

LONKING 龙工

LONKING HOLDINGS LIMITED

中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

2017 Annual Report





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Corporate Information

BOARD OF DIRECTORS

Executive directors

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

Non-executive directors

Ms. Ngai Ngan Ying

Independent non-executive directors

Dr. Qian Shizheng
Mr. Wu Jian Ming
Mr. Chen Zhen

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

EXECUTIVE COMMITTEE

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

COMPANY SECRETARY

Mr. Chu Shun

HEAD OFFICE

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

REGISTERED OFFICE

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

INVESTOR RELATIONS

Ms. Yanzhen Wong
wz@lonking.cn
Tel: 86-21-3760 2031

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE

<http://www.lonking.cn>

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Fl., Royal Bank House,
24 Shedden Road,
PO Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SOLICITORS

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

AUDITORS

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

PRINCIPAL BANKERS

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

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



Financial Highlights

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

Current period	2017 RMB'000	2016 RMB'000	Change (+/-)
Turnover	8,994,097	5,146,435	+74.76%
Operating profits:	1,471,196	637,422	+130.80%
EBITDA	1,830,534	1,023,025	+78.93%
Profit attributable to equity parent	1,045,635	461,764	+126.44%
Per share data	RMB	RMB	
Basic earnings per share ^{(1)#}	0.24	0.11	+118.18%
Net assets per share ^{(2)#}	1.81	1.57	+15.29%
Key performance indicators	%	%	
Profitability			
Overall gross margin	26.59	24.22	+2.37%
Net profit margin	11.63	8.98	+2.65%
EBITDA margin ⁽³⁾	20.35	19.88	+0.47%
Return on equity ⁽⁴⁾	13.53	6.87	+6.66%
Liquidity and solvency			
Current ratio ⁽⁵⁾	1.81	3.04	-40.60%
Interest coverage ratio ⁽⁶⁾	31.09	8.13	+282.41%
Gearing ratio ⁽⁷⁾	78.76	66.77	+11.99%
Management efficiency	days	days	
Inventory turnover days ⁽⁸⁾	109	130	-21 days
Trade and bills payables turnover days ⁽⁹⁾	134	103	+31 days
Trade and bills receivable turnover days ⁽¹⁰⁾	68	117	-49 days



Financial Highlights

- # Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2017 (31 December 2016: 4,280,100,000).
- 1 Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.
- 2 Shareholders' equity divided by the WANOS as at the end of each period.
- 3 Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
- 4 Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.
- 5 Current assets divided by current liabilities as at the end of each period.
- 6 Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
- 7 Total liabilities divided by the total equity as at the end of each period.
- 8 Average inventories divided by cost of sales and multiplied by 365 days.
- 9 Average trade and bills payables divided by cost of sales and multiplied by 365 days.
- 10 Average trade and bills receivables divided by turnover and multiplied by 365 days.



Chairman's Statement

Dear shareholders and investors,

On behalf of the Board, I am pleased to present the Chairman's Statement of Lonking Holdings Limited ("China Lonking" or "Lonking") for the year ended 31 December 2017.

Riding the momentum of strong recovery of the construction machinery industry in the PRC in 2017, China Lonking made full play of its years of competitive edge and performed well in both domestic and overseas construction machinery markets, with each of the key performance indicators and development quality of the Company obviously outperforming its peers.

I. Outstanding financial indicators

1. Revenue and net profit increased significantly. Revenue increased by 74.8% to RMB8.99 billion; net profit increased by 126.5% to RMB1.05 billion; earnings per share increased by 118.2% to RMB0.24.
2. Strong profitability. Overall gross margin increased by 2.4 percentage points to 26.6%; net profit margin and return on net assets were 11.6% and 13.5% respectively.
3. Sustainable and robust cash flows. Net cash flows from operating activity was RMB1.59 billion, exceeding RMB1 billion for the seventh consecutive year; total cash and financial assets was RMB5.6 billion.
4. Very solid balance sheet. Gearing ratio of the Company at the end of the period led the industry, standing at 44.1%.
5. Attractive dividend. A dividend of HK\$0.16 per share was distributed at the end of the period, accounting for 65.5% of the net profit.



Chairman's Statement

II. Highlights of the Company's operation in 2017.

1. All the four main lines of products of Lonking kept pace with each other and developed well. Loaders ranked top in the industry in both production and sales volume, seeing significant increase in its market share; sales of excavators increased by 127%, distinctly better than the industry; production and sales volume of fork lifts exceeded 40,000 units, consolidating its position as top 3 in the industry; road rollers increased rapidly and became an important growth point for the future development of the Company. In 2017, Lonking's products received high recognition and reputation from the wide users.
2. Core and key components developed fast with the further implementation of vertical integration strategy. Development of core components, including axles, gear boxes, cylinders, gears and castings, progressed well. High-end hydraulic pumps and valves also made a breakthrough after effective solving of the bottleneck problem of procurement, which further improved the Company's overall profitability.
3. Operating risks were under effective control and operating quality of the Company was better than ever since its incorporation. The Company innovated and improved its management system and continuously strengthened its risk control to be truly "Back to Basics for Being Resilient". Risks in relation to trade receivables in the past were completely solved. Together with sufficient cash in hand, strong cash flows from operating activities, substantial decrease in trade receivables and inventory turnover days and further improved asset quality, the Company performed better than ever in terms of operating efficiency and quality.
4. More efforts were put in human resources introduction and R&D investment and more importance was attached to product and product quality. The Company seized various opportunities, highlighted the introduction of domestic and overseas human resources in all fields, further strengthened the investment in research and development, and endeavored to create its core competitiveness by focusing on product and product quality. The Company made great breakthrough in the development of whole-machine and core components, effectively driving the growth of Lonking in the future.
5. The planning of each production base was adjusted and improved on a timely and scientific manner for better utilization of production capacity and satisfying customer needs. In response to market changes, Lonking adjusted the planning of its production base and revised the capacity planning of each production base on a timely manner. The excavator production line in Fujian and fork lift production line in Jiangxi commenced operation during the year.



Chairman's Statement

Dear investors, the Board of Lonking has outlined the work agenda for 2018, which sets out the target of over 20% increase in the Group's revenue in 2018 against 2017. We will implement the marketing strategy of "Back to Basics for Being Resilient" and secure the opportunity from market boom to ensure each business segment to outperform the industry. In the first quarter, Lonking maintained a healthy and rapid development, indicating a good outset. We firmly believe, led by the Board, all the Lonkingers will be determined to forge ahead, keep exploring and strive to exceed the 2018 target set by the Board.

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

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

Lonking Holdings Limited

Li San Yim

Chairman of the Board

27 March 2018



Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

2017 saw a pick-up in global economy. China achieved a better-than-expected economic growth. After a prolonged low for more than five years, the construction machinery industry has maintained the recovery trend since the second half of 2016, driven by a significant increase in the market demand for major construction machinery products. Riding the momentum of the macroeconomic growth, growing investment in fixed assets and renewal and upgrading of construction machinery equipment, the Group further strengthened and magnified its key advantages in product quality, service and value-for-money. While ensuring risks under control, the Group focused on improving its market presence both domestically and internationally by consolidating its strong business segment and improving the market share of its weak business segment so as to further facilitate its leading position in the industry. Meanwhile, adhering to the marketing strategy of “Back to Basics for Being Resilient”, the Group continued to refine and improve its risk control system, heighten the control over receivables, inventory and costs, and optimize project investment and financial planning. During the reporting period, both of the Group’s development and asset quality were improved and greatly outperformed its peers. During the reporting period, the Group’s total revenue increased by RMB3,848 million to RMB8,994 million from RMB5,146 million in the same period of 2016, representing a year-on-year growth of 74.76%. During the reporting period, the consolidated gross profit margin of the Group steadily increased by 2.37 percentage points to 26.59% from 24.22%. The Group achieved net profit of approximately RMB1,046 million in 2017, representing a year-on-year increase of 126.48%. The significant increase in net profit was mainly attributable to the substantial revenue increase, improved consolidated gross profit margin and effective control over management expense and finance expense during the period.

The northern regions of the PRC remained as the Company’s principal marketing regions. Revenue from northern regions increased 98% to approximately RMB1,959 million (2016: approximately RMB989 million), representing 22% of our total turnover. Revenue from eastern regions of the PRC increased 87% to RMB1,439 million (2016: approximately RMB768 million), accounting for approximately 16% of our total turnover. In respect of our overseas market, during the year, the Group’s sales revenue recorded a significant increase of 58% to approximately RMB686 million (2016: approximately RMB434 million). While ensuring risks under control, the Group will remain committed to the development of overseas market. Consequently, the sales generating from overseas market are expected to show an uptrend against the improved peripheral environment.



Management Discussion and Analysis

ANALYSIS OF PRODUCTS

In 2017, the construction machinery industry witnessed an overall recovery amid the atmosphere where favorable policies on investment in fixed assets were launched, with investments in infrastructure continued to be made in various provinces and cities in China. Sales of various products of the Group all recorded a relatively substantial increase during the year 2017. Our focus remains to be the sales of our major products, including wheel loaders, excavator, fork lifts, road rollers and components. During the year, there has been little change in the percentage of the sales of various products to total sales over last year.

Wheel Loaders

The revenue generated from wheel loader amounted to approximately RMB4,826 million, representing approximately 54% of total Group's turnover, representing an obvious increase from last year (2016: RMB2,615 million, approximately 51% of total Group's turnover).

ZL50 series continued to be the main revenue source of the Group with turnover for the year reaching RMB4,111 million, an increase of 93% compared with that of last year. ZL30 series continued to be the second largest revenue source of the Group with turnover reaching RMB374 million, an increase of approximately 53% compared with that of last year. ZL40 series accounted for a small proportion in the overall sales with turnover reaching RMB37 million, representing only approximately 0.4% of the total turnover. ZL60 series recorded approximately RMB101 million in sales, representing only 1% of the total turnover. The turnover from mini wheel loader amounted to RMB204 million, an increase of 22% compared with that of last year.

Wheel Loaders remain to be the main sales products of the Group and have become increasingly established and take up a higher market share, although the percentage of its sales to total sales shows a sign of decline.

Excavators

The revenue generated from excavators accounted for approximately 15% of the Group's total turnover, representing a significant increase of 127% from last year to approximately RMB1,330 million (2016: RMB586 million, representing approximately 11% of the Group's total turnover). With the overall recovery of the construction machinery industry, the sales of excavator, a cutting-edge product on which the Group has been focused in recent years, are expected to grow at a rate far above that of other products, and show a fast-growing momentum.



Management Discussion and Analysis

Fork Lifts and Road Rollers

Revenue generated from fork lifts represented 20% of our total turnover for the year of 2017 (2016: 24%). During the year, turnover from fork lifts increased by 50% to approximately RMB1,826 million (2016: RMB1,220 million). Since fork lifts has become a new source of growth in the Group's profits in recent years, the Group has been committed to the development of various fork lift products, which are well received by customers.

Revenue from road rollers reached RMB119 million, representing an increase of 62% compared with that of last year (2016: approximately RMB73 million).

Components

The sales generated from components amounted to approximately RMB742 million for the year ended 31 December 2017, an increase of 29% compared with the corresponding period last year (2016: RMB573 million), accounting for approximately 8% of the total turnover of the Group.

Finance Lease Interest

Turnover from interest income of finance lease represented approximately only 0.1% of the Group's total turnover in the year of 2017. The finance lease business has been reduced by the Group gradually.

FINANCIAL REVIEW

Cash and Bank Balance

The cash position of the Group was strong during the year. As at 31 December 2017, the Group had bank balance and cash of approximately RMB1,634 million (31 December 2016: approximately RMB1,131 million).

Compared with last year, cash and bank balances increased by approximately RMB503 million, which is generated as a result of net cash inflow of around RMB1,592 million from operating activities, the net cash outflow of RMB1,411 million from investing activities and the net cash inflow of RMB320 million from financing activities and effect of foreign exchange rate changes of RMB2 million.

Liquidity and Financial Resources

We are committed to build a sound finance position. Total shareholders fund as at 31 December 2017 was approximately RMB7,730 million, a 15% increase from approximately RMB6,720 million as at 31 December 2016. The current ratio of the Group at 31 December 2017 was 1.81 (2016: 3.04).

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



Management Discussion and Analysis

Capital Structure

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

As at 31 December 2017, the gross gearing ratio (defined as total liabilities over total assets) was approximately 44.06% (31 December 2016: 40.04%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB200 million (2016: approximately RMB24 million) in line with a series of strategic transformation and production transformation by the Group.

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

Capital Commitment

As at 31 December 2017, the Group had contracted but not included in the financial statements expenditures of approximately RMB22 million in respect of acquisition of property, plant and equipment (31 December 2016: approximately RMB12 million).

Other Gains and Losses

During the year, other gains and losses were approximately RMB38 million, broadly flat with the corresponding period last year. This was mainly due to the foreign exchange loss incurred by a substantial RMB appreciation compared with the last year and investment gains from financial assets acquired by the Group.

Besides, provision for bad debts during the year also reduced by approximately RMB72 million compared with the last year.

Research and Development Costs

The Group attaches great importance to the improvement of its competitiveness and investment in research and development. With the improvement of economic condition, the Group will continue to increase its investment in research and development. During the year, research and development costs increased by approximately RMB179 million compared with the last year.



Management Discussion and Analysis

Finance Costs

During the year, finance costs significantly decreased by approximately RMB31 million compared with the corresponding period last year, primarily due to the decrease in interest of loans as a large amount of loans decreased as a result of maturity or early repayment.

Income Tax

During the year, income tax significantly increased by approximately RMB281 million compared with the corresponding period last year, primarily due to a substantial increase in profit before tax. Besides, the effective tax rate in 2017 increased to 26.5% from 17.4% in 2016 as a result of the increase in withholding income tax provided for in relation to the dividend paid by a subsidiary of the Group in Mainland China to its offshore holding company, as well as the effect of favourable tax rate of 15% enjoyed by some subsidiaries of the Group as "High and New Technology Enterprises" compared with the legal tax rate of 25%.

Inventories

As of 31 December 2017, inventories increased by 62.2% to approximately RMB2,446 million (as of 31 December 2016: inventories of approximately RMB1,508 million). This was mainly attributable to increased stock of the finished products, unfinished products and raw materials at the end of the period resulting from the continuous improvement in sales during the year.

Trade and Bills Receivables

As of 31 December 2017, trade and bills receivables increased by 44.3% to approximately RMB1,970 million (as of 31 December 2016: trade and bills receivables of approximately RMB1,365 million). This was primarily due to the improvement in sales of the overall industry, with substantially increased sales in the second half of the year as compared with the corresponding period of last year, as well as significant improvement in turnover days of the trade receivables of the Company over last year.

Pledged Deposits

As of 31 December 2017, the pledged deposit balance decreased by RMB1,002 million compared with last year. This was mainly due to recovery of security deposits for the loans upon maturity of large bank loans during the year.



Management Discussion and Analysis

Trade and Bills Payables

As of 31 December 2017, trade and bills payables increased by 118.3% to approximately RMB3,331 million (as of 31 December 2016: trade and bills payables of approximately RMB1,526 million). This was mainly attributable to increased stock of materials and components at the end of the period by the Group resulting from generally robust sales in the construction machinery market during the year, most of which were settled by using bank notes.

PROSPECT

2018 is a crucial year in carrying out the 13th Five-Year Plan of China (2016-2020). The economy of China will continue to develop in a stable and positive manner. Against the backdrop of global recovery, the construction machinery industry is expected to maintain a rapid growth. Taking the opportunity, the Group will make timely plans to seek for more businesses and larger market shares in line with its marketing principle of "Back to Basics for Being Resilient". It will remain committed to the construction machinery industry, further develop its four major products (i.e. loaders, fork lifts, excavators and road rollers) and related core components, and improve its presence in both domestic and overseas market. Besides, it will always adhere to the agency system, promote Lonking's culture as a big family, further strengthen its three major advantages in quality, service and value-for-money, draw up market and region development plans and strive to refine the market to improve the market share of the Group's products. While continuously consolidating the leading position of its core products in the industry, the Group will steadily expand its excavator business for larger market share and, given the rapid growth in the demand for industrial vehicles, increase the investment in forklift project and strengthen the development of forklift products to improve its sales and market-awareness. The Group will further highlight its product quality as well as after-sale services, ensuring better and higher quality services are rendered to the best satisfaction of its customers from time to time. Process follow-up and management will be duly conducted complying with the system and policies to be established by the Group. It will put more efforts in team-building, value the subjectivity and creativity of its team members, optimize management procedures and ensure a reasonable allocation of human resources. Control over manufacturing costs and related expenses occurred during the period will be heightened to strike a better balance among costs, efficiency and development. By maximizing its advantages of better quality control and higher efficiency arising from vertical integration, the Group will further explore the potential of management and quality, and establish a production and operation management system as a supplement to its existing governance mechanism in order to improve the management on a group basis. Concentrating on the product and product quality, the Group will refine all products from each segment, introduce and cultivate top professionals, increase investment in scientific and technological research and development and promote their transformation, and strictly monitor the development process to improve its brand awareness and recognition.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 67, is the Chairman of the Board and one of the founders of the Group. He has extensive experience in corporate management and is responsible for formulating the Group's management philosophy and business strategies. Mr. Li was appointed as a deputy of the 11th National People's Congress, member of the Executive Committee of the All-China Federation of Industry and Commerce (中華全國工商業聯合會執行委員), vice-chairman of the Fujian Province Federation of Industry and Commerce (福建省工商業聯合會副會長). Mr. Li has also been accredited as one of the "Outstanding Enterprise Founders under Chinese Socialism" (優秀中國特色社會主義事業建設者) and a National Labour Model (全國勞動模範). Mr. Li holds an EMBA at Fudan University in Shanghai.

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

Mr. Chen Chao, aged 43, is an executive Director and the executive vice-president of the Group. Mr. Chen joined the Group in July 1997, in charge of supply chain management. Mr. Chen holds an EMBA degree from Fudan University in Shanghai. Mr. Chen has over thirteen years of experience in product development and quality control, and has previously served as a deputy chief of the product development department at Shanghai Longgong Machinery, manager of the research and development centre and deputy general manager of Shanghai Longgong Machinery. Mr. Chen was appointed as a member of the 5th Standing Council by the Machinery Design Society of the Chinese Mechanical Engineering Society. In addition, he has also been appointed as a qualified technology and quality expert (技術質量專家) by the Technology and Quality Standing Committee (技術質量委員會) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

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

Mr. Luo Jianru, aged 71, is a Vice-President of the Group. Mr. Luo joined the Group in September 1998. Mr. Luo received a "second class" Jiangxi Province Science and Technology Award (江西省科學技術進步二等獎) in 1986 and a "third class" award from China Aviation Industry Company (中國航空工業總公司三等獎) in 1997 in recognition of his contribution to the development of science and technology. He is the deputy chairman of the executive committee of the Association of Industry and Commerce of Songjiang District, Shanghai (上海市松江區工商業聯合會副會長) and a member of the People's Political Consultative Conference of Songjiang District, Shanghai (上海市松江區政協委員). Mr. Luo is a graduate of Hefei University of Technology (合肥工業大學) and has over 25 years of experience in corporate management and the infrastructure machinery industry. Mr. Luo has held various senior positions including the deputy general manager of Fujian Longyan Construction Machinery (Group) Limited, general manager of Longgong (Shanghai) Axle & Transmission Co., Limited and deputy general manager of the Group.



Profiles of Directors and Senior Management

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

Mr. Zheng Ke Wen, aged 43, joined the Group in September 1996. He was named as the "Outstanding Entrepreneur of Fujian Province" (福建省優秀企業家) in 2007-2008 and "Technical Innovation Expert" (技術創新能手) of Shanghai, and awarded a "second class" Fujian Province Science and Technology Award (福建省科學技術進步二等獎) and "Collective Representative of Model Worker of Shanghai" (上海市勞模集體代表). He was the committee member of third Youth Federation of Song Jiang District of Shanghai (上海市松江區第三屆青年聯合會委員). Mr. Zheng obtained an EMBA degree from Xiamen University. Mr. Zheng has over 18 years of experience in corporate management and sales and marketing. He has been the director of the chief control room, vice general manager and general manager of Longgong Shanghai Machinery Co. Ltd., general manager of Longgong (Shanghai) Axle & Transmission Co., Ltd., general manager of Longgong (Shanghai) Excavator Manufacturing Co. Ltd., and general manager of excavator business segment of Lonking. He is currently the vice President as well as the general manager of excavator business segment of the Company.

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

Mr. Yin Kun Lun, aged 50 is an executive Director and the chief financial officer of the Group. Mr. Yin obtained a Bachelor's degree from Jilin University Management School in 1990 and graduated from Washington University-Fudan University EMBA Program and obtained a MBA degree from Washington University in 2010, and is a qualified Certified Public Accountant in the PRC. He was the auditing director of a factory under China Petroleum Jilin Chemical Group, the chief financial officer of BASF JCIC NPG Company Ltd and Putzmeister Machinery (Shanghai) Company Ltd. as well as the chief financial officer of Mahle Technology (China) Holding Ltd. Mr. Yin has over 25 years of experiences in corporate finance and investment management.

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



Profiles of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 62, is the Vice-Chairman of the Group and was appointed as a non-executive director of the Group in May 2004. Ms. Ngai is also one of the founders of the Group. Ms. Ngai is a standing committee member of the People's Political Consultative Conference of Xinluo District, Fujian Province (龍岩市新羅區政協常務委員). Ms. Ngai is the wife of Mr. Li San Yim, being a director.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 66, was appointed as an independent non-executive director in February 2005. Dr. Qian serves as a vice president of Shanghai Industrial Investment (Holdings) Co. Ltd. and a director of Shanghai Industrial Urban Development Group Co. Ltd. He graduated from Fudan University with a doctorate degree in management and has taught at Fudan University as associate director and professor in the faculty of Accountancy. Dr. Qian was an executive director of Shanghai Industrial Holdings Limited (stock code: 363). Mr. Qian also serves as a vice-chairman of Haitong Securities Co., Ltd (海通證券股份有限公司), and an independent director of Zoomlion Heavy Industrial Science and Technology Co., Ltd, (中聯重科股份有限公司) which are listed on Shenzhen Stock Exchange and Hong Kong Stock Exchange (stock code: 1157). He has over 26 years of experience in the finance and accounting fields.

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



Profiles of Directors and Senior Management

Mr. Wu Jian Ming, aged 64, was appointed as an independent non-executive director of the Company in August 2013. He graduated from Central Party School of the Communist Party of China and is an economist. Mr. Wu has been a delegate of the 12th session of the People's Congress of Shanghai Municipality and was awarded the title of Model Worker of Shanghai. Over the past 30 years, Mr. Wu has held various positions in different divisions in Songjiang government in Shanghai, including the mayor of Cangqiao Town (倉橋鄉) in Songjiang County, the secretary of Chinese Communist Party Committee of Maogang Town (泖港鎮), the secretary of Chinese Communist Party Committee of Xinqiao Town (新橋鎮), the director of Construction and Transportation Management Committee in Songjiang District, the director of Administrative Committee of Songjiang Industry Park, a secretary and director of Administrative Committee of Export Processing Zone, and a chairman and general manager of Songjiang Economic and Technological Development Corporation (松江經濟技術發展總公司).

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

Mr. Chen Zhen, aged 43, was appointed as an independent non-executive director of the Company in October 2014. He graduated from the East China University of Political Science and Law in July 1997 with a Bachelor of Laws degree. He is a practising lawyer in China. Mr. Chen worked at Jin Mao P.R.C. Lawyers in Shanghai from 1997 to 1998 as assistant to lawyer and lawyer respectively. He has also worked at Llinks Law Offices since 1999 as lawyer and partner and is currently partner of Llinks Law Offices. He is a member of the Securities Business Research Committee of the Shanghai Bar Association. He currently also serves as an independent director of Asia Cuanon Technology (Shanghai) Co., Ltd., NibiruTech Co., Ltd. in Chengdu, and Shanghai Flyco Electrical Appliance Co., Ltd.

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



Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

The board of directors (the "Board") has reviewed results of the Group for the year ended 31 December 2017 and discussed the financial key performance indicators and outlook of the Group. Details of the review and analysis are set out in the Management Discussion and Analysis on page 8 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of Profit or loss on page 56 of the annual report.

A final dividend of HKD0.062 (Equivalent to RMB0.055) per share as a result of the operation of 2016 amounting to HKD265 million (Equivalent to RMB235 million) was paid to the shareholders during the year. There were no any interim dividend paid out during the year.

The Board has proposed a final dividend of HKD0.16 per ordinary share for the year ended 31 December 2017.

PROPERTY, PLANT AND EQUIPMENT

The Group expended RMB200 million on property, plant and equipment during the year.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 156 of the annual report. This summary does not form part of the audited consolidated financial statements.



Directors' Report

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 60 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB5,303 million as at 31 December 2017 (2016: RMB4,360 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

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

Executive directors:

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

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)
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Directors' Report

Independent non-executive directors:

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

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

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

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

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

At 31 December 2017, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:



Directors' Report

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

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Li San Yim and Ngai Ngan Ying (<i>Note 1</i>)	Held by controlled corporation (<i>Note 2</i>)	1,312,058,760	30.65%
Li San Yim and Ngai Ngan Ying (<i>Note 1</i>)	Beneficial owner	1,073,257,760	25.08%
Chen Chao	Beneficial owner	1,446,000	0.03%
Luo Jianru	Beneficial owner	2,002,000	0.05%
Zheng Ke Wen	Beneficial owner	429,900	0.01%
		2,389,194,420	55.82%

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

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



Directors' Report

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

Ordinary shares of HKD0.10 each of the Company

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

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

Save as disclosed above as at 31 December 2017, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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



Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
China Longgong Group Holdings Limited (Note 1)	Beneficial owner	1,312,058,760	30.65%
GIC Private Limited	Investment Manager	254,303,916	5.94%

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

Saved as disclosed above, as at 31 December 2017, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

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



Directors' Report

EMOLUMENT POLICY

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

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

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

At 31 December 2017, the Group employed approximately 7,481 employees.

ENVIRONMENTAL POLICY

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

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

Details of the environmental performances of the Group are set out on page 41 to 50 of environmental, social and governance report in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 13% (2016: 13%) of the Group's total turnover for the year and the largest customer accounted for approximately 3% (2016: 3%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 42% (2016: 45%) of the Group's total purchases for the year and the largest supplier accounted for approximately 16% (2016: 17%) of the total purchases.

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



Directors' Report

RELATIONSHIPS WITH STAKEHOLDERS

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

SUBSIDIARIES

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

CONNECTED TRANSACTIONS

On 30 June 2017, the Company entered into a Master Purchase Agreement (the "Jinlong Master Purchase Agreement") with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group agreed to purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2017 and ending on 31 December 2019.

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



Directors' Report

The transaction contemplated under each of the Jinlong Master Purchase Agreement, and the Renewed Herkules Master Purchase Agreement, constitutes connected transactions for the Company under Rule 14A.76(2) of the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the related amount is less than 5% on an annual basis. For the year ended 2017, the Company purchased the parts approximately RMB29 million from Jinlong under the Jinlong Master Purchase Agreement, the Automation Robot Products approximately RMB35 million under the Renewed Herkules Master Purchase Agreement.

Details of the related party transactions of the Company during the year are set out in Note 38 to the consolidated financial statements. All the related party transactions disclosed in the annual financial statements in accordance with HKAS 24 "Related Party Disclosure" fall under the definition of connected transactions or continuing connected transactions in Chapter 14A of the Main Board Rules. In the opinion of the directors, the Company had during the year ended 31 December 2017 complied with all the disclosure requirements in accordance with Chapter 14A of the Main Board Rules. The independent non-executive directors confirm that the Transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Company has engaged its external auditor to review the Group's continuing connected transactions with Jinlong and Herkules in accordance with Hong Kong Standard on Assurance Engagements 3000(Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The board of directors confirm that the auditor has issued an unqualified letter containing its conclusions in respect of the non-exempted continuing connected transactions mentioned above pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no major acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2017.

POST BALANCE SHEET EVENTS

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



Directors' Report

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

(i) Market Risk

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

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

(ii) Financial Risk

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



Directors' Report

(iii) Operational Risk

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

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

AUDITORS

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

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 27 March 2018



Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES

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

CORPORATE GOVERNANCE FUNCTIONS

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

- (a) To develop and review the Company's policies and practices on corporate governance and make recommendations to the board;
- (b) To review and monitor the training and continuous professional development of directors and senior management;
- (c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) To review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

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

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

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



Corporate Governance Report

Code Provision A.1.8

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

Code Provision A.6.7

As stipulated in the Code Provision A.6.7 of CG Code, independent non-executive directors and other non-executive directors shall attend general meetings. Three independent non-executive directors were unable to attend annual general meeting of the Company held on 26 May 2017 (the "2017 AGM") due to other important engagement.

Code Provision A.4.3

Mr. Qian Shi Zheng ("Mr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code A.4.3 of the CG Code, (a) having served the Company for more than nine years could be relevant to the determination of an independent non-executive director's independence and (b) if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Mr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Mr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Mr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Mr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Mr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the Shareholders at the Annual General Meeting. At the Annual General Meeting of the Company held on 26 May 2017, a separate resolution to re-elect Mr. Qian, a retiring Director, as an independent non-executive Director was passed by the Shareholders by way of poll.



Corporate Governance Report

Code Provision A.2.1

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as the code of conduct regarding directors’ securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2017. The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company’s competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

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



Corporate Governance Report

BOARD OF DIRECTORS

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

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

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

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

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

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

For the year ended 31 December 2017, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2017:



Corporate Governance Report

Name of directors	Number of meetings attended/Number of Meetings held for the year ended 31 December 2017					Annual General Meeting
	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	
Executive Directors						
Mr. Li San Yim (<i>Chairman and Chief Executive Officer</i>)	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Luo Jianru	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Chen Chao	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Zheng Ke Wen	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Yin Kun Lun	4/4	2/2	N/A	N/A	N/A	1/1
Non-Executive Director						
Ms. Ngai Ngan Ying	4/4	N/A	2/2	1/1	1/1	1/1
Independent Non-Executive Directors						
Dr. Qian Shizheng	4/4	N/A	2/2	1/1	N/A	0/1
Mr. Wu Jian Ming	4/4	N/A	N/A	N/A	N/A	0/1
Mr. Chen Zhen	4/4	N/A	2/2	N/A	1/1	0/1

N/A Not Applicable



Corporate Governance Report

BOARD COMMITTEES

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

EXECUTIVE COMMITTEE

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

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

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

AUDIT COMMITTEE

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

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

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

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

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



Corporate Governance Report

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

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

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

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

The audit committee has reviewed the Company's interim and final results for the year of 2017.

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

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB2.52 million (2016: approximately RMB2.55 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Dr. Qian Shizheng. The primary duties and responsibilities of the remuneration committee is to assist its board of directors (the "Board") in determining the policy and structure for the remuneration of its executive directors, evaluating the performance of its executive directors, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for all its directors and senior management. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2017. The terms of reference of the Remuneration Committee are posted on the Company's Website.

NOMINATION COMMITTEE

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



Corporate Governance Report

BOARD DIVERSITY POLICY

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

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

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

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

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

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

INTERNAL CONTROLS AND RISK MANAGEMENT

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



Corporate Governance Report

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

The Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control system, including financial, operational, compliance controls and risk management functions for the year ended 31 December 2017. The board is of the opinion that the Group's risk management and internal control system are adequate and effective.

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

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

Internal Audit

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

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



Corporate Governance Report

Strengthening Systems of Internal Controls

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

Key internal controls of the Company include

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

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision A.6.5 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2017, all directors have participated in continuous professional development by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participated in business-related research which are relevant to the business or directors duties.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

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



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The Company received communications from a total of 150 domestic and overseas investors throughout the year 2017, including over 20 on-site meetings and over 50 telephone meetings. In 2017, the Company received group visits with 10 to 20 members for 6 times.

Shareholder's Rights

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

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

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

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



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

Other Stakeholders' interests

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

During the year ended 31 December 2017, there has been no significant change in the Company's constitutional documents.

CORPORATE SOCIAL RESPONSIBILITY

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

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



Environmental, Social and Governance Report

I. Environment

Emissions

Strictly abiding by the “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》) and other related laws and regulations and various emission standards of pollutants, the Company promotes the application of advanced techniques and equipment with high resource efficiency and low pollutant emission so as to reduce pollutants from their source and maintain effective operation of its pollution treatment facilities, ensuring the pollutants are discharged in compliance with standards.

The exhaust gases emitted into the air by the Company are mainly sulphur dioxide and nitrogen oxide arising from energy combustion (such as steam boilers, heating furnaces, etc.) as well as exhaust gas generated from the metal surface treatment process. The Company adopted energy-saving gas boilers. The emissions of pollutants (such as sulphur dioxide, nitrogen oxide, etc.) meet the “Emission Standard of Air Pollutants for Boilers” (GB 13271-2014) or “Emission Standard of Air Pollutants for Boilers” (DB31/387-2014). Exhaust gas generated from production process is treated through facilities such as acid fog absorption towers, regenerative combustion and activated carbon absorbers. Such treated pollutants can meet the standard set out in the table 2 of the “Integrated Emission Standard for Air Pollutants” (GB16297-1996) or “Integrated Emission Standard for Air Pollutants” (DB31/993-2015). In 2017, the Company emitted sulphur dioxide of 0.019 tonnes and nitrogen oxide of 8.832 tonnes in total.

The greenhouse gas emissions of the Company mainly come from the consumption of direct energies, mainly including natural gas and diesel oil, and indirect energies, mainly including electricity. Calculated on the basis of ISO14064 and IPCC-2006, total emissions of carbon dioxide, methane and nitrous oxide, all being greenhouse gases, of the Company were 142,415 tonnes, 0.407 tonnes and 0.0471 tonnes in 2017, respectively.

The waste water discharged by the Company is mainly the one from the metal surface treatment during the production process and a small amount of domestic waste water. The Company has built 8 waste water treatment facilities, which apply techniques including acid-base neutralization, coagulating sedimentation and biochemical degradation to conduct treatment of production waste water. A small amount of domestic waste water undergoes biological treatments through septic tank. After such treatment, the production waste water and domestic waste water of the Company meets the “Wastewater Quality Standards for Discharge to Municipal Sewers” (GB T 31962-2015). In 2017, total waste water discharged by the Company to the urban drainage facility was 756,018 tonnes, with a drainage pass rate of 100%. The Company has established the “Regulations on Administration of the Usage of Tap Water in Production Areas” (《生產區自來水用水管理規定》) to perform strict quota management and control on water usage, realizing a recycle rate of industrial water of 85%.



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The solid wastes discharged by the Company mainly include hazardous wastes and non-hazardous wastes. Hazardous wastes are mainly waste organic solution, waste mineral oil, waste cutting fluid, paint slag, surface treatment bath solution and sludge, waste acid, waste hazardous chemicals packaging barrels. In 2017, the Company generated total hazardous wastes of 2,185 tonnes, all of which were outsourced to qualified hazardous waste treatment units entrusted by the Company for proper disposal and corresponding examination and approval formalities regarding the transfer of hazardous wastes had been processed as required. The management of hazardous wastes of the Company complies with the requirements of regulations such as “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes” (《中華人民共和國固體廢物污染環境防治法》), “National Catalogue of Hazardous Wastes” (《國家危險廢物名錄》), “Measures on Duplicated Form for Transfer of Hazardous Wastes” (《危險廢物轉移聯單管理辦法》) and “Standard for Pollution Control on Hazardous Waste Storage” (《危險廢物貯存污染控制標準》). Non-hazardous wastes are mainly recyclable wastes such as waste steel, waste iron, waste paper and waste plank, and unrecyclable industrial wastes. In 2017, the Company generated total non-hazardous wastes of 109,257 tonnes, including recyclable wastes of 108,249 tonnes, all of which were recollected by Lonking (Fujian) Casting & Forging Co., Ltd. (龍工(福建)鑄鍛有限公司), a subsidiary of the Group, or other recycling companies for comprehensive reuse. Industrial wastes of 1,008 tonnes were outsourced to industrial waste treatment units recognized by the local government authorities for disposal.

Use of Resources

In 2017, the Company consumed natural gas of 4,720,000 cubic meters, electricity of 204,570,000 KWH, fuel diesel of 1,759 tonnes, propane of 788 tonnes and tap water of 889,430 tonnes.

Committed to be a resource-saving enterprise, the Company prudently complies with the laws and regulations including the “Law of the People’s Republic of China on Energy Conservation” (《中華人民共和國節約能源法》) as well as local regulations on energy conservation. The Company places great importance on energy conservation and consumption reduction. Starting from the source, it has adopted advanced production processes to abandon equipment with heavy pollution and high energy consumption to enhance energy efficiency. It has adopted a 3-level measurement for energy management and quota management. Each of the cutting gas equipment using natural gas and propane are installed with flow meters for measurement. The most reasonable cutting parameters are determined according to steel plate cutting experiments. All of the flame cutting categories are set up with fixed consumption quota. Energy-intensive equipment is installed with power meters for measurement. For high consumption equipment, electricity suspension is arranged in trough hours. Waste heat from boilers is recycled for use. After implementing the aforesaid measures, the Company has recorded a notable decrease in energy consumption.



Environmental, Social and Governance Report

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

Packing materials used by the Company mainly include chock block, wrapping film and steel baling strap. Without influencing the product, the Company improves the utilization rate of recyclable packages and reduce consumption of packing materials to minimize its effect on the environment through strengthened internal management and reasonable use of packages. In 2017, total consumption of timber, plastic film, steel baling strap and other packing materials of the Company was approximately 14.326 tonnes.

Environment and Natural Resources

Pursuant to the national regulations related to environmental protection, the Company has established a management system in place for environmental protection, set up a leading group responsible for environmental protection management and prepared emergency plans for environmental incident. The ISO14001 environment management system has also been established and operated effectively for consistent implementation of cleaner production and pollution treatment to minimize the effect of the Company's production and operation on the environment. Adhering to its environment approach of "cleaner production to perform social responsibility; sustained improvement to create green enterprise", the Company has included environmental management and control into its "Annual Work Schedule of the Board" to facilitate "cleaner production" and "pollution treatment" and, ultimately, to be a resource conserving and environment-friendly enterprise in a socially responsible way.

II. Society

Employment and Labour Practices

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



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The Company strictly complies with the “Labour Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》), “Labour Laws of Hong Kong” (《香港勞工法例》) and other relevant laws and regulations. Besides, it has established the “Human Resources Management System” (《人力資源管理制度彙編》), which systemically governs aspects such as remuneration packages, employments and promotions, re-designations and overseas deployment, resignation management, working hours, leave management, appointment qualifications, labour protection as well as prevention and protection from occupational hazards. The Company fights against any kind of career discrimination based on factors including genders, ages, disability, races and religions and ensures that employees can be offered fair employment or promotion opportunity and remuneration package based on their capabilities and profit contributions.

The Company provides diverse benefits and care to its employees. In addition to the contribution to social insurance and housing provident funds as required under the national provisions, the Company offers a variety of cash and benefit in kind to its employees such as holiday allowance, wedding gift, birth gift and high temperature allowance as well as caring benefits such as health check-ups, paid leave, free accommodation and significant family care. The Company also offers benefit in the form of “healthy life” themed corporate culture events, and reimbursement of travel expenses for employees who travel through provinces and cities to return home for the Chinese New Year.

Female staffs are entitled to pregnancy examination leave and maternity leave during their pregnancy and parturition, and are arranged to the original unit and duties upon expiry of maternity leave in order to actively help employees reintegrate into the workplace.

As of 31 December 2017, the Company had a total of 7,481 employees. The average monthly turnover rate of staff was 1.6% for 2017. Owing to the business nature of the Company as a construction machinery enterprise, most employees are males, accounting for 85.82%. And most employees of the Company are aged 25 to 50. The below table sets forth the breakdown of the age of our employees.

Item	Age structure of employees			
	Below 25	25-40	40-50	above 50
Number of individuals	1,747	3,872	1,614	248
Proportion (%)	23.35	51.76	21.57	3.32



Environmental, Social and Governance Report

Health and Safety

Committed to safeguarding employees' health and safety, the Company has strictly complied with the the "Production Safety Law of the People's Republic of China" (中華人民共和國安全生產法), "Labor Law of the People's Republic of China" (中華人民共和國勞動法), "Special Equipment Safety Law of the People's Republic of China" (中華人民共和國特種設備安全法), "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" (中華人民共和國職業病防治法), "Fire Service Law of the People's Republic of China" (中華人民共和國消防法), "Regulations on Production Safety in Shanghai" (上海市安全生產條例), "Regulations on Production Safety in Fujian" (福建省安全生產條例), "Regulations on Production Safety in Henan" (河南省安全生產條例), "Regulations on Production Safety in Jiangxi" (江西省安全生產條例) and "Regulations on the Safety Management of Hazardous Chemicals in Shanghai" (上海市危險化學品安全管理條例). Adhering to the approach of "safety first, precaution crucial, comprehensive treatment", the Company has established various systems in place to protect the safety and well-beings of employees, including the "Key Works of Safety Production" (《安全生產工作要點》), "Notice on Strengthening Safety and Environmental Protection Works" (《關於加強安全環保工作通知》), "Management System of Safe Production" (《安全生產管理制度》), "Administrative Measures for Occupational Medical Examination" (《職業健康檢查管理辦法》) and "Regulations on Safety and Occupational Health Training" (《安全、職業健康培訓規定》). It actively promotes the external audit and certification work of its environment, occupational health and safety management systems. Projects must be reviewed and rectified immediately after any risk being identified during the audit of occupational safety. Both internal and external audits are conducted annually to ensure the safety and sanitary conditions in the workplace in compliance with standards. Under the requirement of production safety standards, the safe production procedures covers all positions throughout the Company. Environmental inspection station has been set up in each production base to conduct monthly inspections on hazard factors of occupational health and make immediate rectification for any non-compliance so identified. The Company provides training on occupational health and safety to its employees, conducts field practice, sets protection reminders at each work zone, inspect and instruct the wearing of protection gears to improve its employees' sense of health and safety, level of safety management as well as awareness of safety during on-site operation, thus facilitating a long-term mechanism of production safety. Meanwhile, a series of safety routine work, such as Safety Date/Month events, meetings before and after shift, weekly meetings of production safety, safety control, regular and irregular safety check, etc. are also conducted in order to identify potential risks and unsafe acts, prevent the occurrence of accidents and maintain a sound, safe and healthy work environment. Further, occupational health examination is arranged annually for workers at the production line to prevent occupational diseases.



Environmental, Social and Governance Report

Development and Training

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

The Company had outstanding achievement in talent training and development. Its Shanghai branch was honored as the "Training Base of Highly-skilled Talents in Shanghai" (上海市高技能人才培養基地). The Company promotes employee training and development events through such training base to improve employees' expertise and skills, uplift their management skills, develop their problem-solving skills and inspire their potential, thereby maintaining its leading advantage in the overall benefits of labor efficiency and human resources and promoting the vibrant, harmonious and orderly development of the Company.

Labor Standards

The Company has strictly complied with the relevant laws and regulations such as the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》) and the "Provisions on the Prohibition of Using Child Labor" (《禁止使用童工規定》) to protect the legitimate rights and interests of minors. We prohibit minors from working in any workplaces. In order to eliminate the hiring of minors, during the open recruitments, candidates are required to present their identity cards and verify against the originals and only candidate who fulfills the recruitment conditions may proceed with the entry formalities. In 2017, Lonking did not violate relevant laws or regulations.

Supply Chain Management

The Company continuously improves and integrates its supply chain. In establishing long-term and solid partnerships with each supplier, the Company, together with its suppliers, makes full use of respective resources to improve their ability to resist market risks and jointly expand product market under the principle of "Cooperation for Mutual Benefit", which have favorable impact on the costs and quality of end products and mitigates the social and environmental impacts on the Group.

(I) Policy and Management Measures

1. A hierarchic supplier management system has been established and implemented to optimize and integrate supply chain continuously and construct a supply chain system in line with the product positioning of the Company.



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2. Through the implementation of corporate logistics, supplier relationship management (SRM), quality management system (QMS) and bill of material (BOM), the Company focuses on securing both quality and price of products to be procured to improve its procurement management in terms of quality and cost.
3. Regarding product quality and environmental protection, suppliers are required to comply with the specified technical requirements and quality standards. In respect of products subject to environmental requirements, suppliers are required to produce relevant product certification and certificate for review before entering into the factory.

(II) Employment and Control of Suppliers

1. In employing suppliers, the Company conducts control on the process of procurement and outsourcing pursuant to "Procurement Control Procedures" (《採購控制程序》). The scope of review on suppliers covers "CCC", "ISO9000", "IATF16949" and "National Military Standards", etc.
2. The Company conducts control on its suppliers through irregular on-site inspection (to inspect the operation condition of suppliers including the procurement of raw materials, production process, quality control process, etc.), and meeting with suppliers with quality concerns (to analyse reasons, propose schemes and measures for improvement and require such suppliers submitting new samples), etc.
3. Regular performance appraisal on various product suppliers is conducted annually through SRM to eliminate unqualified suppliers based on the results of such appraisal.
4. The Company has adopted a new pricing model for cost of procurement. It extends cost management forward to promote suppliers to adopt new process, new techniques and new materials for cost reduction, thus realizing co-development of the Company and suppliers.
5. Supplier' production capacity is planned at 120% of the production plan of the Company, which is in line with the production progress of the Company. For non-exclusive suppliers in the industry, the Company request them to make sufficient reserve during the low season of production.
6. The Company has entered into "Anti-Corruption Agreement" (《廉政協議》) with all of its suppliers and related party.



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In 2017, driven by the product need, the Company has actively developed more than 150 strategic suppliers and new suppliers, significantly reduced its bottleneck constraint of procurement. Various activities including technique and quality communication with suppliers were organized, apparently improving the acceptance rate of products procured from external suppliers.

In 2017, there were an aggregate of 873 qualified suppliers for parts and components, among which, 703 from Eastern China, 58 from Northern China, 11 from Southern China, 16 from the southwest region, 2 from overseas, 63 from Central China, 17 from the northeast region and 3 from the northwest region. Total local suppliers employed by the three production bases are 236, accounting for 27% of total numbers of suppliers.

Product Responsibility

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

As far as product quality control is concerned, the Company promotes a culture that “everyone is a quality controller” and has implemented the user-based management model of “descend working procedure represents users” (下道工序就是用戶) in a bid to promote quality control and heighten the overall awareness of quality. Equally, the Company has introduced several internal quality control management systems, including “User-based System” (《用戶制》), “4M Management” (《4M管理》), “Management System of Work Guidelines” (《作業指導書管理制度》), “Monitoring and Management Methods of Technical Parameters” (《工藝參數監控管理方法》), “Management System for Rational Proposals” (《合理化建議管理制度》), “One-Vote Veto System for Quality” (《質量一票否決制》), “Contingency Plan for Product Quality” (《產品質量問題應急預案》) and “Regulations on Cleanliness of Oil and Oil Performance Test” (《關於產品油液清潔度及油品性能檢測的規定》). While lowering cost of quality, these systems effectively enhanced product quality to meet the needs of users.

For all materials of external auxiliary products, the Company requires to execute technical agreements, quality assurance agreements and warranty service agreement, and strictly abide by the “Product Quality Monitoring and Management System for Suppliers” (《供應商產品質量監督管理制度》) and the keynote expressed in the meeting on “securing both quality and price” (質量價格雙鎖定). The quality of auxiliaries can thus be assured as the quality surveillance points moving forward to production lines of suppliers.



Environmental, Social and Governance Report

Regarding after-sales services and repairs and maintenance, the Company always adheres to the principle of “sales agency system” and incessantly strengthens its three major advantages of “quality, services and value-for-money”. Among all sales agency units, the Company has introduced the “three-in-one” marketing services mechanism comprising of sales of whole machine, repair services and supply of auxiliaries. Further, the Company has delegated the after-sales services to qualified agents, thereby achieving quick response. Currently, after-sales services begin to be rendered through the QMS under the principal of “One Card for One Project for Whole-Process Control ” (一項一卡、全程管控) in order to trace and rectify the source of quality concern. An array of communication channels including telephone hot-lines, e-mail and the complaint platform on WeChat are available, fundamentally guaranteeing the effectiveness of sales services channels.

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

Anti-corruption

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

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



Environmental, Social and Governance Report

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

In entering into major fixed asset transactions, the Company has introduced such bidding management system as it thinks necessary to make the transactions transparent, open and fair, on top of normal business policies and approval management mechanism.

Community Investment

The Company has been actively involved in philanthropy, which established itself a good corporate image and enhanced employees' sense of social responsibility. The Company spares no effort for charity and has made a total of RMB23.17 million in all kinds of charitable donations over the past five years.



Independent Auditor's Report

TO THE SHAREHOLDERS OF LONKING HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lonking Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 56 to 155, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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



Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
------------------	--

Fair value measurement of investments and related disclosures

The Group invests in various financial assets which are carried at fair value on the financial statements, and their fair values are classified as Level 1, Level 2 and Level 3 within the fair value hierarchy under HKFRSs. Some of these investments do not have publicly available quotes in an active market. Valuation techniques are used to determine the fair value for these investments, which are subjective and involve various assumptions.

Our audit procedures included inquiring and evaluating key assumptions and methodologies used by the Group, independent price verification and assessing the impact of other sources of fair value information. We also assessed the adequacy of disclosures in the financial statements.

Details of fair value measurement of investments and related disclosures are disclosed in notes 20, 21, 22, 23 and 41.

Recoverability of the receivables

Recoverability of the receivables is greatly affected by the overall condition of the economy, especially when the construction machinery industry is facing challenging times. The identification of bad and doubtful receivables and the determination of the recoverable amounts involve various management judgements and estimations, including assessing the creditworthiness of the counterparties, estimating the amount of the provision needed, and estimating the realisable value of the assets pledged.

Our audit procedures included inquiring and evaluating the key judgements and methodologies used by the Group, assessing the reasonableness of realisable values of any assets pledged and the adequacy of the provision made.

Details of the recoverability of the receivables are disclosed in notes 16, 18 and 19.



Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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



Independent Auditor's Report

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



Independent Auditor's Report

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is LEUNG WAI LAP, PHILIP.

Ernst & Young

Certified Public Accountants
22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong
27 March 2018



Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	4	8,994,097	5,146,435
Cost of sales		(6,602,561)	(3,900,007)
Gross profit		2,391,536	1,246,428
Other income	5	42,329	44,795
Other gains and losses	5	37,767	35,402
Selling and distribution expenses		(490,175)	(354,274)
Administrative expenses		(227,274)	(233,375)
Research and development costs		(381,967)	(203,439)
Other expenses		(11,328)	(17,990)
Finance income	5	110,308	119,875
Finance costs	6	(47,325)	(78,357)
PROFIT BEFORE TAX	7	1,423,871	559,065
Income tax expense	10	(377,718)	(97,142)
PROFIT FOR THE YEAR		1,046,153	461,923
Attributable to:			
Owners of the parent		1,045,635	461,764
Non-controlling interests		518	159
		1,046,153	461,923
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted:			
– For profit For the year	12	RMB0.24	RMB0.11



Consolidated Statement Of Comprehensive Income

Year Ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	1,046,153	461,923
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	48,589	30,855
Income tax effect	(7,288)	(4,628)
	41,301	26,227
Exchange differences:		
Exchange differences on translation of foreign operations	159,028	(331,311)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	200,329	(305,084)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	200,329	(305,084)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,246,482	156,839
Attributable to:		
Owners of the parent	1,245,925	156,651
Non-controlling interests	557	188
	1,246,482	156,839



Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	13	2,278,567	2,464,960
Prepaid land lease payments	14	179,537	185,421
Finance lease receivables	15	1,307	2,605
Prepayments for property, plant and equipment		33,428	31,731
Long-term receivables	16	157,821	100,968
Available-for-sale investments	21	1,625	1,625
Derivative financial instruments	23	–	91,807
Deferred tax assets	29	351,718	255,972
Pledged deposits	24	–	1,262,438
Total non-current assets		3,004,003	4,397,527
Current assets			
Prepaid land lease payments	14	5,276	5,276
Inventories	17	2,445,637	1,507,843
Finance lease receivables	15	37,177	51,684
Trade and bills receivables	18	1,969,611	1,365,336
Due from related parties	37	9,967	5,186
Prepayments, deposits and other receivables	19	748,630	692,925
Other current assets	20	221,891	211,045
Available-for-sale investments	21	2,077,518	525,855
Equity investments at fair value through profit or loss	22	94,258	108,193
Derivative financial instruments	23	105,742	–
Pledged deposits	24	1,465,470	1,205,347
Cash and cash equivalents	24	1,633,686	1,130,534
Total current assets		10,814,863	6,809,224
Current liabilities			
Trade and bills payables	25	3,331,044	1,525,934
Other payables and accruals	26	825,708	518,661
Interest-bearing bank borrowings	27	1,502,866	–
Due to related parties	37	21,659	7,665
Tax payable		210,978	131,612
Provisions	28	94,020	54,536
Deferred income	30	400	546
Total current liabilities		5,986,675	2,238,954



Consolidated Statement of Financial Position

31 December 2017

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
Net current assets		4,828,188	4,570,270
Total assets less current liabilities		7,832,191	8,967,797
Non-current liabilities			
Deposits for finance leases	15	18,261	31,749
Interest-bearing bank borrowings	27	–	2,150,450
Deferred tax liabilities	29	71,833	59,390
Provisions	28	4,494	3,699
Deferred income	30	7,397	2,797
Total non-current liabilities		101,985	2,248,085
Net assets		7,730,206	6,719,712
Equity			
Equity attributable to owners of the parent			
Issued capital	31	444,116	444,116
Share premium and reserves	32	7,283,646	6,272,703
		7,727,762	6,716,819
Non-controlling interests		2,444	2,893
Total equity		7,730,206	6,719,712

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR



Consolidated Statement of Changes in Equity

Year ended 31 December 2017

2017	Attributable to owners of the parent									
	Issued capital	Share premium*	Special reserve*	Non-distributable reserve*	Available-for-sale reserve*	Retained profits*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	444,116	854,922	386,810	1,525,536	21,953	3,922,356	(438,874)	6,716,819	2,893	6,719,712
Profit for the year	-	-	-	-	-	1,045,635	-	1,045,635	518	1,046,153
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	192,588	-	-	192,588	206	192,794
- gain on disposal, net of tax	-	-	-	-	(151,326)	-	-	(151,326)	(167)	(151,493)
Exchange differences related to foreign operations	-	-	-	-	-	-	159,028	159,028	-	159,028
Total comprehensive income for the year	-	-	-	-	41,262	1,045,635	159,028	1,245,925	557	1,246,482
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(1,006)	(1,006)
Final 2016 dividend declared	-	-	-	-	-	(234,982)	-	(234,982)	-	(234,982)
Transfer from retained profits	-	-	2,439	65,512	-	(67,951)	-	-	-	-
At 31 December 2017	444,116	854,922	389,249	1,591,048	63,215	4,665,058	(279,846)	7,727,762	2,444	7,730,206

* These reserve accounts comprise the consolidated share premium and reserves of RMB7,283,646,000 (2016: RMB6,272,703,000) in the consolidated statement of financial position.



Consolidated Statement of Changes in Equity

Year ended 31 December 2017

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



Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,423,871	559,065
Adjustments for:			
Finance costs	6	47,325	78,357
Share of losses of associates	5	–	275
Interest income	5	(110,308)	(119,875)
Impairment of financial assets	5	97,942	170,297
Write-down of inventories to net realisable value	5	5,407	13,106
(Gain)/loss on disposal of items of property, plant and equipment	5	(2,159)	2,371
Depreciation	13	353,454	379,785
Amortisation of land lease payments	14	5,884	5,818
Gains from derivative instruments	5	(13,208)	(13,208)
Fair value (gains)/loss, net:			
Equity investments at fair value through profit or loss	5	13,935	30,590
Compensation terms for investment	5	(13,935)	(30,590)
Gain from loan receivables and available-for-sale investments	5	(221,077)	(31,667)
Exchange gain from banks		(1,904)	(2,457)
Exchange loss/(gain) from bank loans and other loans		51,424	(114,722)
		1,636,651	927,145
Increase in inventories		(943,201)	(240,071)
(Increase)/decrease in trade, bills and other receivables		(873,945)	492,198
Decrease finance lease receivables		15,805	21,550
Increase in amounts due from related parties		(4,781)	(323)
Increase in trade, bills and other payables		1,976,718	855,036
Increase/(decrease) in provisions		40,279	(9,255)
Increase in amounts due to related parties		13,994	1,712
Decrease in deposits for finance leases		(17,521)	(15,726)
Cash generated from operations		1,843,999	2,032,266
Interest received		27,358	22,116
Income tax paid		(279,544)	(94,158)



Consolidated Statement of Cash Flows

Year ended 31 December 2017

<i>Notes</i>	2017	2016
	RMB'000	RMB'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,591,813	1,960,224
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	217,157	61,084
Purchases of items of property, plant and equipment	(170,105)	(26,604)
Proceeds from disposal of items of property, plant and equipment	34,477	6,944
Proceeds from disposal of interests in associates	–	8,402
Proceeds from disposal of available-for-sale investments	1,120,000	800,000
Purchases of available-for-sale investments	(2,630,000)	(210,000)
Increase/(decrease) in deferred revenue	<i>30</i> 4,454	(6,890)
Proceeds from derivative financial instruments received	<i>5</i> 13,208	13,208
NET CASH FLOWS (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(1,410,809)	646,144
CASH FLOWS USED IN FINANCING ACTIVITIES		
Non-derecognised payables	–	(8,060)
Repayment of bank loans	(538,848)	(2,432,617)
Dividends paid	(235,247)	(61,178)
Interest paid	(49,964)	(82,658)
Increase in pledged deposits	<i>24</i> 1,002,315	(43,564)
Interest from pledged deposits received	141,988	3,446
NET CASH FLOWS GENERATED FROM/(USED IN) FINANCING ACTIVITIES	320,244	(2,624,631)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	501,248	(18,263)
Cash and cash equivalents at beginning of year	1,130,534	1,146,340
Effect of foreign exchange rate changes, net	1,904	2,457
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,633,686	1,130,534



Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

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

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

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



Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

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



Notes to Financial Statements

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1. CORPORATE AND GROUP INFORMATION (Continued)

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



Notes to Financial Statements

31 December 2017

1. CORPORATE AND GROUP INFORMATION *(Continued)*

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

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.



Notes to Financial Statements

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2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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



Notes to Financial Statements

31 December 2017

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12	<i>Disclosure of Interests in Other Entities: Clarification of the</i>
included in <i>Annual Improvements</i>	<i>Scope of HKFRS 12</i>
<i>to HKFRSs 2014-2016 Cycle</i>	

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 33 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.



Notes to Financial Statements

31 December 2017

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

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 33 to the financial statements.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group's subsidiary classified as a disposal group held for sale as at 31 December 2017 is a wholly-owned subsidiary and so no additional information is required to be disclosed.



Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts¹</i>
HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation²</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
HKFRS 17	<i>Insurance Contracts³</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures²</i>
Amendments to HKAS 40	<i>Transfers of Investment Property¹</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments²</i>
<i>Annual Improvements 2014-2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28¹</i>
<i>Annual Improvements 2015-2017 Cycle</i>	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23²</i>

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

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.



Notes to Financial Statements

31 December 2017

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

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



Notes to Financial Statements

31 December 2017

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

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect any significant impact on provision for impairment upon the initial adoption of the standard.

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



Notes to Financial Statements

31 December 2017

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. During the year ended 31 December 2017, the Group has performed a preliminary detailed assessment on the impact of the adoption of HKFRS 15. Based on the assessment, the Group anticipates that the adoption of HKFRS 15 is unlikely to have any significant impact on the revenue recognition except for the presentation and disclosure as follows.

The Group's principal activities consist of the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other construction machinery and the provision of finance leases for construction machinery. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:



Notes to Financial Statements

31 December 2017

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

(a) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant.

In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.



Notes to Financial Statements

31 December 2017

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

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted.

Upon adoption of HKAS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.



Notes to Financial Statements

31 December 2017

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

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.



Notes to Financial Statements

31 December 2017

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

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group’s financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

- (b) the party is an entity where any of the following conditions applies: *(Continued)*
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

Buildings	3% to 12.5%
Plant and machinery	9% to 32%
Motor vehicles	10% to 19%
Furniture and fixtures	9% to 32%

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

Research and development costs

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

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

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

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

Loans and receivables

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

Available-for-sale financial investments

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

Available-for-sale financial investments (Continued)

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

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments (Continued)

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and bills payables, amounts due to related parties, interest-bearing bank borrowings, deposits for finance leases and financial liabilities included in other payables and accruals.

Subsequent measurement

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

Loans and borrowings

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Derivative financial instruments

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

Inventories

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

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

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

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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



Notes to Financial Statements

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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



Notes to Financial Statements

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES

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

Estimation uncertainty

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

Current income tax

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

Impairment of non-financial assets (other than goodwill)

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



Notes to Financial Statements

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was RMB48,531,000 (2016: RMB21,194,000). The amount of unrecognised tax losses at 31 December 2017 was RMB165,400,000 (2016: RMB270,886,000). Further details are contained in note 29 to the financial statements.

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding corporate income taxes relating to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes. Significant management judgement is required to determine the amount of deferred tax liabilities, based upon the likely distribution level of such earnings from these subsidiaries in the foreseeable future. The carrying value of deferred tax liabilities arising from the withholding tax associated with the investments in subsidiaries in Mainland China for the year ended 31 December 2017 was RMB49,066,000 (31 December 2016: RMB41,859,000). Further details are contained in note 29 to the financial statements.

Impairment of trade and bills receivables, and finance lease receivables

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



Notes to Financial Statements

31 December 2017

3. SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Net realisable value of inventories

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

Provision for warranty costs

As explained in note 28, the Group offers an 18-month' warranty for the excavators and a 12-month warranty for the wheel loaders, road rollers and forklifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs is based on the historical experience and statistics. As at 31 December 2017, the carrying amount of provision for warranty costs was RMB98,514,000 (31 December 2016: RMB58,235,000).

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, no impairment loss has been recognised for available-for-sale assets (2016: Nil). The carrying amount of available-for-sale assets was RMB2,079,143,000 (2016: RMB527,480,000).

Impairment of derivative financial instruments

The Group classifies certain assets as derivative financial instruments and recognises movements of their fair values in profit or loss. The Group makes its estimates based on the financial condition of the asset management company, historical default record and the fluctuation of the fair value of the derivative financial instruments. If the financial condition of the assets management company deteriorates such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected. At 31 December 2017, no impairment loss has been recognised for derivative financial instruments (2016: Nil). The carrying amount of derivative financial instruments was RMB105,742,000 (2016: RMB91,807,000).



Notes to Financial Statements

31 December 2017

4. OPERATING SEGMENT INFORMATION

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

- (a) sale of construction machinery
- (b) finance lease of construction machinery
- (c) financial investment

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

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

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

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



Notes to Financial Statements

31 December 2017

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017

	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	8,988,970	5,127	–	8,994,097
Segment results	1,227,998	2,353	234,285	1,464,636
Reconciliation:				
Interest income				110,308
Unallocated other income and gains				(95,328)
Corporate and other unallocated expenses				(8,420)
Finance costs				(47,325)
Profit before tax				<u>1,423,871</u>
Segment assets	11,165,605	49,866	2,499,409	13,714,880
Corporate and other unallocated assets				<u>103,986</u>
Total assets				<u>13,818,866</u>
Segment liabilities	4,437,375	96,537	–	4,533,912
Corporate and other unallocated liabilities				<u>1,554,748</u>
Total liabilities				<u>6,088,660</u>
OTHER SEGMENT INFORMATION				
Impairment losses recognised in the statement of profit or loss	107,873	7,913	–	115,786
Impairment losses reversed in the statement of profit or loss	(12,437)	–	–	(12,437)
Depreciation and amortisation	359,337	1	–	359,338
Capital expenditure*	200,379	–	–	200,379

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



Notes to Financial Statements

31 December 2017

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016

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

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



Notes to Financial Statements

31 December 2017

4. OPERATING SEGMENT INFORMATION *(Continued)*

Revenue derived from major products and services

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

	2017		2016	
	RMB'000	%	RMB'000	%
Wheel loaders	4,825,850	53.7	2,614,723	50.8
Excavators	1,329,501	14.8	586,350	11.4
Road rollers	118,876	1.3	73,366	1.4
Forklifts	1,826,349	20.3	1,220,207	23.7
Others	888,394	9.8	642,303	12.5
Subtotal	8,988,970	99.9	5,136,949	99.8
Finance lease interest income	5,127	0.1	9,486	0.2
Total	8,994,097	100	5,146,435	100

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

Geographical information

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



Notes to Financial Statements

31 December 2017

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

	2017 RMB'000	2016 RMB'000
Finance income		
Bank interest income (<i>note 7</i>)	110,308	119,875
Other income		
Government grants	31,178	19,465
Penalty income	2,257	1,533
Others	8,894	23,797
	42,329	44,795
Other gains and losses		
Foreign exchange (losses)/gains	(95,328)	163,470
Impairment of financial assets (<i>note 7</i>)	(97,942)	(170,297)
Gains/(losses) on disposal of items of property, plant and equipment (<i>note 7</i>)	2,159	(2,371)
Gains from loan receivables and available-for-sale investments	221,077	31,667
Gains from derivative instruments	13,208	13,208
Fair value gains/(losses), net:		
Equity investments at fair value through profit or loss		
– held for trading	(13,935)	(30,590)
Derivative instruments		
– transactions not qualifying as hedges	13,935	30,590
Provision for inventories	(5,407)	–
Share of profits and losses of associates	–	(275)
	37,767	35,402

6. FINANCE COSTS

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

	2017 RMB'000	2016 RMB'000
Interest on bank loans, overdrafts and other loans	47,325	78,332
Interest on discounted bills	–	25
Total interest expense on financial liabilities not at fair value through profit or loss	47,325	78,357



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7. PROFIT BEFORE TAX

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

	2017 RMB'000	2016 RMB'000
Cost of inventories sold	6,602,561	3,900,007
Depreciation (<i>note 13</i>)	353,454	379,785
Amortisation of prepaid land lease payments (<i>note 14</i>)	5,884	5,818
Research and development costs	381,967	203,439
Auditor's remuneration	2,520	2,550
Employee benefit expense (excluding directors' remuneration (<i>note 8</i>)): <ul style="list-style-type: none"> Wages and salaries Contributions to a pension scheme 	518,242 32,543	323,890 28,870
Total staff costs	550,785	352,760
Foreign exchange differences, net	(95,328)	163,470
Impairment of financial assets <ul style="list-style-type: none"> – trade receivables (<i>note 18</i>) – other receivables (<i>note 19</i>) 	81,644 16,298	146,802 23,495
	97,942	170,297
Write-down of inventories to net realisable value (<i>note 5</i>)	5,407	13,106
Product warranty provision: <ul style="list-style-type: none"> Additional provision (<i>note 28</i>) 	146,899	72,520
Bank interest income	(110,308)	(119,875)
(Gains)/losses on disposal of items of property, plant and equipment (<i>note 5</i>)	(2,159)	2,371
Fair value (gains)/losses, net: <ul style="list-style-type: none"> Equity investments at fair value through profit or loss <ul style="list-style-type: none"> – held for trading Derivative instruments <ul style="list-style-type: none"> – transactions not qualifying as hedges 	13,935 (13,935)	30,590 (30,590)



Notes to Financial Statements

31 December 2017

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017	2016
	RMB'000	RMB'000
Fees	1,600	1,600
Other emoluments:		
Salaries, allowances and discretionary bonuses	6,295	5,911
Equity-settled share option expense	–	–
Pension scheme contribution	111	42
	6,406	5,953
	8,006	7,553

(a) Independent non-executive directors

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

	2017	2016
	RMB'000	RMB'000
Dr. Qian Shizheng	200	200
Mr Wu Jianming	100	100
Mr Chen Zhen	100	100
	400	400

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).



Notes to Financial Statements

31 December 2017

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

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Chief executive:					
Mr. Li San Yim	-	2,000	1,255	-	3,255
Executive directors:					
Mr. Chen Chao	-	600	300	37	937
Mr. Luo Jianru	-	300	300	-	600
Mr. Zheng Kewen	-	600	300	37	937
Mr. Yin Kunlun	-	400	240	37	677
	-	1,900	1,140	111	3,151
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	-	-	-	1,200
	1,200	3,900	2,395	111	7,606



Notes to Financial Statements

31 December 2017

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group in 2017 and 2016 were all directors of the Company and details of their remuneration are included in note 8 above.



Notes to Financial Statements

31 December 2017

10. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current tax		
Charged for the year	296,887	91,535
(Overprovision)/underprovision in prior years	(11,514)	292
Withholding tax paid	182,936	50,265
	468,309	142,092
Deferred tax (<i>note 29</i>)	(90,591)	(44,950)
Total tax charge for the year	377,718	97,142

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

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

- (a) In 2017, about 10 entities had been identified as "High and New Technology Enterprises" ("HNTE") and, in accordance with the EIT Law, they were subject to income tax at a rate of 15% for the effective years.
- (b) The EIT Law imposes withholding tax on dividends distributed from the Group's subsidiaries in Mainland China to the holding companies located off-shore starting from 1 January 2008. In 2009, the off-shore intermediate holding companies were recognised as the tax residents of Hong Kong by the Inland Revenue Department of Hong Kong. Since their PRC subsidiaries declared dividends in 2016 out of the after-tax profit from 2012 to 2015, the tax bureaus in charge of the subsidiaries elect to apply a 5% preferential withholding income tax rate on the dividends based on the tax treaty between the Hong Kong Special Administrative Region and Mainland China. In view of the above, a 5% withholding tax rate is applicable to the dividends, for the period starting from 1 January 2009, distributed from the PRC subsidiaries to these off-shore companies, and was also applicable in year 2017.



Notes to Financial Statements

31 December 2017

10. INCOME TAX EXPENSE (Continued)

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

	2017		2016	
	RMB'000	%	RMB'000	%
Profit before tax	1,423,871		559,065	
Tax at the statutory tax rate of 25% (2016: 25%)	355,968	25.0	139,766	25.0
Expenses not deductible for tax (i)	27,070	1.8	18,153	3.2
Effect on opening deferred tax balance due to increase in rates	–	–	(1,348)	(0.2)
Adjustments in respect of current tax of previous periods	(11,514)	(0.8)	292	0.1
Tax losses utilised from previous periods	(4,709)	(0.3)	(4,993)	(0.9)
Tax incentives on eligible R&D expenditures	(19,258)	(1.4)	–	–
Effect of withholding tax	190,143	13.4	6,004	1.1
Effect of the preferential tax rate of 15%	(159,982)	(11.2)	(60,732)	(10.9)
Tax charge and effective tax rate for the year	377,718	26.5	97,142	17.4

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

11. DIVIDENDS

	2017	2016
	RMB'000	RMB'000
Proposed final – HK\$0.16 (2016: HK\$0.062) per ordinary share	548,195	234,982

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



Notes to Financial Statements

31 December 2017

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,280,100,000 (2016: 4,280,100,000) in issue during the year. The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2017	1,612,209	3,072,065	50,610	142,044	54,687	4,931,615
Additions	1,462	17,754	1,299	4,245	175,619	200,379
Transfers	939	105,825	732	850	(108,346)	-
Disposals	(13,253)	(80,710)	(1,017)	(5,285)	(6,868)	(107,133)
Exchange realignment	(1,370)	-	-	(24)	-	(1,394)
At 31 December 2017	1,599,987	3,114,934	51,624	141,830	115,092	5,023,467
Accumulated depreciation:						
At 1 January 2017	519,191	1,796,517	43,828	107,119	-	2,466,655
Charge for the year	71,165	274,778	1,600	5,911	-	353,454
Disposals	(2,294)	(69,456)	(974)	(2,223)	-	(74,947)
Exchange realignment	(234)	-	-	(28)	-	(262)
At 31 December 2017	587,828	2,001,839	44,454	110,779	-	2,744,900
Carrying amount:						
At 31 December 2017	1,012,159	1,113,095	7,170	31,051	115,092	2,278,567



Notes to Financial Statements

31 December 2017

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

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

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

As at 31 December 2017, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB147,638,000 (2016: RMB259,210,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2017.

As at 31 December 2017, no property, plant and equipment of the Group were pledged (2016: Nil).



Notes to Financial Statements

31 December 2017

14. PREPAID LAND LEASE PAYMENTS

	2017	2016
	RMB'000	RMB'000
Carrying amount at 1 January	190,697	196,515
Recognised during the year	(5,884)	(5,818)
Carrying amount at 31 December	184,813	190,697
Current portion	(5,276)	(5,276)
Non-current portion	179,537	185,421

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



Notes to Financial Statements

31 December 2017

15. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Finance lease receivables comprise:				
Within one year	38,826	53,946	37,177	51,684
One to five years	1,365	4,700	1,307	4,503
	40,191	58,646	38,484	56,187
Less: Unearned finance income	1,707	2,459	–	–
Less: Provision for impairment	–	1,898	–	1,898
Present value of minimum lease payment receivables	38,484	54,289	38,484	54,289
Analysed as:				
Current			37,177	51,684
Non-current			1,307	2,605
			38,484	54,289

The movement of the provision for impairment of finance lease receivables is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	1,898	1,898
Write-off	(1,898)	–
At 31 December	–	1,898

The effective interest rates of the above finance leases range from 6% to 9.5% (2016: 6% to 9.5%) per annum.



Notes to Financial Statements

31 December 2017

15. FINANCE LEASE RECEIVABLES *(Continued)*

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

As at 31 December 2017, the Group's refundable finance lease deposits are as follows:

	2017 RMB'000	2016 RMB'000
Current <i>(note 26)</i>	7,723	11,756
Non-current	18,261	31,749
	25,984	43,505

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

16. LONG-TERM RECEIVABLES

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

	2017 RMB'000	2016 RMB'000
Trade receivables <i>(note 18)</i>	157,821	100,968

The long-term trade receivables bear interest at approximately 4% to 7% per annum.



Notes to Financial Statements

31 December 2017

17. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	841,263	534,782
Work in progress	228,340	148,076
Finished goods	1,376,034	824,985
	2,445,637	1,507,843

18. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	2,389,558	1,755,310
Impairment	(458,791)	(401,069)
Less: Non-current portion (<i>note 16</i>)	(157,821)	(100,968)
	1,772,946	1,253,273
Bills receivable	196,665	112,063
	1,969,611	1,365,336

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



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18. TRADE AND BILLS RECEIVABLES (Continued)

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

	2017 RMB'000	2016 RMB'000
Within 3 months	1,273,565	841,074
3 to 6 months	267,311	147,029
6 months to 1 year	188,452	108,286
More than 1 year	43,618	156,884
	1,772,946	1,253,273

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

	2017 RMB'000	2016 RMB'000
At 1 January	401,069	285,504
Impairment losses recognised (note 7)	81,644	146,802
Amount written off as uncollectible	(23,922)	(31,237)
At 31 December	458,791	401,069

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB458,791,000 (2016: RMB401,069,000) with a carrying amount before provision of RMB777,174,000 (2016: RMB727,621,000).

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

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



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18. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2017	2016
	RMB'000	RMB'000
Neither past due nor impaired	1,414,218	658,759
Less than 1 month past due	133,331	80,908
1 to 3 months past due	42,844	34,204
3 months to 1 year past due	12,485	146,008
Over 1 year past due	9,506	6,842
	1,612,384	926,721

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

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

Bills receivable aged within 6 months at the end of the reporting period. At 31 December 2017, the Group had no bills receivable pledged to banks to get short-term credit facilities (2016: Nil).



Notes to Financial Statements

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19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	370,970	155,033
Deductible value-added tax	59,643	59,019
Deposits	8,989	4,661
Total	439,602	218,713
Other receivables:		
Loan receivables	547,911	636,762
Less: impairment	(403,697)	(406,480)
Net loan receivables	144,214	230,282
Other miscellaneous receivables	173,425	244,628
Less: impairment	(8,611)	(698)
Net other miscellaneous receivables	164,814	243,930
Total other receivables	309,028	474,212
Grand total	748,630	692,925

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

	2017 RMB'000	2016 RMB'000
At 1 January	407,178	396,729
Impairment losses recognised (<i>note 7</i>)	16,298	23,495
Amount written off as uncollectible	(11,168)	(13,046)
At 31 December	412,308	407,178



Notes to Financial Statements

31 December 2017

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

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

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB412,308,000 (2016: RMB407,178,000) with a carrying amount before provision of RMB521,458,000 (2016: RMB644,241,000).

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

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

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



Notes to Financial Statements

31 December 2017

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

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

	2017 RMB'000	2016 RMB'000
Within 3 months	102,652	108,263
3 to 6 months	–	807
6 months to 1 year	125	338
More than 1 year	41,437	120,874
	144,214	230,282

20. OTHER CURRENT ASSETS

	2017 RMB'000	2016 RMB'000
Loans and receivables, at fair value	221,891	211,045



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31 December 2017

21. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted equity investments, at fair value	1,574,444	525,855
Unlisted debt investments, at fair value	503,074	–
Unlisted equity investments, at cost	1,625	1,625
	2,079,143	527,480
Analysed as:		
Current	2,077,518	525,855
Non-current	1,625	1,625
	2,079,143	527,480

During the year, the gross profit in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB48,589,000 (2016: income amounted to RMB30,855,000).

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

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 RMB'000	2016 RMB'000
Listed equity investments, at market value	94,258	108,193

The above equity investments at 31 December 2017 were classified held for trading and were, upon initial recognition, designated by the Group as financial assets at fair value through profit or loss.



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23. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RMB'000	2016 RMB'000
Compensation terms for investment – current	105,742	–
Compensation terms for investment – non current	–	91,807
	105,742	91,807

The compensation terms for investment are related to the equity investments at fair value through profit or loss (note 22).

The Group entered into an agreement with an asset management company which will help the Group to make the investment with an initial investment amount of RMB200,000,000. The asset management company has guaranteed an investment return of 7% per annum on the initial capital investment. Should the investment return falls below 7% of the initial amount, the Group will receive a compensation from the asset management company such that the total return will not be less than 7%. The maturity date of the derivate financial instruments was 31 December 2017.



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24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	1,633,686	1,130,534
Time deposits	1,465,470	2,467,785
	3,099,156	3,598,319
Less: Pledged cash and bank balances and time deposits:		
Pledged for long-term bank loans	–	(1,261,938)
Pledged for short-term bank loans (note 27)	(1,261,938)	(954,000)
Pledged for bank acceptance bills (note 25)	(202,344)	(241,964)
Pledged for others	(1,188)	(9,883)
Cash and cash equivalents	1,633,686	1,130,534

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

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

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

Original currency	US\$ RMB'000	HK\$ RMB'000
As at 31 December 2017	41,520	8,297
As at 31 December 2016	547,652	4,944



Notes to Financial Statements

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25. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	1,359,772	860,679
Bills payable	1,971,272	665,255
	3,331,044	1,525,934

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

	2017 RMB'000	2016 RMB'000
Within 6 months	3,234,919	1,465,266
6 months to 1 year	65,143	23,210
1 to 2 years	19,035	7,978
2 to 3 years	5,170	6,371
Over 3 years	6,777	23,109
	3,331,044	1,525,934

Bills payable aged within 6 months at the end of the reporting period and secured by pledged bank deposits amounting to RMB202,344,000 (2016: RMB241,964,000) (note 24).

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



Notes to Financial Statements

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26. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Accrued sales rebate	360,208	225,133
Other payables	88,522	90,070
Salary and wages payable	115,034	73,546
Advances from customers	45,926	38,339
Other taxes payable	142,746	38,632
Other accrued expenses	29,060	37,408
Refundable finance lease deposits (note 15)	7,723	11,756
Payable for acquisition of property, plant and equipment	35,657	3,686
Dividend payable	832	91
	825,708	518,661

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

27. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	1.99-2.93	2018	1,502,866	–	–	–
Non-current						
Bank loans – secured			–	1.52-3.87	2018	2,150,450
			1,502,866			2,150,450



Notes to Financial Statements

31 December 2017

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

	2017 RMB'000	2016 RMB'000
Analysed into:		
Within one year	1,502,866	–
In the second year	–	2,150,450
	1,502,866	2,150,450

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

Original currency	US\$ RMB'000
As at 31 December 2017	1,502,866
As at 31 December 2016	2,150,450

Certain of the Group's bank loans are secured by the pledge of certain of the Group's short-term time deposits amounting to RMB1,261,938,000 for short-term loans (2016: RMB954,000,000). (note 24)



Notes to Financial Statements

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28. PROVISIONS

	2017 RMB'000	2016 RMB'000
At 1 January	58,235	67,490
Additional provision (<i>note 7</i>)	146,899	72,520
Amounts utilised during the year	(106,620)	(81,775)
At 31 December	98,514	58,235
Analysis of total provisions		
Current	94,020	54,536
Non-current	4,494	3,699
	98,514	58,235

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



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29. DEFERRED TAX

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

Deferred tax assets:

	Allowance for bad and doubtful debts and inventories	Provision for product warranty	Undeducted charity donation	Unrealised profit in inventories	Accrued sales rebat and others	Tax losses	Deferred income	Change in fair value of available- for-sale investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	120,140	12,809	-	31,233	55,380	42,358	996	750	263,666
Credited/(charged) to the statement of profit or loss for the year (note 10)	5,406	(1,920)	-	16,850	(5,120)	(21,164)	(996)	-	(6,944)
Credited to the comprehensive income	-	-	-	-	-	-	-	(750)	(750)
At 31 December 2017	125,546	10,889	-	48,083	50,260	21,194	-	-	255,972
Credited to the statement of profit or loss for the year (note 10)	39,418	9,908	1,494	9,022	28,033	27,337	750	-	115,962
At 31 December 2017	164,964	20,797	1,494	57,105	78,293	48,531	750	-	371,934



Notes to Financial Statements

31 December 2017

29. DEFERRED TAX (Continued)

Deferred tax liabilities:

	Fair value arising from acquisition of a subsidiary RMB'000	Withholding taxes on undistributed dividends RMB'000	Capitalised interest RMB'000	Accrued interest income RMB'000	Change in fair value of available- for-sale investments RMB'000	Total RMB'000
At 1 January 2016	1,046	86,119	2,138	18,103	–	107,406
Credited to the statement of profit or loss for the year (note 10)	(510)	(44,260)	(1,069)	(6,055)	–	(51,894)
Charged to other comprehensive income	–	–	–	–	3,878	3,878
At 31 December 2016	536	41,859	1,069	12,048	3,878	59,390
Credited/(charged) to the statement of profit or loss for the year (note 10)	(510)	7,207	(1,069)	19,743		25,371
Charged to other comprehensive income	–	–	–	–	7,288	7,288
At 31 December 2017	26	49,066	–	31,791	11,166	92,049

For presentation purposes, certain deferred tax assets and liabilities amounted to RMB20,216,000 have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	351,718
Net deferred tax liabilities recognised in the consolidated statement of financial position	71,833



Notes to Financial Statements

31 December 2017

29. DEFERRED TAX *(Continued)*

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. At the end of the reporting period, certain subsidiaries of the Group had unused tax losses arising in Mainland China of RMB165,400,000 (2016: RMB270,886,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of such losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

30. DEFERRED INCOME

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

	2017 RMB'000	2016 RMB'000
Special government grants for promoting technological improvements	7,797	3,343

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

	2017 RMB'000	2016 RMB'000
At 1 January	3,343	10,233
new addition	5,000	–
Recognised as income during the year	(546)	(6,890)
At 31 December	7,797	3,343



Notes to Financial Statements

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30. DEFERRED INCOME *(Continued)*

	2017	2016
	RMB'000	RMB'000
Analysis of total deferred income:		
Current	400	546
Non-current	7,397	2,797
	7,797	3,343

31. ISSUED CAPITAL

Shares

	2017	2016
	RMB'000	RMB'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.1 each	2,000,000	2,000,000

	2017	2016
	RMB'000	RMB'000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK\$0.1 each	444,116	444,116



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32. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 60 and 61 of the financial statements.

The share premium of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in 2004. The movement of the current year represents the special reserve for safety fund amounting to RMB2,439,000 appropriated from the profit after taxation of the subsidiaries established in Mainland China.

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

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank loans	Pledged bank
	RMB'000	deposits
	RMB'000	RMB'000
At 1 January 2017	2,150,450	2,467,785
Changes from financing cash flows	(538,848)	(1,002,315)
Foreign exchange movement	(108,736)	–
At 31 December 2017	1,502,866	1,465,470

34. CONTINGENT LIABILITIES

Certain sales of the Group were funded by finance leases entered into by the end-user customers and PRC domestic banks or other finance lease providers. Under the guarantee agreements entered into between the Group and the PRC domestic banks, where the end-user customers and their guarantors fail to perform their payment obligations, the Group will repurchase the equipment from the banks or other finance lease providers to settle the outstanding amounts and the related interest. As at 31 December 2017, the Group had no contingent liabilities for such repurchase obligation (31 December 2016: RMB1,086,724) (before deduction of the security deposits paid by the end-user customers and the interest on undue rent).



Notes to Financial Statements

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35. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and bills payable are included in notes 25 and 27, respectively, to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

As lessee

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

At 31 December 2017, the Group did not have any non-cancellable operating lease arrangement.

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	22,488	12,418



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38. RELATED PARTY TRANSACTIONS

- (a) The following table sets out the total amounts of transactions which have been entered into with related parties during the years ended 31 December 2017 and 31 December 2016 as well as balances with related parties as at 31 December 2017 and 31 December 2016:

	Year	Sales to related parties RMB'000 (i)	Purchase from related parties RMB'000 (ii)	Amounts owed by related parties RMB'000	Amounts owed to related parties RMB'000
Related parties:					
Longyan City Jinlong Machinery Company Limited (<i>note a</i>)					
	2017	–	29,169	–	6,133
	2016	–	14,063	–	7,323
Herkules (Shanghai) Automation Equipment Co. Ltd. (<i>note b</i>)					
	2017	–	35,078	9,663	15,479
	2016	–	3,584	3,718	288
Shanghai Refined Machinery Co. Ltd. (<i>note c</i>)					
	2017	–	–	304	–
	2016	–	5,832	1,461	–
Shanghai Longtui Machinery Environmental Technology Co. Ltd. (<i>note c</i>)					
	2017	–	607	–	47
	2016	–	1,990	7	54



Notes to Financial Statements

31 December 2017

38. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes:

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

note b: Herkules (Shanghai) Automation Equipment Co. Ltd., a company established in the PRC with limited liability, is wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive director, the chairman and a controlling shareholder of the Company. The Group prepaid to purchase fixed assets by RMB9,535,000 from Herkules (Shanghai) Automation Equipment Co. Ltd. at 31 December 2017.

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

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

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

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

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



Notes to Financial Statements

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38. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	6,295	5,911
Pension scheme contributions	111	42
Total compensation paid to key management personnel	6,406	5,953

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

39. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB2,748,899,000 (2016: RMB787,894,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year 2017.



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40. FINANCIAL INSTRUMENTS BY CATEGORY

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

2017

Financial assets

	Financial assets at fair value through profit or loss				
	Designated as much upon initial recognition RMB'000	Held for trading RMB'000	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	-	-	-	1,969,611	1,969,611
Long-term receivables	-	-	-	157,821	157,821
Due from related parties	-	-	-	9,967	9,967
Financial assets included in prepayments, deposits and other receivables	-	-	-	303,908	303,908
Finance lease receivables	-	-	-	38,484	38,484
Other current assets	-	-	221,891	-	221,891
Available-for-sale investments	-	-	2,077,518	-	2,077,518
Equity investments at fair value through profit or loss	-	94,258	-	-	94,258
Derivative financial instruments	105,742	-	-	-	105,742
Pledged deposits	-	-	-	1,465,470	1,465,470
Cash and cash equivalents	-	-	-	1,633,686	1,633,686
	105,742	94,258	2,299,409	5,578,947	8,078,356



Notes to Financial Statements

31 December 2017

40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,331,044
Financial liabilities included in other payables and accruals	124,179
Deposit for finance leases <i>(note 15)</i>	25,984
Interest-bearing bank borrowings <i>(note 27)</i>	1,502,866
Due to related parties	21,659
	5,005,732



Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2016

Financial assets

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



Notes to Financial Statements

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40. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	1,525,934
Financial liabilities included in other payables and accruals	93,847
Deposit for finance leases <i>(note 15)</i>	43,505
Interest-bearing bank borrowings <i>(note 27)</i>	2,150,450
Due to related parties	7,665
	3,821,401

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Financial assets:				
Finance lease receivables, non-current portion	1,307	2,605	1,195	2,431
Financial liabilities:				
Interest-bearing bank borrowings	1,502,866	2,150,450	1,502,866	2,104,436



Notes to Financial Statements

31 December 2017

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

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

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

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

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

The fair values of the non-current portion of pledged deposits, non-current portion of finance lease receivables, long-term receivables, interest-bearing bank borrowings, non-current portion of deposits for finance leases and long-term loan notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for deposit for finance leases and interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant. The fair value of the non-current portion of pledged deposits and long-term receivables are assessed to approximating to their carrying amounts. Derivative financial instruments are measured using present value calculations.



Notes to Financial Statements

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Other current assets	–	–	221,891	221,891
Available-for-sale investments	–	2,077,518	–	2,077,518
Equity investments at fair value through profit or loss	94,258	–	–	94,258
Derivative financial instruments	–	105,742	–	105,742
	94,258	2,183,260	221,891	2,499,409



Notes to Financial Statements

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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Other current assets	–	–	211,045	211,045
Available-for-sale investments	–	525,855	–	525,855
Equity investments at fair value through profit or loss	68,097	40,096	–	108,193
Derivative financial instruments	–	91,807	–	91,807
	68,097	657,758	211,045	936,900

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

	2017 RMB'000	2016 RMB'000
Other current assets – loans and receivables:		
At 1 January	211,045	830,462
Disposal	(120,000)	(800,000)
Purchases	130,000	210,000
Total gains recognised in the statement of profit or loss included in other income	15,985	31,667
Interest received	(15,139)	(61,084)
	221,891	211,045



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41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

Assets for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Finance lease receivables, non-current portion	–	1,195	–	1,195

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Finance lease receivables, non-current portion	–	2,431	–	2,431



Notes to Financial Statements

31 December 2017

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(Continued)

Fair value hierarchy (Continued)

Liabilities for which fair values are disclosed:

As at 31 December 2017

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings	–	1,502,866	–	1,502,866

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings	–	2,104,436	–	2,104,436



Notes to Financial Statements

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42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 18 to the financial statements.



Notes to Financial Statements

31 December 2017

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

Interest rate risk

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

The Group has not entered into any interest rate hedging contracts or any other similar derivative financial instruments. Management closely monitors such risk and will consider hedging significant interest rate risk exposure should the need arise. At 31 December 2017, the Group's interest-bearing borrowings of approximately RMB1,502,866,000 (31 December 2016: RMB2,150,450,000) bore interest at floating rates.

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax and other comprehensive income RMB'000
2017		
US\$	(50)	185
US\$	50	(185)
2016		
US\$	(50)	339
US\$	50	(339)



Notes to Financial Statements

31 December 2017

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

Foreign currency risk

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

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

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 8% (2016: 9%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, while 100% (2016: 100%) costs were denominated in the units' functional currencies.

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

	Assets		Liabilities	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
US	188,101	772,775	1,502,866	2,150,450
HK	8,297	4,944	–	–



Notes to Financial Statements

31 December 2017

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

Foreign currency risk *(Continued)*

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

	Change in foreign currency rate %	Increase/ (decrease) in profit before tax and other comprehensive income RMB'000
2017		
If RMB weakens against US	10%	169,097
If RMB strengthens against US	10%	(169,097)
If RMB weakens against HK	10%	830
If RMB strengthens against HK	10%	(830)
2016		
If RMB weakens against US\$	10%	(137,518)
If RMB strengthens against US\$	10%	137,518
If RMB weakens against HK\$	10%	494
If RMB strengthens against HK\$	10%	(494)



Notes to Financial Statements

31 December 2017

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

Liquidity risk

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

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

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

2017

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	9,999	1,515,095	–	1,525,094
Trade and bills payables	96,125	61,460	3,173,459	–	3,331,044
Other payables and accruals	239,213	–	–	–	239,213
Due to related parties	21,659	–	–	–	21,659
Deposits for finance leases	25,984	–	–	–	25,984
	382,981	71,459	4,688,554	–	5,142,994



Notes to Financial Statements

31 December 2017

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

Liquidity risk *(Continued)*

2016

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.



Notes to Financial Statements

31 December 2017

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

Capital management *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Interest-bearing bank borrowings <i>(note 27)</i>	1,502,866	2,150,450
Trade and bills payables <i>(note 25)</i>	3,331,044	1,525,934
Other payables and accruals <i>(note 26)</i>	825,708	518,661
Due to related parties <i>(note 38)</i>	21,659	7,665
Less: Cash and cash equivalents <i>(note 24)</i>	(1,633,686)	(1,130,534)
Net debt	4,047,591	3,072,176
Equity attributable to owners of the parent	7,727,762	6,716,819
Adjusted capital	7,727,762	6,716,819
Adjusted capital and net debt	11,775,353	9,788,995
Gearing ratio	34%	31%



Notes to Financial Statements

31 December 2017

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 RMB'000	2016 RMB'000
Non-current assets		
Property, plant and equipment	16,162	17,295
Investments in subsidiaries	104,734	112,077
Total non-current assets	120,896	129,372
Current assets		
Due from subsidiaries	2,252,052	4,117,427
Other receivables	653	699
Cash and cash equivalents	23,487	14,808
Total current assets	2,276,192	4,132,934
Current liabilities		
Other payables	2,790	5,429
Interest-bearing bank borrowings	1,502,866	–
Total current liabilities	1,505,656	5,429
Net current assets	770,536	4,127,505
Total assets less current liabilities	891,432	4,256,877
Non-current liabilities		
Due to subsidiaries	2,403,724	3,177,856
Interest-bearing bank borrowings	–	2,150,450
Total non-current liabilities	2,403,724	5,328,306
Net liabilities	(1,512,292)	(1,071,429)
Equity		
Equity attributable to owners of the parent		
Issued capital	444,116	444,116
Share premium and reserves (note)	(1,956,408)	(1,515,545)
Total equity	(1,512,292)	(1,071,429)



Notes to Financial Statements

31 December 2017

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

Note:

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

	Share premium account RMB'000	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
Balance at 1 January 2016	982,757	(2,304,635)	(84,542)	(1,406,420)
Final 2015 dividend declared	–	(61,178)	–	(61,178)
Total comprehensive income for the year	–	20,418	(68,365)	(47,947)
At 31 December 2016 and 1 January 2017	982,757	(2,345,395)	(152,907)	(1,515,545)
Final 2016 dividend declared	–	(234,982)	–	(234,982)
Total comprehensive income for the year	–	(299,373)	93,492	(205,881)
At 31 December 2017	982,757	(2,879,750)	(59,415)	(1,956,408)

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2018.



Summary of Financial Information

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

	For the year ended 31 December				
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Result					
Profit before taxation	570,782	599,640	212,499	559,065	1,423,871
Income tax credit (expense)	(90,450)	(182,574)	(95,869)	(97,142)	(377,718)
Profit for the year	480,332	417,066	116,630	461,923	1,046,153
Attributable to:					
Equity holder of the parent	480,046	416,858	116,556	461,764	1,045,635
Non-controlling interests	286	208	74	159	518
	480,332	417,066	116,630	461,923	1,046,153
Dividends	220,367	220,312	61,178	234,982	548,195
Earnings per share-basic (RMB)	0.11	0.10	0.03	0.11	0.24
As at 31 December					
	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000
Assets and Liabilities					
Total assets	13,543,349	13,169,397	12,515,611	11,206,751	13,818,866
Total liabilities	6,697,946	6,140,115	5,891,469	4,487,039	6,088,660
	6,845,403	7,029,282	6,624,142	6,719,712	7,730,206
Equity attributable to equity holders of the parent	6,842,864	7,026,555	6,621,346	6,716,819	7,727,762
Non-controlling interests	2,539	2,727	2,796	2,893	2,444
	6,845,403	7,029,282	6,624,142	6,719,712	7,730,206