LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339


2015
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. Jin Zhi Guo
Mr. Wu Jian Ming
Mr. Chen Zhen

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Chen Zhen *(Chairman)*
Mr. Jin Zhiguo
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(8331)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1802, 18th Floor
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	**2015 RMB'000**	2014 RMB'000	Change (+/–)
Turnover	**4,829,329**	7,427,206	-34.98%
Operating profits:	**328,551**	767,602	-57.20%
EBITDA	**724,985**	1,166,079	-37.83%
Profit attributable to equity parent	**116,556**	416,858	-72.04%
Per share data	**RMB**	RMB	
Basic earnings per share[(1)#]	**0.03**	0.10	-70.00%
Net assets per share[(2)#]	**1.55**	1.64	-5.49%
Key performance indicators	**%**	%	
Profitability			
Overall gross margin	**22.75**	25.51	-2.76%
Net profit margin	**2.42**	5.62	-3.20%
EBITDA margin[(3)]	**15.01**	15.70	-0.69%
Return on equity[(4)]	**1.76**	5.93	-4.17%
Liquidity and solvency			
Current ratio[(5)]	**3.92**	1.90	+106.32%
Interest coverage ratio[(6)]	**2.83**	4.57	-38.07%
Gearing ratio[(7)]	**88.94**	87.35	+1.59%
Management efficiency	**days**	days	
Inventory turnover days[(8)]	**151**	136	+14 days
Trade and bills payables turnover days[(9)]	**76**	65	+11 days
Trade and bills receivable turnover days[(10)]	**162**	130	+32 days

Financial Highlights

Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2015 (31 December 2014: 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 2015.

The international economy featured slowdown of various countries. Against this backdrop, the GDP growth in the PRC declined to 6.9% and reached the record low for these years. The PRC also witnessed a significant decrease in the growth rate of fixed asset investment. Moreover, the downstream demand of the construction machinery industry remained in the doldrums whereas the mining, infrastructure, real estate and other industries saw a low capacity utilisation. Further, a considerable retention of second-hand equipment inventory was made during the golden decade of construction machinery industry. Overall, a substantial decline was resulted in the domestic sales of the construction machinery industry in 2015 as well as a decrease of more than 10% in the sales of the overseas construction machinery industry in general. In the PRC, the construction machinery industry still experiences an in-depth restructuring. The unsolved overcapacity issue, coupled with the intensifying market competition attributable to the declining demand, expanded the sector exposures and caused the construction machinery industry suffering from huge losses in general.

In 2015, the Board of Lonking has accurately foreseen the possible continuous downturn of the industry. As such, internally we conducted the organizational restructure within the Group and strengthened the management based on the product-oriented strategy and system-building oriented approach. On the other hand, adhering to the risk control principle and the fluid and flexible marketing strategies, we focused to increase our market share as the priority. Overall, although the results of Lonking have fallen sharply, all operating indicators significantly outperformed our industry peers. These were mainly reflected by: 1) the lower decline in sales than our industry peers while we remained to rank the top in the domestic sales of loaders and further recorded a slight increase in market shares. The annual sales of forklifts exceeded 20,000 which narrowed down our difference with the leading companies in the industry. Under the general decline in the industry, our export business still maintained a slight growth; 2) the profitability of Lonking outperformed the industry. While our industry peers in the PRC recorded a year-on-year decrease in net operating profit and some of them suffered from huge losses, Lonking still maintained a growth of over 20% in gross margin and continued its profitability, which further demonstrated Lonking's market competitiveness; 3) the significantly higher cash flow and risk control level over the industry. In 2015, the net operating cash flow of the Company amounted to RMB1.72 billion, which also marked the fifth consecutive year of record high exceeding RMB1 billion. As of the end of the year, the Company had cash and short term financial assets of over RMB4 billion and the gearing ratio of approximately 47% was the lowest in the industry. Currently, Lonking is a recognised company in the industry that has the healthiest operation. Notwithstanding the industry in which we operate experiences a structural transition, we are confident in the future development of Lonking.

Since the market slowdown and industry adjustment of years, we foresee the market demand for construction machinery will pick up from the bottom and become stable. Under the new norm, there will not be any substantial change in the construction machinery market of China. However, with its generally large scale of the relevant industry in China, the outlook is optimistic. In particular, the stable development of the macro economy favors the prospect of Lonking as well as the industry integration.

Chairman's Statement

In 2016, the Board proposed to meet the growth target of sales revenue exceeding 10% under effective risk control measures. 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 and peak seasons of sales to grab and increase the market share as far as possible; 2. seize the opportunity of replacement arising from the national stage III emission standards and well poise ourselves with the market deployment catering to the aforesaid replacement, keep abreast of the latest front-line market development, review, formulate and timely adjust various policies of the Company; 3. place more emphasis on the sustainable competitiveness in the advantage markets and take every effective measure to increase sales in those disadvantageous markets, and give more concern to the establishment and efficacy of our secondary units, branch companies and information centres; 4. Identify the relative weaknesses of our loaders, forklifts, excavators, pavement machinery products and other international business segments, fill the gaps by developing the positive atmosphere with comparison, learning, upgrading and outperforming the industry peers. It will be achieved internally by comparing among other business segments, and externally by comparing with the competitors. Next, we will endeavor to consolidate our strengths and gradually diminish the gaps and weaknesses in order to outperform the competitors in the market.

As the Chairman, I firmly believe that Lonking will be the outstanding company which most outperforms in this adjustment across the industry 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.

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 2016

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

The economic environment was complex in 2015. With the continuous global economic downturn and increasing downward pressure on the domestic economy, the construction machinery industry continued to adjust at low levels. Market demand for construction machinery went sluggish. Facing with negative factors such as increasing product competition in construction machinery and weakening product demands, the company has been taken every possible measure to manage business risk, transform and upgrade product lines, and enhance product quality, which have strengthened the product standing in major markets. During the reporting period, the Group has achieved a total revenue of RMB4,829 million, decreased RMB2,598 million compared to RMB7,427 million in the same period of 2014, down 34.98%. Consolidated gross profit margin of the Group dropped from 25.51% to 22.75% during the reporting period. The relatively stable consolidated gross profit margin of the company was mainly attributed to factors such as the maximized advantages of vertical integration, purchasing transportation resource integration, strengthening internal management, and falling price of bulk materials. The Group has achieved a net profit of about RMB117 million in 2015, down 72.04% compared to the same period of last year. The change in net profit is mainly due to a reduced gross profit caused by decrease in sales and increased income tax expenses.

During the year, revenue from each region in overall PRC domestic market showed a significant decrease due to a sluggish demand. The revenue from each region, as a percentage of the Group's total turnover remains the nearly same compared with last year. The northern regions of the PRC remained as the Company's principal marketing regions. Revenue from northern regions amounted to approximately RMB842 million, representing 17% of our total turnover. Revenue from eastern regions of the PRC was approximately RMB629 million, accounting for approximately 13% of our total turnover. In respect of our overseas market, during the year, the Group's sales revenue recorded a slightly decrease of 2.9% to approximately RMB677 million (2014: approximately RMB697 million).

ANALYSIS OF PRODUCTS

Wheel Loaders

The revenue generated from wheel loader represented approximately 52.94% of total Group's turnover, representing an obvious drop from last year (2014: approximately 61.60% of total Group's turnover).

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB2,043 million, a decrease of 45.69% compared with that of last year. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB340 million, a decrease of approximately 41.79% compared with that of last year. ZL40 series accounted for a small proportion in the overall sales with turnover reaching RMB27 million, representing only approximately 0.57% of the total turnover. ZL60 series recorded approximately RMB33 million in sales, representing only 0.66% of the total turnover. The turnover from mini wheel loader amounted to RMB114 million, a decrease of 7.82% compared with that of last year.

Management Discussion and Analysis

Excavators

Affected by the factors such as slowdown of growth of infrastructure investment, the sales of excavators declined significantly resulting in a drop of turnover by 28.51% to RMB519 million (2014: RMB725 million).

Fork Lifts and Road Rollers

Relatively less affected by the growth of fixed assets investment, revenue generated from fork lifts represented an increasing percentage of our total turnover reaching 21.26% (2014: 15.39%). During the year, turnover from fork lifts decreased by 10.16% to approximately RMB1,027 million (2014: RMB1,143 million).

Revenue from road rollers reached RMB80 million, representing a decrease of 6.53% compared with that of last year.

Components

The sales generated from components amounted to approximately RMB523 million for the year ended 31 December 2015, a decrease of 27.42% compared with the corresponding period last year (2014: RMB721 million), accounting for approximately 10.83% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease represented approximately 0.40% of the Group's total turnover in the year of 2015. The finance lease business has been reduced by the Group gradually.

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2015, the Group had bank balance and cash of approximately RMB1,146 million (31 December 2014: approximately RMB1,088 million).

Compared with last year, cash and bank balances increased by approximately RMB58 million, which is generated as a result of net cash inflow of around RMB1,722 million from operating activities, the net cash outflow of RMB1,157 million from investing activities and the net cash outflow of RMB508 million from financing activities and effect of foreign exchange rate changes of RMB1 million.

Management Discussion and Analysis

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2015 was approximately RMB6,624 million, a 5.76% decrease from approximately RMB7,029 million as at 31 December 2014. The current ratio of the Group at 31 December 2015 was 3.92 (2014: 1.90).

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.

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 2015, the gross gearing ratio (defined as total liabilities over total assets) was approximately 47.07% (31 December 2014: 46.62%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB80 million (2014: approximately RMB97 million) in line with a series of strategic transformation and production transformation by the Group.

The capital expenditures were financed by the internal resources and general borrowings of the Group.

Finance Income

The Group's finance income was RMB140 million for the year ended 31 December 2015 as compared to RMB104 million for the year ended 31 December 2014. The increase was mainly due to the result of significant increase of long-term time deposits pledged by the Group for bank borrowings during the year.

Finance Costs

The Group's finance cost was RMB116 million for the year ended 31 December 2015, representing an decrease of 30.9% as compared to RMB168 million for the year ended 31 December 2014. It was mainly due to the decrease of interest accrued to the long-term loan Notes which has been fully repuchased by the Company in the year of 2014.

Management Discussion and Analysis

Research and Development Costs

The Group maintained an reasonable input in research and development activities. The Group's research and development costs was RMB189 million for the year ended 31 December 2015, representing an decrease of 39.6% as compared to RMB313 million for the year ended 31 December 2014. It was mainly because that the Group reduced the relevant expenses in consideration of the significant overall fall in turnover.

Selling and Distribution Expenses

The Group's distribution and selling expenses was RMB327 million for the year ended 31 December 2015, representing an decrease of 25.2% as compared to RMB438 million for the year ended 31 December 2014. Such a decrease in distribution and selling expenses was in line with the overall decrease in the Group's turnover.

Exposure in Exchange Rate Fluctuation

The Group adopts a prudent treasury and hedging policy consistently. The Group's operations were mainly conducted in China and the majority of the businesses were transacted in Renminbi except for the Group's bank borrowings related to overseas sources. The Board is of the view that the Group's operating cash flow and liquidity is not subject to significant foreign exchange rate risks and therefore no hedging arrangements were made. However, the Group will continue to pay close attention to the fluctuations of the relevant currency foreign exchange rate, and may adopt proper measures to reduce the currency risk exposures of the Group when appropriate.

Capital Commitment

As at 31 December 2015, the Group had contracted but not included in the financial statements expenditures of approximately RMB20 million in respect of acquisition of property, plant and equipment (31 December 2014: approximately RMB34 million).

Management Discussion and Analysis

PROSPECT

In recent years, the construction machinery industry in China has encountered a "new norm": because of the severely depressed environment, the industry needs to run the business in an extremely difficult phase characterized by significant downside risks and fragility. Risks such as overcapacity, slow accounts receivable turnover, and vicious market competition are still persistent. Facing adverse challenges, the company will seize every opportunity to redefine business during this transformation, improve marketing strategies, enhance management skills, and dedicate ourselves to the construction machinery business by continuously producing high quality products such as loaders, forklifts, excavators, four major pavement machinery products and other core components. The company will continuously improve and refine its management and operating system, enhance quality and services management, boost technological research and development capabilities, promote product transformation and upgrades, increase product reliability, improve product quality, promote environmentally friendly products, and increase the brand awareness and social influence of our products. The company will continue to strengthen risk management practices, adopt fluid and flexible marketing strategies, integrate and optimize supply and transport efficiency, enhance cost control and expense management, improve efficiency and effectiveness of management decisions, adopt in-depth development in both domestic and foreign markets, balance the development of all types of construction machinery products, and strive to increase market share of the product. The company will continue to build and maintain an effective team, conduct business with integrity, strengthen and expand the enterprise to achieve greater development. With faith and our commitment to excellence, the company will grow and prosper in the near future.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 65, 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 20 to 21 of this annual report.

Mr. Chen Chao, aged 41, 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 eleven 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 20 of this annual report.

Mr. Luo Jianru, aged 69, 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 20 of this annual report.

Mr. Zheng Ke Wen, aged 41, 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 16 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 20 of this annual report.

Mr. Yin Kun Lun, aged 48 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 24 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 60, 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 20 to 21 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 64, 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 25 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.

Mr. Jin Zhi Guo, aged 60, is an independent non-executive director since May 2012. Mr. Jin is currently the honorary chairman and executive advisor of Tsingtao Brewery Company Limited. He was the chairman and executive director of Tsingtao Brewery Company Limited ("Tsingtao Brewery").

Mr. Jin received an EMBA degree from China Europe International Business School and a Science PhD degree in from Qingdao University. He is the national representative of the 10th and 11th National People's Congress, "Top Ten Economic Figures" in 2007, "Chinese Brands Award – People of the Year" (品牌中國年度人物) in 2008, one of the "30 Persons in Chinese Reform-and-Open in 30 Years" (改革開放30年30人), and "Outstanding CEO" in China. He was awarded "Wuyi Laodong Award of China" (全國五一勞動獎章) and granted accredited as a "National Labour Model" (全國勞動模範). He was one of the seven entrepreneurs in China awarded the "Outstanding Brands Contribution Award" (品牌傑出貢獻獎) during the programme "60 Brands in 60 Years" of CCTV, one of the 25 Most Influential Business Leaders in 2009, 2010 and 2011, and the "Most Respected Entrepreneur Award in 2011". He is an expert with special allowance from the Sate Council.

Profiles of Directors and Senior Management

Mr. Jin has rich experience in strategic management, sales and marketing management and capital operations. He served as an assistant to factory director of Tsingtao Brewery No.1 Factory, general manager of Tsingtao Brewery Xi'an Company Limited, assistant to general manager of Tsingtao Brewery and general manager of Tsingtao Brewery North Office, general manager of Tsingtao Brewery Xi'an Company and President and Chairman of Tsingtao Brewery Company Limited. Mr. Jin has led a group and brought Tsingtao Beer into "Top 500 Brand of the World", becoming the sixth greatest brewery company. In 2012, Tsingtao Beer has been selected by first volume of the Harvard Business Review magazine as the top ten enterprises with the most stable growth in the decade of the world, and the only Chinese enterprise on the list.

Mr. Jin served as an independent non-executive director of China Dongxiang (Group) Co., Ltd from July 2010 to May 2013, and was a director as well as a member of the audit committee and the nomination committee of this company. China Dongxiang (Group) Co., Ltd is a company listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 03818). Mr. Jin served as a director of QKL Stores Inc., during the period from September 2009 to April 2012. QKL Stores Inc. is a company listed on NASDAQ in the US (ticker symbol: QKLS). Mr. Jin was also an independent director of Hunan Jiuzhitang Co., Ltd. (九芝堂股份有限公司) during the period from August 2010 to September 2011, and was a member of its Board strategy committee and nomination, remuneration and evaluation committee during that period. Hunan Jiuzhitang Co., Ltd. is a company listed on the Shenzhen Stock Exchange (stock code: 000989).

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

Mr. Wu Jian Ming, aged 62, 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.

Profiles of Directors and Senior Management

Mr. Chen Zhen, aged 41, 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 2015.

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 2015 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 7 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of Profit or loss on page 41 of the annual report.

A final dividend of HKD0.065 (Equivalent to RMB0.051) per share as a result of the operation of 2014 amounting to HKD278 million (Equivalent to RMB220 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 HKD0.017 per ordinary share for the year ended 31 December 2015.

PROPERTY, PLANT AND EQUIPMENT

The Group expended RMB80 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 136 of the annual report. This summary does not form part of the audited consolidated financial statements.

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 44 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 RMB4,642 million as at 31 December 2015 (2014: RMB4,879 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)*	(appointed on 11 May 2004)
Qiu Debo *(Chief Executive Officer)*	(appointed on 17 February 2005) (resigned on 21 December 2015)
Chen Chao	(appointed on 17 February 2005)
Luo Jianru	(appointed on 17 February 2005)
Zheng Kewen	(appointed on 25 May 2012)
Yin Kunlun	(appointed on 25 May 2012)
Lin Zhong Ming	(appointed on 24 October 2006) (retired on 28 May 2015)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)

Directors' Report

Independent non-executive directors:

Qian Shizheng	(appointed on 17 February 2005)
Jin Zhiguo	(appointed on 25 May 2012)
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. Mr. Jin Zhiguo being the independent non-executive director would retire at the forthcoming annual general meeting, be eligible, will not offer himself for re-election.

The biographical details of the directors are set out on pages 12 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 2015.

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

At 31 December 2015, 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	1,071,467,760	25.03%
Luo Jianru	Beneficial owner	1,460,000	0.03%
Chen Chao	Beneficial owner	1,344,000	0.03%
Zheng Kewen	Beneficial owner	429,900	0.01%
		2,386,760,420	55.75%

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 2015, 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, 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 2015, 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.

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 2015, the Group employed approximately 5,022 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 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.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 12% (2014: 12%) of the Group's total turnover for the year and the largest customer accounted for approximately 4% (2014: 3%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 31% (2014: 26%) of the Group's total purchases for the year and the largest supplier accounted for approximately 10% (2014: 9%) 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.

Directors' Report

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 30 December 2014, 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 Sales Agreement (the" Refined Master Sales Agreement"), pursuant to which the Company agreed to sell or procure its subsidiaries to sell the Products to Shanghai Refined Machinery and Shanghai Refined Machinery agreed to purchase the Products from the Company or its subsidiaries for the period from 30 December 2014 to 31 December 2015;

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 January 2015 and ending on 31 December 2017.

On 28 January 2015, 龍工（上海）機械製造有限公司 (Lonking (Shanghai) Machinery Manufacturing Co., Ltd.* or the "Lonking Shanghai"), a wholly-owned subsidiary of the Company and 福建龍岩工程機械（集團）有限公司 (Fujian Lonyan Engineering Machinery (Group) Co., Ltd.* or the "Fujian Lonyan"), a limited liability company established under the laws of the PRC which is owned as to 69.16% by Mr. Li San Yim, a Director and a Controlling Shareholder of the Company and as to 30.84% by Ms. Ngai Ngan Ying, a non-executive Director and a controlling shareholder of the Company, entered into the Agreement (the"Disposal of Property Agreement"), pursuant to which, the Lonking shanghai has agreed to sell, and the Fujian Lonyan has agreed to purchase, the Property at a cash consideration of RMB94.5 million (equivalent to approximately HK$117.1 million).

Directors' Report

The transaction contemplated under each of the Renewed Jinlong Master Purchase Agreement, the Refined Master Sales Agreement, the Renewed Herkules Master Purchase Agreement, the Disposal of Property 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 2015, the Company purchased the parts approximately RMB10 million from Jinlong under the Renewed Jinlong Master Purchase Agreement, the Automation Robot Products approximately RMB6 million under the Renewed Herkules Master Purchase Agreement; the Company sold the Products approximately RMB29 million under the Refined Master Sales 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 2015 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 2015.

POST BALANCE SHEET EVENTS

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

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 2015.

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 2016

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. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 28 May 2015 (the "2015 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shi Zheng ("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 28 May 2015, 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

During the year, Mr. Qiu De Bo ("Mr. Qiu") tendered his resignation as an executive director of the Company and the chief executive officer with effect from 21 December 2015. Following Mr. Qiu's resignation, the Board has appointed Mr. Li San Yim ("Mr. Li"), an executive director of the Company and the chairman of 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.

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 2015. 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 10 directors, including 5 executive directors, 1 non-executive directors and 4 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. Jin Zhi Guo, Mr. Wu Jian Ming and Mr. Chen Zhen confirming their independence pursuant to Rule 3.13 of the Listing Rules.

Corporate Governance Report

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.

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 12 to 16 of this annual report.

For the year ended 31 December 2015, 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 2015:

Corporate Governance Report

Name of directors	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
	Number of meetings attended/Number of Meetings held for the year ended 31 December 2015					
Executive Directors						
Mr. Li San Yim *(Chairman)*	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Qiu Debo *(Chief Executive Officer)*	4/4	2/2	N/A	N/A	N/A	0/1
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. Lin Zhong Ming	1/4	1/2	N/A	N/A	N/A	0/1
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. Jin Zhiguo	4/4	N/A	N/A	1/1	1/1	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.

Corporate Governance Report

The Committee currently consists of 5 executive directors, namely Mr. Li San Yim, Mr. Luo Jianru, Mr. Chen Chao, 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 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 2015.

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2015, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB3.00 million (2014: approximately RMB3.60 million) for audit and review services.

Corporate Governance Report

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non-executive directors, namely Dr. Qian Shizheng and Mr. Jin Zhi Guo. 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 2015. 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 2 independent non-executive directors, namely Mr. Chen Zhen and Mr. Jin Zhi Guo. 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 effective on 1 September 2013. 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 10 Directors, including 1 non-executive directors and 4 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, four 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

It is the Board's responsibility for developing and maintaining an effective internal control system of the Company to protect shareholders' interest and to safeguard the Group' property and assets by reviewing major control procedures for financial, compliance and enterprise risk management. However, such a system was 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.

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 Company enhances the independence of internal audit department since the first half of year 2006 for the purpose of reviewing, in a more effective manner, the company wide systems of internal control. The department was 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

Since 1 January 2006, the Company has fully adopted 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 has, from 1 January 2006, carried 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 2015, 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 184 domestic and overseas investors throughout the year 2015, including over 20 on-site meetings and over 70 telephone meetings. In 2015, the Company received group visits with 10 to 20 members for 6 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 2015, 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.

Independent Auditors' Report

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

We have audited the consolidated financial statements of Lonking Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 135, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
28 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	*4*	**4,829,329**	7,427,206
Cost of sales		**(3,730,455)**	(5,532,826)
Gross profit		**1,098,874**	1,894,380
Other income	*5*	**41,333**	43,526
Other gains and losses	*5*	**(167,463)**	(246,918)
Selling and distribution expenses		**(327,374)**	(437,754)
Administrative expenses		**(261,430)**	(273,658)
Research and development costs		**(188,972)**	(313,043)
Other expenses		**(6,425)**	(2,654)
Finance income	*5*	**140,008**	103,723
Finance costs	*6*	**(116,052)**	(167,962)
PROFIT BEFORE TAX	*7*	**212,499**	599,640
Income tax expense	*10*	**(95,869)**	(182,574)
PROFIT FOR THE YEAR		**116,630**	417,066
Attributable to:			
Owners of the parent		**116,556**	416,858
Non-controlling interests		**74**	208
		116,630	417,066
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic:			
– For profit for the year	*12*	**RMB0.03**	RMB0.10

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	**116,630**	417,066
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	**(5,000)**	–
Income tax effect	**750**	–
	(4,250)	–
Exchange differences on translation of foreign operations	**(297,208)**	(12,800)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(301,458)**	(12,800)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(301,458)**	(12,800)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(184,828)**	404,266
Attributable to:		
Owners of the parent	**(184,897)**	404,058
Non-controlling interests	**69**	208
	(184,828)	404,266

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	13	**2,829,338**	3,264,280
Prepaid land lease payments	14	**191,239**	197,730
Investments in associates	15	**3,275**	4,000
Finance lease receivables	16	**5,049**	552
Prepayments for property, plant and equipment		**30,775**	41,321
Long-term receivables	17	**114,951**	87,256
Available-for-sale investments	22	**207,270**	–
Deferred tax assets	30	**263,666**	312,870
Pledged deposits	25	**2,219,324**	956,402
Total non-current assets		**5,864,887**	4,864,411
Current assets			
Prepaid land lease payments	14	**5,276**	4,819
Inventories	18	**1,280,878**	1,796,322
Finance lease receivables	16	**70,790**	33,882
Trade and bills receivables	19	**1,931,055**	2,353,861
Due from related parties	38	**4,863**	8,807
Prepayments, deposits and other receivables	20	**686,963**	1,316,892
Other current assets	21	**830,462**	–
Available-for-sale investments	22	**289,200**	300,000
Equity investments at fair value through profit or loss	23	**138,783**	–
Derivative financial instruments	24	**61,217**	–
Pledged deposits	25	**204,897**	1,401,938
Cash and cash equivalents	25	**1,146,340**	1,088,465
Total current assets		**6,650,724**	8,304,986
Current liabilities			
Trade and bills payables	26	**683,555**	869,286
Other payables and accruals	27	**562,607**	587,607
Interest-bearing bank borrowings	28	**292,213**	2,707,100
Due to related parties	38	**5,953**	11,447
Tax payable		**83,678**	100,114
Provisions	29	**62,044**	99,909
Deferred income	31	**7,038**	6,638
Total current liabilities		**1,697,088**	4,382,101

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000 (Restated)
Net current assets		**4,953,636**	3,922,885
Total assets less current liabilities		**10,818,523**	8,787,296
Non-current liabilities			
Deposits for finance leases	*16*	**5,211**	48,617
Interest-bearing bank borrowings	*28*	**4,073,123**	1,574,119
Deferred tax liabilities	*30*	**107,406**	115,535
Provisions	*29*	**5,446**	9,110
Deferred income	*31*	**3,195**	10,633
Total non-current liabilities		**4,194,381**	1,758,014
Net assets		**6,624,142**	7,029,282
Equity			
Equity attributable to owners of the parent			
Issued capital	*32*	**444,116**	444,116
Share premium and reserves	*33*	**6,177,230**	6,582,439
		6,621,346	7,026,555
Non-controlling interests		**2,796**	2,727
Total equity		**6,624,142**	7,029,282

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

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 income for the year:										
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(4,245)	–	–	(4,245)	(5)	(4,250)
Exchange differences on translation of 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

* These reserve accounts comprise the consolidated share premium and reserves of RMB6,177,230,000 (2014: RMB6,582,439,000) in the consolidated statement of financial position.

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

2014	Attributable to owners of the parent								
	Issued capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Non-distributable 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 2014	444,116	854,922	366,329	1,247,459	3,727,593	202,445	6,842,864	2,539	6,845,403
Profit for the year	–	–	–	–	416,858	–	416,858	208	417,066
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	(12,800)	(12,800)	–	(12,800)
Total comprehensive income for the year	–	–	–	–	416,858	(12,800)	404,058	208	404,266
Dividends paid to a non-controlling shareholder	–	–	–	–	–	–	–	(20)	(20)
Final 2013 dividend declared	–	–	–	–	(220,367)	–	(220,367)	–	(220,367)
Transfer from retained profits	–	–	11,615	78,335	(89,950)	–	–	–	–
At 31 December 2014	444,116	854,922	377,944	1,325,794	3,834,134	189,645	7,026,555	2,727	7,029,282

* Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**212,499**	599,640
Adjustments for:			
Finance costs	*6*	**116,052**	167,962
Share of profits and losses of joint ventures and associates	*5*	**725**	–
Interest income	*5*	**(140,008)**	(103,723)
Impairment of financial assets	*5*	**234,747**	205,374
Impairment of construction in progress	*5*	**15,850**	–
Write-down/(reversal of write-down) of inventories to net realisable value	*7*	**4,311**	(4,487)
Loss/(gain) on disposal of items of property, plant and equipment	*5*	**8,729**	(36,320)
Depreciation	*13*	**390,400**	391,750
Amortisation of land lease payments	*14*	**6,034**	6,727
Fair value gains, net:			
Equity investments at fair value through profit or loss	*5*	**61,217**	–
Compensation terms for investment	*5*	**(68,965)**	–
Gain from loan receivables	*5*	**(30,462)**	–
Exchange (gain)/loss from banks		**(920)**	35
Exchange gain from convertible bonds	*5*	**–**	(7)
Exchange loss from long-term loan notes		**–**	(805)
Exchange (gain)/loss from bank loans		**(2,899)**	7,576
Loss on redemption of convertible bonds	*5*	**–**	66
Loss on repurchase of long-term loan notes	*5*	**–**	70,280
		807,310	1,304,068
Decrease in inventories		**511,133**	549,808
Decrease in trade, bills and other receivables		**738,679**	645,590
Increase in finance lease receivables		**(41,405)**	(8,427)
Decrease/(increase) in amounts due from related parties		**3,944**	(6,874)
Decrease in trade, bills and other payables		**(176,416)**	(340,872)
Decrease in provisions		**(41,529)**	(24,039)
Decrease in amounts due to related parties		**(5,494)**	(5,344)
Decrease in deposits for finance leases		**(43,406)**	(2,844)
Cash generated from operations		**1,752,816**	2,111,066
Interest received		**39,390**	32,611
Income tax paid		**(70,480)**	(183,022)

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,721,726**	1,960,655
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(69,824)**	(105,462)
Payment for lease premium for land	*14*	**–**	(3,983)
Proceeds from disposal of items of property, plant and equipment		**111,795**	169,888
Proceeds from transfer of land		**–**	105,754
Proceeds from disposal of interests in associates		**1,698**	19,146
Proceeds from disposal of available-for-sale investments		**300,000**	–
Purchases of available-for-sale investments		**(1,301,470)**	(300,000)
Decrease in deferred revenue	*31*	**(7,038)**	(6,638)
Purchase of equity investments at fair value through profit or loss	*23/24*	**(200,000)**	–
Gain on derivative financial instruments received		**7,748**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,157,091)**	(121,295)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment from issue of long-term loan notes		**–**	(1,713,548)
Convertible bonds redeemed		**–**	(10,498)
New bank loans		**2,598,231**	2,107,242
Non-derecognised payables		**(32,594)**	(145,946)
Repayment of bank loans		**(2,809,456)**	(430,937)
Dividends paid		**(220,332)**	(220,367)
Interest paid		**(117,776)**	(176,098)
Increase in pledged deposits		**(65,881)**	(1,155,831)
Interest from pledged deposits received		**140,128**	–
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(507,680)**	(1,745,983)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**56,955**	93,377
Cash and cash equivalents at beginning of year		**1,088,465**	995,123
Effect of foreign exchange rate changes, net		**920**	(35)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,146,340**	1,088,465

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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 infrastructure machinery and the provision of finance leases for infrastructure 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 Direct	Indirect	Principal activities
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
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

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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 (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
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 Feb 2007 PRC WOFE	HK$380,000,000	–	100%	Manufacture and distribution of forklifts
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 and farm machines

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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 (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
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 infrastructure 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.

Notes to Financial Statements

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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 2015. 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.

Notes to Financial Statements

31 December 2015

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 revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

Notes to Financial Statements

31 December 2015

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

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

Notes to Financial Statements

31 December 2015

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

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as there is no acquisition of investment properties during the year and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

Notes to Financial Statements

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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.

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]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016

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

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

4 No mandatory effective 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)*

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 2015, 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.

(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.

Notes to Financial Statements

31 December 2015

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

The 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 Group has not adopted the amendments yet.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

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 September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Notes to Financial Statements

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

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 Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

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 to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 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 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Fair value measurement

The Group measures its investment properties, 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 2015

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 2015

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;

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

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

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 2015

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 is stated at cost less any impairment losses, and is 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 2015

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 2015

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 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(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 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments (Continued)

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

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

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to 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 2015

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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost (Continued)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments (Continued)

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.

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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, convertible bonds and financial liabilities included in other payables and accruals.

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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Derivative financial instruments

The fair value of assets management contract that meets the definition of a derivative as defined in HKAS 39 is recognised in the statement of profit or loss as gain and 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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

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.

Notes to Financial Statements

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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.

Notes to Financial Statements

31 December 2015

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 a result of the fact that 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.

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.

Notes to Financial Statements

31 December 2015

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

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 2015 was RMB42,358,000 (2014: RMB68,329,000). The amount of unrecognised tax losses at 31 December 2015 was RMB396,145,000 (2014: RMB44,377,000). 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 2015 was RMB86,119,000 (31 December 2014: RMB86,816,000). Further details are contained in note 30 to the financial statements.

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.

Notes to Financial Statements

31 December 2015

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

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 2015, the carrying amount of provision for warranty costs was RMB67,490,000 (31 December 2014: RMB109,019,000).

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 2015, no impairment loss has been recognised for available-for-sale assets (2014: Nil). The carrying amount of available-for-sale assets was RMB496,470,000 (2014: RMB300,000,000).

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 assets 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 2015, no impairment losses has been recognised for derivative financial instruments (2014: Nil). The carrying amount of derivative financial instruments was RMB61,217,000 (2014: Nil).

Notes to Financial Statements

31 December 2015

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 resources 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 derivative financial instruments, 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.

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.

Notes to Financial Statements

31 December 2015

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	83,456	16,769	38,210	138,435
Reconciliation:				
Interest income				140,008
Unallocated other income and gains				54,377
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 2015

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2014

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Total RMB'000
Segment revenue	7,399,132	28,074	7,427,206
Segment results	724,235	21,612	745,847
Reconciliation:			
Interest income			103,723
Unallocated other income and gains			(77,864)
Corporate and other unallocated expenses			(4,104)
Finance costs			(167,962)
Profit before tax			599,640
Segment assets	12,987,898	87,718	13,075,616
Corporate and other unallocated assets			93,781
Total assets			13,169,397
Segment liabilities	1,679,106	98,259	1,777,365
Corporate and other unallocated liabilities			4,362,750
Total liabilities			6,140,115
OTHER SEGMENT INFORMATION			
Impairment losses recognised in the statement of profit or loss	207,794	–	207,794
Impairment losses reversed in the statement of profit or loss	(6,907)	–	(6,907)
Depreciation and amortisation	396,712	1,765	398,477
Investments in associates	4,000	–	4,000
Capital expenditure*	101,211	7	101,218

* 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 2015

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:

	2015		2014	
	RMB'000	**%**	RMB'000	%
Wheel loaders	**2,556,684**	**52.9**	4,574,813	61.6
Excavators	**518,527**	**10.7**	725,325	9.8
Road rollers	**79,634**	**1.7**	85,198	1.1
Fork lifts	**1,026,681**	**21.3**	1,142,807	15.4
Others	**628,293**	**13.0**	870,989	11.7
Subtotal	**4,809,819**	**99.6**	7,399,132	99.6
Finance lease interest income	**19,510**	**0.4**	28,074	0.4
Total	**4,829,329**	**100**	7,427,206	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.

Notes to Financial Statements

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

	2015 RMB'000	2014 RMB'000
Finance income		
Bank interest income	**140,008**	103,723
Other income		
Government grants	**24,018**	22,807
Penalty income	**15,290**	12,392
Reversal of inventory provision	**–**	4,487
Others	**2,025**	3,840
	41,333	43,526
Other gains and losses		
Foreign exchange gains/(losses)	**54,378**	(7,525)
Exchange gain from convertible bonds	**–**	7
Impairment of financial assets *(note 7)*	**(234,747)**	(205,374)
Impairment of construction in progress	**(15,850)**	–
(Loss)/gain on disposal of items of property, plant and equipment	**(8,729)**	36,320
Gain from loan receivables	**30,462**	–
Fair value gains, net:		
Equity investments at fair value through profit or loss		
– held for trading	**(61,217)**	–
Compensation terms for investment	**68,965**	–
Share of profits and losses of joint ventures and associates	**(725)**	–
Loss on repurchase of long-term loan notes	**–**	(70,280)
Loss on redemption of convertible bonds	**–**	(66)
	(167,463)	(246,918)

Notes to Financial Statements

31 December 2015

6. FINANCE COSTS

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

	2015 RMB'000	2014 RMB'000
Interest on bank loans, overdrafts and other loans (including convertible bonds)	**114,027**	163,967
Interest on discounted bills	**2,025**	3,995
Total interest expense on financial liabilities not at fair value through profit or loss	**116,052**	167,962
Less: interest capitalised	**–**	–
	116,052	167,962

Notes to Financial Statements

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7. PROFIT BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Cost of inventories sold	**3,730,455**	5,532,826
Depreciation *(note 13)*	**390,400**	391,750
Amortisation of prepaid land lease payments *(note 14)*	**6,034**	6,727
Research and development costs	**188,972**	313,043
Auditors' remuneration	**3,003**	3,603
Employee benefit expense		
(excluding directors' remuneration *(note 8)*):		
Wages and salaries	**296,278**	401,829
Contributions to a pension scheme	**32,652**	33,876
Total staff costs	**328,930**	435,705
Foreign exchange differences, net	**54,378**	(7,518)
Impairment of financial assets		
– trade receivables *(note 19)*	**103,147**	60,754
– other receivables *(note 20)*	**131,600**	144,620
Impairment of construction in progress *(note 13)*	**15,850**	–
	250,597	205,374
Write-down/(reversal of write-down) of inventories to net realisable value	**4,311**	(4,487)
Product warranty provision:		
Additional provision	**76,555**	118,872
Loss on redemption of convertible bonds	**–**	66
Loss on repurchase of long-term loan notes	**–**	70,280
Bank interest income	**(140,008)**	(103,723)
Loss/(gain) on disposal of items of property, plant and equipment	**8,729**	(36,320)
Fair value (gains)/losses, net:		
Equity investments at fair value through profit or loss		
– held for trading	**61,217**	–
Derivative instruments		
– transactions not qualifying as hedges	**(68,965)**	–

Notes to Financial Statements

31 December 2015

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:

	2015	2014
	RMB'000	RMB'000
Fees	**1,700**	1,700
Other emoluments:		
Salaries, allowances and discretionary bonuses	**8,755**	7,760
Pension scheme contributions	**40**	37
	8,795	7,797
	10,495	9,497

(a) Independent non-executive directors

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

	2015	2014
	RMB'000	RMB'000
Dr. Qian Shizheng	**200**	200
Mr. Pan Longqing*	**–**	100
Mr. Jin Zhiguo	**100**	100
Mr Wu Jianming	**100**	100
Mr Chen Zhen*	**100**	–
	500	500

* Mr. Pan Longqing resigned as an independent non-executive director of the Company with effect from 26 August 2014 and was replaced by Mr. Chen Zhen. Mr. Chen Zhen was appointed as an independent non-executive director of the Company with effect from 15 October 2014.

There were no other emoluments payable to the independent non-executive directors during the year (2014: 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
2015					
Executive directors:					
Mr. Li San Yim*	–	2,000	1,559	–	3,559
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 Kewen	–	600	360	8	968
Mr. Lin Zhongming*	–	76	–	–	76
	–	5,276	3,479	40	8,795
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.

Notes to Financial Statements

31 December 2015

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
2014					
Executive directors:					
Mr. Li San Yim	–	**2,000**	–	–	**2,000**
Mr. Qiu Debo*	–	**1,000**	**600**	**8**	**1,608**
Mr. Luo Jianru	–	**600**	**360**	**8**	**968**
Mr. Yin Kunlun	–	**400**	**240**	**7**	**647**
Mr. Chen Chao	–	**600**	**360**	**7**	**967**
Mr. Zheng Kewen	–	**600**	**360**	**7**	**967**
Mr. Lin Zhongming	–	**400**	**240**	–	**640**
	–	**5,600**	**2,160**	**37**	**7,797**
Non-executive director:					
Ms. Ngai Ngan Ying	**1,200**	–	–	–	**1,200**
	1,200	**5,600**	**2,160**	**37**	**8,997**

* Mr. Qiu Debo is also the chief executive of the Company.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group in 2015 and 2014 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

	2015	2014
	RMB'000	RMB'000
Group:		
Current tax		
Charged for the year	**77,621**	145,216
(Overprovision)/underprovision in prior years	**(27,077)**	10,160
Withholding tax paid	**3,500**	900
	54,044	156,276
Deferred tax *(note 30)*	**41,825**	26,298
Total tax charge for the year	**95,869**	182,574

The Company, China Dragon Development Holdings Limited and China Dragon Investment Holdings Limited 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 2015, about 11 entities had been identified as "High and New Technology Enterprises"("HNTE") and, in accordance with the EIT Law, they were subject to an income tax 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 2015 out of the 2011 after-tax profit, 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 2015.

Notes to Financial Statements

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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:

	2015		2014	
	RMB'000	**%**	RMB'000	%
Profit before tax	**212,499**		599,640	
Tax at the statutory tax rate of 25% (2014: 25%)	**53,125**	**25.0**	149,910	25.0
Expenses not deductible for tax (i)	**43,733**	**20.5**	80,171	13.4
Adjustments in respect of current tax of previous periods	**(27,077)**	**(12.7)**	10,160	1.6
Tax losses utilised from previous periods	**(1,945)**	**(0.9)**	(1,851)	(0.3)
Tax losses not recognised	**50,998**	**24.0**	11,094	1.8
Effect of withholding tax	**2,804**	**1.3**	7,576	1.3
Effect of the preferential tax rate of 15%	**(25,769)**	**(12.1)**	(74,486)	(12.4)
Tax charge and effective tax rate for the year	**95,869**	**45.1**	182,574	30.4

(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

	2015	2014
	RMB'000	RMB'000
Proposed final – HK$0.017 (2014: HK$0.065) per ordinary share	**61,178**	220,312

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

Notes to Financial Statements

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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 (2014: 4,280,100,000) in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

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

Notes to Financial Statements

31 December 2015

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

2014	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 2014	1,541,843	2,983,853	60,831	130,308	378,739	5,095,574
Additions	6,078	17,277	5,624	1,945	66,311	97,235
Transfers	5,481	108,510	96	12,433	(126,520)	–
Disposals	(19)	(22,195)	(9,023)	(4,149)	(147,953)	(183,339)
Exchange realignment	63	–	–	2	–	65
At 31 December 2014	1,553,446	3,087,445	57,528	140,539	170,577	5,009,535
Accumulated depreciation and impairment						
At 1 January 2014	303,817	949,552	43,500	78,518	–	1,375,387
Charge for the year	69,577	299,023	6,443	16,707	–	391,750
Disposals	(2)	(11,664)	(6,243)	(3,979)	–	(21,888)
Exchange realignment	16	–	–	(10)	–	6
At 31 December 2014	373,408	1,236,911	43,700	91,236	–	1,745,255
Carrying amount						
At 31 December 2014	1,180,038	1,850,534	13,828	49,303	170,577	3,264,280

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 2015, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB296,333,000 (2014: 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 2015.

As at 31 December 2015, no property, plant and equipment of the Group were pledged (2014: Nil).

Notes to Financial Statements

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14. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**202,549**	323,465
Additions	**–**	3,983
Recognised during the year	**(6,034)**	(6,727)
Disposal	**–**	(118,172)
Carrying amount at 31 December	**196,515**	202,549
Current portion	**(5,276)**	(4,819)
Non-current portion	**191,239**	197,730

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

The Group has obtained the land use right certificate for the leasehold land at 31 December 2015. (The Group was in the process of obtaining the land use right certificate for the leasehold land with a carrying amount of RMB4,280,000 at 31 December 2014.)

15. INVESTMENT IN ASSOCIATE

	2015 RMB'000	2014 RMB'000
Share of net assets	**3,275**	4,000

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31 December 2015

15. INVESTMENT IN 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 activities
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's trade receivables and payables with the associate are disclosed in note 38 to the financial statements.

The associates was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

	2015	2014
	RMB'000	RMB'000
Share of the associate's loss for the year	**(725)**	(179)
Share of the associate's total comprehensive loss	**(725)**	(179)
Aggregate carrying amount of the Group's investment in the associate	**3,275**	4,000

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16. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**73,965**	35,714	**70,790**	33,882
One to five years	**7,259**	2,583	**6,947**	2,450
	81,224	38,297	**77,737**	36,332
Less: Unearned finance income	**3,487**	1,965	**–**	–
Less: Provision for impairment	**1,898**	1,898	**1,898**	1,898
Present value of minimum lease payment receivables	**75,839**	34,434	**75,839**	34,434
Analysed as:				
Current			**70,790**	33,882
Non-current			**5,049**	552
			75,839	34,434

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

	2015	2014
	RMB'000	RMB'000
At 1 January	**1,898**	1,898
Write-off	**–**	–
At 31 December	**1,898**	1,898

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31 December 2015

16. FINANCE LEASE RECEIVABLES *(Continued)*

The effective interest rates of the above finance leases range from 6% to 8.8% (2014: 6.0% to 8.8%) per annum.

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

As at 31 December 2015, the Group's refundable finance lease deposits are as follows:

	2015	2014
	RMB'000	RMB'000
Current *(note 27)*	**54,020**	4,745
Non-current	**5,211**	48,617
	59,231	53,362

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:

	2015	2014
	RMB'000	RMB'000
Trade receivables *(note 19)*	**112,320**	76,457
Other receivables *(note 20)*	**2,631**	10,799
	114,951	87,256

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

	2015 RMB'000	2014 RMB'000
Raw materials	**447,583**	560,163
Work in progress	**93,030**	104,579
Finished goods	**740,265**	1,131,580
	1,280,878	1,796,322

19. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**2,103,343**	2,112,187
Impairment	**(285,504)**	(187,644)
Less: Non-current portion *(note 17)*	**(112,320)**	(76,457)
	1,705,519	1,848,086
Bills receivable	**225,536**	505,775
	1,931,055	2,353,861

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.

Notes to Financial Statements

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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:

	2015	2014
	RMB'000	RMB'000
Within 3 months	**912,140**	1,316,127
3 to 6 months	**327,069**	265,729
6 months to 1 year	**354,697**	234,706
More than 1 year	**111,613**	31,524
	1,705,519	1,848,086

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

	2015	2014
	RMB'000	RMB'000
At 1 January	**187,644**	144,540
Impairment losses recognised *(note 7)*	**103,147**	60,754
Amount written off as uncollectible	**(5,287)**	(17,650)
At 31 December	**285,504**	187,644

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB285,504,000 (2014: RMB187,644,000) with a carrying amount before provision of RMB719,795,000 (2014: RMB474,067,000).

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.

Notes to Financial Statements

31 December 2015

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:

	2015 **RMB'000**	2014 RMB'000
Neither past due nor impaired	**1,005,661**	1,616,356
Less than 1 month past due	**130,233**	128,295
1 to 3 months past due	**99,883**	45,091
3 months to 1 year past due	**25,878**	51,770
Over 1 year past due	**9,573**	6,574
	1,271,228	1,848,086

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 2015, the Group had no bills receivable pledged to banks to get short-term credit facilities (2014: Nil).

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 **RMB'000**	2014 RMB'000
Prepayments	**85,523**	227,115
Deductible value-added tax	**74,684**	144,289
Deposits	**6,343**	11,685
Total	**166,550**	383,089
Other receivables:		
Loan receivables	**735,075**	986,418
Less: non-current portion *(note 17)*	**(2,631)**	(10,799)
Less: impairment	**(394,632)**	(308,537)
Net loan receivables	**337,812**	667,082
Other miscellaneous receivables	**184,698**	268,795
Less: impairment	**(2,097)**	(2,074)
Net other miscellaneous receivables	**182,601**	266,721
Total other receivables	**520,413**	933,803
Grand total	**686,963**	1,316,892

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

	2015 **RMB'000**	2014 RMB'000
At 1 January	**310,611**	205,337
Impairment losses recognised *(note 7)*	**131,600**	144,620
Amount written off as uncollectible	**(45,482)**	(39,346)
At 31 December	**396,729**	310,611

Notes to Financial Statements

31 December 2015

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 RMB396,729,000 (2014: RMB310,611,000) with a carrying amount before provision of RMB743,479,000 (2014: RMB994,390,000).

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. And the sales agencies were required to pay off within 3 months as it normally takes 3 months to resale 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 approximately ranging from 4% to 7% interest rate p.a. and mainly repaid within 18 to 24 months.

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

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:

	2015	2014
	RMB'000	RMB'000
Within 3 months	**109,354**	153,808
3 to 6 months	**357**	9,479
6 months to 1 year	**5,174**	273,749
Over 1 year	**225,558**	240,845
	340,443	677,881

21. OTHER CURRENT ASSETS

	2015	2014
	RMB'000	RMB'000
Loans and receivables	**830,462**	–

22. AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
	RMB'000	RMB'000
Unlisted equity investments, at fair value	**495,000**	300,000
Unlisted equity investments, at cost	**1,470**	–
	496,470	300,000

During the year, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB5,000,000 (2014: Nil).

The underlying trading portfolio included equity securities, shares and bonds with no fixed maturity date or coupon rate.

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23. EQIUTY INVESTMENTS AT FAIR VALUE THROGH PROFIT OR LOSS

	2015 RMB'000	2014 RMB'000
Listed equity investments, at market value	**138,783**	–

The above equity investments at 31 December 2015 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

	2015 RMB'000	2014 RMB'000
Compensation terms for investment	**61,217**	–

The compensation terms for investment is 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%.

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25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	**1,146,340**	1,088,465
Time deposits	**2,424,221**	2,358,340
	3,570,561	3,446,805
Less: Pledged cash and bank balances and time deposits:		
Pledged for long-term bank loans *(note 28)*	**(2,215,938)**	(954,000)
Pledged for short-term bank loans *(note 28)*	**(156,500)**	(1,385,000)
Pledged for bank acceptance bills *(note 26)*	**(34,620)**	(2,809)
Pledged for others	**(17,163)**	(16,531)
Cash and cash equivalents	**1,146,340**	1,088,465

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$ RMB'000**	**HK$ RMB'000**
As at 31 December 2015	**13,786**	**2,216**
As at 31 December 2014	8,291	1,473

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26. TRADE AND BILLS PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables	**648,155**	865,576
Bills payable	**35,400**	3,710
	683,555	869,286

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:

	2015 RMB'000	2014 RMB'000
Within 6 months	**530,802**	784,856
6 months to 1 year	**88,534**	43,357
1 to 2 years	**40,177**	12,215
2 to 3 years	**8,869**	17,473
Over 3 years	**15,173**	11,385
	683,555	869,286

Bills payable were aged within 6 months at the end of the reporting period and secured by pledged bank deposits amounting to RMB34,620,000 (2014: RMB2,809,000) (note 25).

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

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27. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Accrued sales rebate	**248,486**	228,610
Other payables	**81,528**	128,794
Salary and wages payable	**59,960**	76,943
Advances from customers	**35,750**	52,450
Other taxes payable	**35,189**	11,708
Other accrued expenses	**33,859**	37,971
Deposit for finance leases *(note 16)*	**54,020**	4,745
Non-derecognised endorsement bills and trade receivables *(note 39)*	**8,060**	40,654
Payable for acquisition of property, plant and equipment	**5,755**	5,732
	562,607	587,607

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

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28. INTEREST-BEARING BANK BORROWINGS

	2015			2014		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**–**	**–**	**–**	5.85	2015	21,500
Bank loans – secured *(note 25)*	**2.42 – 2.46**	**2016**	**292,213**	2.26 – 3.88	2015	2,685,600
			292,213			2,707,100
Non-current						
Bank loans – secured *(note 25)*	**1.39 – 3.53**	**2017-2018**	**4,073,123**	2.73 – 3.53	2017	1,574,119
			4,365,336			4,281,219

	2015	2014
	RMB'000	RMB'000
Analysed into:		
Within one year	**292,213**	2,707,100
In the second year	**1,670,484**	–
In the third to fifth years, inclusive	**2,402,639**	1,574,119
	4,365,336	4,281,219

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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	HK$ RMB'000
As at 31 December 2015	**4,365,336**	**–**
As at 31 December 2014	4,180,829	78,890

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 RMB156,500,000 for short-term loans (2014: RMB1,385,000,000); and

ii) the pledge of certain of the Group's long-term time deposits amounting to RMB2,215,938,000 for long-term loans (2014: RMB954,000,000).

29. PROVISIONS

	2015 RMB'000	2014 RMB'000
At 1 January	**109,019**	133,058
Additional provision	**76,555**	97,689
Amounts utilised during the year	**(118,084)**	(121,728)
At 31 December	**67,490**	109,019
Analysis of total provisions		
Current	**62,044**	99,909
Non-current	**5,446**	9,110
	67,490	109,019

The Group provides a 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.

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30. DEFERRED TAX

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

Deferred tax assets:

	Allowance for bad and doubtful debts RMB'000	Provision for product warranty RMB'000	Allowance for inventories RMB'000	Unrealised profit in inventories RMB'000	Accrued sales rebate and others RMB'000	Tax losses RMB'000	Deferred income RMB'000	Change in fair value of available-for-sale investments RMB'000	Total RMB'000
At 1 January 2014	57,445	26,510	9,705	94,224	67,015	45,515	9,701	–	310,115
Credited/(charged) to the statement of profit or loss for the year *(note 10)*	22,347	(4,792)	(2,683)	(27,116)	(105)	22,814	(7,710)	–	2,755
At 31 December 2014	**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)**	**750**	**(49,204)**
At 31 December 2015	**113,505**	**12,809**	**6,635**	**31,233**	**55,380**	**42,358**	**996**	**750**	**263,666**

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	Total
At 1 January 2014	2,068	80,140	4,274	–	86,482
(Credited)/charged to the statement of profit or loss for the year *(note 10)*	(511)	6,676	(1,068)	23,956	29,053
At 31 December 2014	**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**

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 RMB396,145,000 (2014: RMB44,377,000) 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 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.

	2015 **RMB'000**	2014 RMB'000
Special purpose for technology improvements	**10,233**	17,271

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

	2015 **RMB'000**	2014 RMB'000
At the beginning of the year	**17,271**	68,671
Additions	**–**	–
Recognised as income during the year	**(7,038)**	(6,638)
Disposal	**–**	(44,762)
At the end of the year	**10,233**	17,271

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31. DEFERRED INCOME *(Continued)*

	2015 **RMB'000**	2014 RMB'000
Analysis of total deferred income:		
Current	**7,038**	6,638
Non-current	**3,195**	10,633
	10,233	17,271

32. ISSUED CAPITAL

Shares

	2015 **RMB'000**	2014 RMB'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000

	2015 **RMB'000**	2014 RMB'000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK$0.1 each	444,116	444,116

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 45 and 46 of the financial statements.

The special reserve 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 RMB4,835,000 appropriated from the profit after taxation of the subsidiaries established in Mainland China.

Notes to Financial Statements

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33. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE *(Continued)*

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 2015, the Group's contingent liabilities for such repurchase obligation amounted to RMB67,858,118 (31 December 2014: RMB469,003,575) (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 2015 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.

Notes to 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 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2014
	RMB'000	RMB'000
Within one year	**–**	148
More than one year	**–**	258
	–	406

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:

	2015	2014
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**19,184**	22,275
Land and buildings	**881**	12,196
	20,065	34,471

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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 2015 and 31 December 2014 as well as balances with related parties as at 31 December 2015 and 31 December 2014:

		Sales to related parties RMB'000 (i)	Purchase from related parties RMB'000 (ii)	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Related parties:					
Longyan City Jinlong Machinery	2015	–	10,330	–	2,987
Company Limited *(note a)*	2014	–	29,198	–	8,457
Herkules (Shanghai) Automation	2015	514	6,077	601	617
Equipment Co. Ltd. *(note b)*	2014	725	11,474	–	2,990
Shanghai Refined Machinery	2015	29,442	2,914	4,129	–
Co. Ltd. *(note c)*	2014	10,518	3,613	8,674	–
Shanghai Longtui Machinery	2015	–	3,324	133	2,349
Co. Ltd. *(note c)*	2014	138	4,596	133	–
Fujian Longyan Engineering	2015	95,794	–	–	–
Machinery (Group) Co. Ltd. *(note d)*	2014	417	–	–	–

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.

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38. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes: (Continued)

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:

	2015	2014
	RMB'000	RMB'000
Short-term employee benefits	**8,755**	7,760
Pension scheme contributions	**40**	37
Total compensation paid to key management personnel	**8,795**	7,797

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 2015, 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 2015, the Group has not endorsed any related bills receivable (the "Endorsed Bills") (At 31 December 2014, the Group endorsed the related bills receivable with a carrying amount of RMB3,037,000) (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"). The Endorsed Bills had a maturity of one to six months at the end of the reporting period. In addition, as at 31 December 2015, the Group also provided guarantees for the sales agencies' factored accounts receivable amounting to RMB8,060,000 (31 December 2014: RMB37,617,000). The Group will execute the guarantor's liabilities if the sales agencies could not repay the money to the banks. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills and accounts receivable, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills, accounts receivable and the associated trade payables settled. Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the associated liabilities included in other payables was RMB8,060,000 (2014: RMB40,654,000) as at 31 December 2015.

b. Financial assets that are derecognised in their entirety

At 31 December 2015, 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 RMB787,894,000 (2014: RMB1,389,364,000). 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 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 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year 2015.

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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:

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	–	496,470	–	496,470
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	1,326,932	6,190,933	7,717,865

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

Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2014

Financial assets

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	2,353,861	2,353,861
Long-term receivables	–	87,256	87,256
Due from related parties	–	8,807	8,807
Financial assets included in prepayments, deposits and other receivables	–	890,295	890,295
Finance lease receivables *(note 16)*	–	34,434	34,434
Available-for-sale investments *(note 22)*	300,000	–	300,000
Pledged deposits *(note 25)*	–	2,358,340	2,358,340
Cash and cash equivalents *(note 25)*	–	1,088,465	1,088,465
	300,000	6,821,458	7,121,458

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	869,286
Financial liabilities included in other payables and accruals	252,123
Deposit for finance leases *(note 16)*	53,362
Interest-bearing bank borrowings *(note 28)*	4,281,219
Due to related parties *(note 38)*	11,447
	5,467,437

Notes to Financial Statements

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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	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets:				
Finance lease receivables, non-current portion	**5,049**	552	**5,005**	619
	5,049	552	**5,005**	619
Financial liabilities:				
Interest-bearing bank borrowings	**4,073,123**	1,574,119	**3,952,545**	1,519,318
Deposits for finance leases	**5,211**	48,617	**4,945**	45,800
	4,078,334	1,622,736	**3,957,490**	1,565,118

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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 deposits for finance leases, long-term notes and interest-bearing bank borrowings as at 31 December 2015 was assessed to be insignificant. The fair value of the non-current portion of pledged deposits, long-term receivables, and the non-current portion of deposits for finance leases are assessed to approximating to their carrying amounts. Derivative financial instruments are measured using present value calculations.

Notes to Financial Statements

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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 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	–	495,000	830,462	1,325,462
Equity investments at fair value through profit or loss	61,445	–	–	61,445
Derivative financial instruments	–	138,555	–	138,555
	61,445	633,555	830,462	1,525,462

As at 31 December 2014

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	–	–	300,000	300,000

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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:

	2015	2014
	RMB'000	RMB'000
Available-for-sale investments – unlisted:		
At 1 January	**300,000**	–
Disposal	**(300,000)**	–
Purchases	**800,000**	300,000
Total gains recognised in the statement of profit or loss included in other income	**30,462**	–
At 31 December	**830,462**	300,000

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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 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**

As at 31 December 2014

	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	–	619	–	619

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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 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**
Deposits for finance leases	**–**	**–**	**4,945**	**4,945**
	–	**3,952,545**	**4,945**	**3,957,490**

As at 31 December 2014

	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	–	1,519,318	–	1,519,318
Deposits for finance leases	–	–	45,800	45,800
	–	1,519,318	45,800	1,565,118

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.

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31 December 2015

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 2015, the Group's interest-bearing borrowings of approximately RMB4,365,336,000 (31 December 2014: RMB4,281,219,000) 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
2015		
US$	**(50)**	**570**
US$	**50**	**(570)**
2014		
US$	(50)	509
HK$	(50)	10
RMB	(50)	3
US$	50	(509)
HK$	50	(10)
RMB	50	(3)

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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 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	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
US$	**335,290**	226,074	**4,365,336**	4,173,782
HK$	**2,216**	1,473	**–**	78,890

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**
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)**
2014		
If RMB weakens against US$	10%	(394,770)
If RMB strengthens against US$	10%	394,770
If RMB weakens against HK$	10%	(7,742)
If RMB strengthens against HK$	10%	7,742

Notes to Financial Statements

31 December 2015

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:

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	54,020	–	–	5,211	59,231
Financial guarantee contracts	67,858	–	–	–	67,858
	435,887	25,097	896,444	4,157,474	5,514,902

Notes to Financial Statements

31 December 2015

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

Liquidity risk *(Continued)*

2014

	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	–	107,752	2,693,154	1,640,833	4,441,739
Trade and bills payables	84,429	–	784,857	–	869,286
Other payables and accruals	252,123	–	–	–	252,123
Due to related parties	11,447	–	–	–	11,447
Deposits for finance leases	4,745	–	–	48,617	53,362
Financial guarantee contracts	474,485	–	–	–	474,485
	827,229	107,752	3,478,011	1,689,450	6,102,442

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 2015 and 31 December 2014.

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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 40% 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:

	2015	2014
	RMB'000	RMB'000
Interest-bearing bank borrowings *(note 28)*	**4,365,336**	4,281,219
Trade and bills payables *(note 26)*	**683,555**	869,286
Other payables and accruals	**562,607**	587,607
Due to related parties *(note 38)*	**5,953**	11,447
Less: Cash and cash equivalents *(note 25)*	**(1,146,340)**	(1,088,465)
Net debt	**4,471,111**	4,661,094
Equity attributable to owners of the parent	**6,621,346**	7,026,555
Adjusted capital	**6,621,346**	7,026,555
Adjusted capital and net debt	**11,092,457**	11,687,649
Gearing ratio	**40%**	40%

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43. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

44. 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:

	2015 RMB'000	2014 RMB'000
Non-current assets		
Property, plant and equipment	**16,880**	16,678
Investments in subsidiaries	**104,972**	98,846
Total non-current assets	**121,852**	115,524
Current assets		
Due from subsidiaries	**4,158,826**	3,849,698
Other receivables	**654**	616
Cash and cash equivalents	**14,725**	3,891
Total current assets	**4,174,205**	3,854,205
Current liabilities		
Other payables	**9,728**	11,452
Interest-bearing bank borrowings	**292,213**	2,685,600
Total current liabilities	**301,941**	2,697,052
Net current assets	**3,872,264**	1,157,153
Total assets less current liabilities	**3,994,116**	1,272,677
Non-current liabilities		
Due to subsidiaries	**883,297**	281,648
Interest-bearing bank borrowings	**4,073,123**	1,574,119
Total non-current liabilities	**4,956,420**	1,855,767
Net liabilities	**(962,304)**	(583,090)

Notes to Financial Statements

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

	2015 **RMB'000**	2014 RMB'000
Equity		
Equity attributable to owners of the parent		
Issued capital	**444,116**	444,116
Share premium and reserves	**(1,406,420)**	(1,027,206)
Total equity	**(962,304)**	(583,090)

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 2014	982,757	(1,527,877)	(32,464)	(577,584)
Final 2013 dividend declared	-	(220,367)	-	(220,367)
Total comprehensive income for the year	-	(229,294)	39	(229,255)
At 31 December 2014	**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)**

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2016.

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				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015** **RMB'000**
Result					
Profit before taxation	2,067,784	275,654	570,782	599,640	**212,499**
Income tax credit (expense)	(337,917)	(124,081)	(90,450)	(182,574)	**(95,869)**
Profit for the year	1,729,867	151,573	480,332	417,066	**116,630**
Attributable to:					
Equity holder of the parent	1,729,502	151,486	480,046	416,858	**116,556**
Non-controlling interests	365	87	286	208	**74**
	1,729,867	151,573	480,332	417,066	**116,630**
Dividends	565,129	313,661	220,367	220,312	**61,178**
Earnings per share-basic (RMB)	0.40	0.04	0.11	0.10	**0.03**

	As at 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015** **RMB'000**
Assets and Liabilities					
Total assets	16,140,433	13,674,127	13,543,349	13,169,397	**12,515,611**
Total liabilities	9,733,664	7,429,446	6,697,946	6,140,115	**5,891,469**
	6,406,769	6,244,681	6,845,403	7,029,282	**6,624,142**
Equity attributable to equity holders of the parent	6,404,603	6,242,428	6,842,864	7,026,555	**6,621,346**
Non-controlling interests	2,166	2,253	2,539	2,727	**2,796**
	6,406,769	6,244,681	6,845,403	7,029,282	**6,624,142**