Zhong-Chuan to Nanjing Drive. After the disposal, the Group retains 8% equity interest in Zhong-Chuan which is accounted for as an available-for-sale equity investment. As part of the arrangement, the Group retains the 50% equity interest in Shandong Heavy Duty previously owned by Zhong-Chuan at a consideration of RMB28,500,000 and Shandong Heavy Duty remains as a joint venture of the Group.

(ii) During the year ended 31 December 2015, the Group entered into agreement to withdraw its investment in Tianjin Aokai Laser Technology Co., Ltd. ("Tianjin Aokai"). The withdrawal was completed on 17 March 2015, on which date the Group lost control of Tianjin Aokai.

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

(iii) On 24 December 2015, China Transmission Holdings Limited, a subsidiary of the Group, entered into an agreement (the "Nanjing Gaochuan Disposal Agreement") with Decan New Energy Industry Investment Limited ("Decan New Energy") to dispose of the Group's 83.61% equity interest in Nanjing Gaochuan for a total consideration of RMB77,504,000. Details of the disposal are set out in the Company's announcement dated 24 December 2015. Before the disposal, Nanjing Gaochuan owned 100% interest in several subsidiaries and a 53.04% equity interest in Tianjin Chuanzai (These entities together with Nanjing Gaochuan are hereinafter referred to as the "Nanjing Gaochuan Group"). The remaining 46.96% equity interest in Tianjin Chuanzai is owned by China Transmission Holdings Limited. The Nanjing Gaochuan Disposal Agreement is unconditioned and the disposal of Nanjing Gaochuan was completed on 29 December 2015, on which date the Group lost control of Nanjing Gaochuan. Pursuant to the Nanjing Gaochuan Disposal Agreement, the Group's retained a 16.39% interest in Nanjing Gaochuan which was recognised as an interest in associate. On 30 December 2015, Decan New Energy introduced new investor to inject further capital in Nanjing Gaochuan. The Group's interest in Nanjing Gaochuan was reduced to 10% after the capital injection. The decrease from 16.39% to 10% is treated as a deemed disposal and the resulting gain or loss on this deemed disposal is insignificant. The Group has significant influence over Nanjing Gaochuan by virtue of the contractual right to appoint one out of the five directors to the board of directors of Nanjing Gaochuan. As explained above, pursuant to the terms of the agreement governing the disposal of Nanjing Gaochuan, the Group disposed of a 53.04% equity interest in Tianjin Chuanzai, which was previously a 100% indirectly owned subsidiary of the Group. After the disposal of Nanjing Gaochuan Group, the Group retained 46.96% in Tianjin Chuanzai and the control of Tianjin Chuanzai as the Group has the power to appoint and remove the majority of the board of directors and has the power to direct the relevant activities of Tianjin Chuanzai. At 31 December 2015, the Group recognised a non-controlling interests of RMB97,209,000 representing the interests of non-controlling interests in Tianjin Chuanzai.

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

The net assets of Zhong-Chuan, Nanjing Gaote and their subsidiaries (the "ZC Disposal Group"), Tianjin Aokai and Nanjing Gaochuan Group at the date of disposal and the resulting gain on disposal recognised were as follows:

	ZC Disposal Group RMB'000	Tianjin Aokai RMB'000	Nanjing Gaochuan Group RMB'000	Total RMB'000
Bank balances and cash	16,301	3,963	1,055	21,319
Pledged bank deposits	19,071	—	—	19,071
Trade and other receivables	128,739	2,100	331,293	462,132
Inventories	219,314	11	29,954	249,279
Interest in an associate	800	—	97,550	98,350
Property, plant and equipment	1,013,994	8,256	51,029	1,073,279
Prepaid land lease payments	437,508	—	—	437,508
Other intangible assets	5,561	—	328	5,889
Trade and other payables	(1,361,450)	(1,848)	(247,898)	(1,611,196)
Borrowings	(65,504)	—	(199,500)	(265,004)
Net assets disposed of, excluding the joint venture retained	414,334	12,482	63,811	490,627
Non-controlling interests	(27,114)	(5,924)	—	(33,038)
Gain/(loss) on disposal recognised and charged to profit or loss	54,280	(744)	28,886	82,422
Cash consideration excluding joint venture retained	421,500	5,814	77,504	504,818
Fair value of the investment retained	20,000	—	15,193	35,193
Satisfied by:				
Cash	421,500	—	—	421,500
Deferred cash consideration	—	5,814	77,504 (note)	83,318
	421,500	5,814	77,504	504,818
Net cash outflow arising on disposal:				
Total cash consideration received	421,500	—	—	421,500
Bank balances and cash disposed of	(16,301)	(3,963)	(1,055)	(21,319)
	405,199	(3,963)	(1,055)	400,181

Note: The deferred cash consideration was settled in 2016.

40. LOANS/QUASI-LOANS WITH A DIRECTOR

At 31 December 2015, included in the Group's amount due from an associate was RMB92,700,000 being advances made to Nanjing Gaochuan, which has been disposed to Decan New Energy, which is wholly owned by Mr. Liao Enrong, who was the executive director of the Company. At 31 December 2015, included in the Group's other receivables is RMB77,504,000 which was the consideration receivable from Decan New Energy for the disposal of Nanjing Gaochuan and subsequently settled in 2016. On 3 June 2016, Mr. Liao Enrong resigned as director of the Company.

Amounts due from companies controlled by a director, Mr. Liao Enrong, disclosed pursuant to section 383 to the Hong Kong Companies Ordinance (Cap. 622) and part 3 of the Companies Ordinance (Disclosure of Information about Benefits of Directors) Regulation are analysed as follows:

			Maximum amount outstanding during the year ended	
	At	At		
Name of entity	**31.12.2016**	31.12.2015	**31.12.2016**	31.12.2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Nanjing Gaochuan	—	92,700	**92,700**	92,700
Decan New Energy	—	77,504	**77,504**	77,504

41. 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.

42. 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 RMB'000	2015 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.

43. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its leasehold land and office equipment under operating lease arrangements.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**3,304**	3,157
In the second to fifth years, inclusive after five years	—	794
	3,304	3,951

44. COMMITMENTS

In addition to the operating lease commitments detailed in note 43 above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 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

45. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2016 RMB'000	2015 RMB'000
Associates:			
Purchases of products	(ii)	**(160,222)**	(97,286)
Sales of property, plant and equipment	(iii)	**49,441**	193,385
Other income	(iv)	**9,410**	15,930
Joint ventures:			
Sales of products	(i)	**16,198**	31,566
Purchases of products	(ii)	**(989)**	(3,438)
Other income	(iv)	**462**	429
Holding company of a non-controlling shareholder of a subsidiary:			
Rental expenses	(v)	**(1,521)**	(1,031)

45. RELATED PARTY TRANSACTIONS *(Continued)*

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: *(Continued)*

Notes:

(i) The sales to the joint ventures were made according to the published prices and conditions offered to the major customers of the Group, except that a longer credit period of up to six months is normally granted.

(ii) The purchases from the associates and joint ventures were made according to the published prices and were agreed by both parties.

(iii) During the years ended 31 December 2016 and 31 December 2015, the Group has entered into sale and purchase agreements with Inner Mongolia Jingjing Photoelectric Technology Co., Ltd., a wholly-owned subsidiary of an associate, to dispose of certain plants and machineries at an aggregate consideration of approximately RMB57,846,000 and RMB226,278,000 respectively (value added tax inclusive).

(iv) The other income mainly represented the arrangements about that the Group charged its associates and joint ventures for rental transactions, water and electricity expenses and other overhead costs.

(v) The rental expense arose from the rental transaction which was carried out at terms agreed by the Group and the respective counterparties.

(b) Other transactions with related parties:

At 31 December 2016, the Group provided guarantees to Nanjing Gaochuan in favour of Nanjing Gaochuan's bank loans of RMB236,000,000 (2015: RMB199,500,000), which will be matured on or before 31 October 2017.

(c) Outstanding balances with related parties:

The Group's trade and other balances with its joint ventures and associates as at the end of the reporting period are disclosed in notes 23, 24, 26 and 27 to the financial statements.

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

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in note 8, the Group did not have any other significant compensation to key management personnel.

46. FINANCIAL INSTRUMENTS BY CATEGORY

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

2016

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	870,090	870,090
Trade and bills receivables	6,964,944	—	6,964,944
Financial assets included in prepayments, deposits and other receivables	1,728,150	—	1,728,150
Pledged bank deposits	2,531,395	—	2,531,395
Bank balances and cash	2,745,023	—	2,745,023
Structured bank deposits	209,000	—	209,000
	14,178,512	870,090	15,048,602

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	6,570,740
Financial liabilities included in other payables and accruals	510,889
Interest-bearing bank and other borrowings	6,501,813
Finance lease payables	7,007
	13,590,449

46. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(Continued)*

2015

Financial assets

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	196,174	196,174
Trade and bills receivables	6,951,642	—	6,951,642
Financial assets included in prepayments, deposits and other receivables	1,380,742	—	1,380,742
Pledged bank deposits	2,403,640	—	2,403,640
Bank balances and cash	2,121,873	—	2,121,873
Structured bank deposits	1,755,000	—	1,755,000
	14,612,897	196,174	14,809,071

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	4,773,443	4,773,443
Financial liabilities included in other payables and accruals	—	428,787	428,787
Financial liabilities at fair value through profit or loss	596,656	—	596,656
Interest-bearing bank and other borrowings	—	7,566,320	7,566,320
Finance lease payables	—	165,072	165,072
	596,656	12,933,622	13,530,278

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of all trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and other borrowings, finance lease payables are measured at amortised cost approximated to their fair values as at the end of the reporting period.

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investments	**781,508**	28,414	**781,508**	28,414
Financial liabilities				
Financial liabilities at fair value through profit or loss	—	596,656	—	596,656

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

As at 31 December 2015, the fair value of financial liabilities designated at fair value through profit or loss was determined by using the discounted cash flow method with the key inputs of quoted market prices and prevailing observable interest rate discounted at a rate that reflected the credit risk of various counterparties.

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments:				
Listed equity investments	781,508	—	—	781,508

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
Listed equity investments	28,414	—	—	28,414

47. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities measured at fair value:

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities at fair value through profit or loss*	—	596,656	—	596,656

* Based on the quoted price of the underlying commodity.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: nil).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, financial liabilities at fair value through profit or loss, trade and bills receivables, prepayments, deposits and other receivables, pledged bank deposits, structured bank deposits, bank balances and cash, trade and bills payables, finance lease payables, other payables and bank and other borrowings. Details of the financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include interest rate risk, foreign currency risk, equity price risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and pledged bank deposits.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings carrying interest at prevailing interest rate and bank balances carrying interest at prevailing market deposit rates.

Currently, the Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference to anticipated changes in market interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China, the HIBOR and the LIBOR arising from the Group's RMB and foreign currencies denominated borrowings respectively.

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial liabilities at the end of the reporting period. For variable-rate bank and other borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

For variable-rate bank and other borrowings, if the interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2016 would have decreased by approximately RMB1,572,000 (2015: RMB1,966,000).

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 33% (2015: 22%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 1% (2015: 2%) of costs were not denominated in the units' functional currencies.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities including available-for-sale investments, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables and borrowings at the end of the reporting period are as follows:

Assets

	2016 RMB'000	2015 RMB'000
United States Dollars (USD)	**1,513,594**	1,431,314
Hong Kong Dollars (HKD)	**33,065**	42,215
Euro (EUR)	**312,656**	191,440
Canadian Dollars (CAD)	**—**	6,611
Singapore Dollars (SGD)	**7,736**	2,194
Australian Dollars (AUD)	**—**	242

Liabilities

	2016 RMB'000	2015 RMB'000
United States Dollars (USD)	**142,779**	488,528
Hong Kong Dollars (HKD)	**6**	246,702
Euro (EUR)	**524**	1,063
Singapore Dollar (SGD)	**3,975**	245

The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk *(Continued)*

The Group is mainly exposed to the fluctuation of HKD, USD and EUR against RMB. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Group's profit after tax (due to changes in the fair value of monetary assets and liabilities).

	Increase (decrease) in RMB rate %	Increase (decrease) in profit after tax RMB'000	Increase (decrease) in equity* RMB'000
2016			
If the HKD weakens against the RMB	**5%**	**(443)**	**(1,210)**
If the HKD strengthens against the RMB	**(5%)**	**443**	**1,210**
If the USD weakens against the RMB	**5%**	**(66,936)**	**—**
If the USD strengthens against the RMB	**(5%)**	**66,936**	**—**
If the EUR weakens against the RMB	**5%**	**(14,930)**	**—**
If the EUR strengthens against the RMB	**(5%)**	**14,930**	**—**
2015			
If the HKD weakens against the RMB	5%	10,274	(1,421)
If the HKD strengthens against the RMB	(5%)	(10,274)	1,421
If the USD weakens against the RMB	5%	(34,260)	—
If the USD strengthens against the RMB	(5%)	34,260	—
If the EUR weakens against the RMB	5%	(7,711)	—
If the EUR strengthens against the RMB	(5%)	7,711	—

* Excluding retained profits

Equity price risk

The Group's price risk is mainly exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Shanghai Stock Exchange and Hong Kong Stock Exchange. The Group closely monitors the price risk and will consider hedging the risk exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective listed equity instruments had been 10% (2015: 10%) higher/lower, the other comprehensive income for the year ended 31 December 2016 would have increased/decreased by approximately RMB58,116,000 (2015: RMB2,131,000) as a result of the changes in fair value of the listed equity instruments.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and discounted and endorsed bills with full recourse which were derecognised by the Group (see note 23 for details).

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk in respect of bank balances, structured bank deposits and pledged bank deposits. At 31 December 2016, approximately 40% (2015: 51%) of the total bank balances, structured bank deposits and pledged bank deposits were deposited at 3 (2015: 3) banks, with deposits at each bank with a balance exceeding 10% of total bank balances, structured bank deposits and pledged bank deposits. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks with good reputation.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit rating, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2016, trade and bills receivables from five customers engaged in the wind milling industry accounted for approximately 41% (2015: 54%) of the Group's trade and bills receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Group's trade and bills receivables.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

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

	2016			
	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Finance lease payables	6,575	595	—	7,170
Interest-bearing bank and other borrowings	1,600,010	3,875,609	1,302,595	6,778,214
Trade and bills payables	1,571,275	4,999,465	—	6,570,740
Other payables	270,596	240,293	—	510,889
	3,448,456	9,115,962	1,302,595	13,867,013

	2015			
	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Finance lease payables	41,511	122,191	7,290	170,992
Interest-bearing bank and other borrowings	1,181,772	4,701,000	2,183,003	8,065,775
Trade and bills payables	2,136,851	2,636,592	—	4,773,443
Other payables	117,478	311,309	—	428,787
Financial liabilities at fair value through profit or loss	596,656	—	—	596,656
	4,074,268	7,771,092	2,190,293	14,035,653

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

The amount included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties. Based on the expectations at the end of the reporting period, the Group considers that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 29, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly and taking into account of the cost and risk associated with the capital. The Group monitors capital using a gearing ratio, which is total liabilities as a percentage of total assets. The Group will balance its capital structure through the payment of dividends, new shares issue as well as the issue of new debt or the redemption of the existing debts.

49. 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 Marine, 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 Drive 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.

50. OTHER MATTER

On 14 March 2015, Nanjing High Speed entered into an agreement (the "Land Resumption Agreement") with the local district government of Jiangning (the "Jiangning Government"). Pursuant to the Land Resumption Agreement, Nanjing High Speed will return and the Jiangning Government will resume the land (together as the "Land Resumption") on which one of the plants currently owned by Nanjing High Speed is located (the "Resumed Land") by the end of 2016 in consideration for amount of RMB1.3 billion payable by the Jiangning Government to the Group. The amount will be payable by three instalments, with the first instalment of RMB300 million payable on or before 25 March 2015, the second instalment of RMB400 million payable on or before 30 September 2015, and the last instalment of RMB600 million payable when the Resumed Land is successfully sold by auction, subsequent to the resumption by the Jiangning Government.

During the year ended 31 December 2015, the Group collected an aggregate RMB700 million from the Jiangning Government, representing the full amount of the first instalment and the second instalment. The RMB700 million is principally to compensate for the costs incurred in relation to and as a result of the Land Resumption and was accounted for as government grant for compensation of expenses or losses. During the year ended 31 December 2016, the Group recognised and released RMB327 million (2015: RMB193 million) against costs incurred in relation to the Land Resumption. At 31 December 2016, the balance of the RMB181 million (2015: RMB507 million) was recorded as other payables in note 27.

	RMB'000
Receipt from the Jiangning Government	700,000
Release and credited to related costs	(192,505)
Balance at 31 December 2015	507,495
Release and credited to related costs	(326,767)
Balance at 31 December 2016	180,728

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**3**	3
Interests in subsidiaries	**5,270,201**	5,383,515
Available-for-sale investments	**24,197**	28,414
Total non-current assets	**5,294,401**	5,411,932
CURRENT ASSETS		
Prepayments, deposits and other receivables	**69,083**	64,926
Bank balances and cash	**15,708**	16,253
Total current assets	**84,791**	81,179
CURRENT LIABILITIES		
Amounts due to subsidiaries	**10,246**	9,000
Other payables and accruals	**2,572**	2,734
Interest-bearing bank and other borrowings	**260,694**	256,660
Total current liabilities	**273,512**	268,394
NET CURRENT LIABILITIES	**(188,721)**	(187,215)
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,105,680**	5,224,717
Net assets	**5,105,680**	5,224,717
EQUITY		
Share capital	**119,218**	119,218
Reserves	**4,986,462**	5,105,499
Total equity	**5,105,680**	5,224,717

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	5,010,141	77,651	(36,468)	(53,125)	4,998,199
Profit for the year	—	—	—	70,832	70,832
Other comprehensive income for the year:					
Impairment loss on available-for-sale investments reclassified to profit of loss	—	—	36,468	—	36,468
Total comprehensive income for the year	—	—	36,468	70,832	107,300
At 31 December 2015	5,010,141	77,651	—	17,707	5,105,499
Profit and total comprehensive income for the year	—	—	—	199,907	199,907
Final 2015 dividend declared	(318,944)	—	—	—	(318,944)
At 31 December 2016	4,691,197	77,651	—	217,614	4,986,462

52. 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.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2017.