LONKING 龙工

LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

2016
Annual Report

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors
Mr. Li San Yim *(Chairman* and *Chief Executive Officer)*
Mr. Chen Chao
Mr. Luo Jianru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

Non-executive directors
Ms. Ngai Ngan Ying

Independent non-executive directors
Dr. Qian Shizheng
Mr. Wu Jian Ming
Mr. Chen Zhen

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Chen Zhen
Ms. Ngai Ngan Ying

REMUNERATION COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Ms. Ngai Ngan Ying

NOMINATION COMMITTEE

Mr. Chen Zhen *(Chairman)*
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE

Mr. Li San Yim *(Chairman)*
Mr. Chen Chao
Mr. Luo Jianru
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

COMPANY SECRETARY

Mr. Chu Shun

HEAD OFFICE

No. 26 Mingyi Road, Xinqiao,
Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

INVESTOR RELATIONS

Ms. Jenny Lv
lzz@lonking.cn
Tel: 86-21-3760 2000(5165)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th FL., Royal Bank House, 24 Shedden Road,
PO Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

SOLICITORS

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street Central, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountant
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
Longyan Branch
Bank of China Tower
No. 1 Longchuan Bei Road Longyan City
Fujian, PRC

China Construction Bank
Shanghai Songjiang Branch
No. 89 Zhongshan Zhong P.O. Road
Songjiang District
Shanghai, PRC

Financial Highlights

The table below sets forth the consolidated financial summary of Lonking Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	2016 RMB'000	2015 RMB'000	Change (+/–)
Turnover	**5,146,435**	4,829,329	+6.57%
Operating profits:	**637,422**	328,551	+94.01%
EBITDA	**1,023,025**	724,985	+41.11%
Profit attributable to equity parent	**461,764**	116,556	+296.17%
Per share data	**RMB**	RMB	
Basic earnings per share[(1)#]	**0.11**	0.03	+267.67%
Net assets per share[(2)#]	**1.57**	1.55	+1.29%
Key performance indicators	**%**	%	
Profitability			
Overall gross margin	**24.22**	22.75	+1.47%
Net profit margin	**8.98**	2.42	+6.56%
EBITDA margin[(3)]	**19.88**	15.01	+4.87%
Return on equity[(4)]	**6.87**	1.76	+5.11%
Liquidity and solvency			
Current ratio[(5)]	**3.04**	4.01	-24.19%
Interest coverage ratio[(6)]	**8.13**	2.83	+187.28%
Gearing ratio[(7)]	**66.77**	88.94	-22.17%
Management efficiency	**days**	days	
Inventory turnover days[(8)]	**130**	151	-20%
Trade and bills payables turnover days[(9)]	**103**	76	+27 days
Trade and bills receivable turnover days[(10)]	**117**	162	-45 days

Financial Highlights

Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2016 (31 December 2015: 4,280,100,000).

1 Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.

2 Shareholders' equity divided by the WANOS as at the end of each period.

3 Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.

4 Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.

5 Current assets divided by current liabilities as at the end of each period.

6 Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.

7 Total liabilities divided by the total equity as at the end of each period.

8 Average inventories divided by cost of sales and multiplied by 365 days.

9 Average trade and bills payables divided by cost of sales and multiplied by 365 days.

10 Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

Dear shareholders and investors,

On behalf of the Board, I am pleased to present the Chairman's Statement of Lonking Holdings Limited ("China Lonking" or "Lonking") for the year ended 31 December 2016.

The international economy featured slowdown of various countries. Against this backdrop, the GDP growth in the PRC in 2016 declined to 6.7% and reached the record low for these years, while the international trade also witnessed a significant decrease in the growth rate. Generally speaking, the construction machinery industry in the PRC is still going through restructure and recovery. The unsolved overcapacity issue, coupled with the intensifying market competition attributable to the declining demand, led to higher sector exposures and caused numerous construction machinery enterprises suffering from losses.

Starting from the second half of 2016, driven by the construction of infrastructures such as railways, highways and hydraulic engineering and amid the increase in the prices of bulk raw materials and non-ferrous metals such as coal and iron ore, the construction machinery industry in the PRC, after experiencing a five-year's continuous and significant decline, began to pick up from the bottom and became stabilized, which represents a slow recovery in industry. Riding on the unique opportunity, China Lonking was able to record a positive year-on-year increase for the sixth consecutive month in the second half by gaining market shares, controlling risks, strengthening management and promoting quality, thus achieving our annual growth target for 2016 in the end. Therefore, All the key performance indicators and the development quality of China Lonking obviously outstripped other players in industry, which was demonstrated by the followings:

I. In 2016, the sales revenue witnessed a full-year positive growth of 6.57% through our sustained efforts as compared with the negative growth of 11.19% in the first half of the year, while the domestic business experienced a growth of more than 10%, all of which has realized the targets set by the Board at the beginning of 2016. Among them, the sales revenue generated from loaders above 3 tons increased by 3.4% and the sales volume of loaders below 3 tons inceased by 124.4%, enabling Lonking to keep its top position in respect of market share in domestic market of loaders. The sales volume of fork lifts increased by 38.6%, which has continued to narrow down its gap with the top two sellers. The sale volume of excavators recorded an year-on-year increase of 24.2%, the sale volume of road rollers increased by 20.2% and the sales revenue generated from components increased by 9.58% year-on-year. In terms of overseas business, sales generated from export decreased by 36% under the influence of the overall decline in demand and the enhanced risks control level of holding company.

II. The profitability of Lonking outperformed the industry. In 2016, Lonking, by maximizing its advantages of vertical integration, recorded a net profit of RMB462 million with its gross profit margin increasing from 22.75% to 24.22%, which further demonstrated Lonking's market competitiveness.

Chairman's Statement

III. The cash flow and risk control level was significantly higher over the industry. In 2016, the net operating cash flow of the Company was strong, heating a historically high level of RMB1.96 billion, which also marked the sixth consecutive year of record high exceeding RMB1 billion. The trade receivables was at record low level in recent years. As of the end of the year, the gearing ratio of the Company was 40%, representing its historically low level. Currently, Lonking is a recognised company in the industry that has the healthiest operation. Since the market slowdown and industry adjustment of years, in particular the sign of recovery emerged in the second half of 2016, we foresee the market demand for construction machinery will continue to pick up in 2017. It will be greatly beneficial to Lonking with sound development foundation that has experienced long-term and effective adjustments and is well prepared to embrace every chance. By seizing the opportunities arising from promising industry, we strive to achieve better development.

In 2017, the Board proposed to meet the growth target of sales revenue exceeding 20% under effective risk control measures by promoting both the domestic and overseas markets. In order to maintain business growth, we will strive to: 1. capitalize on the competitive edge of our systems and mechanisms and unleash the potential from the vibrant market, peak seasons of sales and annual sales to grab and increase the market share as far as possible; 2. centre on the"really and flexibly" management requirement by basing on sustained inspection efforts of "really" and focusing on "flexibly", so as to provide more flexibility for our businesses; 3. attach more importance to the quality of products to further enhance the price performance ratio; 4. Identify the relative weaknesses of our loaders, forklifts, excavators, pavement machinery products, components and other international business segments and fill the gaps by sharpening our strengths and carrying out reform to our weaknesses; 5. give full play to the initive of all the member staff to strengthen team building and promote enterprise culture construction through efforts on implementation of policies; 6. further intensify our efforts on safety and environmental protection to ensure on occurrence of serious safety accidents and no breach of laws and regulations on environmental protection.

As the Chairman, I firmly believe that Lonking, upon intensive adjustment, will be the outstanding company which most outperforms in future development and achieve the most stable and positive results in the future. Also, Lonking will manage to stand out and make its breakthrough once again along with the industry development in the future.

Since its listing, China Lonking has strived to maintain transparency and improve standards of corporate governance. We have maintained good communication with our investors. We are willing and hope to keep a closer tie with more investors, and strengthen interaction with them to promote sound development of the Company.

Chairman's Statement

We are honored to have a professional Board, an experienced and diligent management team, and industrious and intelligent employees. I wish to take this opportunity to express my sincere gratitude to all directors and employees for their assiduous efforts. We will make utmost efforts to attain sustainable growth and enhance our profitability and exert all our efforts to create the greatest value for our customers and bring the best returns to our shareholders.

Lonking Holdings Limited
Li San Yim
Chairman of the Board

28 March 2017

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

In the past year, with the slowdown of world economy and trade growth, the obvious domestic structural problems and increasing pressure of economic downturn, construction machinery industry was also caught in the difficult situation. In the face of such unfavorable factors as weak demand for construction machinery and competitive market, etc., the Company upheld cohesive spirit and integrity, adhered to risk control, strengthened product awareness and sense of service, took good opportunities to expand the market share as market began to recovery in the second half of the year and National III Emission Standard was put into use since the second quarter. During the reporting period, the Company achieved total revenue of RMB5,146 million, with an increase of RMB317 million from RMB4,829 million in the same period in 2015, representing a year-on-year growth of 6.57%. During the reporting period, the consolidated gross profit margin of the Group increased from 22.75% to 24.22%, with a stable increase of 1.47%. This was mainly due to the product settlement price adjustment according to the National III Emission Standard, the Group's overall procurement bargaining power, the increased contribution of fork lifts, the continuous integration of procurement and transportation resources, the Group's vertical integrative advantages and the strengthened internal management, etc. The Group achieved net profit of approximately RMB462 million in 2016, representing a year-on-year increase of 296.06%. The change in net profit was mainly due to the increase in gross profit brought about by the increase in sales and the decrease in sales cost, the increase in foreign exchange earnings, and the reduction in expenses such as financial expenses.

During the year, the northern regions of the PRC remained as the Company's principal marketing regions. Revenue from northern regions amounted to approximately RMB989 million, representing 19% of our total turnover. Revenue from eastern regions of the PRC was approximately RMB768 million, accounting for approximately 15% of our total turnover, representing a significant increase of 22% over the year 2015. There is no significant change in the turnover of other PRC regions and as a percentage of the Group's total turnover is almost the same with last year. In respect of our overseas market, during the year, the Group's sales revenue recorded an obvious decrease of 36% to approximately RMB434 million (2015: approximately RMB677 million). As affected by the macro economic policy, our export business still maintained complex and austere.

Management Discussion and Analysis

ANALYSIS OF PRODUCTS

All the sales of Lonking's major products recorded an increase due to overall recovery of the market.

Wheel Loaders

The revenue generated from wheel loader accounted for approximately 51% of the Group's total turnover, representing a small increase from last year to approximately RMB2,615 million (2015: RMB2,557 million, representing approximately 53% of the Group's total turnover). After experiencing many years' adjustment, the revenue generated from wheel loader as a percentage of the total turnover has declined significantly. And contribution to total turnover from the Group's other products is also expected as such products become matured.

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB2,131 million, an increase of 4% over the year 2015. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB245 million, representing a decrease of 28% as compared with the previous year. ZL40 and ZL60 series accounted for a small proportion in the overall sales with turnover reaching RMB32 million and RMB41 million respectively, representing only approximately 1% and 1% respectively of the total turnover.

The turnover from mini wheel loader amounted to RMB167 million, a significant increase of 46% as compared with previous year. It is expected that demand for mini wheel loader will further increase.

Excavators

Demand for excavator increased 13% to approximately RMB586 million, as a result of a recovery of market demand for this series.

Fork Lifts and Road Rollers

Demand for fork lifts of the Group remains strong. During the year, the turnover of fork lifts increased 19% to approximately RMB1,220 million (2015: approximately RMB1,027 million), which became a kind of product with growth potential under the Group. The Group will constantly introduce different kinds of fork lifts products and improve their quality and after-sales service; as a result, forklift series products will certainly become a new growth point.

Management Discussion and Analysis

Sales of road rollers slid down continuously, decreased by 8% to approximately RMB73 million (2015: approximately RMB80 million) as compared to the same period of last year, which was mainly due to the continuous sluggish demand from the market for such kind of products.

Components

The sales generated from components amounted to approximately RMB573 million for the year ended 31 December 2016, an increase of 10% as compared with the corresponding period of last year (2015: RMB523 million), accounting for approximately 11% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease accounted for approximately 0.2% of the Group's total turnover in the year of 2016, representing a drop of 51% from last year to RMB9 million (2015: RMB20 million, represented approximately 0.4% of the Group's turnover). The drop was due to the fact that finance lease business was gradually reduced by the Group.

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2016, the Group had bank balance and cash of approximately RMB1,131 million (31 December 2015: approximately RMB1,146 million).

Compared with last year, cash and bank balances decreased by approximately RMB16 million, which is generated as a result of net cash inflow of around RMB1,960 million from operating activities, net cash inflow of RMB646 million from investing activities, the net cash outflow of RMB2,625 million from financing activities and an affect of foreign exchange rate changes of RMB2 million.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2016 was approximately RMB6,720 million, an increase of 1.4% from approximately RMB6,624 million as at 31 December 2015. The current ratio of the Group at 31 December 2016 was 3.04 (2015: 4.01).

The directors believed that the Group will be in a strong and healthy position and has sufficient resources in support of its working capital requirement and meet its foreseeable capital expenditure.

Management Discussion and Analysis

Capital Structure

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

As at 31 December 2016, the gross gearing ratio (defined as total liabilities over total assets) was approximately 40.04% (31 December 2015: 47.07%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB24 million (2015: approximately RMB80 million) in line with a series of strategic transformation and production transformation by the Group.

Capital Commitment

As at 31 December 2016, the Group had contracted but not included in the financial statements expenditures of approximately RMB12 million in respect of acquisition of property, plant and equipment (31 December 2015: approximately RMB20 million)

Inventories

Inventories as at 31 December 2016 was approximately RMB1,508 million, an increase of approximately RMB227 million from approximately RMB1,281 million as at 31 December 2015. The significant increase as at the end of the year was mainly attributable to increased stock resulting from the pick-up in sales since the fourth quarter of 2016 and the expected continuous improvement in sales at the beginning of 2017 of the Group.

Trade and Bills Receivables

As of 31 December 2016, trade and bills receivables decreased by 29.30% as compared with last year to approximately RMB1,365 million (as of 31 December 2015: trade and bills receivables of approximately RMB1,931 million). This was primarily due to the decrease in net receivables as a result of the substantial improvement in recoverability, the sharp drop in turnover days for the year and the gradual increment in bad debt provision year by year of trade receivables for previous years.

Management Discussion and Analysis

Other Current Assets

Other current assets decreased to approximately RMB211 million from approximately RMB830 million for last year, mainly attributable to the fact that our principal-guaranteed and fixed-income financial products purchased in 2015 have become matured while the similar financial products newly purchased during the year were less than that of the previous year.

Trade and Bills Payables

As of 31 December 2016, trade and bills payables drastically increased by 129.23% as compared with last year to approximately RMB1,526 million (as of 31 December 2015: trade and bills payables of approximately RMB684 million). This was mainly attributable to the increase in procurement and stock resulting from the pick-up in sales since the fourth quarter of 2016 and the expected continuous improvement in sales at the beginning of 2017 of the Group. Meanwhile, more bills payables were issued by the Group to secure sufficient cash flows.

Other Profits and Losses

During the year, other profits and losses was approximately RMB35 million, a significant increase of approximately RMB203 million as compared with the corresponding period of last year. This is mainly attributable to the facts that the foreign exchange gain increased by significantly since RMB weakened against HK$ and US$ by 7% during the year and a lot of foreign exchange gain arose from the sharp increase of RMB-denominated borrowings within the Group; at the same time, there was a decrease in bad debt provision as compared with that of last year due to the sustained improvement in recoverability of trade receivables by strict control of risks amid the overall improvement in economy during the year.

Administrative Expenses

During the year, the administrative expenses decreased by approximately RMB28 million as compared with the corresponding period of last year, mainly due to the fact that the Company cut down its expenditure in salary and benefits expenses.

Financial Costs

During the year, the financial costs sharply decreased by approximately RMB38 million as compared with the corresponding period of last year, mainly due to the sharp decline in interest on borrowings as compared with that of last year resulting from the substantial decrease in borrowings during the year.

Management Discussion and Analysis

PROSPECT

In 2017, China's supply side reform will enter into a critical period, the national economy will be stable and trending good, and construction machinery will also usher in a stable stage of development. The Company will seize the opportunity, take advantage of it, and continue to concentrate on construction machinery industry to develop four host products (loaders, fork lifts, excavators, road rollers) and core components stronger and excellent. We will consolidate corporate management basis, improve the corporate governance mechanism, intensively and comprehensively enhance the management level of the Company, do a good job in process tracking and product after-sales service, increase R & D investment, continue to enhance our own technology R & D capabilities, enhance product reliability, pay attention to product quality, and improve product brand influence and attention. In addition, we will continue to explore and develop the market, improve channel management capabilities, with focus on enhancing market share, integrate marketing channels, establish smooth information channels, use flexible marketing strategy, and occupy and deeply cultivate the excavators market in the city, to increase the market share of our products. While exploring and developing domestic market, we will also optimize our export product structure, improve the construction of overseas marketing network, and expand the proportion of exports. We will continuously consolidate and optimize our dominating terrain features, and continue to consolidate the industry leader status of our main core products. In fork lifts market, we will optimize the allocation of procurement and transportation resources, strengthen cost control and expense management, improve decision-making efficiency and level, continue to practice Lonking's robust business style, and establish a sound risk control and management mechanism, to ensure the healthy development of the Company and dealers "really and flexibly". We will promote Lonking's big family culture, create a good family atmosphere, improve staff stability and satisfaction, be highly concerned about the survival and development of partners, and achieve real win-win, to ensure the healthier and longer-term development of the Company. At last, we will stay true to our initial determination, seize the opportunity, and strive to create a new situation in the development of Lonking undertaking.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 66, is the Chairman of the Board and one of the founders of the Group. He has extensive experience in corporate management and is responsible for formulating the Group's management philosophy and business strategies. Mr. Li was appointed as a deputy of the 11th National People's Congress, member of the Executive Committee of the All-China Federation of Industry and Commerce (中華全國工商業聯合會執行委員), vice-chairman of the Fujian Province Federation of Industry and Commerce (福建省工商業聯合會副會長). Mr. Li has also been accredited as one of the "Outstanding Enterprise Founders under Chinese Socialism" (優秀中國特色社會主義事業建設者) and a National Labour Model (全國勞動模範). Mr. Li holds an EMBA at Fudan University in Shanghai.

Mr. Li is the husband of Ms. Ngai Ngan Ying, being a non-executive director. Save as disclosed above, Mr. Li has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Mr. Li's interest in the shares within the meaning of Part XV of the Securities and futures Ordinances (Cap 571) (the "SFO") is set out on pages 21 to 22 of this annual report.

Mr. Chen Chao, aged 42, is an executive Director and currently the vice-president of the Group. Mr. Chen joined the Group in July 1997, in charge of supply chain management. Mr. Chen holds an EMBA degree from Fudan University in Shanghai. Mr. Chen has over twelve years of experience in product development and quality control, and has previously served as a deputy chief of the product development department at Shanghai Longgong Machinery, manager of the research and development centre and deputy general manager of Shanghai Longgong Machinery. Mr. Chen was appointed as a member of the 5th Standing Council by the Machinery Design Society of the Chinese Mechanical Engineering Society. In addition, he has also been appointed as a qualified technology and quality expert (技術質量專家) by the Technology and Quality Standing Committee (技術質量委員會) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

Save as disclosed above, Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr. Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chen's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Luo Jianru, aged 70, is a Vice-President of the Group. Mr. Luo joined the Group in September 1998. Mr. Luo received a "second class" Jiangxi Province Science and Technology Award (江西省科學技術進步二等獎) in 1986 and a "third class" award from China Aviation Industry Company (中國航空工業總公司三等獎) in 1997 in recognition of his contribution to the development of science and technology. He is the deputy chairman of the executive committee of the Association of Industry and Commerce of Songjiang District, Shanghai (上海市松江區工商業聯合會副會長) and a member of the People's Political Consultative Conference of Songjiang District, Shanghai (上海市松江區政協委員). Mr. Luo is a graduate of Hefei University of Technology (合肥工業大學) and has over 25 years of experience in corporate management and the infrastructure machinery industry. Mr. Luo has held various senior positions including the deputy general manager of Fujian Longyan Construction Machinery (Group) Limited, general manager of Longgong (Shanghai) Axle & Transmission Co., Limited and deputy general manager of the Group.

Profiles of Directors and Senior Management

Save as disclosed above, Mr. Luo has not held directorships in any other listed public companies in the last three years. Mr. Luo is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Luo's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Zheng Ke Wen, aged 42, join the Group in September 1996. He was named as the "Outstanding Entrepreneur of Fujian Province" (福建省優秀企業家) in 2007-2008 and "Technical Innovation Expert" (技術創新能手) of Shanghai, and awarded a "second class" Fujian Province Science and Technology Award (福建省科學技術進步二等獎) and "Collective Representative of Model Worker of Shanghai" (上海市勞模集體代表). He was the committee member of third Youth Federation of Song Jiang District of Shanghai (上海市松江區第三屆青年聯合會委員). Mr. Zheng obtained an EMBA degree from Xiamen University. Mr. Zheng has over 17 years of experience in corporate management and sales and marketing. He has been the director of the chief control room, vice general manager and general manager of Longgong Shanghai Machinery Co. Ltd., general manager of Longgong (Shanghai) Axle & Transmission Co., Ltd., general manager of Longgong (Shanghai) Excavator Manufacturing Co. Ltd., and general manager of excavator business segment of Lonking. He is currently the vice President as well as the general manager of excavator business segment of the Company.

Save as disclosed above, Mr. Zheng has not held directorships in any other listed public companies in the last three years. Mr. Zheng is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Zheng's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Yin Kun Lun, aged 49 is an executive Director and the chief financial officer of the Group. Mr. Yin obtained a Bachelor's degree from Jilin University Management School in 1990 and graduated from Washington University-Fudan University EMBA Program and obtained a MBA degree from Washington University in 2010, and is a qualified Certified Public Accountant in the PRC. He was the auditing director of a factory under China Petroleum Jilin Chemical Group, the chief financial officer of BASF JCIC NPG Company Ltd and Putzmeister Machinery (Shanghai) Company Ltd. as well as the chief financial officer of Mahle Technology (China) Holding Ltd. Mr. Yin has over 25 years of experiences in corporate finance and investment management.

Save as disclosed above, Mr. Yin has not held directorships in any other listed public companies in the last three years. Mr. Yin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Yin does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 61, is the Vice-Chairman of the Group and was appointed as a non-executive director of the Group in May 2004. Ms. Ngai is also one of the founders of the Group. Ms. Ngai is a standing committee member of the People's Political Consultative Conference of Xinluo District, Fujian Province (龍岩市新羅區政協常務委員). Ms. Ngai is the wife of Mr. Li San Yim, being a director.

Save as disclosed above, Ms. Ngai has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Ms. Ngai's interest in the shares within the meaning of Part XV of the SFO is set out on pages 21 to 22 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 65, was appointed as an independent non-executive director in February 2005. Dr. Qian serves as a vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. and a director of Shanghai Industrial Urban Development Group Co. Ltd. He graduated from Fudan University with a doctorate degree in management and has taught at Fudan University as associate director and professor in the faculty of Accountancy. Dr. Qian was an executive director of Shanghai Industrial Holdings Limited (stock code: 363). Mr. Qian also serves as a vice-chairman of Haitong Securities Co., Ltd (海通證券股份有限公司), and an independent director of Zoomlion Heavy Industrial Science and Technology Co., Ltd, (中聯重科股份有限公司) which are listed on Shenzhen Stock Exchange and Hong Kong Stock Exchange (stock code: 1157). He has over 26 years of experience in the finance and accounting fields.

Save as disclosed above, Dr. Qian has not held directorships in any other listed public companies in the last three years. Dr. Qian is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. Wu Jian Ming, aged 63, was appointed as an independent non-executive director of the Company in August 2013. He graduated from Central Party School of the Communist Party of China and is an economist. Mr. Wu has been a delegate of the 12th session of the People's Congress of Shanghai Municipality and was awarded the title of Model Worker of Shanghai. Over the past 30 years, Mr. Wu has held various positions in different divisions in Songjiang government in Shanghai, including the mayor of Cangqiao Town (倉橋鄉) in Songjiang County, the secretary of Chinese Communist Party Committee of Maogang Town (泖港鎮), the secretary of Chinese Communist Party Committee of Xinqiao Town (新橋鎮), the director of Construction and Transportation Management Committee in Songjiang District, the director of Administrative Committee of Songjiang Industry Park, a secretary and director of Administrative Committee of Export Processing Zone, and a chairman and general manager of Songjiang Economic and Technological Development Corporation (松江經濟技術發展總公司).

Saved as disclosed above, Mr. Wu has not held directorships in any other listed public companies in the last three years. Mr. Wu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Wu does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Chen Zhen, aged 42, was appointed as an independent non-executive director of the Company in October 2014. He graduated from the East China University of Political Science and Law in July 1997 with a Bachelor of Laws degree. He is a practising lawyer in China. Mr. Chen worked at Jin Mao P.R.C. Lawyers in Shanghai from 1997 to 1998 as assistant to lawyer and lawyer respectively. He has also worked at Llinks Law Offices since 1999 as lawyer and partner and is currently partner of Llinks Law Offices. He is a member of the Securities Business Research Committee of the Shanghai Bar Association. He currently also serves as an independent director of Asia Cuanon Technology (Shanghai) Co., Ltd., NibiruTech Co., Ltd. in Chengdu, and Shanghai Flyco Electrical Appliance Co., Ltd.

Save as disclosed above, Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr. Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chen does not have any interests in the shares of the Company within the meaning of the Part XV of the SFO.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The board of directors (the "Board") has reviewed results of the Group for the year ended 31 December 2016 and discussed the financial key performance indicators and outlook of the Group. Details of the review and analysis are set out in in the Management Discussion and Analysis on page 8 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of Profit or loss on page 55 of the annual report.

A final dividend of HKD0.017 (Equivalent to RMB0.015) per share as a result of the operation of 2015 amounting to HKD73 million (Equivalent to RMB61 million) was paid to the shareholders during the year. There were no any interim dividend paid out during the year.

The Board has proposed a final dividend of HKD0.062 per ordinary share for the year ended 31 December 2016.

PROPERTY, PLANT AND EQUIPMENT

The Group expended RMB24 million on property, plant and equipment during the year.

Details of the movement during the year in property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 150 of the annual report. This summary does not form part of the audited consolidated financial statements.

Directors' Report

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 59 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB4,360 million as at 31 December 2016 (2015: RMB4,642 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Li San Yim *(Chairman and Chief Executive Officer)*	(appointed on 11 May 2004)
Chen Chao	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Zheng Ke Wen	(appointed on 25 May 2012)
Yin Kunlun	(appointed on 25 May 2012)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)

Directors' Report

Independent non-executive directors:

Qian Shizheng	(appointed on 17 February 2005)
Wu Jian Ming	(appointed on 27 August 2013)
Chen Zhen	(appointed on 15 October 2014)

Pursuant to the Articles of Association, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. Each of Mr. Li San Yim, Mr. Chen Chao, Mr. Luo Jianru, Mr. Zheng Ke Wen, Mr. Yin Kun Lun, Ms. Ngai Ngan Ying, Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Chen Zhen shall retire at the annual general meeting and all offer themselves for re-election at the annual general meeting.

The biographical details of the directors are set out on pages 14 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Directors' Report

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Li San Yim and Ngai Ngan Ying *(Note 1)*	Held by controlled corporation *(Note 2)*	1,312,058,760	30.65%
Li San Yim and Ngai Ngan Ying *(Note 1)*	Beneficial owner	1,073,257,760	25.08%
Luo Jianru	Beneficial owner	1,202,000	0.03%
Chen Chao	Beneficial owner	1,200,000	0.03%
Zheng Ke Wen	Beneficial owner	429,900	0.01%
		2,388,148,420	55.80%

Note 1: Mr. Li San Yim and Ms. Ngai Ngan Ying are husband and wife to each other and are deemed to be interested in each other's interest.

Note 2: These shares were held through China Longgong Group Holdings Limited, a company that is wholly owned by Mr. Li San Yim and Ms. Ngai Ngan Ying as to 55% and 45% respectively, which is the registered shareholder of these 1,312,058,760 shares.

(2) Long positions in shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Company Limited

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Register share capital	Percentage of the issued share capital of the Company
Li San Yim	Corporate *(Note)*	480,000	0.11%
Ngai Ngan Ying	Corporate *(Note)*	480,000	0.11%

Note: The 0.11% interest of Longgong (Shanghai) Machinery Company Limited is held by Shanghai Longgong Machinery Limited, which is owned by Mr. Li and Mrs. Li as to 39.5% and 60.5% respectively.

Save as disclosed above as at 31 December 2016, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, no Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
China Longgong Group Holdings Limited *(Note 1)*	Beneficial owner	1,312,058,760	30.65%
GIC Private Limited	Investment Manager	300,905,916	7.03%

Note 1: Mr. Li and Mrs. Li own 55% and 45%, respectively, of the issued shares in the share capital of China Longgong Group Holdings Limited.

Saved as disclosed above, as at 31 December 2016, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities during the period.

Directors' Report

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The five highest paid employees of the Group were all directors of the Company and details of their remuneration are included in note 8 to the consolidated financial statements.

At 31 December 2016, the Group employed approximately 5,027 employees.

ENVIRONMENTAL POLICY

We are committed to protect and improve the environment, prevent and reduce pollution. We operate in strict compliance with applicable national and local environmental regulations and strive to minimize the noise, waste water, gases and other industrial waste generated during our production processes. We require our production facilities to obtain necessary permission and approvals from the relevant government environmental regulator.

We are also continuously improving our existing products and developing new products in terms of environmental performance such as energy-efficient and noise-reduced features.

Details of the environmental performances of the Group are set out on page 40 to 42 of environmental, social and governance report in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 13% (2015: 12%) of the Group's total turnover for the year and the largest customer accounted for approximately 3% (2015: 4%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 45% (2015: 31%) of the Group's total purchases for the year and the largest supplier accounted for approximately 17% (2015: 10%) of the total purchases.

Save as disclosed above, none of the directors of the Company, an associate of the directors or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have interest in any of the Group's five largest suppliers or customers.

RELATIONSHIPS WITH STAKEHOLDERS

The Company's key stakeholders are shareholders, suppliers, customers, employees and financial institutions. We are committed to maintain a good relationship with our business partners including suppliers, customers and financial institutions through good communication, exchanging ideas and sharing business update when appropriate. We are also committed to provide competitive remuneration package to attract and motive our employees.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 1 to the consolidated financial statements.

CONNECTED TRANSACTIONS

On 31 December 2013, the Company entered into a Renewed Master Purchase Agreement (the "Renewed Jinlong Master Purchase Agreement") with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group agreed to purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2014 and ending on 31 December 2016.

On 29 June 2016, the Company and Shanghai Refined Machinery Co. Ltd. ("Refined"), a company established under the laws of the PRC with limited liability and wholly-owned by Refined Holdings Limited, which is in turn wholly owned by Mr. Li Bin, the son of Mr. Li San Yim, an executive Director, chairman and controlling shareholder of the Company, entered into the Master Purchase Agreement (the" Refined Master Purchase Agreement"), pursuant to which the Company agreed to purchase or procure its subsidiaries to purchase the Products from Shanghai Refined Machinery and Shanghai Refined Machinery agreed to sell the Products to the Company or its subsidiaries for the period from 1 January 2016 to 31 December 2016;

On 29 June 2015, the Company and Herkules (Shanghai) Automation Equipment Co. Ltd. ("Herkules"), a company established under the laws of the PRC with limited liability and wholly-owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive Director, chairman and controlling shareholder of the Company, entered into a Renewed Master Purchase Agreement (the "Renewed Herkules Master Purchase Agreement"), pursuant to which, the Company agreed to purchase or would procure its subsidiaries to purchase the Automation Robot Products from Herkules from time to time for a term commencing from 1 January 2015 and ending on 31 December 2017.

Directors' Report

The transaction contemplated under each of the Renewed Jinlong Master Purchase Agreement, the Refined Master Purchase Agreement, the Renewed Herkules Master Purchase Agreement, constitutes connected transactions for the Company under Rule 14A.76(2) of the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the related amount is less than 5% on an annual basis. For the year ended 2016, the Company purchased the parts approximately RMB14 million from Jinlong under the Renewed Jinlong Master Purchase Agreement, the Automation Robot Products approximately RMB4 million under the Renewed Herkules Master Purchase Agreement; the Company purchased the Products approximately RMB6 million under the Refined Master Purchase Agreement.

Details of the related party transactions of the Company during the year are set out in Note 38 to the consolidated financial statements. All the related party transactions disclosed in the annual financial statements in accordance with HKAS 24 "Related Party Disclosure" fall under the definition of connected transactions or continuing connected transactions in Chapter 14A of the Main Board Rules. In the opinion of the directors, the Company had during the year ended 31 December 2016 complied with all the disclosure requirements in accordance with Chapter 14A of the Main Board Rules. The independent non-executive directors confirm that the Transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Company has engaged its external auditor to review the Group's continuing connected transactions with Jinlong, Herkules, Refined in accordance with Hong Kong Standard on Assurance Engagements 3000(Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The board of directors confirm that the auditor has issued an unqualified letter containing its conclusions in respect of the non-exempted continuing connected transactions mentioned above pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no major acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2016.

POST BALANCE SHEET EVENTS

The company did not have any significant post balance sheet events.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

COMPLIANCE WITH LAWS AND REGULATIONS

There was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospect may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. Major risks are summarized below.

(i) Market Risk

After more than a decade of high speed development, construction machinery industry has stepped into a relatively stable period and the overall demand across the infrastructure machinery market remain sluggish. As result, market demand for our products including wheel loaders, road rollers, excavators, forklifts and other infrastructure machinery may continues decline. Our financial condition, results of operations and prospects will be adversely affected if we cannot guarantee that the demand for our products will continue or increase in the future.

In addition, the construction machinery industry in which the Group operates is highly competitive. We face competition in the market from international and domestic construction machinery manufacturers, many of which entered the market before us and currently have larger market shares than us. The demand in the market for your products may decline if we do not respond timely to our competitors.

(ii) Financial Risk

We are subject to financial risks which may adversely affect our business, financial condition and results of operations. Details of which are set out in Note 42 to the consolidated financial statements.

Directors' Report

(iii) Operational Risk

We reply on a limited number of suppliers for certain raw materials and key parts and components. There can be no assurance that these suppliers will continue to supply raw materials and components to us on existing or similar terms, or at all. If the supply of any of our core raw materials, parts and components is interrupted or the terms of supply change, our financial condition and results of operation may be adversely affected.

We also depend on sales agents to sell our products because we sell substantially all of our products through sales agents, which comprise our direct customer base. If we fail to maintain relationship with our existing sales agents, attract additional sales or effectively manage our sales agents, our business will be adversely affected. Further, we intend to expand our sales and service network in China and overseas to expand our geographical coverage and increase our domestic and international market penetration. If we cannot be able to successfully expand our sales, service and distribution network, our business will be adversely affected.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2016.

AUDITORS

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

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 28 March 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis. To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations. The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance duties as follows:

(a) To develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

(b) To review and monitor the training and continuous professional development of directors and senior management;

(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES (THE "CODE")

The Board is committed to maintaining and ensuring high standards of corporate governance practices.

The Board emphasizes on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company has adopted and complied with the principles and applicable code provisions of Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarized as below.

Corporate Governance Report

Code Provision A.1.8

As stipulated in the Code provision A.1.8 of CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has not yet made this insurance arrangement as the board of directors considers that the director liability insurance has not yet been identified on the market with reasonable insurance premium while providing adequate suitable security to directors.

Code Provision A.6.7

As stipulated in the Code Provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Four independent non-executive directors were unable to attend annual general meeting of the Company held on 26 May 2016 (the "2016 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shizheng ("Mr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the Annual General Meeting. At the Annual General Meeting of the Company held on 26 May 2016, a separate resolution to re-elect Mr. Qian, a retiring Director, as an independent non-executive Director was passed by the Shareholders by way of poll.

Code Provision A.2.1

As stipulated in the Code Provision A.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Li San Yim ("Mr. Li"), an executive director of the Company and the chairman of the Board has been appointed by the Board to act as the chief executive officer concurrently with effect from 21 December 2015. As Mr. Li serves as both the chairman of the Board and the chief executive officer of the Group, such practice deviates from code provision A.2.1 of the CG Code. The Board is of the view that it is appropriate and in the best interests of the Company for Mr. Li to hold both positions as it helps to maintain the continuity of the policies and the stability of the operations of the Company. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

Corporate Governance Report

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2016. The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing their duties. Under the Board, there are currently 4 board committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

BOARD OF DIRECTORS

The Board currently comprises 9 directors, including 5 executive directors, 1 non-executive directors and 3 independent non-executive directors. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the shareholders.

Pursuant to Rules 3.10 (1) and (2) of the Listing Rules, Dr. Qian Shizheng, one of the independent non-executive directors, has specialized in related financial management expertise.

A written confirmation was received from each of the independent non-executive directors, Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Chen Zhen confirming their independence pursuant to Rule 3.13 of the Listing Rules.

All members of the Board are of relevant professional background with plenty of experience who can have a positive and motivational effect in raising the development and management level of the Company. Mr. Li San Yim ("Mr. Li") serves as both the Chairman of the Board and the chief executive officer. The chairman of the Board is mainly responsible for the leadership and effective running of the Board, and making key strategic decisions for the Company. The chief executive officer is mainly responsible for the daily operation and management of the Group's business, and implementation of the approved strategies in achieving the overall Company's objectives. Mr. Li holds both positions for the best interests of the Company to maintain the Continuity of the policies and the stability of the operations of the Company.

Corporate Governance Report

Included in the composition of the Board are two family members: the chairman of the Board, Mr. Li San Yim and his wife Ms. Ngai Ngan Ying, one of the non-executive directors of the Company are subject to retirement by rotation and offer themselves for re-election in the same manner as the executive directors. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

For detailed information on the members of the directors and senior management, please refer to the section headed "Profiles of Directors and Senior Management" from pages 14 to 17 of this annual report.

For the year ended 31 December 2016, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2016:

	Number of meetings attended/Number of Meetings held for the year ended 31 December 2016					
Name of directors	**Board**	**Executive Committee**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors						
Mr. Li San Yim *(Chairman and Chief Executive Officer)*	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Luo Jianru	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Chen Chao	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Zheng Ke Wen	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Yin Kun Lun	4/4	2/2	N/A	N/A	N/A	1/1
Non-Executive Director						
Ms. Ngai Ngan Ying	4/4	N/A	2/2	1/1	1/1	1/1
Independent Non-Executive Directors						
Dr. Qian Shizheng	4/4	N/A	2/2	1/1	N/A	0/1
Mr. Wu Jian Ming	4/4	N/A	N/A	N/A	N/A	0/1
Mr. Chen Zhen	4/4	N/A	2/2	N/A	1/1	0/1

N/A Not Applicable

BOARD COMMITTEES

As part of good corporate governance practice, the Board has delegated certain authorities to a number of committees. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a listed company.

EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit, remuneration committees and nomination committee in respect of their policy submissions. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector and assess the independence of the Company's independent non-executive directors.

The Committee currently consists of 5 executive directors, namely Mr. Li San Yim, Mr. Chen Chao, Mr. Luo Jianru, Mr. Zheng Ke Wen and Mr. Yin Kun Lun. Mr. Li San Yim is elected as the chairman.

Under the executive committee, the Company set up a strategy and governance committee and adopted the company code, being its own code on corporate governance. The principal role of the strategy and governance committee are lay down the Company's strategies, policies and business plan and set up appropriate policies to manage risks in pursuit of the Company's strategy objective.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non executive directors, namely Dr. Qian Shizheng and Mr. Chen Zhen. Dr. Qian Shizheng was elected as chairman.

The primary duties and responsibilities of the audit committee is to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters and those required by the Listing Rules of the Stock Exchange of Hong Kong Limited and other regulatory bodies.

The functions of audit committee include but not limited to the following:

Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;

Review the Company's risk management and internal control systems and discuss the systems with the management to ensure the management has performed its duty to have effective systems.

Consider major investigation findings on risk management and internal control matters and management's response to these findings.

Review and assess audit efforts of the Company's independent auditors; directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;

Review the qualifications, independence and performance of the independent auditor; and

Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

The audit committee has reviewed the Company's interim and final results for the year of 2016.

The terms of reference of the Audit Committee are posted on the Company's Website.

AUDITOR'S REMUNERATION

For the year ended 31 December 2016, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB2.55 million (2015: approximately RMB3.00 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Dr. Qian Shizheng. The primary duties and responsibilities of the remuneration committee is to assist its board of directors (the "Board") in determining the policy and structure for the remuneration of its executive directors, evaluating the performance of its executive directors, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for all its directors and senior management. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2016. The terms of reference of the Remuneration Committee are posted on the Company's Website.

NOMINATION COMMITTEE

The nomination committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Mr. Chen Zhen. The primary duties and responsibilities of the nomination committee is to assist its board of directors (the "Board") in identification of suitable individuals qualified to become Board members, review the structure, size and composition of the Board, review as appropriate to ensure the effectiveness of the board diversity policy and monitor of the implementation of this policy and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The terms of reference of the Nomination Committee are posted on the Company's Website.

BOARD DIVERSITY POLICY

During the year, the Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience,independence, expertise, skills and know-how.

Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The nomination committee of the Board (the "Nomination Committee") has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to this policy in selection of board candidates.

Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, independence, expertise, skills and know-how.

The Nomination Committee will review, as appropriate, to ensure the effectiveness of the Board Diversity Policy and monitor the implementation of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises 9 Directors, including 1 non-executive directors and 3 independent non-executive directors. Among which, one of them is a woman who is non-executive Director, two of them specialize in accounting or related financial management expertise, one of them is from legal background, three of them had experiences other than infrastructure machinery manufacturing, or from different industry and background. The Directors are of diverse background and possess a wide spectrum of professional qualifications and industry experience. The Board is of significant diversity, whether considered in terms of gender, industry experience, background and skills.

INTERNAL CONTROLS AND RISK MANAGEMENT

It is the Board's responsibility for developing and maintaining an effective risk management and internal control system of the Group and reviewing their effectiveness on an ongoing basis. The Group's risk management and internal control systems are designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

Corporate Governance Report

The Board, through the Audit Committee oversee management in the design, implementation and monitoring of the risk management and internal control systems. The risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify, evaluate and manage the significant risks to achieve its business objectives. The Company has established policies and procedures to all operating units to ensure the effectiveness of risk management and internal control systems. The senior management also reviews and evaluates the control process, monitor any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks.

The Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control system, including financial, operational, compliance controls and risk management functions for the year ended 31 December 2016. The board is of the opinion that the Group's risk management and internal control system are adequate and effective.

The procedures on disclosure of inside information were in place under the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission, to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

The Company continually reviews and enhances its business and operational activities to identify areas of significant business risks and take necessary measures to control and mitigate these risks.

Internal Audit

The internal audit department is responsible for performing review of the adequacy and effectiveness of the risk management and internal control systems. It reports major risk management and internal review findings to the Board and Audit Committee. The department is monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

Strengthening Systems of Internal Controls

The Company fully adopts a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner. For a more scientific and effective human resources management, the Company carries out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

Key internal controls of the Company include

- Establishment of policies, rules, procedures and approval limits for key financial and personnel matters, and the rules to the delegation of authorities;
- Internal documentation of key processes and procedures;
- Maintenance of proper accounting records;
- Safeguarding the Company's assets;
- Ensuring reliability of financial information;
- Ensuring compliance with appropriate legislation and regulations; and
- Having qualified and experienced persons take charge of important functions.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2016, all directors have participated in continuous professional development by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participated in business-related research which are relevant to the business or directors duties.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company believes that it is crucial to maintain effective communication with investors to enhance their knowledge and understanding of the Company. In this regard, the Company attaches high importance to implement positive policies that facilitate investor relations and communication. The Company seeks to enhance the transparency and consolidate the knowledge and understanding of the investors towards the Company effectively through various means such as open, fair and impartial information disclosure to investors.

Corporate Governance Report

The Company received communications from a total of 130 domestic and overseas investors throughout the year 2016, including over 20 on-site meetings and over 50 telephone meetings. In 2016, the Company received group visits with 10 to 20 members for 3 times.

Shareholder's Rights

The Board recognises the importance of effective communication with the shareholders. The Company communicates with the shareholders through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department of the Company. Investor Relations Department of the Company handles both telephone and written enquiries from Shareholders from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the Shareholders' questions. The contact details of the Investor Relations Department are set out in the Corporate Information section of this Annual Report.

Pursuant to Article 58 of the Articles of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Corporate Governance Report

Pursuant to Article 88 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The procedures for Shareholders to propose a person for election as a Director is posted on the Company's website.

Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

During the year ended 31 December 2016, there has been no significant change in the Company's constitutional documents.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development.

In the future, we will continue to support and participate in diversified social and community activities. To promote the relationship between the Company and investors and to enhance the transparency of the operation of the enterprise, the Company will communicate information regarding the Company's business development through various channels when appropriate.

Environmental, Social and Governance Report

I. Environment

The Company has established the ISO14001 Environmental Management System and obtained the environmental management system certification issued by Vouching Technical Inspection Ltd. (華信技術檢驗有限公司) in Beijing, which maintains assurance that the environmental management system operates effectively. By following various environmental laws, regulations, policies and standards of national construction projects such as "three simultaneities", "prevention and control of environmental pollution" and "management and control of greenhouse gases" throughout the organization, the Company adheres to its environmental approach of "fulfilling social responsibilities with clean production; developing a green enterprise through continuous improvement". With environmental management and control incorporated into its general work guideline of the year and proactive promotion of "clean production" and "pollution control", the Company is committed to be a socially responsible, resource-saving and eco-friendly enterprise.

Reduced Emissions of Pollutants

The Company promotes the use of advanced technique and equipment with a high utilisation rate of resources and low pollutant discharge. Through taking control at source, improving pollutant treatment efficiency and reducing pollutant emission, it also ensures the effective operation of environmental management facilities.

The waste water discharged by the Company is mainly the one from metal surface treatment during production process and a small amount of domestic waste water. The Company has built 8 waste water treatment facilities, which apply techniques including acid-base neutralization, coagulating sedimentation and biochemical degradation to conduct treatment of production waste water. A small amount of domestic waste water undergoes biological treatments through septic tank. After conducting the treatments of production waste water and domestic waste water, the Company meets the "Wastewater Quality Standards for Discharge to Municipal Sewers" (CJ343-2010) with a 100% drainage pass rate. In accordance with the "Regulations on Administration of the Usage of Tap Water in Production Areas", the Company conducts strict quota management and control on water usage and achieves an 85% recycle rate of industrial water.

Environmental, Social and Governance Report

The exhaust gases discharged by the Company are mainly sulphur dioxide and nitrogen oxide emitted during energy combustion (such as steam boilers, heating furnaces, etc.) as well as process exhaust gas generated during metal surface treatment process. The boilers of the Company are energy-saving gas boilers. The emissions of pollutants (such as sulphur dioxide, nitrogen oxide, etc.) meet the "Emission Standard of Air Pollutants for Boilers" (GB 13271-2014) or "Emission Standard of Air Pollutants for Boilers" (DB31/387-2014). The treatment of process exhaust gas is conducted through facilities such as acid fog absorption towers, regenerative combustion and activated carbon absorbers. The emissions of treated pollutants meet the table 2 of the "Integrated Emission Standard for Air Pollutants" (GB16297-1996) or "Integrated Emission Standard for Air Pollutants" (DB31/993-2015). As of 31 December 2016, the Company emitted 13.346 tonnes of sulphur dioxide and 23.154 tonnes of nitrogen oxide in total.

The solid wastes discharged by the Company are mainly hazardous wastes and non-hazardous wastes. The harmful wastes include waste organic solution, waste mineral oil, waste cutting fluid, paint slag, surface treatment bath solution and sludge, waste acid, waste hazardous chemicals packaging barrels. As of 31 December 2016, the Company generated 1,509 tonnes of hazardous wastes in total. The Company follows the "resource utilisation, reduction, non-hazardous" principle of hazardous wastes treatment. It entrusts qualified units to dispose the wastes, and handles examination and approval formalities regarding the transfer plan of hazardous wastes as required, thereby fulfilling the requirements of regulations such as "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes", "National Catalogue of Hazardous Wastes", "Measures on Duplicated Form for Transfer of Hazardous Wastes" and "Standard for Pollution Control on Hazardous Waste Storage". Non-hazardous wastes mainly include waste steel, waste iron, waste paper, waste plank and industrial wastes. As of 31 December 2016, the Company generated 51,715 tonnes of non-hazardous wastes in total. Among which, 51,217 tonnes were recyclable wastes and 15,409 tonnes were wastes sent to foundry companies of the Group for recycle. Other recyclable wastes were recycled and utilised by relevant qualified resources reuse companies whereas qualified units (as recognised by the local government authorities) were entrusted to handle with the industrial wastes.

Environmental, Social and Governance Report

Use of Resources

Taking control at source, the Company applies advanced technique and eliminates heavily polluting and energy-consuming equipment. The Company is committed to be a resource-saving enterprise, which faithfully complies with the laws and regulations including the "Law of the People's Republic of China on Energy Conservation" as well as local regulations on energy conservation. As the Company places great importance on energy conservation and consumption reduction to enhance the utilisation rate of energy, it has adopted a 3-level measurement for energy management and quota management. Each of the cutting gas equipment for natural gas and propane used are installed with flow meters for measurement. The most reasonable cutting parameters are determined according to steel plate cutting experiments. All of the flame cutting categories are set up with fixed consumption quota. Energy-intensive equipment is installed with power meters for measurement. For high consumption equipment, electricity suspension is arranged in trough hours. Waste heat from boilers is recycled for use. After implementing the aforesaid measures, the Company has recorded a notable decrease in energy consumption.

The Company consistently adopts the concept of water conservation. By developing the water management system, installing water meters for measurement, implementing fixed water usage and improving recycle rate of industrial water, the Company has recorded a notable decrease in product water consumption.

Environment and Natural Resources

In 2016, the Company invested more than $40 million to conduct technical renovation on its existing pollution control facilities. With the adoption of international and domestic advanced pollution control technique, the pollution control level has been comprehensively improved. Each type of pollutant emissions is above the national/local standards.

As required by the relevant regulations, the Company has established a responsibility system for environmental protection, set up an environmental protection management leading group and prepared emergency plans for environmental incident, so as to prevent any calamity beforehand.

Environmental, Social and Governance Report

II. Society

Employee Rights

Employees are one of the most important resources of the Company and its core for development, growth and value creation. Lonking fully respects the legal rights of its employees and always upholds the talent perspective of "recruiting and cultivating talents, selecting the right people for the right jobs" ("聚才用賢、能崗匹配"), with an aim to create a fair, equitable and respectful workplace and ambience for all of its employees.

The Company strictly complies with the "Labour Contract Law of the People's Republic of China", "Labour Laws of Hong Kong" and other relevant laws and regulations. Besides, it has established the "Human Resources Management System", which systemically governs aspects such as remuneration packages, employments and promotions, re-designations and overseas deployment, resignation management, working hours, leave management, appointment qualifications, labour protection as well as prevention and protection from occupational hazards. The Company fights against any kind of career discrimination based on factors including genders, ages, disability, races and religions and ensures that employees can be offered fair employment or promotion opportunity and remuneration package based on their capabilities and profit contributions.

The Company provides diverse benefits and care to its employees. In addition to the contribution to social insurance and housing provident funds as required under the national provisions, the Company offers a variety of cash and benefit in kind to its employees such as holiday allowance, wedding gift, birth gift and high temperature allowance as well as caring benefits such as health check-ups, paid leave, free accommodation and significant family care. The Company also offers benefit in the form of "healthy life" themed corporate culture events, and reimbursement of travel expenses for employees who travel through provinces and cities to return home for the Chinese New Year. Meanwhile, female staffs are entitled to pregnancy examination leave and maternity leave during their pregnancy and parturition, and are arranged to the original unit and duties upon expiry of maternity leave in order to actively help employees reintegrate into the workplace.

Environmental, Social and Governance Report

As of 31 December 2016, the Company had a total of 5,028 employees, and most of which are aged 25 to 50. The below table sets forth the breakdown of the age of our employees.

	Age structure of employees			
Item	Below 25	25-40	40-50	50 above
Number of individuals	898	2,795	1,148	187
Proportion (%)	17.9	55.6	22.8	3.7

Health and Safety

The Company has always endeavored to safeguard employees' health and safety, strictly complied with the occupational health and safety regulations of Hong Kong and the mainland China, and constantly improved the occupational health and safety management system. In 2016, the Company passed the level 2 or 3 evaluation of national safety production standardization and obtained relevant certificates. The Company strives to provide a safe and healthy workplace to its employees so that they can focus on their work and enjoy a happy life. On top of the sound occupational health and safety management system, the Company is also committed to creating a high standard of safe and healthy workplace through taking various measures such as implementing stringent standards for hardware and equipment and labor protection as well as safe and hygienic operation procedures.

The Company adheres to the approach of "safety first, precaution crucial, comprehensive treatment". It specifically established the safety and environmental equipment department as the designated authority for safe production and environmental protection whereas each subsidiary set up the safety commission as the leading organization for safe production and developed various relevant normative systems to protect the safety and well-beings of employees. Moreover, the Company has formulated and issued the "Key Works of Safety Production" (《安全生產工作要點》), the "Notice on Strengthening Safety and Environmental Protection Works" (《關於加强安全環保工作通知》), the "Management System of Safe Production" (《安全生產管理制度》), the "Administrative Measures for Occupational Medical Examination" (《職業健康檢查管理辦法》) and the "Regulations on Safety and Occupational Health Training" (《安全、職業健康培訓規定》). Safety production responsibility system assessment is implemented at all levels from the general manager to grassroots employees so as to ensure the performance of responsibility and the full coverage of safe production procedures among all positions. Meanwhile, the Company sets up environmental inspection stations to conduct monthly inspections on hazard potential of occupational health and make immediate rectification for any non-compliance so identified. It also provides employees with qualified, complete and adequate labor protections and conducts supervision and inspection to ensure standardized use among all employees. Every year, the Company arranges occupational health examination for frontline staffs to prevent from occupational diseases. Lastly, the Company conducts internal and external review and certification on environmental, occupational health and safety management system annually to ensure that the safety and hygiene conditions of workplace are up to standards.

In order to strengthen safety drills, the Company developed safety emergency response plans for each base in accordance with GB/T29639: Guidelines for Enterprises to Develop Emergency Response Plan for Workplace Accidents (《生產經營單位生產安全事故應急預案編製導則》), and filed with the safety supervision department of the local government and conducts at least two large-scale exercises every year. The Company has complied with all safety laws and regulations that have significant impacts on the issuer and had no work deaths and accidents.

Development and Training

The Company takes initiatives in developing a sound environment and room for occupational development. It formulated comprehensive administrative measures on staff development, establishing transparent and clear career path for employees. Besides, the Company offers diverse and complete career-related training courses, facilitating the close linkage between the career development of employees and the business development of the Company as well as helping employees achieve career success step by step.

The Company had outstanding achievement in talent training and development. Its Shanghai branch was honored as the "training base of highly-skilled talents in Shanghai". The Company promotes employee training and development events through such training base to improve employees' expertise and skills, uplift their management skills, develop their problem-solving skills and inspire their potential, thereby maintaining its leading advantage in the overall benefits of labor efficiency and human resources and promoting the vibrant, harmonious and orderly development of the Company.

Labor Standards

The Company has strictly complied with the relevant laws and regulations such as the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》) and the "Provisions on the Prohibition of Using Child Labor" (《禁止使用童工規定》) to protect the legitimate rights and interests of minors. We prohibit minors from working in any workplaces. In order to eliminate the hiring of minors, during the open recruitments, candidates are required to present their identity cards and verify against the originals and only candidate who fulfills the recruitment conditions may proceed with the entry formalities. In 2016, Lonking did not violate the national and local laws or regulations on labor protection.

Environmental, Social and Governance Report

Supply Chain Management

The Company continuously improves and integrates its supply chain. It established and operated the high-efficiency "SRM logistics and procurement supply chain management system", which delivered greater improvement in procurement and production efficiency while playing a significant role in the management and control of the entire supply chain. The sound and comprehensive supply chain management system effectively promoted the business convergence of upstream and downstream partners and is of great significance in enhancing the efficiency of the entire supply chain. The outstanding results of the Company's supply chain management not only had favorable impact on the costs and quality of end products, but also mitigated the social and environmental impacts being faced by the Group.

The Company sources raw materials required for production directly from qualified suppliers, and whole-machine products produced and manufactured are sold to global markets through distributors. Attaching utmost importance to the supply chain, we proactively seek strategic partners to establish close relationship. Regarding product quality and environmental protection, suppliers are required to comply with the specified technical requirements and quality standards. In respect of products that are subject to environmental requirements, suppliers are required to produce relevant product certification and certificate for our review before entering into the factory.

The Company also conducts regular performance appraisal on various product suppliers annually through SRM management system and eliminates unqualified suppliers based on the results of the appraisal, guiding suppliers to improve product quality and management. With the implementation of the Group's "vertically integrated" strategy, the self-manufacturing ratio of whole-machine products reached 80% and the quality of critical and constraint products can be assured and enhanced. Further, the products possess more apparent cost advantage amidst market competition benefiting from the increase in self-manufacturing ratio.

Product Responsibility

Attaching utmost importance to product responsibility, Lonking has established the quality management system in strict compliance with the requirements of the ISO9001 Quality Management System, and developed relevant management systems as required by the national and industrial standards. These systems encompass the requirements on product quality standards, product safety, environmental protection, process control, ex-factory inspection and acceptance as well as after-sales service management.

Environmental, Social and Governance Report

As far as product quality control is concerned, the Company has implemented the user-based management model of "descend working procedure represents users" (下道工序就是用戶) in a bid to promote quality management and heighten the overall awareness of quality. Equally, the Company has introduced several internal quality control management systems, including "User-based System" (《用戶制》), "4M Management" (《4M管理》), "Management System of Work Guidelines" (《作業指導書管理制度》), "Monitoring and Management Methods of Technical Parameters" (《工藝參數監控管理方法》) and "Management System for Rational Proposals" (《合理化建議管理制度》). While lowering cost of quality, these systems effectively enhanced product quality to meet the needs of users. For all materials of external auxiliary products, the Company requires to execute technical agreements, quality assurance agreements and warranty service agreement, and introduced the "Product Quality Monitoring and Management System for Suppliers" (《供應商產品品質監督管理制度》). The quality of auxiliaries can thus be assured as the quality surveillance points moving forward to production lines of suppliers.

Regarding after-sales services and repairs and maintenance, the Company always adheres to the principle of "sales agency system" and incessantly strengthens its three major advantages of "quality, services and value-for-money". Among all sales agency units, the Company has introduced the "three-in-one" marketing services mechanism comprising of sales of whole machine, repair services and supply of auxiliaries. Further, the Company has delegated the after-sales services to qualified agents, thereby achieving quick response. An array of communication channels including telephone hotlines, e-mail and the complaint platform on WeChat are available, fundamentally guaranteeing the effectiveness of sales services channels.

In terms of customer satisfaction, the Company highly emphasizes customer satisfaction and values customer feedback as the impetus of Lonking's continual advancement and innovation.

Anti-corruption

The Company believes that preventing the occurrence of corruption, bribery, fraud and extortion is the social responsibility and liability it shall assume. Besides, the Company is dedicated to developing a clean and honest culture and system for all stakeholders inside and outside the Company, creating the value and practice idea of clean and honest.

Environmental, Social and Governance Report

The Company established the Committee of Discipline Inspection of the Chinese Communist Party (黨委紀律檢查委員會) and the Anti-Corruption Office (廉政辦公室) to carry out anti-corruption work independently and accept the report of and deal with multiple violations of laws and regulations. With relevant systems such as "Clean Administration of Lonking Holdings Limited" (《中國龍工控股有限公司廉政規定》), "Measures of Lonking Holdings Limited for the Treatment of Accepting Gifts" (《中國龍工控股有限公司收受禮品處置辦法》), "Whistle-Blowing Procedures"《舉報程序》and "Regulations of Lonking Holdings Limited on Eight Restrictions" (《中國龍工控股有限公司"八不准"規定》) in place, the Anti-Corruption Office, the internal audit department, financial department and risk management department of the Company are able to implement effective supervision on all kinds of economic activities, whereas all anti-corruption and integrity systems are executed in an efficacious manner, thereby promoting the development of anti-corrupt culture within the Company.

Major business dealings particularly with more centralized stakeholders including purchasing suppliers and sales agents are executed in strict compliance with various business policies and approval procedures. In order to follow the anti-corruption system of the Company, such stakeholders are required to execute the "Non-corruption Agreement". For those suppliers and sales agents who refuse to execute the "Non-corruption Agreement" and do not follow the non-corruption requirements of the Company, the Company shall terminate the business cooperation(s) with them. All courtesy gifts inevitably accepted in business dealings shall be under the unified treatment of the Anti-Corruption Office of the holding company to deter relevant departments and business project members of the Company from committing unfavorable business practices against the Company as a result of such gifts.

Community Investment

The Company has been actively involved in philanthropy, which established itself a good corporate image and enhanced employees' sense of social responsibility. The Company spares no effort for charity and has made a total of RMB17 million in all kinds of charitable donations over the past five years.

Independent Auditors' Report

TO THE SHAREHOLDERS OF LONKING HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lonking Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 149, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

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.

Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on property, plant and equipment	
The construction machinery industry in China continues to face challenging economic conditions. Management determined that indicators of impairment of property, plant and equipment existed. Accordingly, management performed an impairment assessment on property, plant and equipment. The process of the impairment assessment and the process of estimating the recoverable amount is complex and involves significant judgements and estimates.	Our audit procedures included inquiring and evaluating the key assumptions and methodologies used by the Group, and validating and recalculating management's future cash flow projections. We also involved our internal valuation specialist to review the discount rate used by the Group in determining the recoverable value of these assets.
Fair value measurement of investments and related disclosures	
The Group invests in various financial assets which are carried at fair value on the financial statements, and their fair values are classified as Level 1, Level 2 and Level 3 within the fair value hierarchy under HKFRSs. Some of these investments do not have publicly available quotes in an active market. Valuation techniques are used to determine the fair value for these investments, which are subjective and involve various assumptions. Details of fair value measurement of investments and related disclosures are disclosed in note 21, note 22, note 23, note 24 and note 41.	Our audit procedures included inquiring and evaluating key assumptions and methodologies used by the Group, independent price verification and assessing the impact of other sources of fair value information including gains or losses on disposal. We also involved our internal valuation specialist to review the fair value models adopted by the Group. We also assessed the adequacy of disclosures in the financial statements.

Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
Recoverability of the receivables Recoverability of the receivables is greatly affected by the overall condition of the economy, especially when the construction machinery industry is facing challenging times. The identification of bad and doubtful receivables and the determination of the recoverable amounts involve various management judgements and estimations, including assessing the creditworthiness of the counterparties, estimating the amount of the provision needed, and estimating the realisable value of the assets pledged. Details of the recoverability of the receivables are disclosed in note 17, note 19 and note 20.	Our audit procedures included inquiring and evaluating the key judgements and methodologies used by the Group, assessing the reasonableness of realisable values of any assets pledged and the adequacy of the provision made.

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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors 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.

Independent Auditors' Report

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

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

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

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

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

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

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

Independent Auditors' Report

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 LEUNG WAI LAP, PHILIP.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
28 March 2017

Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	4	**5,146,435**	4,829,329
Cost of sales		**(3,900,007)**	(3,730,455)
Gross profit		**1,246,428**	1,098,874
Other income	5	**44,795**	41,333
Other gains and losses	5	**35,402**	(167,463)
Selling and distribution expenses		**(354,274)**	(327,374)
Administrative expenses		**(233,375)**	(261,430)
Research and development costs		**(203,439)**	(188,972)
Other expenses		**(17,990)**	(6,425)
Finance income	5	**119,875**	140,008
Finance costs	6	**(78,357)**	(116,052)
PROFIT BEFORE TAX	7	**559,065**	212,499
Income tax expense	10	**(97,142)**	(95,869)
PROFIT FOR THE YEAR		**461,923**	116,630
Attributable to:			
Owners of the parent		**461,764**	116,556
Non-controlling interests		**159**	74
		461,923	116,630
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit for the year	12	**RMB0.11**	RMB0.03

Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**461,923**	116,630
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	**30,855**	(5,000)
Income tax effect	**(4,628)**	750
	26,227	(4,250)
Exchange differences:		
Exchange differences on translation of foreign operations	**(331,311)**	(297,208)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(305,084)**	(301,458)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(305,084)**	(301,458)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**156,839**	(184,828)
Attributable to:		
Owners of the parent	**156,651**	(184,897)
Non-controlling interests	**188**	69
	156,839	(184,828)

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	**2,464,960**	2,829,338
Prepaid land lease payments	14	**185,421**	191,239
Investments in associates	15	**–**	3,275
Finance lease receivables	16	**2,605**	5,049
Prepayments for property, plant and equipment		**31,731**	30,775
Long-term receivables	17	**100,968**	114,951
Available-for-sale investments	22	**1,625**	207,270
Derivative financial instruments	24	**91,807**	–
Deferred tax assets	30	**255,972**	263,666
Pledged deposits	25	**1,262,438**	2,219,324
Total non-current assets		**4,397,527**	5,864,887
Current assets			
Prepaid land lease payments	14	**5,276**	5,276
Inventories	18	**1,507,843**	1,280,878
Finance lease receivables	16	**51,684**	70,790
Trade and bills receivables	19	**1,365,336**	1,931,055
Due from related parties	38	**5,186**	4,863
Prepayments, deposits and other receivables	20	**692,925**	686,963
Other current assets	21	**211,045**	830,462
Available-for-sale investments	22	**525,855**	289,200
Equity investments at fair value through profit or loss	23	**108,193**	138,783
Derivative financial instruments	24	**–**	61,217
Pledged deposits	25	**1,205,347**	204,897
Cash and cash equivalents	25	**1,130,534**	1,146,340
Total current assets		**6,809,224**	6,650,724
Current liabilities			
Trade and bills payables	26	**1,525,934**	683,555
Other payables and accruals	27	**518,661**	522,326
Interest-bearing bank borrowings	28	**–**	292,213
Due to related parties	38	**7,665**	5,953
Tax payable		**131,612**	83,678
Provisions	29	**54,536**	62,044
Deferred income	31	**546**	7,038
Total current liabilities		**2,238,954**	1,656,807

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net current assets		**4,570,270**	4,993,917
Total assets less current liabilities		**8,967,797**	10,858,804
Non-current liabilities			
Deposits for finance leases	*16*	**31,749**	45,492
Interest-bearing bank borrowings	*28*	**2,150,450**	4,073,123
Deferred tax liabilities	*30*	**59,390**	107,406
Provisions	*29*	**3,699**	5,446
Deferred income	*31*	**2,797**	3,195
Total non-current liabilities		**2,248,085**	4,234,662
Net assets		**6,719,712**	6,624,142
Equity			
Equity attributable to owners of the parent			
Issued capital	*32*	**444,116**	444,116
Share premium and reserves	*33*	**6,272,703**	6,177,230
		6,716,819	6,621,346
Non-controlling interests		**2,893**	2,796
Total equity		**6,719,712**	6,624,142

Li San Yim	**Yin Kun Lun**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

2016	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium* RMB'000	Special reserve* RMB'000	Non-distributable reserve* RMB'000	Available-for-sale reserve* RMB'000	Retained profits* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	444,116	854,922	382,779	1,371,351	(4,245)	3,679,986	(107,563)	6,621,346	2,796	6,624,142
Profit for the year	–	–	–	–	–	461,764	–	461,764	159	461,923
Other comprehensive loss for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	26,198	–	–	26,198	29	26,227
Exchange differences related to foreign operations	–	–	–	–	–	–	(331,311)	(331,311)	–	(331,311)
Total comprehensive income for the year	–	–	–	–	26,198	461,764	(331,311)	156,651	188	156,839
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(91)	(91)
Final 2015 dividend declared	–	–	–	–	–	(61,178)	–	(61,178)	–	(61,178)
Transfer from retained profits	–	–	4,031	154,185	–	(158,216)	–	–	–	–
At 31 December 2016	444,116	854,922	386,810	1,525,536	21,953	3,922,356	(438,874)	6,716,819	2,893	6,719,712

* These reserve accounts comprise the consolidated share premium and reserves of RMB6,272,703,000 (2015: RMB6,177,230,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

2015	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium* RMB'000	Special reserve* RMB'000	Non-distributable reserve* RMB'000	Available-for-sale reserve* RMB'000	Retained profits* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	444,116	854,922	377,944	1,325,794	–	3,834,134	189,645	7,026,555	2,727	7,029,282
Profit for the year	–	–	–	–	–	116,556	–	116,556	74	116,630
Other comprehensive loss for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(4,245)	–	–	(4,245)	(5)	(4,250)
Exchange differences related to foreign operations	–	–	–	–	–	–	(297,208)	(297,208)	–	(297,208)
Total comprehensive income for the year	–	–	–	–	(4,245)	116,556	(297,208)	(184,897)	69	(184,828)
Final 2014 dividend declared	–	–	–	–	–	(220,312)	–	(220,312)	–	(220,312)
Transfer from retained profits	–	–	4,835	45,557	–	(50,392)	–	–	–	–
At 31 December 2015	444,116	854,922	382,779	1,371,351	(4,245)	3,679,986	(107,563)	6,621,346	2,796	6,624,142

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		**559,065**	212,499
Adjustments for:			
Finance costs	*6*	**78,357**	116,052
Share of losses of associates	*5*	**275**	725
Interest income	*5*	**(119,875)**	(140,008)
Impairment of financial assets	*5*	**170,297**	234,747
Impairment of construction in progress	*5*	**–**	15,850
Write-down of inventories to net realisable value	*7*	**13,106**	4,311
Loss on disposal of items of property, plant and equipment	*5*	**2,371**	8,729
Depreciation	*13*	**379,785**	390,400
Amortisation of land lease payments	*14*	**5,818**	6,034
Gains from derivative instruments	*5*	**(13,208)**	(7,748)
Fair value (gains)/loss, net:			
Equity investments at fair value through profit or loss	*5*	**30,590**	61,217
Compensation terms for investment	*5*	**(30,590)**	(61,217)
Gain from loan receivables	*5*	**(31,667)**	(30,462)
Exchange gain from banks		**(2,457)**	(920)
Exchange gain from bank loans and other loans		**(114,722)**	(2,899)
		927,145	807,310
(Increase)/decrease in inventories		**(240,071)**	511,133
Decrease in trade, bills and other receivables		**492,198**	738,679
Decrease/(increase) finance lease receivables		**21,550**	(41,405)
(Increase)/decrease in amounts due from related parties		**(323)**	3,944
Increase/(decrease) in trade, bills and other payables		**855,036**	(176,416)
Decrease in provisions		**(9,255)**	(41,529)
Increase/(decrease) in amounts due to related parties		**1,712**	(5,494)
Decrease in deposits for finance leases		**(15,726)**	(43,406)
Cash generated from operations		**2,032,266**	1,752,816
Interest received		**22,116**	39,390
Income tax paid		**(94,158)**	(70,480)

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,960,224**	1,721,726
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Interest received		**61,084**	–
Purchases of items of property, plant and equipment		**(26,604)**	(69,824)
Proceeds from disposal of items of property, plant and equipment		**6,944**	111,795
Proceeds from disposal of interests in associates		**8,402**	1,698
Proceeds from disposal of available-for-sale investments		**800,000**	300,000
Purchases of available-for-sale investments		**(210,000)**	(1,301,470)
Decrease in deferred revenue	*31*	**(6,890)**	(7,038)
Purchase of equity investments at fair value through profit or loss	*23/24*	**–**	(200,000)
Proceeds from derivative financial instruments received		**13,208**	7,748
NET CASH FLOWS GENERATED FROM/ (USED IN) INVESTING ACTIVITIES		**646,144**	(1,157,091)
CASH FLOWS USED IN FINANCING ACTIVITIES			
New bank loans		**–**	2,598,231
Non-derecognised payables		**(8,060)**	(32,594)
Repayment of bank loans		**(2,432,617)**	(2,809,456)
Dividends paid		**(61,178)**	(220,332)
Interest paid		**(82,658)**	(117,776)
Increase in pledged deposits		**(43,564)**	(65,881)
Interest from pledged deposits received		**3,446**	140,128
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(2,624,631)**	(507,680)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(18,263)**	56,955
Cash and cash equivalents at beginning of year		**1,146,340**	1,088,465
Effect of foreign exchange rate changes, net		**2,457**	920
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,130,534**	1,146,340

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION

Lonking Holdings Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors, the holding and the ultimate holding company of the Company is China Longgong Group Holdings Limited, which is incorporated in the British Virgin Islands.

The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company's subsidiaries.

The principal activities of the Company and its subsidiaries (the "Group") are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other construction machinery and the provision of finance leases for construction machinery.

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

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking Shanghai Machinery Co., Ltd. (龍工（上海）機械製造有限公司) *	13 August 2004 People's Republic of China ("PRC") Sino-foreign equity joint venture	HK$448,000,000	–	99.89%	Manufacture and distribution of wheel loaders
Lonking (Shanghai) Precision Hydraulic Component Co., Ltd. (龍工（上海）精工液壓有限公司, formerly known as Lonking (Shanghai) Axle & Transmission Co., Ltd.) *	17 September 2001 PRC wholly-owned foreign investment enterprise ("WOFE")	HK$168,000,000	–	100%	Manufacture and distribution of axles and gear boxes

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Lonking Fujian Machinery Co., Ltd. (龍工（福建）機械有限公司) *	15 September 2004 PRC WOFE	HK$400,000,000	–	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Lonking Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司) *	1 March 1999 PRC WOFE	HK$29,680,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Hydraulic Co., Ltd. (龍工（上海）液壓機械有限公司, formerly known as Hydraulics (Shanghai) Hydraulics Machinery Co., Ltd.) *	30 September 2003 PRC WOFE	US$31,800,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Machinery Components Co., Ltd. (龍工（上海）機械部件有限公司, formerly known as Refined (Shanghai) Machinery Co., Ltd.) *	27 November 2003 PRC WOFE	HK$50,000,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Jiangxi) Machinery Co., Ltd. (龍工（江西）機械有限公司) *	12 September 2003 PRC WOFE	RMB257,350,253	–	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Hydraulics Machinery Co., Ltd. (龍工（福建）液壓有限公司) *	15 January 2007 PRC WOFE	HK$100,000,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Axle & Transmission Co., Ltd. (龍工（福建）橋箱有限公司) *	16 January 2007 PRC WOFE	HK$200,000,000	–	100%	Manufacture and distribution of axles and gear boxes

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking (Shanghai) Road Machinery Construction Co., Ltd. (龍工（上海）路面機械製造有限公司) *	12 September 2007 PRC Sino-foreign equity joint venture	HK$100,000,000	–	100%	Manufacture and distribution of wheel loaders and road rollers
Lonking (Shanghai) Excavator Co., Ltd. (龍工（上海）挖掘機製造有限公司) *	12 September 2007 PRC WOFE	HK$260,000,000	–	100%	Manufacture and distribution of excavators
Monarch (Shanghai) Machinery Co., Ltd. (摩納凱（上海）機械有限公司) *	1 January 2007 PRC WOFE	HK$83,600,000	–	100%	Manufacture and distribution of hydraulic parts and other machinery products
Lonking (Shanghai) Forklift Co., Ltd. (龍工（上海）叉車有限公司) *	7 February 2007 PRC WOFE	HK$500,000,000	–	100%	Manufacture and distribution of fork lifts
Henan Lonking Machinery Co., Ltd. (河南龍工機械製造有限公司) *	11 July 2002 PRC Sino-foreign equity joint venture	RMB482,700,000	–	100%	Manufacture and distribution of wheel loaders
Lonking (Shanghai) Financial Leasing Co., Ltd. (龍工（上海）融資租賃有限公司) *	28 March 2008 PRC WOFE	US$23,000,000	–	100%	Finance leasing for wheel loaders and other machinery
Lonking (China) Machinery Sales Co., Ltd. (龍工（中國）機械銷售有限公司) *	12 September 2008 PRC WOFE	RMB850,000,000	–	100%	Distribution of wheel loaders and other machinery

Notes to Financial Statements

31 December 2016

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/ registration and type of entity	Nominal value of issued ordinary/registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking (Fujian) International Trade Co., Ltd. (龍工（福建）國際貿易有限公司) *	19 June 2008 PRC WOFE	RMB30,000,000	–	100%	Distribution of wheel loaders and other machinery
Lonking (Fujian) Casting & Forging Co., Ltd. (龍工（福建）鑄鍛有限公司) *	13 August 2008 PRC WOFE	US$65,000,000	–	100%	Manufacture and distribution of wheel loader components
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司) *(note 1)* *	3 May 2004 British Virgin Islands ("BVI")	US$50,000	100%	–	Investment holding
China Dragon Investment Holdings Ltd. (中國龍工投資控股有限公司) *(note 1)* *	3 May 2004 BVI	US$50,000	100%	–	Investment holding
Lonking (Hong Kong) International Trading Co., Ltd. (龍工（香港）國際貿易有限公司) *(note 1)*	10 December 2011 HK	HK$500,000	100%	–	Trading of construction machinery and components
Lonking (Fujian) Excavator Co., Ltd. (龍工（福建）挖掘機有限公司) *	20 September 2010 PRC WOFE	RMB100,000,000	–	100%	Manufacture and distribution of excavators

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

Note 1: The Company directly holds the interests in China Dragon Development Holdings Ltd., China Dragon Investment Holdings Ltd. and Lonking (Hong Kong) International Trading Co., Ltd. All other interests shown above are indirectly held by the Company.

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.

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in 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 (collectively referred to as the "Group") 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.

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 parent 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.

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2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

Notes to Financial Statements

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

Notes to Financial Statements

31 December 2016

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

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

Notes to Financial Statements

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of HKFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

Notes to Financial Statements

31 December 2016

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

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of HKFRS 9.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 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 HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018. During the year ended 31 December 2016, the Group performed a preliminary assessment on the impact of the adoption of HKFRS 15.

Notes to Financial Statements

31 December 2016

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease,* HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

Notes to Financial Statements

31 December 2016

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

Investments in associates

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.

The Group's investments in associates 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, 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 are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its derivative financial instruments and equity investments 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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.

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 the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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 the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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;

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

(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.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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	3% to 19%
Plant and machinery	9% to 32%
Motor vehicles	10% to 19%
Furniture and fixtures	9% to 32%

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 the statement of 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 buildings and machinery under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and installation, 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Research and development costs

All research costs are charged to the statement of 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.

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.

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 lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of 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.

Notes to Financial Statements

31 December 2016

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, or as derivatives designated as hedging instruments in an effective hedge, 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.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets 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 HKAS 39 are satisfied.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss (Continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of 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 available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of 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 available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. 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 the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(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 the statement of 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

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.

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).

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of 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 the statement of profit or loss.

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 the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of 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 the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of 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.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investment (Continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

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, or as derivatives designated as hedging instruments in an effective hedge, 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 trade and bills payables, amounts due to related parties, interest-bearing bank borrowings, deposits for finance leases and financial liabilities included in other payables and accruals.

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:

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 the statement of 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 the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 the statement of profit or loss.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derivative financial instruments

The fair value of asset management contract that meets the definition of a derivative as defined in HKAS 39 is recognised in the statement of profit or loss. Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 the statement of 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.

Notes to Financial Statements

31 December 2016

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 and associates, 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 and associates, 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.

Notes to Financial Statements

31 December 2016

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 the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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; and

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(b) 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.

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 subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, while the functional currency of the Company's is HK$. 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 the statement of profit or loss.

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 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 fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Notes to Financial Statements

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 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.

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.

Current income tax

The Group is subject to income taxes in numerous jurisdictions in the PRC. As certain matters relating to the income taxes have not been confirmed by the local taxation authorities, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realised.

Notes to Financial Statements

31 December 2016

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

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. 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.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2016 was RMB21,194,000 (2015: RMB42,358,000). The amount of unrecognised tax losses at 31 December 2016 was RMB270,886,000 (2015: RMB396,145,000). Further details are contained in note 30 to the financial statements.

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding corporate income taxes relating to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes. Significant management judgement is required to determine the amount of deferred tax liabilities, based upon the likely distribution level of such earnings from these subsidiaries in the foreseeable future. The carrying value of deferred tax liabilities arising from the withholding tax associated with the investments in subsidiaries in Mainland China for the year ended 31 December 2016 was RMB41,859,000 (31 December 2015: RMB86,119,000). Further details are contained in note 30 to the financial statements.

Notes to Financial Statements

31 December 2016

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of trade and bills receivables, and finance lease receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers deteriorates such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

Provision for warranty costs

As explained in note 29, the Group offers an 18 months' warranty for the excavators and a 12 months' warranty for the wheel loaders, road rollers and forklifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs is based on the historical experience and statistics. As at 31 December 2016, the carrying amount of provision for warranty costs was RMB58,235,000 (31 December 2015: RMB67,490,000).

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2016, no impairment loss has been recognised for available-for-sale assets (2015: Nil). The carrying amount of available-for-sale assets was RMB527,480,000 (2015: RMB496,470,000).

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Impairment of derivative financial instruments

The Group classifies certain assets as derivative financial instruments and recognises movements of their fair values in profit or loss. The Group makes its estimates based on the financial condition of the asset management company, historical default record and the fluctuation of the fair value of the derivative financial instruments. If the financial condition of the assets management company deteriorates such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected. At 31 December 2016, no impairment loss has been recognised for derivative financial instruments (2015: Nil). The carrying amount of derivative financial instruments was RMB91,807,000 (2015: RMB61,217,000).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) sale of construction machinery

(b) finance lease of construction machinery

(c) financial investment

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, fair value gains or losses from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings and tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

31 December 2016

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.

Year ended 31 December 2016

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	5,136,949	9,486	–	5,146,435
Segment results	307,751	6,720	44,875	359,346
Reconciliation:				
Interest income				119,875
Unallocated other income and gains				163,470
Corporate and other unallocated expenses				(5,269)
Finance costs				(78,357)
Profit before tax				559,065
Segment assets	9,550,454	81,551	936,900	10,568,905
Corporate and other unallocated assets				637,846
Total assets				11,206,751
Segment liabilities	2,233,697	53,999	–	2,287,696
Corporate and other unallocated liabilities				2,199,343
Total liabilities				4,487,039
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss	184,230	–	–	184,230
Impairment losses reversed in the statement of profit or loss	(827)	–	–	(827)
Depreciation and amortisation	385,574	29	–	385,603
Capital expenditure*	23,579	–	–	23,579

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.

Notes to Financial Statements

31 December 2016

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2015

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	4,809,819	19,510	–	4,829,329
Segment results	83,455	16,769	38,210	138,434
Reconciliation:				
Interest income				140,008
Unallocated other income and gains				54,378
Corporate and other unallocated expenses				(4,269)
Finance costs				(116,052)
Profit before tax				212,499
Segment assets	10,800,053	113,466	1,525,462	12,438,981
Corporate and other unallocated assets				76,630
Total assets				12,515,611
Segment liabilities	1,349,779	77,323	–	1,427,102
Corporate and other unallocated liabilities				4,464,367
Total liabilities				5,891,469
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss	275,342	–	–	275,342
Impairment losses reversed in the statement of profit or loss	(20,434)	–	–	(20,434)
Depreciation and amortisation	395,673	761	–	396,434
Investments in associates	3,275	–	–	3,275
Capital expenditure*	80,393	–	–	80,393

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.

Notes to Financial Statements

31 December 2016

4. OPERATING SEGMENT INFORMATION *(Continued)*

Revenue derived from major products and services

The following is an analysis of the Group's revenue derived from its major products and services:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**2,614,723**	**50.8**	2,556,684	52.9
Excavators	**586,350**	**11.4**	518,527	10.7
Road rollers	**73,366**	**1.4**	79,634	1.7
Forklifts	**1,220,207**	**23.7**	1,026,681	21.3
Others	**642,303**	**12.5**	628,293	13.0
Subtotal	**5,136,949**	**99.8**	4,809,819	99.6
Finance lease interest income	**9,486**	**0.2**	19,510	0.4
Total	**5,146,435**	**100**	4,829,329	100

There is no single customer from whom the revenue derived accounted for 10% or more of the total revenue of the Group.

Geographical information

The Group's operations are substantially located in Mainland China and substantially all non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

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5. OTHER INCOME, FINANCE INCOME AND OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Finance income		
Bank interest income	**119,875**	140,008
Other income		
Government grants	**19,465**	24,018
Penalty income	**1,533**	15,290
Others	**23,797**	2,025
	44,795	41,333
Other gains and losses		
Foreign exchange gains	**163,470**	54,378
Impairment of financial assets *(note 7)*	**(170,297)**	(234,747)
Impairment of construction in progress *(note 7)*	**–**	(15,850)
Loss on disposal of items of property, plant and equipment	**(2,371)**	(8,729)
Gains from loan receivables	**31,667**	30,462
Gains from derivative instruments	**13,208**	7,748
Fair value gains, net:		
Equity investments at fair value through profit or loss – held for trading	**(30,590)**	(61,217)
Derivative instruments – transactions not qualifying as hedges	**30,590**	61,217
Share of profits and losses of associates	**(275)**	(725)
	35,402	(167,463)

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans, overdrafts and other loans	**78,332**	114,027
Interest on discounted bills	**25**	2,025
Total interest expense on financial liabilities not at fair value through profit or loss	**78,357**	116,052

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7. PROFIT BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
Cost of inventories sold	**3,900,007**	3,730,455
Depreciation *(note 13)*	**379,785**	390,400
Amortisation of prepaid land lease payments *(note 14)*	**5,818**	6,034
Research and development costs	**203,439**	188,972
Auditor's remuneration	**2,550**	3,003
Employee benefit expense		
(excluding directors' remuneration *(note 8)):*		
Wages and salaries	**323,890**	296,278
Contributions to a pension scheme	**28,870**	32,652
Total staff costs	**352,760**	328,930
Foreign exchange differences, net	**163,470**	54,378
Impairment of financial assets		
– trade receivables *(note 19)*	**146,802**	103,147
– other receivables *(note 20)*	**23,495**	131,600
Impairment of construction in progress *(note 13)*	**–**	15,850
	170,297	250,597
Write-down of inventories to net realisable value	**13,106**	4,311
Product warranty provision:		
Additional provision	**72,520**	76,555
Bank interest income	**(119,875)**	(140,008)
Loss on disposal of items of property, plant and equipment	**2,371**	8,729
Fair value (gains)/losses, net:		
Equity investments at fair value through profit or loss		
– held for trading	**30,590**	61,217
Derivative instruments		
– transactions not qualifying as hedges	**(30,590)**	(61,217)

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, 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	2015
	RMB'000	RMB'000
Fees	**1,600**	1,700
Other emoluments:		
Salaries, allowances and discretionary bonuses	**5,911**	8,755
Pension scheme contributions	**42**	40
	5,953	8,795
	7,553	10,495

(a) Independent non-executive directors

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

	2016	2015
	RMB'000	RMB'000
Dr. Qian Shizheng	**200**	200
Mr. Jin Zhiguo*	**–**	100
Mr Wu Jianming	**100**	100
Mr Chen Zhen	**100**	100
	400	500

* Mr. Jin Zhiguo resigned as an independent non-executive director of the Company with effect from 26 May 2016.

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

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

(b) Executive directors, a non-executive director and the chief executive

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Chief executive:					
Mr. Li San Yim	–	2,000	919	–	2,919
Executive directors:					
Mr. Chen Chao	–	600	300	14	914
Mr. Luo Jianru	–	300	276	–	576
Mr. Zheng Ke Wen	–	600	276	14	890
Mr. Yin Kunlun	–	400	240	14	654
	–	1,900	1,092	42	3,034
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	3,900	2,011	42	7,153

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

(b) Executive directors, a non-executive director and the chief executive *(Continued)*

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
Chief executive:					
Mr. Li San Yim	–	2,000	1,559	–	3,559
Executive directors:					
Mr. Qiu Debo*	–	1,000	600	8	1,608
Mr. Luo Jianru	–	600	360	8	968
Mr. Yin Kunlun	–	400	240	8	648
Mr. Chen Chao	–	600	360	8	968
Mr. Zheng Ke Wen	–	600	360	8	968
Mr. Lin Zhongming*	–	76	–	–	76
	–	3,276	1,920	40	5,236
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	5,276	3,479	40	9,995

* Mr. Qiu Debo resigned as the chief executive of the Company with effect from 21 December 2015 and was replaced by Mr. Li San Yim. Mr. Li San Yim was appointed as the chief executive of the Company with effect from 21 December 2015. Mr. Lin Zhongming resigned as the executive director with effect from 24 April 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group in 2016 and 2015 were all directors of the Company and details of their remuneration are included in note 8 above.

Notes to Financial Statements

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10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax		
Charged for the year	**91,535**	77,621
Underprovision/(overprovision) in prior years	**292**	(27,077)
Withholding tax paid	**50,265**	3,500
	142,092	54,044
Deferred tax *(note 30)*	**(44,950)**	41,825
Total tax charge for the year	**97,142**	95,869

The Company, China Dragon Development Holdings Ltd. and China Dragon Investment Holdings Ltd. are tax exempted companies registered in the Cayman Islands or British Virgin Islands. No provision for Hong Kong profits tax has been made as the Group's profit neither arose in nor was derived from Hong Kong during the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries has become 25% from 1 January 2008 onwards.

(a) In 2016, about 11 entities had been identified as "High and New Technology Enterprises" ("HNTE") and, in accordance with the EIT Law, they were subject to income tax at a rate of 15% for the effective years.

(b) The EIT Law imposes withholding tax on dividends distributed from the Group's subsidiaries in Mainland China to the holding companies located off-shore starting from 1 January 2008. In 2009, the off-shore intermediate holding companies were recognised as the tax residents of Hong Kong by the Inland Revenue Department of Hong Kong. Since their PRC subsidiaries declared dividends in 2016 out of the after-tax profit from 2012 to 2015, the tax bureaus in charge of the subsidiaries elect to apply a 5% preferential withholding income tax rate on the dividends based on the tax treaty between the Hong Kong Special Administrative Region and Mainland China. In view of the above, a 5% withholding tax rate is applicable to the dividends, for the period starting from 1 January 2009, distributed from the PRC subsidiaries to these off-shore companies, and was also applicable in year 2016.

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10. INCOME TAX EXPENSE *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Profit before tax	**559,065**		212,499	
Tax at the statutory tax rate of 25% (2015: 25%)	**139,766**	**25.0**	53,125	25.0
Expenses not deductible for tax *(i)*	**18,153**	**3.2**	43,733	20.5
Effect on opening deferred tax balance due to increase in rates	**(1,348)**	**(0.2)**	–	–
Adjustments in respect of current tax of previous periods	**292**	**0.1**	(27,077)	(12.7)
Tax losses utilised from previous periods	**(4,993)**	**(0.9)**	(1,945)	(0.9)
Tax losses not recognised	**–**	**–**	50,998	24.0
Effect of withholding tax	**6,004**	**1.1**	2,804	1.3
Effect of the preferential tax rate of 15%	**(60,732)**	**(10.9)**	(25,769)	(12.1)
Tax charge and effective tax rate for the year	**97,142**	**17.4**	95,869	45.1

(i) Expenses not deductible for tax purposes generally refer to expenses without proper tax deductible documents and other miscellaneous expenses which are in excess of the allowable tax deduction limit, such as entertainment expenses.

11. DIVIDENDS

	2016	2015
	RMB'000	RMB'000
Proposed final – HK$0.062 (2015: HK$0.017) per ordinary share	**234,982**	61,178

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

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,280,100,000 (2015: 4,280,100,000) in issue during the year. The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

13. PROPERTY, PLANT AND EQUIPMENT

2016	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2016	1,605,039	3,071,480	54,938	145,272	72,700	4,949,429
Additions	8,221	2,759	–	1,513	11,086	23,579
Transfers	510	10,881	203	888	(12,482)	–
Disposals	(2,887)	(13,055)	(4,531)	(5,654)	(16,617)	(42,744)
Exchange realignment	1,326	–	–	25	–	1,351
At 31 December 2016	1,612,209	3,072,065	50,610	142,044	54,687	4,931,615
Accumulated depreciation and impairment						
At 1 January 2016	445,749	1,511,549	45,661	101,282	15,850	2,120,091
Charge for the year	73,591	292,717	2,408	11,069	–	379,785
Disposals	(333)	(7,749)	(4,241)	(5,256)	(15,850)	(33,429)
Exchange realignment	184	–	–	24	–	208
At 31 December 2016	519,191	1,796,517	43,828	107,119	–	2,466,655
Carrying amount						
At 31 December 2016	1,093,018	1,275,548	6,782	34,925	54,687	2,464,960

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

2015	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	1,553,446	3,087,445	57,528	140,539	170,577	5,009,535
Additions	45,661	8,292	553	4,334	21,553	80,393
Transfers	101,557	12,250	119	4,430	(118,356)	–
Disposals	(96,768)	(36,507)	(3,262)	(4,052)	(1,074)	(141,663)
Exchange realignment	1,143	–	–	21	–	1,164
At 31 December 2015	1,605,039	3,071,480	54,938	145,272	72,700	4,949,429
Accumulated depreciation and impairment						
At 1 January 2015	373,408	1,236,911	43,700	91,236	–	1,745,255
Charge for the year	74,006	298,450	4,643	13,301	–	390,400
Impairment	–	–	–	–	15,850	15,850
Disposals	(1,780)	(23,812)	(2,682)	(3,271)	–	(31,545)
Exchange realignment	115	–	–	16	–	131
At 31 December 2015	445,749	1,511,549	45,661	101,282	15,850	2,120,091
Carrying amount						
At 31 December 2015	1,159,290	1,559,931	9,277	43,990	56,850	2,829,338

The construction in progress is mainly related to the construction of factory premises and production plants which had not been completed at the end of the reporting period.

As at 31 December 2016, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB259,210,000 (2015: RMB296,333,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2016.

As at 31 December 2016, no property, plant and equipment of the Group were pledged (2015: Nil).

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14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	196,515	202,549
Recognised during the year	(5,818)	(6,034)
Carrying amount at 31 December	190,697	196,515
Current portion	(5,276)	(5,276)
Non-current portion	185,421	191,239

The lease payments for land are charged to the statement of profit or loss over the term of the land use rights.

15. INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Share of net assets	–	3,275

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15. INVESTMENT IN AN ASSOCIATE *(Continued)*

Particulars of the associate are as follows:

Name	Registered capital/paid-in capital held RMB'000	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Longgong (Xinjiang) Machinery Technical Services Co., Ltd. (龍工新疆機械技術服務股份有限公司)	10,000/10,000	Xinjiang, PRC	40%	After-sales service of wheel loaders

Established in March 2011, Lonking (Xinjiang) Mechanical Technical Service Co., Ltd. is a joint venture company invested by Xinjiang Junqi Construction Machinery Co., Ltd. and Lonking (China) Machinery Sales Co., Ltd. The Group disposed of all the share of the investment in August 2016 to Xinjiang Junqi Investment Management (Group) Co., Ltd., who was a third party with the consideration of RMB3,000,000.

The following table illustrates the financial information of the Group's associate that is not material:

	2016 **RMB'000**	2015 RMB'000
Share of the associate's loss for the year	**(275)**	(725)
Share of the associate's total comprehensive loss	**(275)**	(725)
Aggregate carrying amount of the Group's investment in the associate	**–**	3,275

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16. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**53,946**	73,965	**51,684**	70,790
One to five years	**4,700**	7,259	**4,503**	6,947
	58,646	81,224	**56,187**	77,737
Less: Unearned finance income	**2,459**	3,487	**–**	–
Less: Provision for impairment	**1,898**	1,898	**1,898**	1,898
Present value of minimum lease payment receivables	**54,289**	75,839	**54,289**	75,839
Analysed as:				
Current			**51,684**	70,790
Non-current			**2,605**	5,049
			54,289	75,839

The movements of the provision for impairment of finance lease receivables are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**1,898**	1,898
Write-off	**–**	–
At 31 December	**1,898**	1,898

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16. FINANCE LEASE RECEIVABLES *(Continued)*

The effective interest rates of the above finance leases range from 6% to 9.5% (2015: 6.0% to 8.8%) per annum.

Finance lease receivables are secured over the leased construction machinery. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessees.

As at 31 December 2016, the Group's refundable finance lease deposits are as follows:

	2016	2015
	RMB'000	RMB'000
Current *(note 27)*	**11,756**	13,739
Non-current	**31,749**	45,492
	43,505	59,231

The finance lease deposits are non-interest-bearing and are settled on terms according to the lease agreements.

17. LONG-TERM RECEIVABLES

Long-term receivables are the receivables which would mature within two years according to the credit terms, and include the following items:

	2016	2015
	RMB'000	RMB'000
Trade receivables *(note 19)*	**100,968**	112,320
Other receivables *(note 20)*	**–**	2,631
	100,968	114,951

The long-term trade receivables are non-interest-bearing and the long-term other receivables bear interest at approximately 4%-7% per annum.

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18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**534,782**	447,583
Work in progress	**148,076**	93,030
Finished goods	**824,985**	740,265
	1,507,843	1,280,878

19. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**1,755,310**	2,103,343
Impairment	**(401,069)**	(285,504)
Less: Non-current portion *(note 17)*	**(100,968)**	(112,320)
	1,253,273	1,705,519
Bills receivable	**112,063**	225,536
	1,365,336	1,931,055

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally six to twelve months, extending up to eighteen to twenty-four months for some customers. Each customer has a maximum credit limit. 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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19. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2016 **RMB'000**	2015 RMB'000
Within 3 months	**841,074**	912,140
3 to 6 months	**147,029**	327,069
6 months to 1 year	**108,286**	354,697
More than 1 year	**156,884**	111,613
	1,253,273	1,705,519

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

	2016 **RMB'000**	2015 RMB'000
At 1 January	**285,504**	187,644
Impairment losses recognised *(note 7)*	**146,802**	103,147
Amount written off as uncollectible	**(31,237)**	(5,287)
At 31 December	**401,069**	285,504

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB401,069,000 (2015: RMB285,504,000) with a carrying amount before provision of RMB727,621,000 (2015: RMB719,795,000).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The impairment recognised represents the difference between the carrying amount of these receivables and the present value of the expected proceeds.

19. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2016	2015
	RMB'000	RMB'000
Neither past due nor impaired	**658,759**	1,005,661
Less than 1 month past due	**80,908**	130,233
1 to 3 months past due	**34,204**	99,883
3 months to 1 year past due	**146,008**	25,878
Over 1 year past due	**6,842**	9,573
	926,721	1,271,228

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Bills receivable were aged within 6 months at the end of the reporting period. At 31 December 2016, the Group had no bills receivable pledged to banks to get short-term credit facilities (2015: Nil).

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Prepayments	**155,033**	85,523
Deductible value-added tax	**59,019**	74,684
Deposits	**4,661**	6,343
Total	**218,713**	166,550
Other receivables:		
Loan receivables	**636,762**	735,075
Less: non-current portion *(note 17)*	**–**	(2,631)
Less: impairment	**(406,480)**	(394,632)
Net loan receivables	**230,282**	337,812
Other miscellaneous receivables	**244,628**	184,698
Less: impairment	**(698)**	(2,097)
Net other miscellaneous receivables	**243,930**	182,601
Total other receivables	**474,212**	520,413
Grand total	**692,925**	686,963

The movements in the provision for impairment of other receivables are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**396,729**	310,611
Impairment losses recognised *(note 7)*	**23,495**	131,600
Amount written off as uncollectible	**(13,046)**	(45,482)
At 31 December	**407,178**	396,729

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

The carrying amounts of financial assets included in prepayments, deposits and other receivables approximate to their fair values.

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB407,178,000 (2015: RMB396,729,000) with a carrying amount before provision of RMB644,241,000 (2015: RMB743,479,000).

The individually impaired other receivables relate to customers that were in financial difficulties or were in default in interest and/or principal and only a portion of the receivables is expected to be recovered.

A large portion of other receivables includes the loan receivables to sales agencies for its repurchase of machines. The collection of receivables of sales financed by leasing went worse due to the deterioration of external operating environment. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and pay the outstanding lease amount back to the lease companies once there is an overdue balance for more than three months. The Group lent to the sales agencies for the settlement of repurchase. The sales agencies were required to pay off within three months as it normally takes three months to resell the machines. The Group would enter into instalment contracts with sales agencies if the repurchased machines had been sold again. The instalments would be arranged at interest rates of ranging from approximately 4% to 7% p.a. and mainly repaid within 18 to 24 months.

Other receivables also include miscellaneous borrowings for sales agencies' daily operation needs.

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

An aged analysis of the loan receivables as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

	2016 **RMB'000**	2015 RMB'000
Within 3 months	**108,263**	109,354
3 to 6 months	**807**	357
6 months to 1 year	**338**	5,174
Over 1 year	**120,874**	225,558
	230,282	340,443

21. OTHER CURRENT ASSETS

	2016 **RMB'000**	2015 RMB'000
Loans and receivables	**211,045**	830,462

22. AVAILABLE-FOR-SALE INVESTMENTS

	2016 **RMB'000**	2015 RMB'000
Unlisted equity investments, at fair value	**525,855**	495,000
Unlisted equity investments, at cost	**1,625**	1,470
	527,480	496,470

During the year, the gross profit in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB30,855,000 (2015: loss amounted to RMB5,000,000).

The underlying trading portfolio included equity securities, shares and bonds with a fixed maturity date and a floating coupon rate.

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23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	RMB'000	RMB'000
Listed equity investments, at market value	**108,193**	138,783

The above equity investments at 31 December 2016 were classified as held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2016	2015
	RMB'000	RMB'000
Compensation terms for investment – current	**–**	61,217
Compensation terms for investment – non current	**91,807**	–
	91,807	61,217

The compensation terms for investment are related to the equity investments at fair value through profit or loss (note 23).

The Group entered into an agreement with an asset management company which will help the Group to invest with an initial investment amount of RMB200,000,000. The asset management company has guaranteed an investment return of 7% per annum on the initial capital investment. Should the investment return falls below 7% of the initial amount, the Group will receive a compensation from the asset management company such that the total return will not be less than 7%. As the Group extended the agreement till 31 December 2018, the derivate financial instruments were disclosed as non- current assets as at 31 December 2016.

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25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016	2015
	RMB'000	RMB'000
Cash and bank balances	**1,130,534**	1,146,340
Time deposits	**2,467,785**	2,424,221
	3,598,319	3,570,561
Less: Pledged cash and bank balances and time deposits:		
Pledged for long-term bank loans *(note 28)*	**(1,261,938)**	(2,215,938)
Pledged for short-term bank loans *(note 28)*	**(954,000)**	(156,500)
Pledged for bank acceptance bills *(note 26)*	**(241,964)**	(34,620)
Pledged for others	**(9,883)**	(17,163)
Cash and cash equivalents	**1,130,534**	1,146,340

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for 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.

The Group's pledged bank deposits and certain bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities are as follows:

Original currency	**US$**	**HK$**
	RMB'000	RMB'000
As at 31 December 2016	**547,652**	**4,944**
As at 31 December 2015	13,786	2,216

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26. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**860,679**	648,155
Bills payables	**665,255**	35,400
	1,525,934	683,555

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

	2016 RMB'000	2015 RMB'000
Within 6 months	**1,465,266**	530,802
6 months to 1 year	**23,210**	88,534
1 to 2 years	**7,978**	40,177
2 to 3 years	**6,371**	8,869
Over 3 years	**23,109**	15,173
	1,525,934	683,555

Bills payable were aged within 6 months at the end of the reporting period and secured by pledged bank deposits amounting to RMB241,964,000 (2015: RMB34,620,000) (note 25).

The trade and bills payables are non-interest-bearing.

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27. OTHER PAYABLES AND ACCRUALS

	2016 **RMB'000**	2015 RMB'000
Accrued sales rebate	**225,133**	248,486
Other payables	**90,070**	81,528
Salary and wages payable	**73,546**	59,960
Advances from customers	**38,339**	35,750
Other taxes payable	**38,632**	35,189
Other accrued expenses	**37,408**	33,859
Deposit for finance leases *(note 16)*	**11,756**	13,739
Payable for acquisition of property, plant and equipment	**3,686**	5,755
Dividend payable	**91**	–
Non-derecognised endorsement bills and trade receivables *(note 39)*	**–**	8,060
	518,661	522,326

Other payables are non-interest-bearing and have different credit terms within one year.

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28. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	–	–	–	2.42-2.46	2016	292,213
Non-current						
Bank loans – secured	**1.52-3.87**	**2018**	**2,150,450**	1.39-3.53	2017-2018	4,073,123
			2,150,450			4,365,336

	2016 RMB'000	2015 RMB'000
Analysed into:		
Within one year	–	292,213
In the second year	**2,150,450**	1,670,484
In the third to fifth years, inclusive	–	2,402,639
	2,150,450	4,365,336

Notes to Financial Statements

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28. INTEREST-BEARING BANK BORROWINGS *(Continued)*

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are as follows:

Original currency	**US$**
	RMB'000
As at 31 December 2016	**2,150,450**
As at 31 December 2015	4,365,336

Certain of the Group's bank loans are secured by (note 25):

i) the pledge of certain of the Group's short-term time deposits amounting to RMB954,000,000 for short-term loans (2015: RMB156,500,000); and

ii) the pledge of certain of the Group's long-term time deposits amounting to RMB1,261,938,000 for long-term loans (2015: RMB2,215,938,000).

29. PROVISIONS

	2016	2015
	RMB'000	RMB'000
At 1 January	**67,490**	109,019
Additional provision	**72,520**	76,555
Amounts utilised during the year	**(81,775)**	(118,084)
At 31 December	**58,235**	67,490
Analysis of total provisions		
Current	**54,536**	62,044
Non-current	**3,699**	5,446
	58,235	67,490

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30. DEFERRED TAX

The Group provides an 18-month warranty for excavators and a 12-month warranty for wheel loaders, road rollers and forklifts, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Allowance for bad and doubtful debts	Provision for product warranty	Allowance for inventories	Unrealised profit in inventories	Accrued sales rebate and others	Tax losses	Deferred income	Change in fair value of available-for-sale investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	79,792	21,718	7,022	67,108	66,910	68,329	1,991	–	312,870
Credited/(charged) to the statement of profit or loss for the year *(note 10)*	33,713	(8,909)	(387)	(35,875)	(11,530)	(25,971)	(995)	–	(49,954)
Credited/(charged) to the comprehensive income	–	–	–	–	–	–	–	750	750
At 31 December 2015	**113,505**	**12,809**	**6,635**	**31,233**	**55,380**	**42,358**	**996**	**750**	**263,666**
Credited/(charged) to the statement of profit or loss for the year *(note 10)*	**5,903**	**(1,920)**	**(497)**	**16,850**	**(5,120)**	**(21,164)**	**(996)**	**–**	**(6,944)**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(750)**	**(750)**
At 31 December 2016	**119,408**	**10,889**	**6,138**	**48,083**	**50,260**	**21,194**	**–**	**–**	**255,972**

Notes to Financial Statements

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30. DEFERRED TAX *(Continued)*

Deferred tax liabilities:

	Fair value arising from acquisition of a subsidiary RMB'000	Withholding taxes on undistributed dividends RMB'000	Capitalised interest RMB'000	Accrued interest income RMB'000	Change in fair value of available-for-sale investments RMB'000	Total RMB'000
At 1 January 2015	1,557	86,816	3,206	23,956	–	115,535
Credited to the statement of profit or loss for the year *(note 10)*	(511)	(697)	(1,068)	(5,853)	–	(8,129)
At 31 December 2015	**1,046**	**86,119**	**2,138**	**18,103**	**–**	**107,406**
Credited to the statement of profit or loss for the year *(note 10)*	**(510)**	**(44,260)**	**(1,069)**	**(6,055)**	**–**	**(51,894)**
Charged to other comprehensive income	**–**	**–**	**–**	**–**	**3,878**	**3,878**
At 31 December 2016	**536**	**41,859**	**1,069**	**12,048**	**3,878**	**59,390**

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30. DEFERRED TAX *(Continued)*

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. At the end of the reporting period, certain subsidiaries of the Group have unused tax losses arising in Mainland China of RMB270,886,000 (2015: RMB396,145,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of such losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. 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 Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

31. DEFERRED INCOME

Deferred income represents government grants received related to assets whose useful lives are 5 or 50 years.

	2016 **RMB'000**	2015 RMB'000
Special government grants for promoting technological improvements	**3,343**	10,233

The movements in government grants during the year are as follows:

	2016 **RMB'000**	2015 RMB'000
At 1 January	**10,233**	17,271
Recognised as income during the year	**(6,890)**	(7,038)
At 31 December	**3,343**	10,233

Notes to Financial Statements

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31. DEFERRED INCOME *(Continued)*

	2016	2015
	RMB'000	RMB'000
Analysis of total deferred income:		
Current	**546**	7,038
Non-current	**2,797**	3,195
	3,343	10,233

32. ISSUED CAPITAL

Shares

	2016	2015
	HK$'000	HK$'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000

	2016	2015
	RMB'000	RMB'000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK$0.1 each	**444,116**	444,116

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33. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 59 and 60 of the financial statements.

The share premium of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in 2004. The movement of the current year represents the special reserve for safety fund amounting to RMB4,031,000 appropriated from the profit after taxation of the subsidiaries established in Mainland China.

The non-distributable reserve of the Group represents the statutory reserve which comprises capital reserve and statutory reserve funds appropriated from the profit after taxation of the subsidiaries established in Mainland China in accordance with the PRC laws and regulations.

34. CONTINGENT LIABILITIES

Certain sales of the Group were funded by finance leases entered into by the end-user customers and PRC domestic banks or other finance lease providers. Under the guarantee agreements entered into between the Group and the PRC domestic banks, where the end-user customers and their guarantors fail to perform their payment obligations, the Group will repurchase the equipment from the banks or other finance lease providers to settle the outstanding amounts and the related interest. As at 31 December 2016, the Group's contingent liabilities for such repurchase obligation amounted to RMB1,086,724 (31 December 2015: RMB67,858,118) (before deduction of the security deposits paid by the end-user customers and the interest on undue rent). The directors of the Company considered that the fair value of the financial guarantees as at 31 December 2016 was insignificant.

35. PLEDGE OF ASSETS

Details of the Group's bank loans and bills payable, which are secured by the assets of the Group, are included in notes 26 and 28, respectively, to the financial statements.

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36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its staff quarters under operating lease arrangements. Leases are negotiated for terms of one year and rentals are fixed for the relevant lease terms.

At 31 December 2016, the Group did not have any non-cancellable operating lease arrangement.

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 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:		
Plant and machinery	**12,418**	19,184
Land and buildings	**–**	881
	12,418	20,065

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38. RELATED PARTY TRANSACTIONS

(a) The following table sets out the total amounts of transactions which have been entered into with related parties during the years ended 31 December 2016 and 31 December 2015 as well as balances with related parties as at 31 December 2016 and 31 December 2015:

		Sales to related parties	Purchase from related parties	Amounts owed by related parties	Amounts owed to related parties
		RMB'000	RMB'000	RMB'000	RMB'000
		(i)	*(ii)*		
Related parties:					
Longyan City Jinlong					
Machinery Company	2016	–	14,063	–	7,323
Limited *(note a)*	2015	–	10,330	–	2,987
Herkules (Shanghai)					
Automation Equipment	2016	–	3,584	3,718	288
Co. Ltd. *(note b)*	2015	514	6,077	601	617
Shanghai Refined Machinery	2016	–	5,832	1,461	–
Co. Ltd. *(note c)*	2015	29,442	2,914	4,129	–
Shanghai Longtui Machinery	2016	–	1,990	7	54
Co. Ltd. *(note c)*	2015	–	3,324	133	2,349
Fujian Longyan Engineering					
Machinery (Group)	2016	–	–	–	–
Co. Ltd. *(note d)*	2015	95,794	–	–	–

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38. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

note a: Mr. Ngai Ngan Gin, the brother of Madam Ngai Ngan Ying (a director of the Company), holds a controlling interest in this entity.

note b: Herkules (Shanghai) Automation Equipment Co. Ltd., a company established in the PRC with limited liability and wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive director, the chairman and a controlling shareholder of the Company. The Group prepaid to purchase fixed assets by RMB3,718,000 from Herkules (Shanghai) Automation Equipment Co. Ltd. at 31 December 2016.

note c: Shanghai Refined Machinery Co. Ltd. is wholly owned by Refined Holdings, which is in turn wholly owned by Mr. Li Bin, the son of Mr. Li San Yim, who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

Shanghai Longtui Machinery Co. Ltd. is wholly owned by Mr. Li Bin, the son of Mr. Li San Yim, who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

note d: Fujian Longyan Engineering Machinery (Group) Co., Ltd. is jointly owned by Madam Ngai Ngan Ying who is a non-executive director of the Company, and Mr. Li San Yim who is a controlling shareholder of the Company, an executive director and the chairman of the Group.

(i) The sales to the related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the related parties were made according to the published prices and conditions offered by the associates to their major customers.

All the amounts are unsecured, non-interest-bearing and repayable on demand or based on the agreed credit term of approximately 90 days.

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

	2016 **RMB'000**	2015 RMB'000
Short-term employee benefits	**5,911**	8,755
Pension scheme contributions	**42**	40
Total compensation paid to key management personnel	**5,953**	8,795

Further details of directors' emoluments are included in note 8 to the financial statements.

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39. TRANSFERS OF FINANCIAL ASSETS

a. Financial assets that are not derecognised in their entirety

During the year ended 31 December 2016, the Group served as the sales agencies' guarantor for bank acceptance bills payable which could only be issued to the Group and for factoring arrangement between the sales agencies and certain banks. At 31 December 2016, the Group has not endorsed any related bills receivable (the "Endorsed Bills") (At 31 December 2015: Nil) (after deduction of the security deposit undertaken by sales agencies) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In addition, as at 31 December 2016, the Group did not provide any guarantees for the sales agencies' factored accounts (31 December 2015: RMB8,060,000).

b. Financial assets that are derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB1,603,095,000 (2015: RMB787,894,000). The Derecognised Bills had a maturity of one to six 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"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year 2016, 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 2016.

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40. 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

	Financial assets at fair value through profit or loss			
	Held for trading RMB'000	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	–	1,365,336	1,365,336
Long-term receivables	–	–	100,968	100,968
Due from related parties	–	–	5,186	5,186
Financial assets included in prepayments, deposits and other receivables	–	–	459,173	459,173
Finance lease receivables	–	–	54,289	54,289
Other current assets	–	211,045	–	211,045
Available-for-sale investments	–	525,855	–	525,855
Equity investments at fair value through profit or loss	108,193	–	–	108,193
Derivative financial instruments	91,807	–	–	91,807
Pledged deposits	–	–	2,467,785	2,467,785
Cash and cash equivalents	–	–	1,130,534	1,130,534
	200,000	736,900	5,583,271	6,520,171

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,525,934
Financial liabilities included in other payables and accruals	93,847
Deposit for finance leases *(note 16)*	43,505
Interest-bearing bank borrowings *(note 28)*	2,150,450
Due to related parties *(note 38)*	7,665
	3,822,909

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40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2015

Financial assets

	Financial assets at fair value through profit or loss			
	Held for trading RMB'000	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	–	1,931,055	1,931,055
Long-term receivables	–	–	114,951	114,951
Due from related parties	–	–	4,863	4,863
Financial assets included in prepayments, deposits and other receivables	–	–	493,664	493,664
Finance lease receivables	–	–	75,839	75,839
Other current assets	–	830,462	–	830,462
Available-for-sale investments	–	495,000	–	495,000
Equity investments at fair value through profit or loss	138,783	–	–	138,783
Derivative financial instruments	61,217	–	–	61,217
Pledged deposits	–	–	2,424,221	2,424,221
Cash and cash equivalents	–	–	1,146,340	1,146,340
	200,000	1,325,462	6,190,933	7,716,395

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	683,555
Financial liabilities included in other payables and accruals	155,303
Deposit for finance leases *(note 16)*	59,231
Interest-bearing bank borrowings *(note 28)*	4,365,336
Due to related parties *(note 38)*	5,953
	5,269,378

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values are as follows:

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets:				
Finance lease receivables, non-current portion	**2,605**	5,049	**2,431**	5,005
Financial liabilities:				
Interest-bearing bank borrowings	**2,150,450**	4,073,123	**2,104,436**	3,952,545

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

Except as detailed in the above table, management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, the current portion of finance lease receivables, other current assets, trade and bills payables, financial liabilities included in other payables and accruals, amounts due from/to related parties, the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, non-current portion of finance lease receivables, long-term receivables, interest-bearing bank borrowings, non-current portion of deposits for finance leases and long-term loan notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for deposit for finance leases and interest-bearing bank borrowings as at 31 December 2016 was assessed to be insignificant. The fair value of the non-current portion of pledged deposits and long-term receivables are assessed to approximating to their carrying amounts. Derivative financial instruments are measured using present value calculations.

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41. 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
Other current assets	–	–	211,045	211,045
Available-for-sale investments	–	525,855	–	525,855
Equity investments at fair value through profit or loss	68,097	40,096	–	108,193
Derivative financial instruments	–	91,807	–	91,807
	68,097	657,758	211,045	936,900

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
Other current assets	–	–	830,462	830,462
Available-for-sale investments	–	495,000	–	495,000
Equity investments at fair value through profit or loss	61,445	77,338	–	138,783
Derivative financial instruments	–	61,217	–	61,217
	61,445	633,555	830,462	1,525,462

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy *(Continued)*

Assets measured at fair value: *(Continued)*

The movements in fair value measurements within Level 3 during the year are as follows:

	2016 **RMB'000**	2015 RMB'000
Other current assets – loans and receivables:		
At 1 January	**830,462**	300,000
Disposal	**(800,000)**	(300,000)
Purchases	**210,000**	800,000
Total gains recognised in the statement of profit or loss included in other income	**31,667**	30,462
Interest received	**(61,084)**	–
At 31 December	**211,045**	830,462

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

Fair value hierarchy *(Continued)*

Assets for which fair values are disclosed:

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
Finance lease receivables, non-current portion	–	2,431	–	2,431

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
Finance lease receivables, non-current portion	–	5,005	–	5,005

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy *(Continued)*

Liabilities for which fair values are disclosed:

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
Interest-bearing bank borrowings	–	2,104,436	–	2,104,436

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
Interest-bearing bank borrowings	–	3,952,545	–	3,952,545

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, finance leases, other interest-bearing loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

Notes to Financial Statements

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relate primarily to the Group's long-term debt obligations with a floating interest rate.

The Group has not entered into any interest rate hedging contracts or any other similar derivative financial instruments. Management closely monitors such risk and will consider hedging significant interest rate risk exposure should the need arise. At 31 December 2016, the Group's interest-bearing borrowings of approximately RMB2,150,450,000 (31 December 2015: RMB4,365,336,000) bore interest at floating rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2016		
US$	**(50)**	**339**
US$	**50**	**(339)**
2015		
US$	(50)	570
US$	50	(570)

Notes to Financial Statements

31 December 2016

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

Foreign currency risk

The Group's exposure to foreign currency risk arises from:

(a) Bank balances of the Company and certain subsidiaries that are denominated in foreign currencies; and

(b) Certain trade receivables and payables of certain subsidiaries of the Company, which conduct foreign currency sales and purchases that are denominated in foreign currencies.

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 9% (2015: 14%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while 100% (2015: 100%) costs were denominated in the units' functional currencies.

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
US$	**772,775**	335,290	**2,150,450**	4,365,336
HK$	**4,944**	2,216	**–**	–

Notes to Financial Statements

31 December 2016

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

Foreign currency risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities):

	Change in foreign currency rate	**Increase/ (decrease) in profit before tax and other comprehensive income**
	%	RMB'000
2016		
If RMB weakens against US$	**10%**	**(137,518)**
If RMB strengthens against US$	**10%**	**137,518**
If RMB weakens against HK$	**10%**	**494**
If RMB strengthens against HK$	**10%**	**(494)**
2015		
If RMB weakens against US$	10%	(403,005)
If RMB strengthens against US$	10%	403,005
If RMB weakens against HK$	10%	222
If RMB strengthens against HK$	10%	(222)

Notes to Financial Statements

31 December 2016

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

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

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

2016

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	13,487	40,460	2,178,763	2,232,710
Trade and bills payables	60,668	–	1,465,266	–	1,525,934
Other payables and accruals	167,302	–	–	–	167,302
Due to related parties	7,665	–	–	–	7,665
Deposits for finance leases	11,756	–	–	31,749	43,505
Financial guarantee contracts	1,087	–	–	–	1,087
	248,478	13,487	1,505,726	2,210,512	3,978,203

Notes to Financial Statements

31 December 2016

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

Liquidity risk *(Continued)*

2015

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	25,097	365,642	4,152,263	4,543,002
Trade and bills payables	152,753	–	530,802	–	683,555
Other payables and accruals	155,303	–	–	–	155,303
Due to related parties	5,953	–	–	–	5,953
Deposits for finance leases	13,739	–	–	45,492	59,231
Financial guarantee contracts	67,858	–	–	–	67,858
	395,606	25,097	896,444	4,197,755	5,514,902

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

Notes to Financial Statements

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

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio between 30% and 60%. Net debt includes interest-bearing bank borrowings, trade, bills and other payables, accruals, amounts due to related parties, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	2016 **RMB'000**	2015 RMB'000
Interest-bearing bank borrowings *(note 28)*	**2,150,450**	4,365,336
Trade and bills payables *(note 26)*	**1,525,934**	683,555
Other payables and accruals	**518,661**	522,326
Due to related parties *(note 38)*	**7,665**	5,953
Less: Cash and cash equivalents *(note 25)*	**(1,130,534)**	(1,146,340)
Net debt	**3,072,176**	4,430,830
Equity attributable to owners of the parent	**6,716,819**	6,621,346
Adjusted capital	**6,716,819**	6,621,346
Adjusted capital and net debt	**9,788,995**	11,052,176
Gearing ratio	**31%**	40%

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43. 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	**17,295**	16,880
Investments in subsidiaries	**112,077**	104,972
Total non-current assets	**129,372**	121,852
Current assets		
Due from subsidiaries	**4,117,427**	4,158,826
Other receivables	**699**	654
Cash and cash equivalents	**14,808**	14,725
Total current assets	**4,132,934**	4,174,205
Current liabilities		
Other payables	**5,429**	9,728
Interest-bearing bank borrowings	**–**	292,213
Total current liabilities	**5,429**	301,941
Net current assets	**4,127,505**	3,872,264
Total assets less current liabilities	**4,256,877**	3,994,116
Non-current liabilities		
Due to subsidiaries	**3,177,856**	883,297
Interest-bearing bank borrowings	**2,150,450**	4,073,123
Total non-current liabilities	**5,328,306**	4,956,420
Net liabilities	**(1,071,429)**	(962,304)
Equity		
Equity attributable to owners of the parent		
Issued capital	**444,116**	444,116
Share premium and reserves	**(1,515,545)**	(1,406,420)
Total equity	**(1,071,429)**	(962,304)

Notes to Financial Statements

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

Note:

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

	Share premium account RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
Balance at 1 January 2015	982,757	(1,977,538)	(32,425)	(1,027,206)
Final 2014 dividend declared	–	(220,312)	–	(220,312)
Total comprehensive income for the year	–	(106,785)	(52,117)	(158,902)
At 31 December 2015	**982,757**	**(2,304,635)**	**(84,542)**	**(1,406,420)**
Final 2015 dividend declared	**–**	**(61,178)**	**–**	**(61,178)**
Total comprehensive income for the year	**–**	**20,418**	**(68,365)**	**(47,947)**
At 31 December 2016	**982,757**	**(2,345,395)**	**(152,907)**	**(1,515,545)**

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.

Summary of Financial Information

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Result					
Profit before taxation	275,654	570,782	599,640	212,499	**559,065**
Income tax credit (expense)	(124,081)	(90,450)	(182,574)	(95,869)	**(97,142)**
Profit for the year	151,573	480,332	417,066	116,630	**461,923**
Attributable to:					
Equity holder of the parent	151,486	480,046	416,858	116,556	**461,764**
Non-controlling interests	87	286	208	74	**159**
	151,573	480,332	417,066	116,630	**461,923**
Dividends	313,661	220,367	220,312	61,178	**234,982**
Earnings per share-basic (RMB)	0.04	0.11	0.10	0.03	**0.11**

	As at 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities					
Total assets	13,674,127	13,543,349	13,169,397	12,515,611	**11,206,751**
Total liabilities	7,429,446	6,697,946	6,140,115	5,891,469	**4,487,039**
	6,244,681	6,845,403	7,029,282	6,624,142	**6,719,712**
Equity attributable to equity holders of the parent	6,242,428	6,842,864	7,026,555	6,621,346	**6,716,819**
Non-controlling interests	2,253	2,539	2,727	2,796	**2,893**
	6,244,681	6,845,403	7,029,282	6,624,142	**6,719,712**