2016

Annual Report

HAITIAN INTERNATIONAL

传承 凝聚 创新

Haitian International Holdings Limited

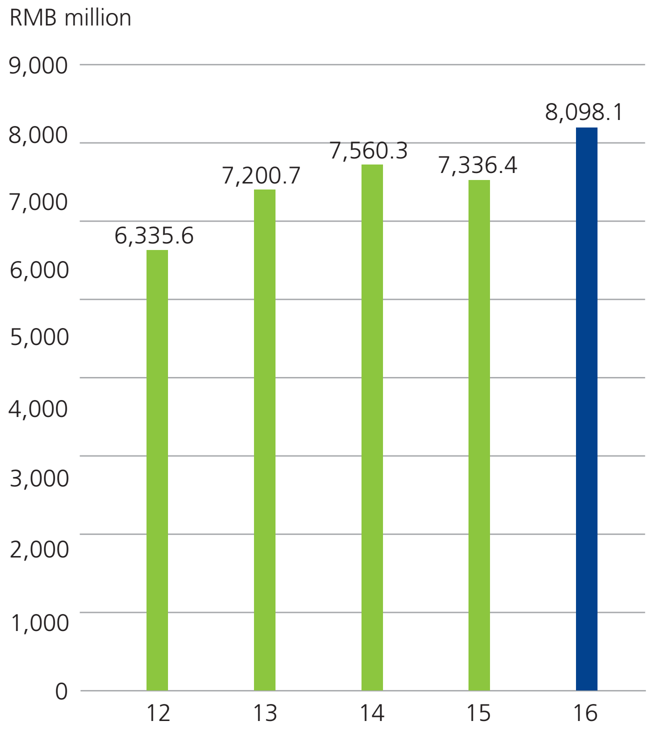
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1882

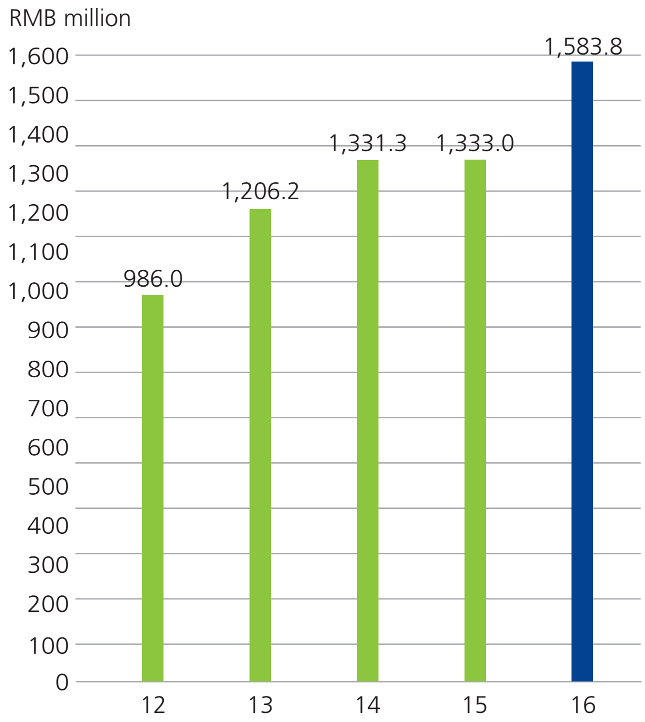
CONTENTS


Financial Highlights

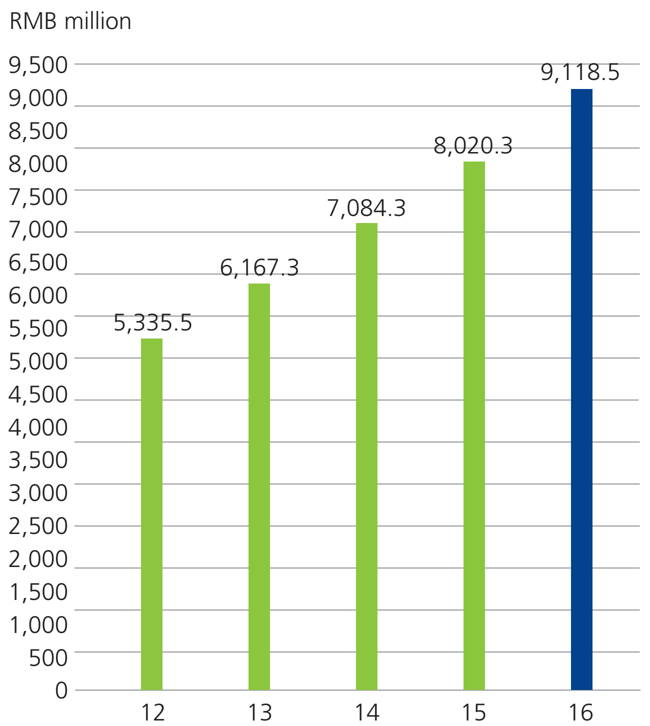
Revenue



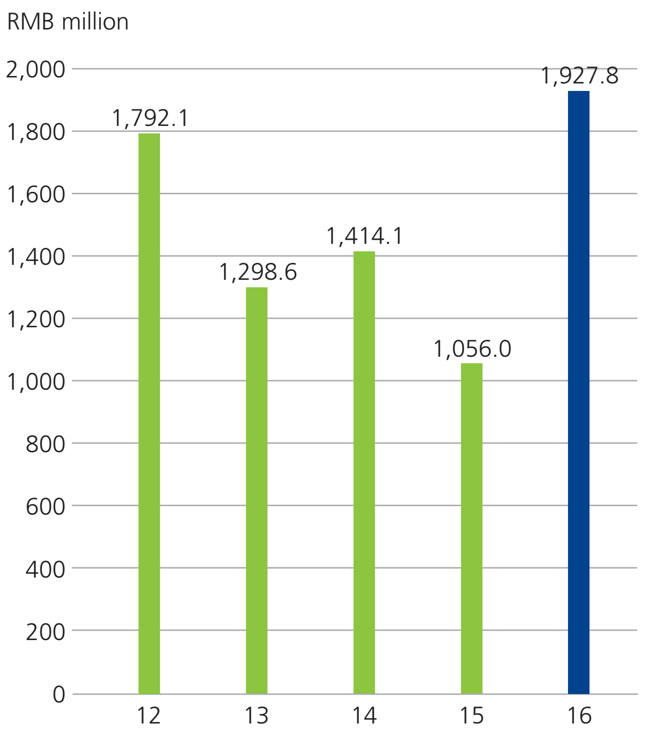
Profit attributable to the shareholders of the Company excluding issuing expense and change in fair value of Convertible Bonds ("CB") resulted from bond values changes



Capital and reserves attributable to shareholders of the Company



Net Cash generated from operating activities



Company Profile and Corporate Information

Executive Directors

Mr. ZHANG Jingzhang *(Chairman)*
Mr. ZHANG Jianming *(Chief Executive Officer)*
Mr. ZHANG Jianguo
Mr. ZHANG Jianfeng
Ms. CHEN Ningning

Non-Executive Directors

Prof. Helmut Helmar FRANZ
Mr. GUO Mingguang
Mr. LIU Jianbo

Independent Non-Executive Directors

Mr. LOU Baijun
Dr. Steven CHOW
Mr. JIN Hailiang
Mr. GUO Yonghui

Company Secretary

Mr. SUEN Wai Yu

Registered Office

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman KY1-1111
Cayman Islands

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Principal Place of Business

China
No. 1688 Haitian Road
Beilun District, Ningbo
Zhejiang Province, China
315800

Hong Kong
Unit 1105, Level 11
Metroplaza, Tower 2
223 Hing Fong Road
Kwai Fong, N.T.
Hong Kong

Principal Banks

China
Agricultural Bank of China
Bank of China
China Everbright Bank
China Guangfa Bank
Industrial and Commercial Bank of China
Industrial Bank
Ping An Bank
Shanghai Pudong Development Bank Co., Ltd.
The Export-Import Bank of China

Hong Kong
Commerzbank AG
Hang Seng Bank
Oversea – Chinese Banking Corporation
Standard Chartered Bank (Hong Kong)
The Hongkong and Shanghai Banking Corporation

CHAIRMAN'S STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2016, the global market remained unstable for a number of reasons, including volatility in exchange rate of developing countries' currencies as a result of expected rate increase by US Federal Reserve and regional political tension resulting from a series of "Black Swan" events such as Brexit and results of US presidential election. As the China manufacturing PMI was below 50 for most of the time of the year, going through a period of slower growth in economic development has become a reality for domestic market in China. Even though Chinese economic growth still faces significant pressure, it is far more stable than most other regions in the world and a mild recovery in demand for plastic injection moulding machine industry arrived in the second half of 2016, even before a concrete full recovery in the domestic manufacturing sector.

2016 marked the 50th anniversary of the Group. Through the commitment of every employee of the Company and its business partners, we achieved another historical sales record this year and our sales reached RMB8,098.1 million, representing an increase of 10.4% compared to RMB7,336.4 million recorded in 2015. During the Period, as a result of stable raw materials costs, structural change in sales after the full launch of the "Plus" series machines and increase in sales, our operational efficiency and profitability continued to improve and enhance. Our gross profit margin improved from 33.0% in 2015 to 34.4% in 2016, as a result of (i) improvement in operational efficiency, (ii) stable steel related raw material costs, and (iii) aforesaid change in sales structure.

Chairman's Statements

The improvement in gross profit margin led to increase of our operating profit to RMB1,811.0 million, representing an increase of 17.2% compared to RMB1,545.5 million in 2015. At the same time, the enhancement in operational efficiency led to an increase in the net profit margin (excluding the non-cash accounting loss of change in fair value of CB) from 18.2% in 2015 to 19.6% in 2016, reaching another record high in our history. The net profit attributable to shareholders of the Company amounted to RMB1,550.9 million in 2016, representing an increase of 13.8% when compared to the results in 2015. Excluding the non-cash accounting loss of change in fair value of CB, the adjusted net profit attributable to the shareholders of the Company would increase to RMB1,583.8 million, representing an increase of 18.8% compared to results in 2015.

The Board of Directors has declared a second interim dividend of HK$0.20 per share for the year ended 31 December 2016 (2015: HK$0.19) and the total dividend for 2016 would amount to HK$0.37 (2015: HK$0.35) per share.

Domestic and export sales

The Group's domestic and export sales by geographic areas are summarized in the following table:

(RMB million)	**2016**	**%**	2015	%	**2016 vs 2015**
Domestic Sales	**5,552.7**	**68.6%**	4,869.2	66.4%	**14.0%**
Export Sales	**2,360.8**	**29.2%**	2,293.0	31.3%	**3.0%**
Parts	**184.6**	**2.2%**	174.2	2.3%	**6.0%**
Total	**8,098.1**	**100%**	7,336.4	100.0%	**10.4%**

Against the backdrop of new ordinary slower growth rate in domestic economy, the Chinese manufacturing PMI gradually improved in the second half of 2016 and stood above 50 since the fourth quarter. This reflected a mild recovery in the domestic manufacturing industries, among which the demand for plastic injection moulding machines started to resume its momentum. For 2016, our domestic sales increased by 14.0% to RMB5,552.7 million and further strengthened its leading position among industrial peers in China.

For international market, the consecutive Black Swan events in Europe and US led to an increasingly stronger US dollars, which caused the increased volatility in exchange rate of developing countries' currencies. This to a certain extent dampened the purchasing power of our customers in related regions. Nonetheless, our diversified market strategy continued to compensate such external adverse factors and our investment in Germany and India for the past years started to drive the sales growth in relevant regional markets. We recorded a historical high export sales of RMB2,360.8 million in 2016, representing an increase of 3.0% compared to results in 2015.

Sales mix of PIMMs by product series

The Group's sales by product series are summarized in the following table:

(RMB million)	**2016**	**%**	2015	%	**2016 vs 2015**
Mars series (energy-saving features PIMMs)	**5,548.9**	**68.5%**	5,086.1	69.3%	**9.1%**
Zhafir electrical series	**795.1**	**9.8%**	675.7	9.2%	**17.7%**
Jupiter series (two-platen PIMMs)	**982.2**	**12.1%**	741.3	10.1%	**32.5%**
Other series	**587.3**	**7.3%**	659.1	9.0%	**(10.9%)**
Parts	**184.6**	**2.3%**	174.2	2.4%	**6.0%**
Total	**8,098.1**	**100%**	7,336.4	100%	**10.4%**

Despite the adverse influence on demand of some overseas customers in view of continuing adjustment in global economy which falls short of a full recovery, the domestic economy in China saw a mild recovery and this drove the demand in plastic injection moulding machines. That recovery in the second half of 2016 was more obvious in the sales of small tonnage machines, which are more sensitive and response faster to changes of market situation and economic performance. This led to improvement in the sales of our Mars series PIMMs, which increased 9.1% to RMB5,548.9 million in 2016 from RMB5,086.1 million in 2015.

Our strategy of shifting small tonnage PIMMs towards full-electric PIMMs and large-tonnage PIMMs to two-platen PIMMs continued to deliver outstanding results. The sales of our Zhafir electrical series and two-platen Jupiter Series (large two-platen PIMMs) in 2016 reached RMB795.1 million and RMB982.2 million, representing an increase of 17.7% and 32.5% respectively. In 2016, the sales mix of electric PIMMs in small tonnage PIMMs and that of two-platen PIMMs in medium-to-large tonnage PIMMs reached 15.3% (2015: 14.8%) and 36.3% (2015: 28.5%) respectively.

Prospect

While the global economy is far from a solid recovery, conflicts related to illegal immigrants and refugees after the recent terrorist incidents in Europe and regional political conflicts in Europe and US indirectly fuels the populism movements in many countries in the world. At the same time, the social instability following stagnation in economic growth in many countries bring further uncertainty for the country leaders in their management of economy and politics and may lead to increased measures of protectionism. After a slower economic growth is recognized as normal in China, the future growth in economy during such "L" shape growth period will rely on domestic consumption and will deliver a comparatively more stable development than other economies in the world.

Chairman's Statements

Since the second half of 2016, the Chinese government implemented a number of policies including "Stable Growth, Reduce Overcapacity" with the target to bring the financial industry back on track. This strengthened the investment confidence among local customers and with Chinese manufacturing PMI above 50 the new investment in real economy becomes more active. This trend continued into early 2017 and the orders from customers well exceeded our expectation. The records achieved in 2016 proved that our business strategies are successful and we will continue to adhere to the principles of customer demand as guidance and implement "application-oriented" in our marketing strategy. This will allow us to seize the opportunity in the recent recovery and continue to deliver innovative products with high price-to-performance ratio to the customers.

US Federal Reserve's plan to raise interest rate is becoming clear and the strengthening of US dollars is under way. With a more predictable path, the volatility from such factors and their impacts may become less disruptive and its magnitude much less. The global supply chain built under the World Trade Organization and its trade agreements brings the major economies and the world economy closer together and we are cautiously optimistic on the path to recovery for different economies in the world following the growth in Europe and US. We are also well prepared to the challenges in international markets by further implementing the strategies of local manufacturing in different regions such as Germany, India, Vietnam and other key markets.

Our strategy of innovation in technology, management and service once again received official recognition. Our wholly-owned subsidiary, Haitian Plastics Machinery Group Co., Ltd. was awarded winner for the plastic injection moulding machine industry among the list of manufacturing enterprises receiving awards from Ministry of Industry and Information Technology of Chinese Government. Our green and smart large-tonnage two-platen plastic injection moulding machine was awarded China Machinery Industrial First Grade Technology Award.

We believe our advanced research and development capabilities and innovation would match the new national strategy of "Made in China 2025" by Chinese Government. We will further innovate in our product development, manufacturing process and service to ride on the third industrial revolution of artificial intelligence. We target to build a solid foundation in providing smart automation product to our customers and continue to lead in the competitive industry in the world and create greater value for our customers, shareholders and employees.

CEO'S REPORT

Highlights

	2016 RMB' million	2015 RMB' million	Increase %
Revenue	**8,098.1**	7,336.4	10.4
Gross profit	**2,783.2**	2,419.3	15.0
Operating profit	**1,811.0**	1,545.5	17.2
Profit attributable to shareholders of the Company excluding change in fair value of convertible bonds	**1,583.8**	1,333.0	18.8
Profit attributable to shareholders of the Company	**1,550.9**	1,363.3	13.8
Basic Earnings per share (expressed in RMB per share)	**0.97**	0.85	13.8
Dividend per share (expressed in HK$ per share)			
Second interim dividend	**0.20**	0.19	5.3
Full year dividend (including interim dividend)	**0.37**	0.35	5.7

- Amid the volatile market, we achieved extraordinary sales performance. Revenue increased 10.4% to RMB8,098.1 million compared to the results record in 2015

- Our strategic focus of small-tonnage full-electric machines and large-tonnage two-platen machines continued to deliver outstanding results. In 2016, the sales of our Zhafir electrical series and two-platen Jupiter series (large-tonnage two-platen PIMMs) increased to RMB795.1 million and RMB982.2 million, representing an increase of 17.7% and 32.5% compared to the results in 2015 respectively

- Gross profit margin improved to 34.4% (2015: 33.0%) as a result of enhancement in operation efficiency, stable steel related raw material costs and change in sales mix

- Profit attributable to the shareholders of the Company increased 13.8% to RMB1,550.9 million compared to the results of 2015. Excluding the non-cash accounting loss of change in fair value of convertible bonds issued in 2014 ("CB"), profit attributable to the shareholders of the Company would increase to RMB1,583.8 million, representing an increase of 18.8% to the results in 2015

- Earnings per share amounted to RMB0.97 per share during the period

- The Board declared a second interim dividend of HK$0.20 per share and, together with the interim dividend of HK$0.17 per share, constitute a total dividend of HK$0.37 per share (2015: HK$0.35 per share)

Financial Review

Revenue

The still unstable global market and China going through a period of slower growth in economic development both posed challenges to the business of the Group. But we did witness a mild recovery in demand for plastic injection moulding machine industry in China in the second half of 2016 and we achieved another historical sales record in 2016. Our sales increased to RMB8,098.1 million, representing an increase of 10.4% compared to RMB7,336.4 million recorded in 2015. The recovery in domestic sales was more obvious with an increase of 14.0% to RMB5,552.7 million compared to results of 2015, while our export sales recorded a historical high of RMB2,360.8 million, representing an increase of 3.0% compared to results in 2015.

Gross Profit

In 2016, our gross profit reached RMB2,783.2 million, representing an increase of 15.0% compared to 2015. Overall gross margin increased from 33.0% in 2015 to 34.4% in 2016, as a result of (i) improvement in operational efficiency, (ii) stable steel related raw material costs, and (iii) change in sales mix after the full launch of the "Plus" series machines.

Selling and administrative expenses

The selling and administrative expenses increased by 6.3% from RMB1,031.1 million in 2015 to RMB1,096.5 million in 2016. The increase was due to increase in labour and administrative costs, research and development expenses and sales commission expenses.

Other income

Other income mainly consists of government subsidy and decreased by 4.8% from RMB104.3 million in 2015 to RMB99.3 million in 2016.

Finance income – net

We recorded a drop in net finance income from RMB127.3 million in 2015 to RMB99.6 million in 2016. The changes were mainly attributable to (i) our non-cash accounting loss of change in fair value of convertible bonds of RMB121.6 million in 2016 was significantly more than the same accounting loss of RMB44.6 million in 2015, which was partially off-set by (ii) net foreign exchange gains of RMB48.3 million in 2016 compared to net foreign exchange losses of RMB4.9 million in 2015.

Income tax expenses

Income tax expenses increased by 15.9% from RMB313.0 million in 2015 to RMB362.8 million in 2016. Our effective tax rate maintained at a similar level of 19.0% in 2016 (2015: 18.7%).

Net profit attributable to shareholders

As a resulted, our net profit attributable to shareholders of the Company in 2016 increased to RMB1,550.9 million, representing an increase of 13.8% compared to 2015. Excluding the change in fair value of convertible bonds, the adjusted net profit attributable to shareholders of the Company for 2016 increased to RMB1,583.8 million, representing an increase of 18.8% compared to 2015.

Liquidity, Financial Resources, Borrowing and Gearing

The Group finances its operations and investment activities mainly with internally generated cash flow. As at 31 December 2016, the Group's total cash and cash equivalents, term deposits and restricted cash amounted to RMB3,263.9 million, RMB150.0 million and RMB112.7 million respectively (31 December 2015: RMB2,349.5 million, nil and RMB164.0 million respectively). The Group's short-term bank borrowing amounted to RMB677.7 million as at 31 December 2016 (31 December 2015: RMB436.0 million).

In February 2014, we issued US dollar denominated 2.00 coupon CB due 2019 of USD200 million for general corporate purposes. As at 31 December 2016, the convertible bonds balance amounted to RMB1,392.0 million which represented the market fair value of convertible bonds (31 December 2015: RMB1,270.4 million). CB of an aggregate principal amount of USD75,250,000 were redeemed by the Company on 13 February 2017 pursuant to exercise of rights of redemption by holders of such CB and please refer to the Company's announcement dated 16 January 2017 for details of such redemption.

The Group also placed certain surplus fund into wealth management products which recorded as available-for-sale financial assets. The wealth management products with floating interests ranging from 2.8% to 6.8% (2015: 2.1% to 8.1%) per annum. As at 31 December 2016, the Group's available for sale financial assets amounted to RMB3,729.0 million (31 December 2015: RMB2,813.0 million).

The net gearing ratio is defined by management as total borrowings net of cash divided by shareholders' equity. As at 31 December 2016, our Group was in a strong financial position with a net cash position amounting to RMB1,457.0 million (31 December 2015: RMB807.2 million). Accordingly, no gearing ratio is presented.

Capital Expenditure

In 2016, our capital expenditure consisted of additions of property, plant and equipment and land use rights which amounted to RMB469.2 million (2015: RMB475.2 million).

Charges on Group Assets

As at 31 December 2016, available-for-sale financial assets amounted to RMB100.0 million were pledged for issuing the letter of guarantee for borrowings (31 December 2015: restricted bank deposits amounted to approximately RMB51.4 million and available-for-sale financial assets amounted to RMB100.0 million were pledged for issuing the letter of guarantee for borrowings).

Foreign Exchange Risk Management

During the Reported Period, our Group exported approximately 30.1% of its products to international markets. Such sales were denominated in U.S. dollars or other foreign currencies, while our Group's purchases denominated in U.S. dollars or other foreign currencies accounted for less than 10% of our total purchases. During the Reported Period, our Group borrowed certain Euro denominated bank loans to hedge the exchange risk of Euro denominated receivables arising from export sales.

Financial guarantee

As at 31 December 2016, our Group provided guarantee to banks in connection with facilities granted to the customers with an amount of RMB1,250.5 million (31 December 2015: RMB979.4 million).

DIRECTORS AND SENIOR MANAGEMENT

Directors and Senior Management

Executive Directors

Mr. Zhang Jingzhang (張靜章), aged 80, is an executive Director and the Chairman of the Group. He is responsible for the overall business development strategy of the Group and has in-depth knowledge of, and more than 50 years of experience in, the plastic processing machinery industry. Mr. Zhang was the factory manager of Zhenhai Plastic Injection Moulding Machinery Factory (鎮海塑料機械廠), the predecessor of Ningbo Haitian Group Co., Ltd (寧波海天股份有限公司) ("Ningbo Haitian") from 1970 to 1994. He was named an excellent model worker of Ningbo (寧波市特等勞模) in 1988 by the Ningbo Municipal People's Government, and was also awarded the title of an "Outstanding Factory Manager and Manager of Industrial Enterprise of Ningbo" (寧波市工業企業優秀廠長、經理) by the Ningbo Municipal Committee of Communist Party of China for Economic Affair and Ningbo Economic Committee in 1993. In July 1994, Mr. Zhang founded the Group and was appointed as the chairman of the Group. Mr. Zhang was named as an economist by the Ningbo Municipal People's Government (寧波市人民政府) in 1994, an outstanding worker in the national plastic processing machinery industry (全國塑料機械行業先進工作者) by the China Plastic Processing Machinery Industry Association in 1996 and an outstanding township entrepreneur in Zhejiang (浙江省優秀鄉鎮企業家) by the Zhejiang Township Enterprise Bureau. In December 2002, Mr. Zhang was awarded the title of New Millennium Star Entrepreneur of the National Machinery Industry (新世紀首屆全國機械工業明星企業家) by the China Machinery Industry Federation (中國機械工業聯合會), an entrepreneur of China (全國鄉鎮企業家) and outstanding factory manager (manager and chairman) of China (全國優秀鄉鎮企業廠長) and was also elected as a deputy to the People's Congress of Ningbo and Beilun District (寧波市和北侖區人大代表) in both 1988 and 1999. He was named an outstanding entrepreneur of Zhejiang (浙江省優秀創業家) in 2006. Mr. Zhang currently serves as the honorary chairman of the China Plastics Machinery Industry Association (中國塑料機械工業協會).

Mr. Zhang is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng and the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are directors of the Company. He is also a director of Sky Treasure Capital Limited ("Sky Treasure") and Premier Capital Management (PTC) Ltd. ("Premier Capital"), which interests in the Company have been detailed under the paragraph headed "Interests and Short Positions of Shareholders" in the Directors' report.

Directors and Senior Management

Mr. Zhang Jianming (張劍鳴), aged 54, is an executive Director and the Chief Executive Officer of the Group and is responsible for the overall daily operations of the Group. By introduction of Mr. Zhang Jingzhang, Mr. Zhang joined the Group in August 1977 as worker and has gained extensive exposure in various departments of the Group. With over 35 years of experience in the plastic processing machinery industry, Mr. Zhang is experienced in all facet of the overall operation of the Group. He obtained a master in business administration from the Management College of Fudan University (復旦大學管理學院) in July 2002. Mr. Zhang has been appointed as the chief executive officer of the Group since April 2000. Mr. Zhang served as a member of the National Committee of the Chinese People's Political Consultative Conference in Beilun District (北侖區政協委員會) in 1996 and as a director of the Quality Management Association of Beilun District of Ningbo (寧波市北侖區質量管理協會) from 1990 to 2000. In January 2006, Mr. Zhang was also selected as a representative of Ningbo's private enterprises to attend the National Science and Technology Conference. From 2003 to 2011, he was the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會). Mr. Zhang was also elected a deputy to the People's Congress of Beilun District (北侖區人大代表) in 2012. Mr. Zhang Jianming is the elder son of Mr. Zhang Jingzhang, the elder brother of Mr. Zhang Jianfeng and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are Directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

Mr. Zhang Jianguo (張建國), aged 61, is an executive Director and the senior vice president of research and development of the Group. Mr. Zhang joined the Group in January 1974 and has more than 40 years of experience in the plastic processing machinery industry. He obtained a diploma in electrical and mechanical engineering from Zhejiang Radio TV University (浙江省廣播電視大學) in 1987. Mr. Zhang joined the Group in January 1974 initially working in the quality control division. He was subsequently promoted to the head of quality control in 1996. He has been appointed as the senior vice president of research and development of the Group since 1999. He has contributed to the Group in developing and improving its products including the HTFX series, the HTFW series and the HTK series. He was named as an outstanding technological worker in a township enterprise at provincial level (省級鄉鎮企業優秀科技工作者) in 1990 and twice named as a professional technician with outstanding contributions to the Ningbo region (區級有突出貢獻專業人員) by the People's Government of Ningbo Beilun district in 1990 and 1997. In 1999, Mr. Zhang was awarded by the Ningbo Municipal People's Government the titles of outstanding professional technician of (寧波市優秀專業技術人員) and pioneer in technological innovations in Ningbo (寧波市首屆科技創新功臣). He was also named an excellent labour model of Ningbo (寧波市特等勞動模範) in April 2000. In 2001, Mr. Zhang obtained a "Great Achievement in the World Technology" award (世界科學技術發展成就獎) from the Hong Kong International EXPO Organising Committee for Patented Technology. Mr. Zhang is a director of Sky Treasure and Premier Capital.

Directors and Senior Management

Mr. Zhang Jianfeng (張劍峰), aged 47, is an executive Director and the senior vice president of sales and marketing of the Group. Mr. Zhang joined the Group in October 1985 and has more than 30 years of experience in the plastic processing machinery industry. He was promoted to the deputy head of the Group's sales division in the sales and marketing department in 1997. He has been appointed as the senior vice president of sales and marketing of the Group since 2002. Mr. Zhang has been appointed as the chairman of Ningbo Plastic Machine Industry Association (寧波市塑料機工業協會) since 2012. Mr. Zhang is the younger son of Mr. Zhang Jingzhang, the younger brother of Mr. Zhang Jianming and the brother-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are Directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

Ms. Chen Ningning (陳寧寧), aged 54, is an executive Director and the vice president of finance of the Group. Ms. Chen is a qualified accountant in China. Ms. Chen first joined the Group in May 1984. Ms. Chen served as the deputy head of the finance and accounting department, and the head of the accounting division, the cost division and the inventory division of the Group from 1999 to 2003. Since 2004, Ms. Chen has served as the vice president of finance of the Group. She was named as an outstanding accountant of Ningbo in 2005. Ms. Chen is a director of Sky Treasure and Premier Capital.

Non-Executive Directors

Prof. Helmut Helmar Franz, aged 67, is a non-executive Director and the Chief Strategic Officer of the Group. He joined the Group in September 2007 and has over 40 years of experience in the plastic processing machinery industry. Prof. Franz obtained a degree in engineering specialising in plastic machinery and processes and joined Plastmaschinenwerk Schwerin in the former German Democratic Republic in 1972. At Plastmaschinenwerk, Prof. Franz worked as a senior executive in research and development and marketing. In 1985, he joined WWW Import-Export in Berlin, Germany where he served as the managing director for WWW Import-Export's sales and services in Iraq, Egypt and Russia. In 1991, he joined Demag Ergotech (previously known as Mannesmann Demag Kunststofftechnik) ("Demag"), initially as the managing director for Demag's sales and services branch in Moscow, Russia. From 1995 until 1999, he served as the managing director for Demag's manufacturing plant for small machines in Wiehe, Germany. He was then promoted to Demag's chairman in 1999 and held the office until 2005. Prof. Franz had been a member of the board of the VDMA (the German Engineering Federation) association of German plastics machinery manufacturers for many years. He served as the chairman of the board of the VDMA from July 2003 until April 2005. From 2005 to 2013, Prof. Franz was the sole managing director of Zhafir Plastics Machinery GmbH, a German limited liability company which is engaged in the research and development of plastic injection moulding machineries. The Group acquired a 91% equity interest in Zhafir Plastics Machinery GmbH in August 2007 and the remaining 9% equity interest in 2014. Prof. Franz was re-designated from an executive director to a non-executive director in October 2015.

Directors and Senior Management

Mr. Guo Mingguang (郭明光), aged 50, is a non-executive Director. Mr. Guo joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. In 1985, he was transferred to the Group's customer services department, and was transferred again in 1989 to the Group's engineering department. From 1994 to 1999, he served as the deputy general manager of Ningbo Zongtian Plastic Processing Machinery Manufacturing Co., Ltd. From 1999 to 2002, he served as the general manager of a factory of the Group. In 2003, he was appointed as the deputy head of production of the Group and was promoted to the vice president of production of the Group in 2004. Mr. Guo was re-designated from an executive Director to a non-executive Director on 1 June 2012. Mr. Guo is a son-in-law of Mr. Zhang Jingzhang, the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Liu Jianbo, all of whom are Directors of the Company and he is also a director of Sky Treasure and Premier Capital.

Mr. Liu Jianbo (劉劍波), aged 48, is a non-executive Director. Mr. Liu joined the quality assurance department of the Group in November 1986 and was appointed as a quality control manager in 1997. In 2000, he qualified as an internal auditor under the ISO9001:2000 certification system and since then has been responsible for the Company's internal quality control audit. He has been the Company's vice president of quality control since February 2004 and the Company's vice president of customer service since July 2004. Mr. Liu was re-designated from an executive Director to a non-executive Director on 1 June 2012. Mr. Liu is a son-in-law of Mr. Zhang Jingzhang and the brother-in-law of Mr. Zhang Jianming, Mr. Zhang Jianfeng and Mr. Guo Mingguang, all of whom are Directors of the Company, and he is also a director of Sky Treasure and Premier Capital.

Independent Non-Executive Directors

Dr. Steven Chow (周志文), aged 72, joined the Group in September 2007 as an independent non-executive Director. He is a licensed investment advisor and has over 30 years of experience in banking and investment. He received his Bachelor of Science Degree from Bishop's University and his Master's Degree in Business Administration and PhD degree (in Economics) from Boston University. Dr. Chow is a senior representative for a European bank as well as a managing director of its local company providing wealth management services for high net worth clients in Asia. Dr. Chow served as independent non-executive director of CNT Group Ltd. during the last three years, which shares are listed on the Main Board of the Stock Exchange. He was a member of the Chinese People's Political Consultative Commission, Ningbo from 1989 to 2011.

Directors and Senior Management

Mr. Lou Baijun (樓百均), aged 53, joined the Group in March 2012 as an independent non-executive Director. He is currently the Head of Modern Logistics School and Professor of Zhejiang Wanli University. Mr. Lou is a member of the Chinese Institute of Certified Public Accountants since 1996. Mr. Lou was appointed deputy director and deputy professor of Faculty of Financial Management of Jiangxi University of Finance and Economics between 1985 and 2001 and commenced teaching at Zhejiang Wanli University since 2001. Mr. Lou obtained a master degree in management and engineering from Wuhan University of Technology in 2006. Mr. Lou was an independent non-executive director of Ningbo Veken Elite Group Co., Ltd. (stock code: 600152) from 19 June 2008 to 19 September 2014, the shares of which were listed on the Shanghai Stock Exchange.

Mr. Jin Hailiang (金海良), aged 63, joined the Group in March 2013 as an independent non-executive Director. He is currently the Chairman of Ningbo Xinlong Real Estate Company Limited. Mr. Jin is also a councilor of the Ningbo Real Estate Association and the President of Ningbo Beilun Real Estate Association. Mr. Jin was appointed to a number of roles at Housing Management Bureau of Zhenhai and Chaiqiao Counties Municipal Government including deputy director and deputy director of statistics office between 1971 and 1985. Mr. Jin was appointed as director and party-chief of Housing Management Bureau of Beilun District and its Development Zone since 1985 and assumed the role of director and party-chief of Beilun Construction Quality Supervision Station in 1997. He was appointed to his current position of the Chairman of Ningbo Xinlong Real Estate Company Limited since 1999. Mr. Jin obtained a diploma in real estate management from Zhejiang University of Technology in 1994.

Mr. Guo Yonghui (郭永輝), aged 60, joined the Group in November 2016 as an independent non-executive Director. Prior to his retirement in August 2016, he was the Department General Manager of Ningbo Branch of Bank of China Limited. He was appointed to a number of roles at Finance & Local Taxation Bureau of Xiangshan District in Ningbo, China including section chief and director of Finance & Local Taxation Office between 1986 and 1994. He was appointed to the position of President of Sub-branch and Department General Manager of Ningbo Branch of Bank of China Limited since 1995. Mr. Guo graduated from Zhejiang Radio & TV University with a diploma in industrial accounting in 1990. He was a qualified economist in China since 1993. He graduated in law from PLA Dalian Naval Academy in 2003.

Senior Management

Mr. Yu Wenxian (虞文賢), aged 47, is the vice president of human resources and administration of the Group. Mr. Yu graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in mechanical engineering in 1991. He joined the Group in May 1993 as an engineer. Since 1997, Mr. Yu has been working in the areas of administration and human resources and served various managerial roles in those areas. He has been appointed as the vice president of human resources and administration of the Group since 2003 and had been serving as the executive assistant to the chief executive officer of the Group between 2004 and 2010.

Mr. Bei Haibo (貝海波), aged 50, is the vice president of domestic sales of the Group. Mr. Bei joined the Group in January 1983 and has more than 30 years of experience in the plastic processing machinery industry. He was appointed as a manager responsible for after-sales services in 1997 and was promoted to deputy general manager of the Group's sales department in 1998.

Mr. Chen Weiqun (陳蔚群), aged 45, is the general manager of Haitian Huayuan, the export arm of the Group. Mr. Chen graduated from Huadong Yejin College (華東冶金學院) with a bachelor's degree in mechanics in August 1993. In 2005, he obtained a master's degree in business administration from the University of Zhejiang. He joined the research and development department of the Group in 1993. In 1994, he joined the international sales team of the sales department. He was appointed as an assistant to the chief executive officer in 2000 and as the deputy general manager of international sales in 2003. He has been appointed as the deputy general manager responsible for the Group's international sales since 2004. He was also appointed as the general manager of Haitian Huayuan in 2004.

Mr. Shi Huajun (施華均), aged 45, is the general manager of the internal control and investor relation department of the Group. Mr. Shi graduated from Zhejiang Finance Economics College with a bachelor's degree in economics in 1994. He obtained a master's degree in business administration from the Open University of Hong Kong in 2003. Mr. Shi has in-depth knowledge of, and over 20 years of experience in, auditing, accounting and finance and is a certified accountant, certified valuer and registered tax agent in China. Prior to joining the Group, Mr. Shi was a partner with a local accounting firm in Ningbo. He was named an outstanding certified accountant in Zhejiang (浙江省優秀註冊會計師) by the Zhejiang Certified Accountants Association in 2003.

Mr. Suen Waiyu (孫懷宇), aged 39, is the Company Secretary of the Company and joined the Group in November 2010. Mr. Suen graduated from the University of Hong Kong with a bachelor degree in laws in 2000 and he is a solicitor admitted to practice laws in Hong Kong. Prior to joining the Group, Mr. Suen was previously working in an international law firm advising companies on corporate transactions, capital market transactions and listing companies compliance related work. Mr. Suen has served as an independent non-executive director of VPower Group International Holdings Limited since 24 October 2016, which shares are listed on Main Board of the Stock Exchange.

Investor Information

Listing Information

Listing:	Hong Kong Stock Exchange
Stock code:	1882

Key Dates

21 March 2017	—	Result Announcement of 2016
10–12 April 2017	—	Closure of register of members (entitlement to second interim dividend)
about 21 April 2017	—	Payment date of second interim dividend
15–18 May 2017	—	Closure of register of members (Annual General Meeting)
18 May 2017	—	Annual General Meeting

Share Information

Board lot size: 1,000 shares

Shares outstanding as at 31 December 2016:
1,596,000,000 shares

Market Capitalisation as at 31 December 2016:
HK24,291.1 million

Basic earnings per share for 2016:	RMB0.97
Diluted earnings per share for 2016:	RMB0.97

Dividend per share for 2016	
Interim dividend	HK17.0 cents
Second interim dividend	HK20.0 cents
Total	HK37.0 cents

Hong Kong Share Registrar Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Enquires Contact

Investor Relations Department

Tel (China):	86-574-86182786
Tel (Hong Kong):	852-24282999
Fax:	86-574-86182787
E-mail:	andy@mail.haitian.com
Address:	No. 1688 Haitian Road, Beilun District, Ningbo, Zhejiang Province, China
Postal code:	315800

Website

http://www.haitianinter.com
http://www.haitian.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Introduction

This report covers the activities of Haitian International Holdings Limited and its subsidiaries in the area of environmental protection, employees, compliance with regulatory requirements in business operation and social responsibility. The period covered by this report is 2016 and comparative figures in 2015 are also provided to the extent available.

As a leading plastic injection moulding machinery manufacturer in the world, our operation has significant impacts to different stakeholders including employees, customers and suppliers, communities and environment in which we operate our business, and our shareholders. Along the path of our business development, we are well aware of such impacts and we make constant effort in formulating and adjusting our strategies and policies so that we can continue to make positive impacts to our stakeholders. Though we are not in a pollution-intensive industry, we pay high attention to the impacts of our manufacturing process and our products to the environment and adopt measures that would reduce generation of industrial wastes, properly handle residual materials and lower the consumption of resources. We take care of our employees in all aspects, from compensation and a safe work-place to support of outside-work activities and opportunities to contribute to communities. We also acknowledge the non-optimal allocation of resources and fruits of economic development in our society and our roles to play against this background, through Haitian Charity Foundation and the assistance it provides to the people in need in our communities.

Environmental Responsibility

I. Overview

Our main products are hydraulic and electric plastic injection moulding machines and our manufacturing process can be mainly divided into processing of parts and components, assembling different parts into machine and testing of finished products. The main energy consumed during the manufacturing process is electricity and natural gas. The metal surface-processing including painting, cleaning and powdering emits gas and consumes water and the packaging of finished products entails usage of packaging materials. Our manufacturing process will produce waste water, oil and gas and other industrial wastes which, after specific steps of processing, will be emitted into the environment and dispensed into public sewage systems or collected by licensed contractors for toxic-removal processing according to applicable regulations and standards.

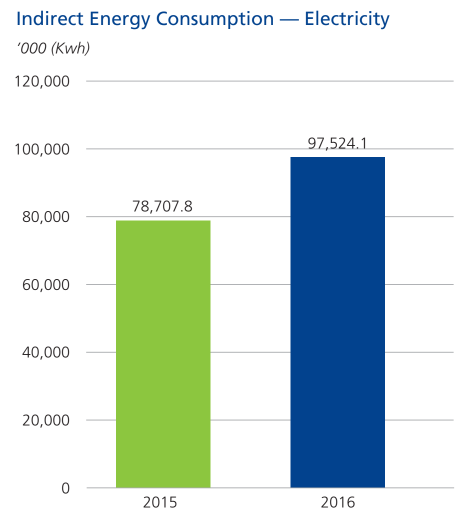
We have adopted specific policy on prevention of pollution and handling of industrial wastes for our factories in China with reference to the applicable rules and regulations. Our factory managers are responsible for implementing such policy to ensure our factories are able to comply with the environmental related rules applicable to their locations. For our overseas factories, we engage experts in the early design phase and during their operation to ensure that we are able to comply with the environmental and waste disposal regulations in the relevant countries or districts.

We have set up an Environmental Protection Division in our Group and it is responsible for monitoring the environmental related work of our factories. It will conduct random check on the status of environmental protection measures for different factories and their compliance with our policy. They will also provide updates on the latest development and issues for environmental protection relevant to our operation.

II. Energy Consumption

Electricity

The main energy consumption during our manufacturing processes and daily operations is electricity, which is mainly provided by public electric grid of relevant regions. Below is the data of electricity consumption for our main production and office facilities in 2015 and 2016:

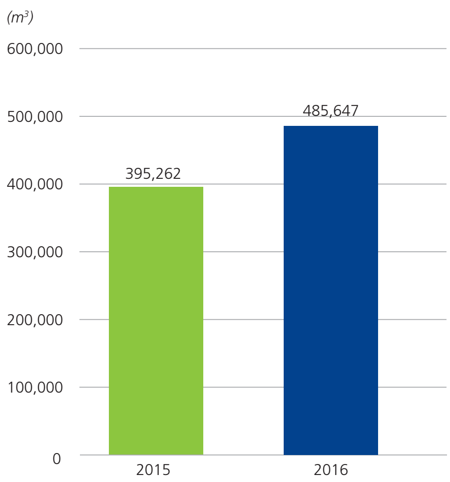


The average electricity consumption per unit of product output in 2015 and 2016 are 3,053.3 (Kwh) and 3,301.6 (Kwh), respectively.

Natural Gas

The drying process after painting and powdering in our manufacturing flow requires the use of natural gas, which is mainly provided by natural gas supplier of relevant regions. Below is the data of natural gas consumption for our main production facilities in China in 2015 and 2016:

Indirect Energy Consumption — Natural Gas



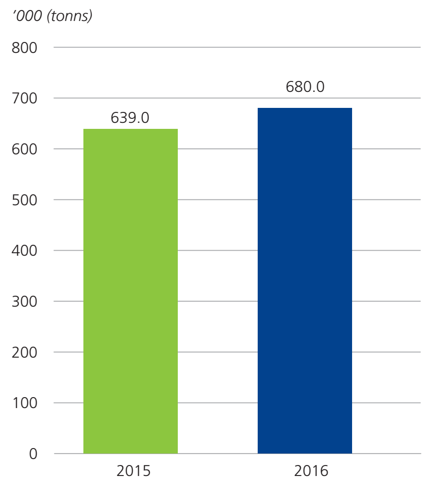
The average natural gas consumption per unit of product output in 2015 and 2016 are 15.3 (m^3) and 16.4 (m^3), respectively.

We will continue to monitor the energy consumption of our Group and proposed new measures to reduce energy consumption including equipment with higher efficiency in energy consumption and measures to reduce waste in manufacturing process.

III. Resource consumption

The metal surface-processing including painting, cleaning and powdering consumes water, which is also required for other purposes such as cleaning and staff dormitory. Below is the data of water consumption for our main facilities in 2015 and 2016:

Water Consumption



We do not disclose the average water consumption per unit of machine output as the major components of water consumption are not manufacturing related and therefore there is no direct correlation between water consumption and machine output.

We are continuously in the processing of adopting new equipment which can raise the efficiency in consumption of resources in our manufacturing process after considering the impact and costs to our operation. The following equipment is an example of new equipment adopted in 2016 for reduction in the consumption of water in our manufacturing process.

Recycling system of cooling water

IV. Pollution Control

Under applicable Chinese laws and regulations, any facility that will involve emission of gas, water and/or toxic-waste into environment during its production process will require an environmental impact assessment to be performed before its construction to ensure that the legal requirements on emission would be satisfied. After the construction is completed, a post-completion check will be implemented. Before commencement of operation, the facility operator has to apply for an emission permit. We have completed the environmental impact assessment for all our production facilities in China based on applicable regulations at the time of its construction and obtained the required emission permits.

1. Gas: the painting and powdering processing in production will produce waste emission which requires processing. We adopt filter-adhesion-diffusion-catalyst combustion to process such emission. The polluting components in such emission will be filtered with filters and carbon-based catalyst before their disposal.

An emission processing system at a factory in Ningbo, China

2. Sewage: the processing of metal surface including painting and powdering and cleaning of factory premises produce industrial sewage which will be collected and processed by sewage treatment plant in our factories in China. After processing through our sewage system, the sewage will be dispensed through connection to the public sewage system.

The sewage treatment plant in one of our factories in Ningbo, China

Our factories in Ningbo, China are required to comply with local sewage standards and, in addition to building a monitoring station, we have engaged independent and licensed institution to monitor the operation of our sewage plants to ensure that our sewage plants are in proper operation and we are able to meet the applicable regulatory requirements.

3. Other solid and liquid wastes: our manufacturing process also produces other solid and liquid wastes including (i) toxic wastes such as emulsified mixture, phosphate waste, oil barrel and other wastes and (ii) non-toxic wastes such as domestic garbage, packaging residuals, metal scraps. These will be handled according to regulatory requirements before collection by contractors licensed by provincial environment protection bureau for toxic-removal processing.

Collection of phosphate waste by a contractor licensed by provincial environment protection bureau at a factory in Ningbo, China

The following figures show the amount of other solid and liquid wastes we produced in 2015 and 2016:

Nature of wastes	**2016 (tonnes)**	2015 (tonnes)
Oil-inclusive waste	**6.33**	7.29
Emulsified mixture	**79.85**	55.75
Oil barrels	**93.15**	99.56
Phosphate waste	**181.35**	211.6

We have adopted specific regulations for processing of wastes generated from our manufacturing process and its implementation is continuously monitored by our Environmental Protection Division. We have set up detailed recording system for the processing of toxic wastes that require special treatment under applicable regulations. This ensures we are able to comply with such regulatory requirements and allows cross-checking of the status of different check-point in the system.

We have also implemented a reward and penalty mechanism for environmental protection in our Group. We encourage new measures for enhancement in energy consumption, emission reduction and pollution control with rewards and discourage failures in meeting environmental benchmarks with penalties. In 2016, we succeeded in reducing phosphate waste through setting up new pollution control equipment. We will continue to adopt latest technology and more efficient equipment to reduce wastes generated in our manufacturing process and their impacts to the environment.

Workplace Quality

I. Overview

Over past 50 years, Haitian transformed from a local factory with just over a hundred employees into a global enterprise with over 5,000 employees. Our success builds upon the effort and contribution of each employee and a safe work place, sufficient work-related training and diversified outside-work activities are our concern throughout the years. We regard such elements as crucial for a stable work-force and for a continuing Haitian story.

On top of the basic regulatory requirements for recruitment, compensation, benefits and other rights of employees, we provide a working environment that values each employee individually from different aspects. We provide performance-based bonus, promotion track, arrangements for employees seconded to overseas locations to return to China on a regular basis and annual health-check for majority of our employees in China.

II. Basic Information of Employees

We had a total workforce of approximately 5,140 employees as of 31 December 2016.

The tables below show the details of our employees by location, age group, gender and educational level:

Location

Location	Numbers	Percentage of total workforce
China	4,838	94.1%
Overseas	302	5.9%
Total	5,140	100.0%

Age Group

Age Group	Numbers	Percentage of total workforce
30 or below	1,747	34.0%
31–40	1,864	36.3%
41–50	984	19.1%
51 or above	545	10.6%
Total	5,140	100.0%

Gender

Gender	Numbers	Percentage of total workforce
Male	4,531	88.2%
Female	609	11.8%
Total	5,140	100.0%

Educational Level

Educational Level	Numbers	Percentage of total workforce
Postgraduate or above	64	1.2%
Undergraduate or technical college	2,058	40.0%
Secondary technical high school and secondary high school	1,396	27.2%
Secondary technical junior school, secondary junior school or below	1,622	31.6%
Total	5,140	100.0%

The table below shows figures of turnover rate of our employees in 2015 and 2016:

	2016	2015
Turnover rate	5.09%	4.26%

III. Workplace safety

We pay much attention to build and run a safe workplace for our employees. In addition to initial workplace safety training for new employees, we arrange regular demonstration and rehearsal for proper handling of incidents at workplace and invite workplace safety experts to examine our facilities and make recommendation for improvement in safety measures. Since June 2016, we have been publishing an internal monthly journal "Safe Manufacturing Report" to provide knowledge and experience for different aspects of workplace safety and enhance the awareness among our employees.


海天集团
HAITIAN GROUP

内部资料，仅供学习使用

安全生产简报

2016 年第 1 期（总第 1 期）

主办：海天集团安保科　　2016 年 6 月

【创报语】

为贯彻落实国家新《安全生产法》管理要求，进一步提升公司安全管理水平，认真执行“安全第一，预防为主，综合治理”的安全生产方针，促进安全培训教育，防止各类安全生产事故发生，为公司各级安全管理组织搭建一个学习和交流的平台，特创办海天集团《安全生产简报》。

本简报内容主要涵盖以下几个方面：

1、安全生产法律法规、公司安全生产管理制度宣贯；

2、安全生产管理理论、知识学习；

3、安全生产管理活动宣传展示；

4、安全生产管理经验交流推广；

5、国内外安全事故案例分析及预防；

希望本简报能对各级安全管理人员提供帮助，也期望公司各级领导及安全管理人员提出宝贵意见和建议，共同提高公司安全管理水平。

风良好，保持干燥，不允许有通往室外的沟道等。

2.2.3 盛装易起聚合反应或分解反应的气瓶，必须规定储存期限，并应避开放射性射线源。

2.2.4 空、实瓶应分开放置，有明显的标记，并保持间距 1.5m 以上，且有可靠的防倾倒措施。

2.2.5 盛装毒性气体或相互接触后能引起燃烧、爆炸以及产生毒物的气瓶，应分库存放，并在附近设置防毒护具或消防器材。

2.3　安全使用

2.3.1 作业现场的气瓶，同一地点放置数量不应超过 5 瓶；若超过 5 瓶，但不超过 20 瓶时，应有防火防爆措施；超过 20 瓶以上时，必须设置二级瓶库。

2.3.2 作业现场的气瓶应有可靠的防倾倒措施。

2.3.3 气瓶不得靠近热源，可燃、助燃气体气瓶与明火间距应大于 10 米，气瓶壁温应小于 60℃。

The table below shows figures of work injuries and loss in work-day in 2015 and 2016:

Year	Incidents of work injuries	Loss in work days
2015	46	2,020
2016	48	1,939

We would investigate the reasons for each incident of work injury, enhance the preventive measures for similar incident and raise the awareness for work-place safety of our employees.

IV. Work Training

We understand the importance of different knowledge and skills required for different posts and the need for our employees to keep updated with latest development in our industry and technology. Therefore we provide continuous internal training opportunity, conducted by experts in different area and our employees can select courses which are relevant to their posts or their personal development.

The table below shows the relevant data of our staff training in 2015 and 2016:

Year	Total number of staff training entries	Average training entry per staff	Total number of hours of training	Average number of hours of training per staff
2015	9,561	1.8	25,209	4.8
2016	13,342	2.6	39,266	7.6

V. Diversified After-work Activities

While we emphasize on performance at work, we pay equal attention to a healthy lifestyle for our employees after-work. We have set up 12 recreational clubs under Haitian Group Union and they offer plenty of different opportunities for our employees to engage in healthy activities and develop personal interests. The co-workers can also improve communication and mutual understanding outside work-place. The 12 recreational clubs include basketball, Tai-Chi, photography, calligraphy, performance arts etc.

In November 2016, Haitian Group Employee Fun Game was held for the first time in China:

VI. Compliance with laws

We comply with laws and regulations in China and overseas countries applicable to our recruitment, employment, compensation and benefits and termination for employees. We adopt specific guidance for all such procedures and we have implemented rules for specific area as set out below.

Social security and other benefits

We provide the following benefits to our employees in China and overseas locations according to the applicable regulations:

– social security programs including medical, work injury and retirement insurance schemes

– paid annual leave

– overtime-work compensation

Anti-discrimination

We have adopted anti-discrimination policy for our employees in China to ensure they receive fair treatment at work in different aspects and would not be discriminated as a result of gender, race, age, religion, sex orientation and social status.

Prohibition on child labour

We have adopted policy that strictly prohibit employment of child labour. Our staff responsible for recruitment will check the identity documents of the candidate to verify their ages and the supervisor of the department of the new recruits will check again their identity documents to verify their ages and identities on first day of work. Our human resource department will also conduct random check to verify ages and identity of our employees at different department.

Supply Chain Management

The majority of our suppliers are companies in China. Under the emphasis of transformation towards a sustainable economic development by the Chinese Government, all industries are paying more attention to the interaction between economic activities and environmental protection and social responsibility.

For processing which we out-source to third party contractors and involving potential pollution to the environment, we request the contractors to obtain relevant license from the environmental protection bureau of the local government to ensure they are qualified to perform the relevant work in compliance with the environmental protection requirements.

We foresee a sustainable economic development becoming the major trend in the world and awareness for environmental protection and social responsibility will increase with support from the government and enterprises. We will share such information with our suppliers and ensure sufficient preparation will be made for the future.

Product Quality

Product Quality Assurance

Our products are industrial equipment and there are different industrial benchmarks and standards in China and overseas countries. In some regions such as Europe, the standards are backed by regulations. These are often the basic requirements in our industry and we will provide products which, on top of such basic requirements, can meet the specifications set by our customers.

We have set up a complete product quality assurance system which involves specific personnel monitoring quality at different points in our business flow from procurement of components, processing and assembly, final products testing and commissioning. We provide full-service to our customers after our products are put into full operation and ensure our customers receive prompt feedback and solutions.

Intellectual Property Rights

We have registered our trademarks in over 90 countries and regions in the world which offer protection to our business in such countries and regions. We also have a team of engineers focusing on development and application of patents.

The three wholly-owned subsidiaries of our Group in China below have obtained certification under Enterprise Intellectual Property Management Standard (GB/T 29490-2013):

Haitian Plastic Machinery Group Co., Ltd.
Ningbo Haitian Huayuan Machinery Co., Ltd.
Ningbo Zhafir Plastics Machinery Co., Ltd.

Anti-corruption

We adopt a zero-tolerance policy on illegal activities such as bribery, extortion, fraud and money laundering in our operation. Any employee or officer involved in such activities will have their employment terminated and relevant acts reported to the authority. We also request our suppliers in China to undertake to us that no benefit or gift, in whatever form, will be provided to our employees or officers in the course of business activities with us. We will terminate business relationship with any supplier which breaches such undertaking.

Social Responsibility

The development and success of Haitian Group in the past 50 years were results of contribution by its employees, customers, business partners and governmental support. Therefore we have consistently emphasized the importance of a successful enterprise not only in the contribution to the development of business, technology and industry, but also its duty to provide direct assistance to disadvantaged groups in the society which may not have been able to share the success of social development. This is vital for a fair use of social resources.

Since the founding of Haitian Group, our efforts to contribute to our community have never stopped. We have funded the re-construction of facility of nearby communities, offered scholarship to students in financial needs and financed the establishment of Haitian Park in Ningbo, China. Our employees also contributed personally for aids to natural disasters and this was echoed with "One-Day Donation" since 2003. The total contribution from Haitian Group and its employees till 2012 for these purposes had reached RMB135.0 million. In order to conduct such charitable activities in a scientific, systematic and consistent manner, Haitian Group started to prepare for the set up of a charity foundation in 2012.

Zhejiang Haitian Charity Foundation was set up in 2013 and it was founded and initially funded by Mr. Zhang Jingzhang, Chairman of our Group. Following the proposal of our Chairman, senior management of Haitian Group made further contributions in 2015 and 2016. The purpose of the foundation is to provide aid to people in need of help in our community such as children deprived of education opportunity, people in financial needs due to sickness, physical disability, loss of family members, and to provide assistance to our employees through work-place assistance and daily life support.

Our Chairman, Mr. Zhang Jingzhang, spoke at the inauguration ceremony of Zhejiang Haitian Charity Foundation on 4 February 2013 "The value of an entrepreneur lies not only in development of the corporation, economic advancement, fulfillment of tax obligation, but also for contribution to community and responsibility to contribute to a better country and for the people. These are the basic principles for an entrepreneur".

In 2016, with the support of the Foundation, the following community services were implemented:

I. Regular Activities

1. Support for medical, educational and household expenses

- medical: provide financial support to people in need as a result of severe sickness or who cannot afford medical expenses
- educational: provide financial support to families having difficulties in sending children to school and for senior high-school and university level educational needs
- household: provide financial support to families in need as a result of natural disasters, accidents or severe sickness

2. Support to local community

Provide financial support to families in need at Yaqian, Shanxia and Qianjin villages in Xiaogang, Beilun, Ningbo before Chinese Lunar New Year

3. Support to special groups of people in need

In joint operation with Ningbo Beilun Xiaogang Jiedao Women Association, visited women in financial needs and suffering from cancer and youths in need to improve their livelihood and learning

4. Free medical check-up

Provide free initial medical check-ups and seminar on common disease preventive measures and treatment by doctors with different expertise

5. Haitian Charity Day

Already its 4th anniversary, the Haitian Charity Day covers free services such as hair-cutting, photography, eye-checking, bicycle and household electronics maintenance, key-making, blood testing etc.

6. Employee-organized activities

We also encourage our employees to organize new charity activities so that in addition to participation, they are able to input their idea in the design, planning and implementation of such activities and the Foundation would provide financial support. The following are activities which were organized by our employees in 2016:

I. Maintenance of bicycle

II. Maintenance of household electronics

III. Community Service

Visit of elderly

Collection and recycling of clothes and free hair-cut

II. Specific Activity

1. Visit to Ka Ang Minority Schools in Qinghai Province

Ka Ang Minority School in Qinghai Province was set up by a master of a Tibetan Buddhism temple. It is housed in a simple plank-wood structure next to the temple and provides free education. The children receiving education at this school are orphans, children from single-parent families and families without labour capabilities. Haitian Group has been providing financial support to the school since 2014 and Haitian Charity Foundation financed the new school building in 2016.

Haitian Charity Foundation personnel visited Ka Ang Minority School in Qianghai Province in September 2016.

2. "Say Love Loudly" Children Camp

During the summer vacation in July 2016, in cooperation with Ningbo Charity Association, Beilun Charity Association, Haitian Charity Foundation organized a children camp for 80 children aged between 9 and 12 (including children of Haitian employees, workers from other provinces and from low income families). The camp was organized by university student volunteers with 10 students from overseas countries and they guided the children with fun subjects and exploration on new activities designed for enhancement in group-work, appreciation and to feel the energy of love.

We believe the success in business shall go hand-in-hand with responsibility to community and provision of help to groups in need. At the same time, such activities provide valuable opportunities for our employees and partners to contribute to community with their own skills, time and resources.

CORPORATE GOVERNANCE REPORT

Corporate Governance Report

Haitian International Holdings Limited (the "Company") recognises the importance of good corporate governance to its healthy growth and has therefore devoted much efforts into formulating corporate governance practices that agree with its business needs. The Company has applied the principles set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") by adopting the relevant code provisions. The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG code. Save as set out in this section, the directors of the Company ("Directors") consider that the Company complied with all the applicable code provisions set out in the CG Code for the year ended 31 December 2016:

Deviation from CG Code

Attendance at annual general meeting: three non-executive directors were not able to attend the annual general meeting held in year 2016. Please refer to paragraphs headed "Investor Relations and Shareholders' Communication" for details.

Board of Directors

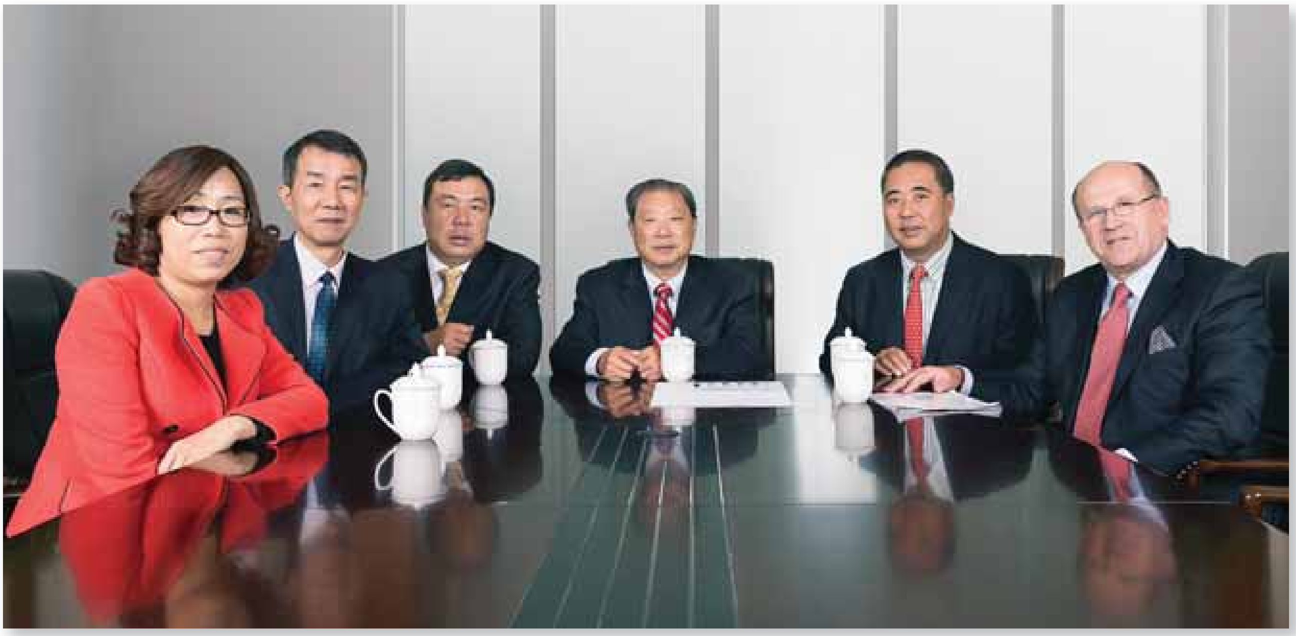
The Board of Directors (the "Board") comprises 5 Executive Directors, 3 Non-executive Directors and 4 Independent Non-executive Directors.

The Directors who held office during the year and up to the date of this report were:

Executive Directors
Mr. Zhang Jingzhang *(Chairman)*
Mr. Zhang Jianming *(Chief Executive Officer)*
Mr. Zhang Jianguo
Mr. Zhang Jianfeng
Ms. Chen Ningning

Non-executive Directors
Prof. Helmut Helmar Franz
Mr. Guo Mingguang
Mr. Liu Jianbo

Independent Non-executive Directors
Dr. Steven Chow
Mr. Lou Baijun
Mr. Jin Hailiang
Mr. Guo Yonghui (appointed on 11 November 2016)
Mr. Gao Xunxian (resigned on 11 November 2016)



The Board has a balance of skill, experience and diversity of perspectives that are essential to and would promote the business of the Group. It also has a balanced composition of Executive and Non-Executive Directors and is responsible to formulate overall strategy of the Group, monitor its operational and financial performance and oversight of the management of the Company's business and affairs. The Board, especially the Independent Non-Executive Directors, is also responsible to decide on acquisitions or disposals where there is conflict of interests for any Director(s). The Board has delegated the day-to-day responsibility to the Executive Directors and senior management of the Company. The biographies and relevant relationships amongst them are set out in the Directors and Senior Management Section of this annual report.

The Chairman and the Chief Executive Officer of the Company are Mr. Zhang Jingzhang and Mr. Zhang Jianming respectively. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by two separate individuals. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The division of responsibilities between the Chairman and the Chief Executive Officer have been clearly established and set out in writing.

The Non-executive Directors, with diversified industry expertise but not involved in the day-to-day management of the Group, serve the important function of advising the Board on strategic development of the Group, and ensure that the Board maintains high standards of financial and other mandatory reporting as well as provide adequate checks and balances for safeguarding the interests of the Company and the shareholders of the Company as a whole. The Company has received confirmations of independence from all existing Independent Non-executive Directors and considers them independent, in accordance with the Rule 3.13 of the Listing Rules. All Directors have a term of office of three years and are required to retire and, being eligible, can offer themselves for re-election in accordance with the articles of association of the Company.

Board Meetings

It is intended that the Board should meet regularly so that all directors are kept updated with the business development of the Group. Special meetings the Board will be convened if the situation requires so. For the year ended 31 December 2016, the Board convened a total of five Board meetings and the individual attendance record of the Directors is tabulated as follows:

Attendance

Executive Directors	
Mr. Zhang Jingzhang *(Chairman)*	5/5
Mr. Zhang Jianming *(Chief Executive Officer)*	4/5
Mr. Zhang Jianguo	4/5
Mr. Zhang Jianfeng	4/5
Ms. Chen Ningning	5/5
Non-executive Directors	
Professor Helmut Helmar Franz	5/5
Mr. Guo Mingguang	4/5
Mr. Liu Jianbo	4/5
Independent Non-executive Directors	
Mr. Lou Baijun	5/5
Dr. Steven Chow	3/5
Mr. Jin Hailiang	5/5
Mr. Guo Yonghui(1)	1/1
Mr. Gao Xunxian(2)	3/3

Note:

(1) Mr. Guo Yonghui was appointed as an independent non-executive director on 11 November 2016 and attended one board meeting held after his appointment.

(2) Mr. Gao Xunxian resigned as an independent non-executive director on 11 November 2016 and attended all three board meetings held prior to his resignation.

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 (the "Model Code") as set out in Appendix 10 of the Listing Rules 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 Reported Period.

Relationship of the Directors

Among the members of the Board, Mr. Zhang Jingzhang, the Chairman, is the father of Mr. Zhang Jianming and Mr. Zhang Jianfeng and the father-in-law of Mr. Guo Mingguang and Mr. Liu Jianbo, all of whom are also directors of the Company. Mr. Zhang Jianming is also the Chief Executive Officer of the Company.

Nomination Committee

The Board had set up its Nomination Committee to, among others, review the structure, size and composition of the Board and make recommendations to the Board on the appointment of Directors. The Nomination Committee has also adopted a policy of diversity for memberships of the Board which aims to achieve diversity in the Board against a range of different perspectives, including but not limited to professional and industry experience, skills and knowledge, cultural and educational background. These criteria will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. In reviewing and assessing the composition of the Board, the Nomination Committee will consider all different perspectives, including the aforesaid criteria, in order to maintain a diverse Board. And in recommending new appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria including the ones set out above, with due regard for the benefits of diversity of the Board.

The composition of the Nomination Committee and the attendance of the one meeting of the Nomination Committee during year 2016 are set out below:

Attendance	
Mr. Zhang Jingzhang *(Chairman of Committee)*	1/1
Mr. Jin Hailiang	1/1
Mr. Gao Xunxian*	1/1
Mr. Guo Yonghui*	*

* *Mr. Gao Xunxian resigned as an independent non-executive director and a member of the Nomination Committee on 11 November 2016. Mr. Guo Yonghui was appointed as an independent non-executive director and a member of the Nomination Committee on 11 November 2016 and therefore did not attend the relevant meeting of the Nomination Committee held prior to his appointment.*

The Nomination Committee had reviewed the structure, size, composition and diversity of the Board, the background information and suitability of new director and assessed the independence of independent non-executive directors and make recommendations on re-election of directors at general meetings.

Audit Committee

The Company has set up an audit committee in compliance with Rule 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company. The Audit Committee has reviewed the Group's condensed consolidated financial information for the year ended 31 December 2016, including the accounting principles adopted by the Group, with the Company's management. The audit committee, together with the management and the external auditors, has regularly reviewed the accounting principles and practices adopted by the Group, discussed auditing, internal control and financial reporting matters and reviewed the financial results of the Group.

The composition of the Audit Committee and the attendance of the two meetings of the Audit Committee during year 2016 are set out below:

Attendance	
Mr. Lou Baijun *(Chairman of Committee)*	2/2
Mr. Jin Hailiang	2/2
Mr. Gao Xunxian*	2/2
Mr. Guo Yonghui*	*

* *Mr. Gao Xunxian resigned as an independent non-executive director and a member of the Audit Committee on 11 November 2016. Mr. Guo Yonghui was appointed as an independent non-executive director and a member of the Audit Committee on 11 November 2016 and therefore did not attend the two meetings of the Audit Committee held prior to his appointment.*

The Audit Committee met two times during year 2016. During the meetings, the Audit Committee considered the annual results of the Group for the year ended 31 December 2015 and the interim results of the Group for the six months ended 30 June 2016 as well as reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit/review.

Remuneration Committee

The Remuneration Committee is responsible to review the policy for remuneration of the Directors and other senior management of the Group and to make recommendations to the Board on the remuneration packages of each Director and senior management. The Group's policy for remuneration (including basic salary and performance bonus) of the Directors and other senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice.

The composition of the Remuneration Committee and the attendance of the one meeting of the Remuneration Committee during year 2016 are set out below:

Attendance	
Mr. Jin Hailiang *(Chairman of the Committee)*	1/1
Mr. Zhang Jianming	1/1
Mr. Gao Xunxian*	1/1
Mr. Guo Yonghui	*

* *Mr. Gao Xunxian resigned as an independent non-executive director and a member of the Remuneration Committee on 11 November 2016. Mr. Guo Yonghui was appointed as an independent non-executive director and a member of the Remuneration Committee on 11 November 2016 and therefore did not attend the one meeting of the Remuneration Committee held prior to his appointment.*

The Remuneration Committee had concluded that the packages of the Directors and senior management are in line with market standards for companies in the industry which the Group belongs to.

Training and Support for Directors

The Company recognizes the importance of keeping the Directors updated with latest information of duties and obligations of a director of a company which shares are listed on the Stock Exchange of Hong Kong Limited and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. The Company would also provide regular updates in relation to the latest developments regarding Listing Rules and other applicable regulations.

During year 2016, the Directors had participated in the following types of continuous professional development:

Executive Directors	**Type of continuous professional development**
Mr. Zhang Jingzhang	A, B
Mr. Zhang Jianming	B
Mr. Zhang Jianfeng	B
Mr. Zhang Jianguo	B
Ms. Chen Ningning	A, B
Non-executive Directors	
Prof. Helmut Helmar Franz	B
Mr. Guo Mingguang	B
Mr. Liu Jianbo	B
Independent Non-executive Directors	
Mr. Lou Baijun	B
Dr. Steven Chow	B
Mr. Jin Hailiang	B
Mr. Guo Yonghui*	A, B
Mr. Gao Xunxian*	B

Note:

A: *attending seminars and/or in-house trainings relating to duties of directors of listed companies*

B: *reading guidance notes and updates relating to regulatory requirements for listed companies and obligations of their directors*

* *Mr. Gao Xunxian resigned as an independent non-executive director on 11 November 2016 and Mr. Guo Yonghui was appointed as an independent non-executive director on 11 November 2016.*

Risk Management, Internal Control and Corporate Governance

The Board has overall responsibility for the establishment, maintenance and review of the Group's risk management, system of internal control and corporate governance. In 2016, the Board has conducted a review with the management of the effectiveness of the risk management, system of internal control and corporate governance of the Company and its subsidiaries and considered that the risk management, internal control system and corporate governance measures are effective.

Directors' and Auditor's Acknowledgement

The Board acknowledges its responsibility for preparing the accounts of the Company are in accordance with statutory requirements and applicable accounting standards. The management provides all relevant information and records to the Board, which enable it to prepare the accounts and to make above assessments. The statement of the auditor of the Company on its reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on pages 53 and 127.

Auditor's Remuneration

During the year, the auditor of the Company, PricewaterhouseCoopers, charged RMB3.36 million for audit services.

Investor Relations and Shareholders' Communication

The Company continues to pursue a proactive policy of promoting investor relations and communications by conducting analysts' briefings, road shows, participating in investors' conferences and making corporate presentations during the conferences, arranging company visits to the Company and maintaining regular meetings with institutional shareholders and analysts. The Company's annual general meeting provides a good opportunity for communications between the Board and its shareholders. Shareholders are encouraged to attend the annual general meeting. Notice of the annual general meeting and related papers are sent to shareholders at least 20 business days before the meeting and will also be made available on the Stock Exchange's website. The Directors will answer questions on the Company's business at the meeting. External auditors will also attend the annual general meeting. All votings at the annual general meeting will be conducted by poll and poll results will be posted on the website of the Stock Exchange on the business day following the annual general meeting. As a channel to further promote effective communication, the Company maintains a website (www.haitianinter.com) to disseminate the Company's announcements and other relevant financial and non-financial information electronically on a timely basis.

The annual general meeting held in year 2016 was held on 18 May 2016 and the attendance record of the Directors at the meeting is set out below:

Executive Directors	
Mr. Zhang Jinzhang *(Chairman)*	Attended
Mr. Zhang Jianming *(Chief Executive Officer)*	–
Mr. Zhang Jianguo	–
Mr. Zhang Jianfeng	–
Ms. Chen Ningning	Attended
Non-executive Directors	
Prof. Helmut Helmar Franz	Attended
Mr. Guo Mingguang	–
Mr. Liu Jianbo	–
Independent Non-executive Directors	
Mr. Gao Xunxian	Attended
Mr. Lou Baijun	Attended
Dr. Steven Chow	–
Mr. Jin Hailiang	Attended

Mr. Guo Mingguang, Mr. Liu Jianbo and Dr. Steven Chow were unable to attend the annual general meeting of the Company held on 18 May 2016 due to other business engagements. This was not in compliance with the following Code Provisions:

Code Provision A.6.7: non-executive directors shall attend general meetings.

Shareholders' Rights

How shareholders can convene an extraordinary general meeting

Any one or more shareholder(s) 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 have the right to make a written requisition to the Board or the Company Secretary to convene an extraordinary general meeting pursuant to article 58 of the Company's articles of association. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the shareholder(s) who make the requisition may convene the extraordinary general meeting.

Procedures by which enquiries regarding business or operation of the Company can be made

Shareholders can contact the Investor Relations Department for enquiries in relation to the business or other operations of the Company. The contact information of the Investor Relations Department is set out in the "Investor Information" on page 18 of this report. Shareholders are also encouraged to attend the annual general meeting of the Company to express their view and make enquiries on the business or operation operations of the Company.

Procedures for putting forward proposals at general meeting

There are no provisions under the Company's articles of association or the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands governing shareholder's rights to put forward proposals at an annual general meeting. Shareholders who wish to put forward proposals may however follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

REPORT OF THE DIRECTORS

Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2016.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 7 to the financial statements. An analysis of the Group's performance for the year by business segments and geographical segments are set out in note 24 to the financial statements.

Further discussion and analysis on the activities of the Group, including review of its businesses, discussion of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's businesses can be found in the Management Discussion and Analysis section in Chairman's Statements as set out on pages 4 to 7 of the annual report. Review of the Group's financial performance can be found in the Financial Review section in CEO's Report as set out on pages 8 to 11. These discussions form part of this director's report.

Environmental Policies and Performance

The Group's environmental policies are driven towards two main targets, namely compliance with environmental related laws and regulations and additional measures to protect the environment in the area of energy-saving and waste reduction. For compliance with laws and regulations, the Group's major production facilities are located in China and there is a specific team inside the Group to continuously monitor the regulatory requirements and the Group's compliance with such requirements. The Group also engaged professional expert to conduct analysis of energy efficiency and waste generation in its operation and provide recommendations for area which can be improved. The Board believes that the Group has complied with environmental related laws and regulations in China and adopted additional measures which enhanced the energy efficiency and reduced waste production in its operation. Please refer to the Environmental, Social and Governance Report on pages 19 to 33 for details of the Group's environmental policies and performance.

Compliance with Laws and Regulations

The Board considers compliance with laws and regulations an important element in the business operation of the Group. The Group's major production facilities and over half of its sales are located and generated in China and compliance with domestic laws and regulations in China is particularly important. The Group has specific personnel to handle and update compliance works in China and they also have the assistance from external legal advisors. With the Group's continuous expansion into overseas markets and setting up of local entities in overseas countries, the exposure to foreign laws and regulations is increasing and the management of the Group is well aware of the compliance risk involved. Local external legal and other professional experts are engaged from the stage of establishment and continuous advice is sought before and during business operation in such overseas countries. The Board considers that the Group's compliance with laws and regulations in both China and overseas countries is well monitored.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 62. The directors declared an interim dividend of HK17.0 cents per share, totalling RMB231,124,000 which was paid on 15 September 2016. The directors recommended the payment of a second interim dividend of HK20.0 cents per share, totalling approximately RMB283,900,000.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 16 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in note 6 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 15 to the financial statements.

Distributable Reserves

The Company's reserves available for distribution represent the share premium, contributed surplus and retained earnings which in aggregate amounted to RMB2,172.6 million as at 31 December 2016. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) 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 Articles of Association and provided that immediately following the distribution or payment of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

Convertible Bonds

In February 2014, the Company issued US dollar denominated 2.00 coupon convertible bonds ("CB") due 2019 of USD200 million for general corporate purposes. The maturity date of the CB is 13 February 2019 and unless previously redeemed, converted or purchased and cancelled, the Company will redeem the CB at 100 per cent of its principal amount upon maturity. The holders of the CB had the right to request the Company to redeem all or some of the CB at 100 per cent of the principal amount of the CB on 13 February 2017. Please refer to the Company's announcement dated 9 January 2014 for details of the CB.

As of 14 January 2017 which is the end of the period during which holders of the CB could request the Company to redeem the CB, the Company received requests of redemption of CB for an aggregate principal amount of USD75,250,000 (the "Redeemed Bonds"). The Redeemed Bonds were redeemed at 100% of their principal amount, together with any accrued but unpaid interest, on 13 February 2017 and were cancelled upon redemption. The remaining outstanding aggregate principal amount of the CB was reduced to USD124,750,000, representing 62.375% of the total principal amount of the CB originally issued. Please refer to the Company's announcement dated 16 January 2017 for details.

Conversion price and shares to be issued upon full conversion

The initial conversion price of the CB was HK$24.6740 and is subject to adjustment for, among others, subdivision, consolidation and bonus issues of shares, rights issue and distributions (including dividends). After the second interim dividend of 2016 as declared by the Board, the conversion price of the CB will become HK$22.7227. Assuming full conversion of the CB at the conversion price of HK$22.7227 (using exchange rate of HK$7.78:US$1.00), the total number of shares to be issued by the Company would be 42,713,014 shares. The following table summaries the potential effects on the shareholding structure of the Company as a result of the full conversion of the CB:

	Existing shareholdings of the Company		Shareholdings of the Company assuming full conversion of CB	
Shareholder	**No. of shares**	**Per cent. of issued shares capital of the Company**	**No. of shares**	**Per cent. of issued shares capital of the Company**
Sky Treasure Capital Limited [(1)]	953,912,672	59.77	953,912,672	58.21
Schroders Plc [(1)]	127,512,822	7.99	127,512,822	7.78
Bondholders	0	0	42,713,014	2.61
Other shareholders	514,574,506	32.24	514,574,506	31.40
Total	1,596,000,000	100.00	1,638,713,014	100.00

Notes:

(1) *These shareholders were holders of 5% or more issued shares of the Company as of 31 December 2016. Please refer to section headed "Interests and Short Positions of Shareholders" for details of their shareholdings.*

For dilutive impact on earnings per share upon full conversion of the CB, please refer to note 31 of the financial statements.

As at 31 December 2016, the Group's total cash and cash equivalents amounted to RMB3,263.9 million. The Directors consider the Company has ability to meet the repayment obligations under the CB.

Financial Summary

A summary of the results for the year ended and of the assets and liabilities of the Group as at 31 December 2016 and for the previous four financial years are set out on page 128.

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") on 25 October 2007 after approval of the shareholders in an extraordinary general meeting held on the same day.

(i) Purpose

The purpose of the Scheme is to provide incentives or rewards to Eligible Person (as defined below) for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group or any entity in which the Group holds any equity interest.

(ii) Qualifying Participants

Any employee or proposed employee of any member of the Group including director, manager and officer of the Group, any business partner, agent, consultant or representative of the Group (collectively referred to as "Eligible Person") and any associates (as defined in the Listing Rules) of an Eligible Person.

(iii) Maximum Number of Shares

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes must not exceed 30% of the shares in issue from time to time. Subject to the aforesaid limit, the total number of shares available for issue under options which may be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the shares in issue.

As at 31 December 2016, the number of shares available for issue under the Scheme is 159,600,000 shares representing 10% of the issued share capital of the Company and no share options were granted and remained outstanding.

(iv) Limit for Each Participant

No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

(v) Option Period

The period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option. The Board has the authority to determine the minimum period for which an option must be held before it can be exercised. The Scheme itself does not specify any minimum holding period.

(vi) Payment on Application and Acceptance

An offer of the grant of an option shall remain open for acceptance for a period of 30 days from the date of offer (or such other period as the Board may specify in the offer and acceptance letter). HK$1 is payable by the grantee to the Company on acceptance of the offer.

(vii) Exercise Price

The exercise price shall be decided by the Board in its absolute discretion but shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

(viii) Remaining Life of the Scheme

The Board may at any time within 10 years commencing on 25 October 2007 make offers for the grant of options under the Scheme. No share option was granted or outstanding during the year ended.

Report of the Directors

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors
Mr. Zhang Jingzhang *(Chairman)*
Mr. Zhang Jianming *(Chief Executive Officer)*
Mr. Zhang Jianguo
Mr. Zhang Jianfeng
Ms. Chen Ningning

Non-executive Directors
Prof. Helmut Helmar Franz
Mr. Guo Mingguang
Mr. Liu Jianbo

Independent Non-executive Directors
Mr. Lou Baijun
Dr. Steven Chow
Mr. Jin Hailiang
Mr. Guo Yonghui (appointed on 11 November 2016)
Mr. Gao Xunxian (resigned on 11 November 2016)

In accordance with Article 87(1) of the Company's Articles of Association, Prof. Helmut Helmar Franz, Mr. Lou Baijun, Dr. Steven Chow and Mr. Guo Yonghui will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The Company has received from each independent non-executive director a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has entered or has proposed to enter into any service agreements with the Company or any other member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company or its 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 except as disclosed under Continuing Connected Transactions stated below and note 35 to the financial statements.

Biographical Details of and Remunerations to Directors and Senior Management

Brief biographical details of the directors and senior management are set out on pages 12 to 17.

For details of the remunerations paid to the directors, please refer to note 38 of the financial statements.

During the year ended 31 December 2016, total remunerations paid to members of senior management (who are not directors) are as follows:

	Year ended 31 December 2016 RMB'000
Salaries	3,890
Pension costs and mandatory provident fund contributions	150
	4,040

The remunerations of the senior management are within the following bands:

	Number of individuals
Nil – RMB1,000,000	4
RMB1,000,000 – RMB1,500,000	1

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2016, the directors and chief executives of the Company and their associates had the following interests in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"):

Long position in shares and underlying shares of the Company

Name of Director	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding in the Company
Mr. Zhang Jingzhang	Corporate Interest(1)	953,912,672 (L)	59.77%
Mr. Zhang Jianming	Corporate Interest(1)	953,912,672 (L)	59.77%
	Personal Interest(2)	4,212,000 (L)	0.26%
Prof. Helmut Helmar Franz	Corporate Interest (2)	4,931,334 (L)	0.31%
Mr. Liu Jianbo	Corporate Interest (2)	400,000 (L)	0.03%
Mr. Guo Mingguang	Corporate Interest (2)	100,000 (L)	0.01%
Ms. Chen Ningning	Corporate Interest (2)	100,000 (L)	0.01%

(L) denotes a long position

Notes:

(1) Mr. Zhang Jingzhang and Mr. Zhang Jianming were deemed under the SFO to be interested in 953,912,672 shares of the Company held by Sky Treasure Capital Limited.

(2) These directors were deemed under the SFO to be interested in the respective shares of the Company held by their wholly-owned investment holding companies.

Long Position in Shares and Underlying Shares of Associated Corporations of the Company

Name of Director	Name of association corporation[(1)]	Capacity/Nature of interest	Approximate percentage of shareholding in the associated corporations
Mr. Zhang Jingzhang	Sky Treasure Capital Limited ("Sky Treasure")	Corporate[(2)]	14.35%
		Corporate[(3)]	54.51%
Mr. Zhang Jianming	Sky Treasure	Corporate[(2)]	9.73%
		Corporate[(3)]	54.51%
Mr. Zhang Jianguo	Sky Treasure	Corporate[(2)]	5.83%
Mr. Zhang Jianfeng	Sky Treasure	Corporate[(2)]	5.48%
Ms. Chen Ningning	Sky Treasure	Corporate[(2)]	3.04%
Mr. Guo Mingguang	Sky Treasure	Beneficiary under a trust[(4)]	1.91%
Mr. Liu Jianbo	Sky Treasure	Beneficiary under a trust[(4)]	1.59%

Notes:

(1) *As at 31 December 2016, Sky Treasure is the holder of 59.77% of the issued share capital of the Company and therefore is an associated corporation under the SFO.*

(2) *Such Directors are deemed under the SFO to be interested in shares of Sky Treasure which are held by their wholly-owned investment holding companies.*

(3) *Mr. Zhang Jingzhang and Mr. Zhang Jianming are separately entitled to exercise or control the exercise of one third or more voting power in the general meetings of Cambridge Management Consultants (PTC) Ltd. and Premier Capital Management (PTC) Ltd. Premier Capital Management (PTC) Ltd. is the trustee of the Haitian Employee Discretionary Equity Trust which is interested in 34.80% equity interests in Sky Treasure while Cambridge Management Consultants (PTC) Ltd. is the trustee of the Haitian Employee Fixed Equity Trust and the Haitian Employee Fixed Equity Trust II which collectively are interested in 19.72% equity interests in Sky Treasure. Accordingly, they are deemed under SFO to be interested in such shares in Sky Treasure.*

(4) *Such Directors are beneficiaries under a trust which is interested in 15.09% shares of Sky Treasure.*

Save as disclosed above, as at 31 December 2016, none of the directors and chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company and the Stock Exchange pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code. At no time during the year was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Interests and Short Positions of Shareholders

As at 31 December 2016, the persons or corporations (not being a Director or chief executive of the Company) who have interests or short positions in the shares, underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of Shareholder	Capacity/Nature of interest	Total number of Shares	Approximate percentage of shareholding
Sky Treasure Capital Limited	Beneficial owner	953,912,672 (L)	59.77%
Premier Capital Management (PTC) Ltd.	Interest in a controlled corporation[(1)]	953,912,672 (L)	59.77%
Schroders Plc	Interest in a controlled corporation[(2)]	127,512,822 (L)	7.99%

(L) denotes a long position

Notes:

(1) Premier Capital Management (PTC) Ltd. is deemed under the SFO to be interested in 953,912,672 shares held by Sky Treasure Capital Limited as at 31 December 2016.

(2) Schroders Plc is deemed under the SFO to be interested in 127,512,822 shares held by its wholly-owned entities.

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

Management Contracts

During the year, the Company did not enter into any contract in respect of the management or administration of the entire business or any significant business of the Group nor any such contract subsisting.

Customers and Suppliers

During the year, sales to the five largest customers and purchases from the five largest suppliers of the Group accounted for less than 30% of the Group's total sales and total purchases, respectively, for the year. Save as disclosed under "Continuing Connected Transactions" below, none of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in these major suppliers or customers at all times.

The Group places great emphasis on a long-term and stable relationship with its customers and suppliers for the continuous success and growth of its business. As a market leader in the plastic injection moulding machinery industry, the Group has an extensive sales network across China and exports to over 100 countries worldwide and to manage such network requires a close working relationship with our customers directly and through distributors, agents and other business partners. The Group's continuous effort to build trust and emphasize mutual benefits with its customers and suppliers has contributed to the long-term relationships with them.

Competing Business

None of the directors of the Company had any interest in any competing business with the Company or any of its subsidiaries during the year ended 31 December 2016.

Each member of the Haitian Management (as defined in the prospectus of the Company dated 11 December 2006), if applicable, has confirmed to the Company that he/she has complied with the non-competition undertaking as disclosed in the prospectus of the Company dated 11 December 2006.

Continuing Connected Transactions

Certain related party transactions as disclosed in note 35 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant information had been disclosed in the Company's announcement dated 21 November 2014 and circular dated 8 January 2015.

Purchase of Servo Systems and Components

On 21 November 2014, the Group entered into the Purchase Framework Agreement with Ningbo Haitian Drive Systems Co., Ltd. (formerly known as Ningbo Haitian Electric Machinery Co., Ltd.) ("HDS") relating to the purchase of servo systems, linear motion guides, ball screws and hydraulic parts for a term of three years commencing from the 1 January 2015 and ended on 31 December 2017, whereby the Group agreed to purchase these systems and components from HDS and its related companies at the price no less favourable than the terms at which HDS offers to independent third parties for the same or similar products. HDS was an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore are connected persons by virtue of Rule 14A.07(4) of the Listing Rules.

During the year, the Group's purchase of these systems and components from HDS and its related companies amounted to RMB676.7 million.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) in accordance with the agreement entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "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 auditor has issued his unqualified letter containing his conclusions in respect of the continuing connected transactions disclosed by the Group on page 50 of the annual report in accordance with paragraph 14A.56 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

Connected Transactions

Purchase of CNC turning machines and machining centres

For the year ended 31 December 2016, the Group purchased CNC turning machines and machining centres from Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") for approximately RMB42.6 million. Such equipment was purchased for processing parts and components for the manufacture of products of the Group. Haitian Precision is an associate of Mr. Zhang Jingzhang, Mr. Zhang Jianming, Mr. Zhang Jianfeng, Mr. Guo Mingguang and Mr. Liu Jianbo, each of them a director of the Company and therefore is a connected person of the Company. The transaction was pursuant to the machinery equipment purchase agreements entered into with Haitian Precision on 30 November 2015 and 9 December 2016. For transaction under the machinery equipment purchase agreement entered into on 30 November 2015, it was exempted from reporting, announcement and independent shareholders' approval requirements under the Listing rules. For transaction under the machinery equipment purchase agreement entered into on 9 December 2016, please refer to the Company's announcement dated 9 December 2016 for details.

Other Related Party Transactions

Details of the Company's transactions with other related parties during the financial year ended 31 December 2016 are set out in note 35 of the financial statements.

The transactions with Ningbo Anson CNC Technique Co., Ltd., Ningbo STF Hydraulic Transmissions Co., Ltd. and Ningbo Hilectro Precision Machinery Co., Ltd. were under the continuing connected transactions for purchase of servo systems and components as described on page 50 of this report. The transaction with Ningbo Haitian Precision Machinery Co., Ltd. was under the connected transaction for purchase of CNC turning machines and machining centres as described above.

In addition, for the year ended 31 December 2016, the Group entered into transactions with Ningbo SPP Hydraulics Co., Ltd. and Ningbo Haitian Drive Systems Co., Ltd. The Group also provided loans to some directors during such period. All such parties are connected persons of the Company but the relevant transactions were exempted from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The transaction with Hangzhou Keqiang Intelligence Control System Co., Ltd. did not constitute connected transaction under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

Purchases, Sale or Redemption of Shares

The Company has not redeemed any of its listed shares during the Reported Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the Reported Period.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

Public Float

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, 39.6% of the issued share capital of the Company was held by the public.

Dividends during the financial year

The Board has declared a second interim dividend for the year ended 31 December 2016 of HK$0.20 per share which, together with the interim dividend of HK$0.17 per share paid in September 2016, will constitute a total dividend of HK$0.37 per share for the full year.

On behalf of the Board
Zhang Jianming
Chief Executive Officer

5 April 2017

Independent Auditor's Report

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羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Haitian International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 60 to 127, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Provision for impairment of trade and bills receivable
- Provision for write-down of inventories

羅兵咸永道

TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for impairment of trade and bills receivable	
Refer to notes 4 (Critical accounting estimates and judgements) and 10 of the consolidated financial statements. Management exercised judgement on the recoverability of trade and bills receivable and made estimates of the impairment provision based on the aging pattern, credit and settlement history of the relevant customers, and the percentage of individual trade receivable balances covered by credit arrangements with insurance companies ("Credit Insurance"). We focused on this area due to the significance of the balances of trade and bills receivable and the related provision for impairment, and the involvement of management's significant judgement and estimates of the provision for impairment.	We understood, evaluated and tested management's controls in respect of assessing impairment of trade and bills receivable. We obtained the detailed listings of trade and bills receivable together with the aging analysis and agreed the balances to the general ledgers for those operating entities which have been identified as significant components to the Group. We tested the aging analysis on sample basis by checking to relevant supporting documents, including sales invoices, sales contracts, and goods delivery notes. We inquired with management and assessed the reasonableness of their judgements on the recoverability of trade receivables and the adequacy of the impairment provision, with a focus on those balances aged over one year, primarily based on the information and evidence collected by management for the purpose of their assessment. We performed subsequent payment tests to agree the relevant trade receivable balances to post year end cash receipts. For the trade receivable balances covered by Credit Insurance, we checked the respective insurance policy and the credit rating of the insurance company. We reviewed management's recoverability assessments on the remaining balances not covered by Credit Insurance and checked the relevant supporting documents obtained by management. Based upon the above, we considered that management had made reasonable judgements and estimates that were supported by the available evidence for their assessment of the provision for impairment.

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TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
Provision for write-down of inventories	
Refer to notes 4 (Critical accounting estimates and judgements) and 9 of the consolidated financial statements. Due to the continual innovation of the Group's products, the net realised value ("NRV") of certain finished goods may fall below their cost and certain slow moving raw materials with specific useful lives may become obsolete. Inventories are carried at the lower of cost and NRV in the consolidated financial statements, provisions were provided for those inventories if their NRVs were lower than the cost. Management assessed the provision for write-down of inventories at each balance sheet date on an item-by-item basis and identified slow moving and obsolete inventories, in particular for those items aged over one year. For finished goods, management estimated the NRV based on the latest market information. For raw materials which were identified as obsolete and to be disposed of as scrap material, the NRV was determined according to the estimated selling price of the respective scrap material in the recycling market. We focused on this area due to the significance of the balances of inventories, and the involvement of management's estimates on the determination of the NRV and inventory provision.	We understood, evaluated and tested management's controls in respect of the identification of slow moving and obsolete inventories. We reviewed management's assessment of the inventory provision which was supported by the inventory aging analysis and management's NRV estimation. We obtained detailed inventory list with the related aging report of those operating entities which have been identified as significant components to the Group and agreed the balances to the respective general ledgers. We performed tests on the inventory ageing on sample basis by checking the relevant supporting documents, including suppliers' invoices and goods received notes. For the estimated NRV of finished goods, we checked the amounts to supporting documents, including the latest sales contracts with customers. For the estimated NRV of raw materials which were identified as obsolete items, we checked the estimated NRV prices to supporting information, including the price quotation from the scrap material recycling market. We checked the calculation of inventory provisions to ensure arithmetical accuracy. Based upon the above, we considered that management's estimates of the inventory provision were properly supported by the available evidence.

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TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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TO THE SHAREHOLDERS OF
HAITIAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lo Kai Leung, Thomas.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Consolidated Balance Sheet

As at 31 December 2016
(Amounts expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	**373,307**	381,663
Property, plant and equipment	6	**2,712,312**	2,416,698
Investment in an associate	8	**13,057**	13,602
Deferred income tax assets	22	**55,263**	49,291
Other receivables	11	**10,855**	510,595
Restricted bank deposits	14	**—**	50,000
Term deposits	14	**100,000**	—
		3,264,794	3,421,849
Current assets			
Inventories	9	**1,720,104**	1,557,437
Trade and bills receivable	10	**2,593,435**	2,414,225
Prepayments, deposits and other receivables	11	**364,094**	227,134
Prepaid income tax		**2,184**	—
Available-for-sale financial assets	13	**3,729,044**	2,812,987
Restricted bank deposits	14	**112,741**	114,010
Term deposits	14	**50,000**	—
Cash and cash equivalents	14	**3,263,893**	2,349,458
		11,835,495	9,475,251
Total assets		**15,100,289**	12,897,100
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital	15	**160,510**	160,510
Share premium	16	**1,331,913**	1,331,913
Other reserves	16	**904,915**	837,321
Retained earnings	16	**6,721,130**	5,690,564
		9,118,468	8,020,308
Non-controlling interests		**610**	—
Total equity		**9,119,078**	8,020,308

Consolidated Balance Sheet (Continued)

As at 31 December 2016
(Amounts expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income	21	**9,714**	9,784
Deferred income tax liabilities	22	**237,180**	195,411
Convertible bonds	23	**1,391,965**	1,270,356
		1,638,859	1,475,551
Current liabilities			
Trade and bills payable	17	**2,141,068**	1,642,732
Accruals and other payables	18	**1,440,239**	1,250,663
Current income tax liabilities		**83,387**	71,471
Bank borrowings	19	**677,658**	435,961
Derivative financial instruments	20	**—**	414
		4,342,352	3,401,241
Total liabilities		**5,981,211**	4,876,792
Total equity and liabilities		**15,100,289**	12,897,100

The accompanying notes on pages 66 to 127 are an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 21 March 2017 and were signed on its behalf by:

Zhang Jianming
Director

Chen Ningning
Director

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016
(Amounts expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Revenue	24	**8,098,053**	7,336,445
Cost of sales	25	**(5,314,869)**	(4,917,178)
Gross profit		**2,783,184**	2,419,267
Selling and marketing expenses	25	**(608,393)**	(602,499)
General and administrative expenses	25	**(488,147)**	(428,635)
Other income	26	**99,330**	104,347
Other gains — net	27	**25,053**	53,026
Operating profit		**1,811,027**	1,545,506
Finance income	29	**251,925**	204,311
Finance costs	29	**(152,335)**	(77,041)
Finance income — net	29	**99,590**	127,270
Share of profit of an associate	8	**3,045**	3,526
Profit before income tax		**1,913,662**	1,676,302
Income tax expense	30	**(362,787)**	(312,967)
Profit for the year		**1,550,875**	1,363,335
Profit attributable to:			
Shareholders of the Company		**1,550,890**	1,363,335
Non-controlling interests		**(15)**	—
		1,550,875	1,363,335
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
— basic	31	**0.97**	0.85
— diluted	31	**0.97**	0.85

The accompanying notes on pages 66 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(Amounts expressed in RMB)

	2016 RMB'000	2015 RMB'000
Profit for the year	**1,550,875**	1,363,335
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets	**26,097**	7,963
Currency translation differences	**6,438**	2,847
Total comprehensive income for the year	**1,583,410**	1,374,145
Total comprehensive income attributable to:		
Shareholders of the Company	**1,583,481**	1,374,145
Non-controlling interests	**(71)**	—
	1,583,410	1,374,145

The accompanying notes on pages 66 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
(Amounts expressed in RMB)

		Attributable to shareholders of the Company						
	Note	**Share capital** RMB'000	**Share premium** RMB'000	**Other reserves** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
Balance at 1 January 2015		160,510	1,331,913	788,923	4,802,961	7,084,307	—	7,084,307
Comprehensive income								
Profit for the year		—	—	—	1,363,335	1,363,335	—	1,363,335
Other comprehensive income								
Change in value of available-for-sale financial assets		—	—	7,963	—	7,963	—	7,963
Currency translation differences		—	—	2,847	—	2,847	—	2,847
Total comprehensive income for the year ended 31 December 2015		—	—	10,810	1,363,335	1,374,145	—	1,374,145
Transactions with owners								
Dividend paid								
— 2014 second interim		—	—	—	(227,365)	(227,365)	—	(227,365)
— 2015 interim	*32*	—	—	—	(210,779)	(210,779)	—	(210,779)
Appropriations		—	—	37,588	(37,588)	—	—	—
Total transactions with owners		—	—	37,588	(475,732)	(438,144)	—	(438,144)
Balance at 31 December 2015		160,510	1,331,913	837,321	5,690,564	8,020,308	—	8,020,308
Balance at 1 January 2016		160,510	1,331,913	837,321	5,690,564	8,020,308	—	8,020,308
Comprehensive income								
Profit for the year		—	—	—	1,550,890	1,550,890	(15)	1,550,875
Other comprehensive income								
Change in value of available-for-sale financial assets		—	—	26,097	—	26,097	—	26,097
Currency translation differences		—	—	6,494	—	6,494	(56)	6,438
Total comprehensive income for the year ended 31 December 2016		—	—	32,591	1,550,890	1,583,481	(71)	1,583,410
Transactions with owners								
Dividend paid								
— 2015 second interim	*32*	—	—	—	(254,197)	(254,197)	—	(254,197)
— 2016 interim	*32*	—	—	—	(231,124)	(231,124)	—	(231,124)
Appropriations		—	—	35,003	(35,003)	—	—	—
Capital injection from non-controlling interests		—	—	—	—	—	681	681
Total transactions with owners		—	—	35,003	(520,324)	(485,321)	681	(484,640)
Balance at 31 December 2016		160,510	1,331,913	904,915	6,721,130	9,118,468	610	9,119,078

The accompanying notes on pages 66 to 127 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(Amounts expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	*33(a)*	**2,251,364**	1,325,920
Interest paid		**(40,358)**	(26,847)
Income tax paid		**(283,222)**	(243,048)
Net cash generated from operating activities		**1,927,784**	1,056,025
Cash flows from investing activities			
Purchase of property, plant and equipment		**(431,678)**	(463,225)
Entrusted loans granted		**(6,576)**	(216,721)
Entrusted loans repayments		**341,964**	256,257
Proceeds from disposal of shares of an associate		**610**	—
Payment for investment in an associate		**—**	(7,795)
Interest received from banks		**181,354**	164,792
Interest received from entrusted loans		**22,646**	39,731
Dividends received from an associate	*8*	**3,259**	11,208
Proceeds from disposal of land use rights	*33(b)*	**4,597**	5,672
Proceeds from disposal of structured deposits		**10,000**	—
Proceeds from disposal of property, plant and equipment	*33(b)*	**4,511**	9,079
Purchase of available-for-sale financial assets	*13*	**(6,747,890)**	(6,250,208)
Proceeds from disposal of available-for-sale financial assets	*13*	**5,857,930**	5,551,708
Payment for derivative financial instruments transaction		**(1,133)**	—
Proceeds from derivative financial instruments transaction		**—**	2,291
Purchase of structured deposits		**(10,000)**	(10,000)
Net cash used in investing activities		**(770,406)**	(907,211)
Cash flows from financing activities			
Proceeds from bank borrowings		**677,658**	435,961
Repayments of bank borrowings		**(435,961)**	—
Capital injections from non-controlling interests		**681**	—
Dividends paid to the Company's shareholders	*32*	**(485,321)**	(438,144)
Net cash used in financing activities		**(242,943)**	(2,183)
Net increase in cash and cash equivalents		**914,435**	146,631
Cash and cash equivalents at beginning of year	*14*	**2,349,458**	2,202,827
Cash and cash equivalents at end of year	*14*	**3,263,893**	2,349,458

The accompanying notes on pages 66 to 127 are an integral part of these consolidated financial statements.

1. General Information

Haitian International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and distribution of plastic injection moulding machines.

The Company was incorporated in Cayman Islands on 13 July 2006, as an exempted company with limited liability under the Companies Law of Cayman Islands. The Company's registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The ultimate holding company of the Company is Sky Treasure Capital Limited, a company incorporated in the British Virgin Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 22 December 2006.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. They have been approved for issue by the Company's Board of Directors on 21 March 2017.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets (including derivative instruments) at their fair value through profit or loss, and convertible bonds which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures

(a) **New and amended standards adopted by the Group**

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Clarification of acceptable methods of depreciation and amortisation — Amendments to HKAS 16 and HKAS 38
- Equity method in separate financial statements — Amendment to HKAS 27
- Financial instruments: Disclosures — Annual improvements to HKFRSs 2012–2014 cycle on HKFRS 7
- Employee benefits: Disclosures — Annual improvements to HKFRSs 2012–2014 cycle on HKFRS 19
- Interim financial reporting: Disclosures — Annual improvements to HKFRSs 2012–2014 cycle on HKFRS 34
- Investment entities: applying the consolidation exception — Amendments to HKFRS 10, HKFRS 12 and HKAS 28, and
- Disclosure initiative — amendments to HKAS 1.

There is no material impact to the Group for adoption of these new and amended standards.

(b) **New standards, amendments and interpretations mandatory for the first time for the financial year beginning 1 January 2016 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)**

		Effective for annual periods beginning on or after
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendment to HKFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants	1 January 2016
HKFRS 5 (Annual improvements to HKFRSs 2012–2014 cycle)	Non-current assets held for sale and discontinued operations	1 January 2016

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

Changes in accounting policy and disclosures (Continued)

(c) **New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

		Effective for annual periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flows	1 January 2017
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/ removed. Early application of the amendments continues to be permitted.

The Group is assessing the full impact of the standards and amendments, and according to the preliminary assessment, there is no significant impact on the consolidated financial statements. The Group intends to adopt the amendments no later than the respective effective dates of the amendments.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

(a) **Business combinations**

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

2. Summary of Significant Accounting Policies (Continued)

2.2 Subsidiaries (Continued)

2.2.1 Consolidation (Continued)

(a) Business combinations (continued)

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. Summary of Significant Accounting Policies (Continued)

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in reserves is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of an associate' in the consolidated statement of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the statement of profit or loss.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions. The executive committee comprises all executive directors and top management.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

2. Summary of Significant Accounting Policies (Continued)

2.5 Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss within 'finance income/costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'other gains/(losses) — net'.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each consolidated statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.6 Property, plant and equipment

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction and acquisition. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated below.

Freehold land is stated at cost less accumulated impairment losses, if any. Cost represents consideration paid for the purchase of the land. Freehold land is not subject to depreciation.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost less impairment loss (if any) of the assets, other than freehold land and construction-in-progress, to their residual value over their estimated useful lives:

Buildings	30 years
Plant and machinery	10-15 years
Vehicles	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains/(losses) — net', in the consolidated statement of profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.7 Land use rights

The up-front prepayments made for land use rights are accounted for as operating leases. They are expensed in the statement of profit or loss on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is expensed in the statement of profit or loss.

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bills receivable', 'other receivables', 'restricted bank deposits' and 'cash and cash equivalents' in the balance sheet (notes 2.14 and 2.15).

2. Summary of Significant Accounting Policies (Continued)

2.9 Financial assets (Continued)

2.9.1 Classification (Continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value and recorded in other comprehensive income and statement of profit or loss, respectively. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. Summary of Significant Accounting Policies (Continued)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss.

(b) Assets classified as available-for-sale

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.

For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.12 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Trading derivatives are classified as a current asset or liability. The gain or loss is recognised in the statement of profit or loss within 'other gains/(losses) — net'.

2. Summary of Significant Accounting Policies (Continued)

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. Summary of Significant Accounting Policies (Continued)

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

2.20 Convertible bonds

Convertible bonds issued by the Company (including related embedded derivatives) are designated at fair value through profit or loss on initial recognition with transaction cost charge to the profit or loss accounts. At each end of the reporting period subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. Summary of Significant Accounting Policies (Continued)

2.21 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, an associate and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

Group companies operate various defined contribution retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. Summary of Significant Accounting Policies (Continued)

2.24 Government grants

Government grants are recognised at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of profit or loss over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred income and are recognised in the consolidated statement of profit or loss on a straight-line basis over periods and in the proportions in which depreciation on these assets is charged.

2.25 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue from sale of goods is recognised when the group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.26 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2. Summary of Significant Accounting Policies (Continued)

2.28 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. Any increase in the liability relating to guarantees is reported in the consolidated statement of profit or loss within general and administrative expenses.

3. Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, fair value and cash flow interest rate risk, credit risk and liquidity risk. Its risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group mainly operates in Mainland China. The functional currency of the Company and most of its subsidiaries is RMB. Most of the Group's transactions, assets and liabilities are denominated in RMB, United States dollars ("USD"), Euro, Hong Kong dollars ("HKD") and Japanese Yen ("JPY"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities, such as trade receivables, cash and cash equivalents, trade payables, borrowings and convertible bonds.

As at 31 December 2016, if RMB had weakened/strengthened by 6.8% (2015: 6.2%) against the USD and HKD with all other variables held constant, profit before income tax would have been approximately RMB10,917 thousand higher/lower (2015: RMB48,354 thousand lower/higher) mainly as a result of foreign exchange difference on translation of USD and HKD denominated trade receivables, cash and cash equivalents, trade payables and convertible bonds. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

As at 31 December 2016, if RMB had weakened/strengthened by 3.0% (2015: strengthened/weakened 4.8%) against the Euro with all other variables held constant, profit before income tax would have been approximately RMB3,083 thousand higher/lower (2015: RMB6,284 thousand lower/higher) mainly as a result of foreign exchange difference on translation of Euro denominated trade receivables, cash and cash equivalents, trade payables and borrowings. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(a) Foreign exchange risk (Continued)

As at 31 December 2016, if RMB had weakened/strengthened by 10.6% (2015: 4.9%) against the JPY with all other variables held constant, profit before income tax would have been approximately RMB1,073 thousand (2015: RMB329 thousand) higher/lower mainly as a result of foreign exchange difference on translation of JPY denominated cash and cash equivalents, trade payables and borrowings. The ranges of such sensitivity disclosed above were based on the observation on the historical trend of related exchange rate during the previous year under analysis.

(b) Fair value and cash flow interest rate risk

The Group's interest rate risk arises from bank deposits, loans to employees, entrusted loans to third parties, borrowings, convertible bonds and long-term entrusted loans. Bank deposits, loans to employees, convertible bonds and entrusted loan within one year at fixed rates expose the Group to fair value interest rate risk. Long-term entrusted loans generated at variable rates and borrowings obtained at variable rates expose the Group to cash flow interest rate risk.

The Group has not used any financial instruments to hedge its exposure to cash flow interest rate risk.

As at 31 December 2016, if interest rates on EUR — denominated borrowings had been 0.15 percentage-point (2015:0.24 percentage-point) lower/higher with all other variables held constant, profit before income tax would have been RMB235 thousand (2015: RMB410 thousand) higher/lower, mainly as a result of lower/higher interest expense on floating rate borrowings.

As at 31 December 2015, if interest rates on JPY — denominated borrowings had been 0.11 percentage-point lower/higher with all other variables held constant, profit before income tax would have been RMB36 thousand higher/lower, mainly as a result of lower/higher interest expense on floating rate borrowings.

(c) Credit risk

The Group has policies in place to ensure credit sales are made to customers with an appropriate credit history. Most of the Group's sales are covered by guarantees from distributors, credit arrangement from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months.

The Group provides guarantees to certain banks in connection with banking facilities granted to certain customers in connection with their purchases of the Group's plastic injection moulding machines. These customers are introduced by the Group's major distributors, who have provided the Group with counter guarantees.

The Group has policies to place its cash and cash equivalents only with major financial institutions, and limits the amount of credit exposure to any financial institution. As at 31 December 2016, most of the restricted bank deposits and cash and cash equivalents are placed with the major financial institutions in Mainland China.

The Group enters into the wealth management products contracts with relatively higher interest rates with certain financial institutions. These are reflected as available-for-sale financial assets and financial assets at fair value through profit or loss on the balance sheet. As at 31 December 2016, most of the wealth management products are bought from the major financial institutions in Mainland China and management has exercised due care when make investment decision with focus only on low risk wealth management products.

3. Financial Risk Management (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

The Group enters into the entrusted loan contracts with variable interest rates with third parties. It is shown as other receivables on the balance sheet. As at 31 December 2016, the credit risk of entrusted loans has been reviewed cautiously by the management with focus on counterparties' credit reputation.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of fund through adequate amounts of committed credit facilities. The Group's objective is to maintain adequate committed credit facilities to ensure sufficient and flexible funding is available to the Group.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed below were the contractual undiscounted cash flows:

	Within 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
At 31 December 2016				
Convertible bonds	27,748	27,748	1,397,746	—
Borrowings *(i)*	683,391	—	—	—
Trade and other payables	2,708,996	—	—	—
Financial guarantee contracts *(ii)*	1,250,544	—	—	—
At 31 December 2015				
Convertible bonds	9,802	25,974	1,325,490	—
Borrowings	440,776	—	—	—
Trade and other payables	2,138,845	—	—	—
Derivative financial instruments	414	—	—	—
Financial guarantee contracts	979,448	—	—	—

(i) The balance includes interest payments which is calculated based on borrowings outstanding as at 31 December 2016, without taking into account any subsequent changes in the amount of borrowings. Floating interest rates are based on current interest rate as at 31 December 2016.

(ii) The balance presents guarantee given to the banks in connection with banking facilities granted to customers.

3. Financial Risk Management (Continued)

3.2 Capital risk management

The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, issue new shares, or sell assets to reduce debts.

As at 31 December 2016 and 2015, the Group was in a net cash position (total borrowings were less than the total of restricted bank deposits and cash and cash equivalents).

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity of the Group as shown in the consolidated balance sheet.

The gearing ratio was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total convertible bonds *(Note 23)*	**1,391,965**	1,270,356
Total borrowings *(Note 19)*	**677,658**	435,961
Total equity	**9,119,078**	8,020,308
Gearing ratio	**23%**	21%

The increase in the gearing ratio primarily resulted from additional borrowings obtained.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

The table below presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets	—	—	3,729,044	3,729,044
Liabilities				
Convertible bonds	—	1,391,965	—	1,391,965

The table below presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets	—	—	2,812,987	2,812,987
Liabilities				
Convertible bonds	—	1,270,356	—	1,270,356
Derivatives financial instruments	—	414	—	414
Total liabilities	—	1,270,770	—	1,270,770

There were no significant transfers among level 1, 2 and 3 fair during the year.

(a) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(a) Financial instruments in level 2 (Continued)

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

As at 31 December 2016, all the resulting fair value estimates are included in level 2 except for certain available-for-sale financial assets as explained below.

(b) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Available-for-sale financial assets RMB'000
Opening balance	2,812,987
Additions	6,747,890
Change in value of available-for-sale financial assets	26,097
Settlements	(6,006,345)
Gains recognised in profit or loss	148,415
Closing balance	3,729,044
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under "Finance income — net"	148,415

3. Financial Risk Management (Continued)

3.3 Fair value estimation (Continued)

(b) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

	Available-for-sale financial assets RMB'000
Opening balance	2,106,524
Additions	6,250,208
Change in value of available-for-sale financial assets	7,963
Settlements	(5,676,803)
Gains recognised in profit or loss	125,095
Closing balance	2,812,987
Total gains or losses for the year realised in profit or loss for assets held at the end of the year, under "Finance income — net"	125,095

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value at 31/12/2016 RMB'000	Valuation technique(s)	Unobservable input	Range (weighted average)
Available-for-sale	3,729,044	Discounted cash flow	Expected return rate	2.8%–6.8% (5.8%)

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Provision for impairment of trade and bills receivable

The Group's management determines the provision for impairment of trade and bills receivable based on an assessment of the recoverability of the receivables. This assessment is based on aging of the receivables, the credit history of its customers and other debtors and guarantee over the receivables, and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date.

4. Critical Accounting Estimates and Judgements (Continued)

(b) Provision for write-down of inventories

Net realisable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on management's intention on future use of the inventory, the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(c) Useful lives and residual values of property, plant and equipment

The Group determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase or decrease the depreciation charge where updated estimated useful lives of the property, plant and equipment are less or more than previously estimated useful lives. Actual economic lives and residual values may differ from estimated useful lives and residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

(d) Current income tax and deferred income tax

The Group is subject to income tax in the jurisdictions where the Group has operations other than the Cayman Islands and the British Virgin Islands. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers that it is likely that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Deferred income tax liabilities relating to undistributed profits of subsidiaries incorporated in Mainland China are recognised when management expects to recover investments in those subsidiaries through dividends, unless it is estimated that such dividends will not be distributed in the foreseeable future. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and deferred tax liabilities and income tax charges in the period in which such estimates are changed.

(e) Provision for loss on guarantees

The Group provides guarantees for loans granted by Mainland China banks to some of the Group's end-user customers in connection with their purchases of the Group's products. If an end-user customer default on a loan, the Group is obliged to settle the remaining loan balances. The Group's management determines the provision for loss on the guarantees based on assessment of the possibility of default payments by individual end-user customers. This assessment is based on the credit history of its customers, the current market condition and requires the use of judgements and estimates. Management reassesses the provisions at each balance sheet date. Different estimates could significantly affect the provision amounts and materially impact the results of operations.

5. Land Use Rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed below:

	2016 RMB'000	2015 RMB'000
At beginning of year		
Cost	**434,321**	435,732
Accumulated amortization	**(52,658)**	(44,173)
Net book amount	**381,663**	391,559
Opening net book amount	**381,663**	391,559
Exchange differences	**368**	(7)
Disposals	**—**	(1,160)
Amortisation	**(8,724)**	(8,729)
Closing net book amount	**373,307**	381,663
At end of year		
Cost	**434,714**	434,321
Accumulated amortisation	**(61,407)**	(52,658)
Net book amount	**373,307**	381,663

Most of the Group's land use rights are located in Mainland China except for the one amounting to RMB6,321 thousand (2015: RMB6,128 thousand) which is located in Vietnam. As at 31 December 2016, the remaining use periods of the land use rights range from 17 to 47 years (2015: 18 to 48 years).

Amortisation is charged to the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	**—**	163
General and administrative expenses	**8,724**	8,566
	8,724	8,729

6. Property, Plant and Equipment

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015						
Cost	1,371,467	1,239,140	142,310	89,153	324,968	3,167,038
Accumulated depreciation	(282,598)	(615,005)	(102,896)	(50,126)	—	(1,050,625)
Net book amount	1,088,869	624,135	39,414	39,027	324,968	2,116,413
Year ended 31 December 2015						
Opening net book amount	1,088,869	624,135	39,414	39,027	324,968	2,116,413
Exchange differences	(5,951)	(458)	(197)	(215)	(18)	(6,839)
Additions	33,863	123,080	12,439	11,016	294,758	475,156
Transfers	251,380	66,460	—	683	(318,523)	—
Disposals	(7,726)	(3,552)	(1,086)	(1,433)	—	(13,797)
Depreciation	(43,348)	(84,731)	(12,908)	(13,248)	—	(154,235)
Closing net book amount	1,317,087	724,934	37,662	35,830	301,185	2,416,698
At 31 December 2015						
Cost	1,638,597	1,402,325	142,378	98,689	301,185	3,583,174
Accumulated depreciation	(321,510)	(677,391)	(104,716)	(62,859)	—	(1,166,476)
Net book amount	1,317,087	724,934	37,662	35,830	301,185	2,416,698

6. Property, Plant and Equipment (Continued)

	Freehold land* and buildings RMB'000	Plant and machinery RMB'000	Vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2016						
Opening net book amount	1,317,087	724,934	37,662	35,830	301,185	2,416,698
Exchange differences	4,305	253	166	283	1,835	6,842
Additions	54,542	72,516	4,883	2,599	334,629	469,169
Transfers	272,774	217,301	53	557	(490,685)	—
Disposals	—	(1,227)	(745)	(387)	—	(2,359)
Depreciation	(53,977)	(102,465)	(10,980)	(10,616)	—	(178,038)
Closing net book amount	1,594,731	911,312	31,039	28,266	146,964	2,712,312
At 31 December 2016						
Cost	1,963,262	1,685,732	138,072	97,727	146,964	4,031,757
Accumulated depreciation	(368,531)	(774,420)	(107,033)	(69,461)	—	(1,319,445)
Net book amount	1,594,731	911,312	31,039	28,266	146,964	2,712,312

* *Freehold lands are located in Germany, Turkey and India (2015: Germany). They are stated at cost of RMB25,890 thousand (2015: RMB3,305 thousand) and is not subject to depreciation.*

Depreciation is charged to the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
Cost of sales	**137,904**	111,862
General and administrative expenses	**35,370**	36,604
Selling and marketing expenses	**4,764**	5,769
	178,038	154,235

7. Subsidiaries

The following are the subsidiaries, which are unlisted, at 31 December 2016:

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Dahai (H.K.) Company Limited	Hong Kong, limited liability company	HKD10,000	—	100%	Trading of machinery and related accessories, Hong Kong
Develop Kind Ltd.	British Virgin Islands ("BVI"), limited liability company	HKD11,000	—	100%	Investment holding, BVI
Guo Hua Limited	British Virgin Islands ("BVI"), limited liability company	USD50,000	100%	—	Investment holding, BVI
Guo Hua Enterprises Group Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, trading of machinery related accessories, Hong Kong
Haitian Huayuan (Hong Kong) Limited	Hong Kong, limited liability company	HKD779,999	—	100%	Trading of machinery and related accessories, Hong Kong
Haitian Huayuan (Japan) Machinery Co., Ltd	Japan, limited liability company	JPY10,000,000	—	100%	Trading of machinery and related accessories, Japan
Haitian Huayuan Machinery (India) Private Limited	India, limited liability company	Indian Rupee 140,156,900	—	100%	Sale of plastic injection moulding machines, India
Haitian Huayuan Mexico Machinery, S. de R.L. de C.V.	Mexico, limited liability company	USD504,200	—	100%	Sale of plastic injection moulding machines, Mexico

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company Direct	Indirect	Principal activities and place of operations
Haitian Huayuan Middle East Makina Dis Ticaret Limited Sirketi	Turkey, limited liability company	Turkish Lira 500,000	—	100%	Sale of plastic injection moulding machines, Turkey
Haitian Huayuan South America Com. De MAQS.Ltd	Brazil, limited liability company	Brazilian Real 5,360,000	—	100%	Sale of plastic injection moulding machines, Brazil
Haitian International Germany GmbH	Germany, limited liability company	Euro525,000	—	100%	Manufacture and sale of plastic injection moulding machines, Germany
Haitian Machinery (Thailand) Co., Ltd	Thailand, limited liability company	Thai Baht 12,000,000	—	100%	Sale of plastic injection moulding machines, Thailand
Huayuan (Vietnam) Machinery Co., Ltd.	Vietnam, limited liability company	Vietnam Dong ("VND") 22,800,000,000	—	100%	Manufacture, processing and sale of plastic injection moulding machines, Vietnam
Haitian Plastic Processing Machinery Guangzhou Co., Ltd. ("Guangzhou Haitian") (海天塑料機械(廣州)有限公司)	Mainland China, wholly owned foreign enterprise	USD2,400,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Haitian Plastic Machinery Group Co., Ltd. ("Haitian Plastic Machinery") (海天塑機集團有限公司)	Mainland China, wholly owned foreign enterprise	USD276,460,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Mega Power Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
New Choice Investment Development Limited	Hong Kong, limited liability company	HKD1	—	100%	Investment holding, Hong Kong
Niigata Haitian Injection Moulding Machine Co., Ltd.	Japan, limited liability company	JPY30,000,000	—	65%	Research and development of plastic injection moulding machines, Japan
Ningbo Daxie Development Zone Haitian Machinery Co., Ltd. ("Daxie Haitian") (寧波大榭開發區海天機械有限公司)	Mainland China, foreign equity joint venture	USD1,550,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Beihua Science and Technology Co., Ltd. ("Haitian Beihua") (寧波海天北化科技有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Research and development, manufacture, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Huayuan Machinery Co., Ltd. ("Haitian Huayuan") (寧波海天華遠機械有限公司)	Mainland China, foreign equity joint venture	USD51,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Logistic Co., Ltd. ("Haitian Logistic") (寧波海天物流有限公司)	Mainland China, limited liability company	RMB10,000,000	—	100%	Logistic, sale of plastic injection moulding machines, Mainland China
Ningbo Haitian Intelligent Manufacture Technology Co., Ltd. ("Haitian Software") (寧波海天製造科技有限公司)	Mainland China, limited liability company	RMB6,000,000	—	100%	Sale of software of plastic injection moulding machines, Mainland China

7. Subsidiaries (Continued)

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable equity interest to the Company		Principal activities and place of operations
			Direct	Indirect	
Ningbo Zhafir Plastics Machinery Co., Ltd. ("Ningbo Zhafir") (寧波長飛亞塑料機械製造有限公司)	Mainland China, foreign equity joint venture	USD30,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Richhigh Investments Limited	British Virgin Islands ("BVI"), limited liability company	USD1	—	100%	Investment holding, BVI
Sunnew Investments Limited	British Virgin Islands ("BVI"), limited liability company	HKD1	—	100%	Investment holding, BVI
PT. Haitian Huayuan Indonesia Machinery	Indonesia, limited liability company	USD312,500	—	100%	Sale of plastic injection moulding machines, Indonesia
Wuxi Haitian Machinery Co., Ltd. ("Wuxi Haitian") (無錫海天機械有限公司)	Mainland China, foreign equity joint venture	USD25,000,000	—	100%	Manufacture and sale of plastic injection moulding machines, Mainland China
Zhafir Plastics Machinery GmbH ("Zhafir Plastics")	Germany, limited liability company	Deutsche Mark 100,000	—	100%	Research and development of plastic injection moulding machines, Germany
Zhafir Plastics Machinery India Private Limited	India, limited liability company	Indian Rupee 99,990	—	100%	Manufacture, processing and sale of plastic injection moulding machines, India

The English names of certain subsidiaries are translations made by the Group's management from their Chinese names as they do not have official English names.

8. Investment in an Associate

	2016 RMB'000	2015 RMB'000
Beginning of the year	**13,602**	13,489
Investment	**—**	7,795
Disposal	**(331)**	—
Dividend received	**(3,259)**	(11,208)
Share of profit	**3,045**	3,526
End of the year	**13,057**	13,602

Particulars of the associate, which is unlisted, are as follows, and in the opinion of the management of the Group, the associate is not material to the Group:

Name	Place of incorporation and type of legal entity	Paid in capital	Attributable indirect equity interest to the Company	Principal activities and place of operation
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang") (杭州科強智能控制系统有限公司)	Mainland China, limited liability company	RMB18,000,000	47%	Manufacture and sale of intelligence control system in Mainland China

The English name of the associate is a translation made by the management of the Group from its Chinese name as it does not have an official English name.

Hangzhou Keqiang is a strategic supplier for the Group, and manufacture and sell intelligence control system to the Group.

Investment in an associate at 31 December 2016 includes goodwill of RMB186 thousand (2015: RMB186 thousand).

The Group's shares of the assets, liabilities, sales and results of the associate are as follows:

	2016 RMB'000	2015 RMB'000
Assets	**15,130**	24,699
Liabilities	**2,259**	11,283
Revenue	**16,089**	16,184
Profit and total comprehensive income for the year	**3,045**	3,526

9. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	**878,964**	697,050
Work-in-progress	**181,040**	178,068
Finished goods	**660,100**	682,319
	1,720,104	1,557,437

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB5,276,879 thousand (2015: RMB4,912,910 thousand).

As at 31 December 2016, inventories with cost of RMB162,085 thousand (2015: RMB123,140 thousand) was considered obsolete. A provision of RMB148,951 thousand (2015: RMB110,961 thousand) was made as at 31 December 2016.

10. Trade and Bills Receivable

	2016 RMB'000	2015 RMB'000
Trade and bills receivable	**2,641,252**	2,466,146
Less: provision for impairment	**(47,817)**	(51,921)
	2,593,435	2,414,225

The fair values of trade and bills receivable approximate their carrying amounts.

As at 31 December 2016, there was no individual customer with outstanding balance exceeding 10% of the Group's total trade and bills receivable (2015: None).

10. Trade and Bills Receivable (Continued)

Most of the Group's sales are covered by guarantees from distributors, credit arrangements from insurance companies in Mainland China, or letters of credit issued by banks. The Group grants its customers credit terms ranging from 15 days to 36 months. The ageing analysis of trade and bills receivable based on invoice date is as follows:

	2016	2015
	RMB'000	RMB'000
Up to 6 months	**2,303,021**	2,024,710
6 months to 1 year	**159,511**	243,789
1 year to 2 years	**109,518**	126,594
2 year to 3 years	**48,949**	50,364
Over 3 years	**20,253**	20,689
	2,641,252	2,466,146

As at 31 December 2016, trade receivables of RMB34,374 thousand (2015: RMB25,183 thousand) were past due but considered not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2016	2015
	RMB'000	RMB'000
Up to 6 months	**5,541**	2,452
6 months to 1 year	**6,243**	5,959
1 year to 2 years	**7,496**	7,441
2 year to 3 years	**7,349**	5,901
Over 3 years	**7,745**	3,430
	34,374	25,183

As at 31 December 2016, trade receivables of approximately RMB68,931 thousand (2015: RMB58,875 thousand) were impaired, and a related provision of RMB47,817 thousand (2015: RMB51,921 thousand) was provided. The individually impaired receivables relate to different customers. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2016	2015
	RMB'000	RMB'000
Up to 3 years	**56,423**	41,616
Over 3 years	**12,508**	17,259
	68,931	58,875

10. Trade and Bills Receivable (Continued)

Trade and bills receivable are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**1,915,669**	1,795,148
USD	**423,349**	467,410
Euro	**145,556**	138,896
Mexico Peso	**68,997**	6,659
VND	**29,439**	21,192
Brazilian Real	**27,670**	23,260
Others	**30,572**	13,581
	2,641,252	2,466,146

Movements of the provision for impairment of trade receivables are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**51,921**	48,733
(Reversal of)/provision for impairment of trade receivables	**(2,425)**	3,908
Written off as uncollectible	**(1,679)**	(720)
At 31 December	**47,817**	51,921

The provision for impaired receivables has been included in general and administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The other classes within trade and bills receivable do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

The Group does not hold any collateral as security.

11. Prepayments, Deposits and Other Receivables

	2016 RMB'000	2015 RMB'000
Receivables in relation to buyers' credit *(i)*	**11,256**	19,635
Prepayments and deposits		
— for purchases of raw materials	**24,626**	8,983
— others	**18,739**	18,631
Value Added Tax recoverable and refundable	**55,831**	81,578
Loans to employees		
— Loans to key management *(Note 35(c))*	**776**	1,010
— Loans to other employees *(ii)*	**20,685**	19,600
Entrusted loans *(iii)*	**206,576**	541,964
Interest receivables	**15,138**	15,478
Structured bank deposits	**10,000**	10,000
Others	**11,322**	20,850
	374,949	737,729
Less non-current portion:		
Loans to other employees *(ii)*	**(10,855)**	(10,595)
Entrusted loans *(iii)*	**—**	(500,000)
Current portion	**364,094**	227,134

Note:

(i) *Receivables in relation to buyers' credit are secured by guarantees provided by the relevant distributors who introduced the customers.*

(ii) *Loans to other employees are for their housing and car purchasing. The loans are due within six years, with interest bearing at rates ranging from 0% to 3.4% (2015: from 0% to 3.4%) per annum as at 31 December 2016.*

(iii) *The entrusted loans of RMB300,000 thousand and RMB200,000 thousand were lent to an independent third party through a bank in mainland China with maturity dates on 7 January 2017 and 27 January 2017 respectively. The third party repaid RMB300,000 thousand before maturity date in 2016. The interest rate of the both entrusted loans is the benchmark interest rate published by People's Bank of China.*

The fair values of non-current portion of other receivables are as follows:

	2016 RMB'000	2015 RMB'000
Loans to other employees	**10,112**	9,831
Entrusted loans	**—**	500,000
	10,112	509,831

11. Prepayments, Deposits and Other Receivables (Continued)

The fair values of loans to other employees are based on cash flows discounted using a rate based on the borrowings rate of 3.2% (2015: 3.0%) and are within level 3 of the fair value hierarchy.

As at 31 December 2015, the fair values of entrusted loans are based on cash flows discounted using a rate based on the borrowings rate 4.9% and are within level 3 of the fair value hierarchy.

The fair values of current portion of other receivables approximate their carrying amounts.

12. Financial instruments by Category

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
31 December 2016			
Assets as per balance sheet			
Available-for-sale financial assets	—	3,729,044	3,729,044
Trade and other receivables excluding prepayments	2,869,188	—	2,869,188
Restricted bank deposits	112,741	—	112,741
Term deposits	150,000	—	150,000
Cash and cash equivalents	3,263,893	—	3,263,893
Total	6,395,822	3,729,044	10,124,866

	Liabilities at fair value through the profit & loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet			
Borrowings	—	677,658	677,658
Convertible bonds	1,391,965	—	1,391,965
Trade and other payables excluding non-financial liabilities	—	2,251,524	2,251,524
Total	1,391,965	2,929,182	4,321,147

12. Financial instruments by Category (Continued)

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
31 December 2015			
Assets as per balance sheet			
Available-for-sale financial assets	—	2,812,987	2,812,987
Trade and other receivables excluding prepayments	3,042,762	—	3,042,762
Restricted bank deposits	164,010	—	164,010
Cash and cash equivalents	2,349,458	—	2,349,458
Total	5,556,230	2,812,987	8,369,217

	Liabilities at fair value through the profit & loss RMB'000	Derivatives RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
Liabilities as per balance sheet				
Borrowings	—	—	435,961	435,961
Convertible bonds	1,270,356	—	—	1,270,356
Derivative financial instruments	—	414	—	414
Trade and other payables excluding non-financial liabilities	—	—	1,728,306	1,728,306
Total	1,270,356	414	2,164,267	3,435,037

13. Available-For-Sale Financial Assets

	2016 RMB'000	2015 RMB'000
At 1 January	**2,812,987**	2,106,524
Additions	**6,747,890**	6,250,208
Disposals	**(5,857,930)**	(5,551,708)
Net gains transfer to equity *(Note 16)*	**26,097**	7,963
At 31 December	**3,729,044**	2,812,987

13. Available-For-Sale Financial Assets (Continued)

Available-for-sale financial assets are RMB denominated wealth management products with expected return rate ranging from 2.8% to 6.8% (2015: 2.1% to 8.1%) per annum and with maturity dates between 4 days and 355 days (2015: between 2 days and 351 days). None of these assets is either past due or impaired (2015: None).

Bank borrowings are secured by available-for-sale financial assets for the value of RMB100,000 thousand (2015: RMB100,000 thousand) (Note 19).

14. Restricted Bank Deposits, Term Deposits and Cash and Cash Equivalents

	2016 **RMB'000**	2015 RMB'000
Restricted bank deposits — current	**112,741**	114,010
Restricted bank deposits — non-current	**—**	50,000
Total restricted bank deposits	**112,741**	164,010
Term deposits — current	**50,000**	—
Term deposits — non-current	**100,000**	—
Total term deposits	**150,000**	—
Cash at bank and in hand	**2,654,356**	1,598,165
Short-term bank deposits	**609,537**	751,293
Cash and cash equivalents	**3,263,893**	2,349,458
	3,526,634	2,513,468

Restricted bank deposits are bank deposits that could not be drawn until they mature, some of which are related to the finance facilities granted by banks for issuing bills payable, or pledged for bank borrowings.

The maximum exposure to credit risk at the reporting period end approximates the carrying value of the restricted bank deposits and cash and cash equivalents.

As at 31 December 2016, the weighted average effective interest rate on restricted bank deposits and cash and cash equivalents of the Group is 0.51% (2015: 1.01%) per annum.

14. Restricted Bank Deposits, Term Deposits and Cash and Cash Equivalents (Continued)

The restricted bank deposits have maturities of 6 months at inception (2015: 6 months to 24 months). The short-term bank deposits have maturities ranging from 1 months to 12 months at inception (2015: ranging from 6 months to 12 months).

	2016 RMB'000	2015 RMB'000
Restricted bank deposits pledged for bank borrowings *(Note 19)*	**—**	51,350

Restricted bank deposits and cash and cash equivalents are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**1,994,902**	2,091,249
USD	**1,319,693**	241,630
Euro	**102,952**	131,286
Indian Rupee	**54,874**	10,376
Brazilian Real	**15,820**	8,360
HKD	**4,282**	3,305
VND	**3,200**	11,531
Others	**30,911**	15,731
	3,526,634	2,513,468

Majority of the restricted bank deposits and cash and cash equivalents are deposited with banks in Mainland China. The conversion of the RMB denominated balances into other currencies and the remittance of funds out of Mainland China are subject to the rules and regulations relating to foreign exchange control promulgated by the Mainland China government.

15. Share Capital

	Authorised share capital		
	Number of shares '000	**Amount** HKD'000	**Amount** RMB'000
As at 1 January 2015, 31 December 2015, and 31 December 2016 (shares with a par of HKD0.1 per share)	5,000,000	500,000	502,350

15. Share Capital (Continued)

	Issued and fully paid		
	Number of shares '000	**Amount** HKD'000	**Amount** RMB'000
As at 1 January 2015, 31 December 2015, and 31 December 2016 (shares with a par of HKD0.1 per share)	1,596,000	159,600	160,510

16. Reserves

	Share premium RMB'000	**Merger reserve** RMB'000	**Statutory reserves** RMB'000 *(note i)*	**Available-for-sale financial assets** RMB'000	**Translation differences** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2015	1,331,913	152,573	623,788	27,024	(14,462)	4,802,961	6,923,797
Profit for the year	—	—	—	—	—	1,363,335	1,363,335
Change in value of available-for-sale financial assets *(Note 13)*	—	—	—	7,963	—	—	7,963
Appropriations	—	—	37,588	—	—	(37,588)	—
Dividend paid							
— 2014 second interim	—	—	—	—	—	(227,365)	(227,365)
— 2015 interim *(Note 32)*	—	—	—	—	—	(210,779)	(210,779)
Currency translation differences	—	—	—	—	2,847	—	2,847
At 31 December 2015	1,331,913	152,573	661,376	34,987	(11,615)	5,690,564	7,859,798
Profit for the year	—	—	—	—	—	1,550,890	1,550,890
Change in value of available-for-sale financial assets *(Note 13)*	—	—	—	26,097	—	—	26,097
Appropriations	—	—	35,003	—	—	(35,003)	—
Dividend paid							
— 2015 second interim *(Note 32)*	—	—	—	—	—	(254,197)	(254,197)
— 2016 interim *(Note 32)*	—	—	—	—	—	(231,124)	(231,124)
Currency translation differences	—	—	—	—	6,494	—	6,494
At 31 December 2016	1,331,913	152,573	696,379	61,084	(5,121)	6,721,130	8,957,958

16. Reserves (Continued)

(i) Statutory reserves

Subsidiaries in Mainland China are required to transfer certain percentages of their after-tax profit after offsetting accumulated losses from prior years to statutory reserves, namely statutory reserve fund, statutory welfare fund, enterprise expansion fund and discretionary reserve fund, before the corresponding subsidiaries can distribute any dividend to their shareholders. The percentage to be appropriated to statutory reserve fund is determined according to the relevant regulations in Mainland China at the rate of 10% of net profit. The subsidiaries may cease appropriation when the statutory reserve funds reach 50% of the subsidiaries' registered capital. The percentages to be appropriated to other funds are at the discretion of the Board of Directors of the respective subsidiaries.

Such statutory reserves, depending on their nature, can only be used to offset accumulated losses or to increase capital of the respective subsidiaries, and cannot be distributed to shareholders of the subsidiaries. The balances of the statutory reserves after increasing capital shall remain at least 25% of the original registered capital of the respective subsidiaries. Movements in the statutory reserves are as follows:

	Statutory reserve fund RMB'000	Statutory welfare fund RMB'000	Enterprise expansion fund RMB'000	Discretionary reserve fund RMB'000	Total RMB'000
At 1 January 2015	32,438	556	492,638	98,156	623,788
Additions	—	—	37,588	—	37,588
At 31 December 2015	32,438	556	530,226	98,156	661,376
Additions	—	—	35,003	—	35,003
At 31 December 2016	32,438	556	565,229	98,156	696,379

17. Trade and Bills Payable

	2016 RMB'000	2015 RMB'000
Trade payables	**1,315,784**	859,374
Bills payable	**621,740**	665,100
Trade and bills payable	**1,937,524**	1,524,474
Due to related parties *(Note 35(b))*	**203,544**	118,258
	2,141,068	1,642,732

17. Trade and Bills Payable (Continued)

The ageing analysis of the trade and bills payable based on invoice date is as follows:

	2016 RMB'000	2015 RMB'000
Up to 6 months	**2,139,747**	1,641,669
6 months to 1 year	**285**	190
1 year to 2 years	**202**	86
Over 2 years	**834**	787
	2,141,068	1,642,732

Trade and bills payable are denominated in the following currencies:

	2016 RMB'000	2015 RMB'000
RMB	**2,078,124**	1,617,293
Indian Rupee	**20,751**	1,193
Euro	**20,217**	14,496
Mexico Peso	**10,164**	900
USD	**8,818**	6,472
JPY	**2,175**	632
HKD	**39**	22
Others	**780**	1,724
	2,141,068	1,642,732

The fair values of trade and bills payable approximate their carrying amounts.

18. Accruals and Other Payables

	2016 RMB'000	2015 RMB'000
Welfare payables	**89,123**	64,525
Salaries, wages and bonus payables	**75,151**	72,355
Accrued sales commission	**457,472**	420,341
Customers deposits	**667,415**	559,453
Payable for purchase of property, plant and equipment	**85,869**	48,378
Accrued operating expenses	**32,692**	23,597
Value Added Tax payables	**7,568**	24,467
Deferred income — current portion *(Note 21)*	**362**	351
Interest payables	**1,061**	10,693
Other payables	**23,526**	26,503
	1,440,239	1,250,663

19. Bank Borrowings

	2016 RMB'000	2015 RMB'000
Secured *(i)*	**100,000**	150,000
Unsecured	**577,658**	285,961
	677,658	435,961

	2016 RMB'000	2015 RMB'000
At floating rate in EUR	**277,658**	248,056
At floating rate in RMB	**400,000**	150,000
At floating rate in JPY	**—**	37,905
	677,658	435,961

(i) Bank borrowings are secured by available-for-sale amounted to RMB100,000 thousand (Note 13) (2015: RMB100,000 thousand available-for-sale and RMB51,350 thousand restricted bank deposits (Note 14)).

19. Bank Borrowings (Continued)

The weighted average effective interest rates (per annum) at year end are as follows:

	2016	2015
EUR	**0.8%**	0.9%
RMB	**2.7%**	2.7%
JPY	**1.4%**	1.4%

The fair values of short-term bank borrowings approximate their carrying amounts.

20. Derivative Financial Instruments

	2016 RMB'000	2015 RMB'000
Forward foreign exchange contracts — held-for-trading	**—**	414

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2015 were USD4,000 thousand.

21. Deferred Income

	2016 RMB'000	2015 RMB'000
Deferred government grants	**10,076**	10,135
Less: Current portion included in current liabilities *(Note 18)*	**(362)**	(351)
	9,714	9,784

Movements are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**10,135**	11,019
Exchange differences	**303**	(533)
Amortised as income *(Note 26)*	**(362)**	(351)
At 31 December	**10,076**	10,135

22. Deferred Income Tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2016 **RMB'000**	2015 RMB'000
Deferred income tax assets to be recovered within 12 months	**55,263**	49,291
Deferred income tax liabilities to be settled after more than 12 months	**210,235**	173,110
Deferred income tax liabilities to be settled within 12 months	**26,945**	22,301
	237,180	195,411

The movements in deferred income tax assets are as follows:

	Provisions and accruals RMB'000	**Unrealised profit on inventories** RMB'000	**Total** RMB'000
At 1 January 2015	39,916	13,395	53,311
Recognised in the consolidated statement of profit or loss	(6,451)	2,431	(4,020)
At 31 December 2015	33,465	15,826	49,291
Recognised in the consolidated statement of profit or loss	2,975	3,168	6,143
Exchange differences	(171)	—	(171)
At 31 December 2016	36,269	18,994	55,263

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB64,163 thousand (2015: RMB50,751 thousand) in respect of losses amounting to RMB241,651 thousand (2015: RMB185,735 thousand) that can be carried forward against future taxable income.

22. Deferred Income Tax (Continued)

The movements in deferred income tax liabilities are as follows:

	Withholding tax RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2015	150,873	—	150,873
Recognised in the consolidated statement of profit or loss	54,845	5,911	60,756
Transferred to tax payable	(16,218)	—	(16,218)
At 31 December 2015	189,500	5,911	195,411
Recognised in the consolidated statement of profit or loss	67,361	8,615	75,976
Transferred to tax payable	(34,207)	—	(34,207)
At 31 December 2016	222,654	14,526	237,180

Withholding tax is levied on dividends to be declared to foreign investors from the foreign investment enterprises established in Mainland China in respect of earnings earned after 31 December 2007. The Group's subsidiaries in Mainland China are held by Guo Hua Enterprises Group Limited, which is a company incorporated in Hong Kong and the beneficial owner of these subsidiaries, and the applicable withholding tax rate is 5%.

The Group provide for the deferred income tax liabilities on the unremitted earnings except for those amount expected to be reinvested. Unremitted earnings that deferred income tax liabilities have not been recognised totaled RMB2,660,860 thousand at 31 December 2016 (2015: RMB2,324,055 thousand). As at 31 December 2016, deferred income tax liabilities of RMB133,043 thousand (2015: RMB116,203 thousand) have not been recognised for the withholding tax that would be payable on such unremitted earnings of certain subsidiaries.

23. Convertible Bonds

On 13 February 2014, the Company issued convertible bonds due 2019 in an aggregate principal amount of USD200,000 thousand (equivalent to approximately RMB1,221,400 thousand). Interest of 2.00% per annum will be paid semi-annually. The convertible bonds may be converted into ordinary shares of the Company, at the option of holder thereof, at any time after 26 March, 2014 up to the close of business on the day falling seven days prior to 13 February 2019 (the "Maturity Date") (both days inclusive) or if such convertible bonds shall have been called for redemption before Maturity Date, then up to and including the close of business on a date no later than seven days prior to the date fixed for redemption thereof, at an initial conversion price (subject to adjustment) of HKD24.6740 per share.

The Convertible bonds are designated as financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value at initial recognition with transaction cost charge to the profit or loss accounts. Subsequently, the fair values are remeasured, gains and losses from changes therein are recognised in the profit or loss account.

23. Convertible Bonds (Continued)

None of convertible bonds were converted into ordinary shares of the Company during the period.

	Convertible bonds RMB'000
At 1 January 2015	1,225,746
Change in fair value of convertible bonds	44,610
At 31 December 2015	1,270,356
Change in fair value of convertible bonds *(Note 29)*	121,609
At 31 December 2016	1,391,965

The fair value of the convertible bonds as at 31 December 2016 is approximately USD 200,658 thousand (2015: USD195,632 thousand), equivalent to approximately RMB1,391,965 thousand (2015: RMB1,270,356 thousand), which is determined by valuation technique using observable inputs (Level 2): quoted prices for identical or similar instruments in active markets.

24. Revenue and Segment Information

	2016 **RMB'000**	2015 RMB'000
Sales of plastic injection moulding machines and related products	**8,098,053**	7,336,445

The chief operating decision-maker has been identified as the executive committee, which comprises all executive directors and senior management. The executive committee reviews the Group's internal reporting in order to assess performance and allocate resources. Based on these internal reports, the executive committee has determined that no segment information is presented as substantially all of the Group's sales and operating profits are derived from the sales of plastic injection moulding machines, and no geographical segment information is presented as management reviews the business performance based on type of business, not geographically.

The Group is domiciled in Mainland China. Analysis of its sales to external customers in different countries, based on the customers' locations is as follows:

	2016 **RMB'000**	2015 RMB'000
Mainland China	**5,663,200**	4,981,093
Hong Kong and overseas countries	**2,434,853**	2,355,352
	8,098,053	7,336,445

24. Revenue and Segment Information (Continued)

The total of non-current assets other than term deposits, restricted bank deposits and deferred income tax assets located in different countries is as follows:

	2016 RMB'000	2015 RMB'000
Total non-current assets other than term deposits, restricted bank deposits and deferred income tax assets		
— Mainland China	**2,889,577**	2,691,324
— Hong Kong and overseas countries	**209,099**	120,639

25. Expenses by Nature

	2016 RMB'000	2015 RMB'000
Depreciation and amortisation *(Notes 5 and 6)*	**186,762**	162,964
Raw materials and consumables used	**4,563,636**	4,242,767
Changes in inventories of finished goods and work in progress	**(10,380)**	92,546
Operating lease for buildings	**11,538**	12,861
Sales commission and after-sales service expenses	**359,887**	358,542
(Reversal of)/provision for impairment of trade receivables *(Note 10)*	**(2,425)**	3,908
Provision for write-down of inventories *(Note 9)*	**37,990**	4,268
Employment costs *(Note 28)*	**774,600**	688,967
Freight charges	**67,082**	53,424
Utilities	**92,299**	74,235
Travelling expenses	**26,246**	24,507
Auditor's remuneration		
— Audit services	**3,360**	3,150
Others	**300,814**	226,173
Total cost of sales, selling and marketing expenses and general and administrative expenses	**6,411,409**	5,948,312

26. Other income

	2016 RMB'000	2015 RMB'000
Government grants *(i)*	**98,968**	103,996
Amortisation of deferred income *(Note 21)*	**362**	351
	99,330	104,347

(i) Government grants mainly represent subsidies and assistance received from local municipal governments in connection with the Group's achievements in developing innovative and high technology plastic injection moulding machines.

27. Other Gains — Net

	2016 RMB'000	2015 RMB'000
Net foreign exchange gains	**21,389**	34,422
(Losses)/gains on disposals of property, plant and equipment and land use rights, net	**(1,483)**	8,026
Others	**5,147**	10,578
	25,053	53,026

28. Employment Costs

	2016 RMB'000	2015 RMB'000
Salaries, wages and bonus	**610,518**	539,970
Pension cost — defined contribution plans	**43,018**	46,864
Other benefits	**121,064**	102,133
	774,600	688,967

(a) Pension cost — defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in Mainland China. The Group's employees make monthly contributions to the schemes at approximately 8% of their basic salaries, while the Group contributes 14% to 19% of employees' basic salaries and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

28. Employment Costs (Continued)

(a) Pension cost — defined contribution plans (Continued)

The Group has arranged for its Hong Kong and overseas employees to join local pension schemes in respective countries' jurisdictions. The monthly contributions made by the Group for its employees in each country are not material. The Group has no further obligations for post-retirement benefits beyond the monthly contributions.

(b) Other benefits

In addition, the Group's employees in Mainland China participate in state-sponsored employee social security plans, including medical, housing and other welfare benefits. The Group contributes 7% to 11% of employees' basic salaries to the medical plan and 6% to 10% of employees' basic salaries to the housing plan. The Group has no further obligation beyond the contributions.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2015: three) directors whose emoluments are reflected in the analysis presented in Note 38. The emoluments payable to the remaining four (2015: two) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries	**4,090**	1,896
Other benefits	**587**	58
	4,677	1,954

The emoluments fall within the following bands:

	Number of individuals	
	2016	2015
Nil — HKD1,000,000 (equivalent to approximately RMB895,000)	**1**	4
HKD1,000,001 (equivalent to approximately RMB895,000) — HKD1,500,000 (equivalent to approximately RMB1,342,000)	**2**	1
HKD1,500,001 (equivalent to approximately RMB1,342,000) — HKD2,000,000 (equivalent to approximately RMB1,789,000)	**2**	–

(d)

During the year ended 31 December 2016, no emoluments were paid by the Company to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2015: Nil).

29. Finance Income/Costs

	2016 RMB'000	2015 RMB'000
Finance costs:		
Change in fair value of convertible bonds		
— resulted from change in exchange rate	**(88,680)**	(74,920)
— resulted from change in bond value	**(32,929)**	30,310
Interest expense	**(30,726)**	(27,483)
Net foreign exchange losses	**—**	(4,948)
	(152,335)	(77,041)
Finance income:		
Interest income on restricted bank deposits, term deposits and cash and cash equivalents	**32,599**	39,485
Interest income on wealth management products	**148,415**	125,095
Interest income on entrusted loans	**22,646**	39,731
Net foreign exchange gains	**48,265**	—
	251,925	204,311
Finance income, net	**99,590**	127,270

30. Income Tax Expense

The amount of income tax charged to the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Current income tax		
— Mainland China enterprise income tax	**288,911**	245,726
— Overseas income tax	**4,043**	2,465
Deferred taxation *(Note 22)*	**69,833**	64,776
	362,787	312,967

30. Income Tax Expense (Continued)

Haitian Plastic Machinery and Haitian Huayuan qualified as High and New Technology Enterprises ("HNTE") in 2014. Wuxi Haitian qualified as HNTE in 2015 and Ningbo Zhafir qualified as HNTE in 2016. These entities were entitled to a reduced income tax rate of 15% for three years commencing from the first year when these entities were granted HNTE status. They are required to re-apply for preferential tax treatment after the current preferential tax periods expire.

The other major operating subsidiaries in Mainland China are subject to enterprise income tax rate of 25% for the year 2016 (2015: 25%).

Subsidiaries established in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% on the taxable income for the year 2016 (2015: 16.5%).

Taxation on overseas (other than Mainland China and Hong Kong) profits has been calculated on the estimated assessable profits for the year 2016 at the applicable rates of taxation prevailing in the countries in which the Group operates.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax, after excluding share of profit of an associate	**1,910,617**	1,672,776
Tax calculated at domestic tax rates applicable to profits of the respective subsidiaries	**480,381**	366,369
Expenses not deductible for tax purpose	**31,912**	74,992
Tax losses for which no deferred income tax assets were recognised	**13,412**	1,751
Additional deduction of R&D (research and development) expense	**(10,014)**	(7,085)
Effect of tax exemption	**(220,265)**	(177,905)
Effect of withholding tax at 5% on certain unremitted profits of subsidiaries in Mainland China	**67,361**	54,845
Income tax expense	**362,787**	312,967
Weighted average applicable tax rate	**19.0%**	18.7%

Share of income tax expense of an associate for the year ended 31 December 2016 amounting to RMB325 thousand (2015: RMB488 thousand) was included in the consolidated statement of profit or loss in the share of profit of an associate.

For the year ended 31 December 2016, there was no tax charge relating to components of other comprehensive income (2015: Nil).

31. Earnings Per Share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year (Note 15).

	2016 RMB'000	2015 RMB'000
Profit attributable to shareholders of the Company	**1,550,890**	1,363,335
Weighted average number of ordinary shares in issue (thousands)	**1,596,000**	1,596,000
Basic EPS (RMB per share)	**0.97**	0.85

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company issued convertible bonds in 2014. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the convertible bonds.

For the year ended 31 December 2016 and 31 December 2015, diluted earnings per share is equal to basic earnings per share as the conversion of convertible bonds to ordinary shares would have anti-dilutive effect.

32. Dividends

	2016 RMB'000	2015 RMB'000
Interim dividend paid of HK 17.0 cents (2015: HK16.0 cents) per ordinary share	**231,124**	210,779
Second interim dividend of HK 20.0 cents (2015: HK19.0 cents) per ordinary share	**283,900**	254,197
	515,024	464,976

On 21 March 2017, the Company's Board of Directors has declared payment of a second interim dividend of HK20.0 cents per share for the year ended 31 December 2016 (2015: HK19.0 cents per share). The second interim dividend has not been reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings in the year ending 31 December 2017.

33. Notes to the Consolidated Statement of Cash Flows

(a) Cash generated from operations

	2016 RMB'000	2015 RMB'000
Profit before income tax	**1,913,662**	1,676,302
Adjustments for:		
— share of profit of an associate *(Note 8)*	**(3,045)**	(3,526)
— amortisation of land use rights *(Note 5)*	**8,724**	8,729
— depreciation of property, plant and equipment *(Note 6)*	**178,038**	154,235
— amortisation of deferred income *(Note 21)*	**(362)**	(351)
— losses/(gains) on disposal of property, plant and equipment and land use right *(Note 27)*	**1,483**	(8,026)
— gains on disposal of shares of an associate	**(279)**	—
— (reversal of)/provision for impairment of trade receivables *(Note 25)*	**(2,425)**	3,908
— provision for write-down of inventories *(Note 25)*	**37,990**	4,268
— fair value losses/(gains) on derivative financial instruments	**719**	(6,483)
— finance income — net *(Note 29)*	**(99,590)**	(127,270)
Changes in working capital:		
— decrease/(increase) in restricted bank deposits	**51,269**	(11,200)
— increase in term deposits	**(150,000)**	—
— increase in trade and other receivables	**(157,965)**	(181,200)
— (increase)/decrease in inventories	**(200,657)**	115,453
— increase/(decrease) in trade and bills payable	**498,336**	(263,776)
— increase/(decrease) in accruals and other payables	**175,466**	(35,143)
Cash generated from operations	**2,251,364**	1,325,920

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2016 RMB'000	2015 RMB'000
Net book amount *(Note 5 and 6)*	**2,359**	14,957
(Losses)/gains on disposal of property, plant and equipment and land use rights *(Note 27)*	**(1,483)**	8,026
Decrease/(increase) in other receivables	**8,232**	(8,232)
Proceeds from disposal of property, plant and equipment and land use rights	**9,108**	14,751

34. Commitments

(a) Capital commitments

	2016 RMB'000	2015 RMB'000
Acquisition of property, plant and equipment		
— Contracted but not provided for	**107,857**	283,698

(b) Operating lease commitments

The Group leases certain of its office premises and plant and equipment under non-cancellable operating lease agreements. The leases have renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 RMB'000	2015 RMB'000
Not later than 1 year	**14,441**	13,850
Later than 1 year and no later than 5 years	**4,026**	566
	18,467	14,416

35. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Sky Treasure Capital Limited (the immediate holding company), a company incorporated in the British Virgins Islands, which owns 59.77% of the Company's shares. The Company's directors regard Sky Treasure Capital Limited as being the ultimate holding company.

35. Related Party Transactions (Continued)

The following companies are considered to be related parties of the Group:

Company name	Relationships
Ningbo Haitian Precision Machinery Co., Ltd. ("Haitian Precision") (寧波海天精工機械有限公司)	Controlled by directors of the Group
Ningbo Anson CNC Technique Co., Ltd. ("Ningbo Anson") (寧波安信數控技術有限公司)	Controlled by directors of the Group
Hangzhou Keqiang Intelligence Control System Co., Ltd. ("Hangzhou Keqiang") (杭州科強智能控制系統有限公司)	Associate of the Group
Ningbo STF Hydraulic Transmissions Co., Ltd. ("Ningbo STF") (寧波斯達弗液壓傳動有限公司)	Controlled by directors of the Group
Ningbo Haitian Drive Systems Co., Ltd. ("HDS") (海天驅動有限公司)	Controlled by directors of the Group
Ningbo Haitian Table Tennis Club Co., Ltd. ("Table Tennis Club") 寧波海天乒乓球俱樂部有限公司)	Controlled by directors of the Group
Ningbo SPP Hydraulics Co.,Ltd. ("Ningbo SPP") (寧波住精液壓工業有限公司)	Controlled by directors of the Group
Ningbo Hilectro Precision Machinery Co.,Ltd. ("Hilectro Precision") (寧波海邁克精密機械製造有限公司)	Controlled by directors of the Group

(a) Transactions with related parties:

The following material transactions were carried out with related parties:

		2016 RMB'000	2015 RMB'000
(i)	Purchases of goods from:		
	Ningbo Anson	**534,525**	476,026
	Ningbo STF	**129,181**	111,167
	Hangzhou Keqiang	**34,614**	23,206
	Hilectro Precision	**13,041**	9,640
	Ningbo SPP	**1,352**	1,586
		712,713	621,625
(ii)	Purchase of equipment from:		
	Haitian Precision	**42,598**	104,734

35. Related Party Transactions (Continued)

(a) Transactions with related parties: (Continued)

	2016 RMB'000	2015 RMB'000
(iii) Rental fees paid to:		
HDS	**2,595**	2,880
(iv) Advertisement fees paid to:		
Table Tennis Club	**—**	10,019

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements and/or the invoices issued by the respective parties.

(b) Balances with related parties:

The Group had the following significant balances with its related parties as at 31 December 2016 and 2015:

	2016 RMB'000	2015 RMB'000
Payables arising from purchase of goods:		
— Ningbo Anson	**135,628**	73,916
— Ningbo STF	**51,182**	32,736
— Hangzhou Keqiang	**10,025**	6,965
— Hilectro Precision	**6,225**	4,022
— Ningbo SPP	**484**	619
	203,544	118,258
Payables arising from purchase of equipment:		
— Haitian Precision	**4,059**	4,671

Balances with related parties were unsecured, non-interest bearing, and had no pre-determined repayment terms.

35. Related Party Transactions (Continued)

(c) Loans to related parties

	2016 RMB'000	2015 RMB'000
Loans to key management		
At 1 January	**1,010**	695
Loans advanced during the year	**223**	760
Loan repayments received	**(457)**	(445)
At 31 December	**776**	1,010

The loans advanced to key management have the following terms and conditions:

Name of key management	**Amount of loan** **At end of year** RMB'000	**At beginning of year** RMB'000	**Term**	**Interest rate**
2016				
Mr Zhang Jingzhang	45	—	Repayable on demand	Nil
Mr Zhang Jianming	427	684	Repayable on demand	Nil
Mr Zhang Jianfeng	304	326	Repayable on demand	Nil
2015				
Mr Zhang Jianming	684	330	Repayable on demand	Nil
Mr Zhang Jianfeng	326	365	Repayable on demand	Nil

No provision has been required in 2016 and 2015 for the loans made to key management personnel.

(d) Key management compensation:

Key management includes directors, general managers of certain subsidiaries, Chief Financial Officer, Investment Relations Manager, Company Secretary and the Head of Human Resources and Administration. The compensation paid or payable to key management for employee services is:

	2016 RMB'000	2015 RMB'000
Salaries and bonus	**8,347**	7,976
Pension costs	**85**	88
Other benefits	**223**	223
	8,655	8,287

35. Related Party Transactions (Continued)

(e) Related party commitments:

Related party commitments which are contracted but not recognised in the consolidated balance sheet as at balance sheet date are as follows:

	2016 RMB'000	2015 RMB'000
Capital commitment for acquisition of property, plant and equipment		
— Haitian Precision	**621**	4,346

36. Events After the Reporting Period

As at 13 February 2017, the Company redeemed 37.575% of the convertible bonds with an aggregate principle amount of USD75,250 thousand, equivalent to RMB518,457 thousand, according to the bondholders' instruction. The bonds were redeemed at 100% of their principle amount, together with any accrued but unpaid interest.

37. Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

		As at 31 December	
	Note	**2016 RMB'000**	2015 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**778,077**	778,077
Due from subsidiaries		**1,482,906**	1,369,470
		2,260,983	2,147,547
Current assets			
Due from subsidiaries		**3,326,666**	2,615,089
Cash and cash equivalents		**125**	107
		3,326,791	2,615,196
Total assets		**5,587,774**	4,762,743

37. Balance Sheet and Reserve Movement of the Company (Continued)

Balance sheet of the Company (Continued)

	Note	As at 31 December **2016** **RMB'000**	2015 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Company			
Share capital		**160,510**	160,510
Share premium	*i*	**1,331,913**	1,331,913
Other reserves	*i*	**314,789**	314,789
Retained earnings	*i*	**525,926**	458,829
Total equity		**2,333,138**	2,266,041
LIABILITIES			
Non-current liabilities			
Convertible bonds		**1,391,965**	1,270,356
		1,391,965	1,270,356
Current liabilities			
Due to subsidiaries		**1,861,828**	1,215,891
Other payables		**843**	10,455
		1,862,671	1,226,346
Total liabilities		**3,254,636**	2,496,702
Total equity and liabilities		**5,587,774**	4,762,743

Note (i) Reserve movement of the Company

	Share premium RMB'000	**Contributed surplus** RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2015	1,331,913	314,789	482,777	2,129,479
Profit for the year	—	—	414,196	414,196
Dividend paid				
— 2014 second interim	—	—	(227,365)	(227,365)
— 2015 interim *(Note 32)*	—	—	(210,779)	(210,779)
At 31 December 2015	1,331,913	314,789	458,829	2,105,531
Profit for the year	—	—	552,418	552,418
Dividend paid				
— 2015 second interim *(Note 32)*	—	—	(254,197)	(254,197)
— 2016 interim *(Note 32)*	—	—	(231,124)	(231,124)
At 31 December 2016	1,331,913	314,789	525,926	2,172,628

38. Benefits and Interests of Directors

(a) Directors' emoluments

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
Name of Director	**Fees** RMB'000	**Salaries** RMB'000	**Pension cost** RMB'000	**Estimated value of other benefits** RMB'000	**Total** RMB'000
2016					
Executive directors					
— Mr. Zhang Jingzhang	—	800	—	18	818
— Mr. Zhang Jianming (CEO)	—	830	8	26	864
— Mr. Zhang Jianfeng	—	780	8	26	814
— Mr. Zhang Jianguo	—	550	8	26	584
— Ms. Chen Ningning	—	500	8	26	534
	—	3,460	32	122	3,614
Non-executive director					
— Professor Helmut Helmar Franz	—	226	—	—	226
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
	—	226	—	—	226
Independent non-executive directors					
— Mr. Jin Hailiang	78	—	—	—	78
— Mr. Guo Yonghui	13	—	—	—	13
— Mr. Lou Baijun	78	—	—	—	78
— Dr. Steven Chow	89	—	—	—	89
	258	—	—	—	258
	258	3,686	32	122	4,098

38. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Name of Director	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking				
	Fees RMB'000	**Salaries** RMB'000	**Pension cost** RMB'000	**Estimated value of other benefits** RMB'000	**Total** RMB'000
2015					
Executive directors					
— Mr. Zhang Jingzhang	—	700	—	18	718
— Mr. Zhang Jianming (CEO)	—	730	7	26	763
— Mr. Zhang Jianfeng	—	680	7	26	713
— Mr. Zhang Jianguo	—	550	7	26	583
— Ms. Chen Ningning	—	460	7	26	493
	—	3,120	28	122	3,270
Non-executive director					
— Professor Helmut Helmar Franz	—	559	—	—	559
— Mr. Guo Mingguang	—	—	—	—	—
— Mr. Liu Jianbo	—	—	—	—	—
	—	559	—	—	559
Independent non-executive directors					
— Mr. Jin Hailiang	78	—	—	—	78
— Mr. Gao Xunxian	78	—	—	—	78
— Mr. Lou Baijun	78	—	—	—	78
— Dr. Steven Chow	81	—	—	—	81
	315	—	—	—	315
	315	3,679	28	122	4,144

Mr. Gao Xunxian has tendered his resignation as an independent non-executive director of the Company with effect from 11 November 2016.

Mr. Guo Yonghui has been appointed as an independent non-executive director of the Company with effect from 11 November 2016.

38. Benefits and Interests of Directors (Continued)

(a) Directors' emoluments (Continued)

Aggregate emoluments paid to or receivable by directors in respect of their services as directors, whether of the Company or its subsidiary undertaking		Aggregate emoluments paid to or receivable by directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total	Total
2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
258	315	**3,840**	3,829	**4,098**	4,144

Mr. Guo Mingguang and Mr. Liu Jianbo have waived their emoluments during the years ended 31 December 2015 and 2016. None of other directors waived any emoluments during the year ended 31 December 2016 (2015: None).

During the year ended 31 December 2016, no emoluments paid or receivable in respect of a person's services as a director (whether of the Company or its subsidiary undertaking) other than those disclosed in above tables, such as discretionary bonuses, housing allowance, or remunerations paid or receivable in respect of accepting office as director incurred in (2015: None), and no emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking incurred (2015: None).

(b) Directors' retirement benefits

During the year ended 31 December 2016, no retirement benefits operated by the Group were paid or made, directly or indirectly, to or receivable by a director in respect of his services as a director or other services in connection with the management of the affairs of the Company or its subsidiaries (2015: None).

(c) Directors' termination benefits

During the year ended 31 December 2016, no payments or benefits in respect of termination of director's services were paid or made, directly or indirectly, to or receivable by a director; nor are any payable (2015: None).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, no consideration was provided to or receivable by third parties for making available director's services (2015: None).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans or other dealings in favour of directors, controlled bodies corporate by and connected entities other than those disclosed in Note 35(c) (2015: None).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company 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 (2015: None).

Financial Summary

The following table summarizes the consolidated results, assets and liabilities of the Group for the five years ended 31 December:

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Results					
Revenue	**8,098,053**	7,336,445	7,560,266	7,200,653	6,335,642
Profit before income tax	**1,913,662**	1,676,302	1,596,433	1,475,538	1,194,094
Income tax expenses	**(362,787)**	(312,967)	(291,417)	(269,302)	(208,068)
Profit attributable to shareholders	**1,550,890**	1,363,335	1,305,016	1,206,236	986,026
Assets					
Non-current assets	**3,264,794**	3,421,849	3,136,099	2,265,999	1,872,621
Current assets	**11,835,495**	9,475,251	8,574,172	7,810,001	6,659,504
Total assets	**15,100,289**	12,897,100	11,710,271	10,076,000	8,532,125
Liabilities					
Non-current liabilities	**1,638,859**	1,475,551	1,387,269	124,035	108,801
Current liabilities	**4,342,352**	3,401,241	3,238,695	3,784,709	3,087,856
Total liabilities	**5,981,211**	4,876,792	4,625,964	3,908,744	3,196,657
Total equity	**9,119,078**	8,020,308	7,084,307	6,167,256	5,335,468
Capital and reserves attributable to shareholders of the Company	**9,118,468**	8,020,308	7,084,307	6,167,256	5,335,468

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