中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

ANNUAL REPORT
2017

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Hu Yueming *(Chairman)*
Mr. Yuen Chi Ping

Independent non-executive Directors
Dr. Chan Yau Ching, Bob
Ms. Jiang Jianhua
Mr. Jiang Xihe
Mr. Nathan Yu Li

AUDIT COMMITTEE
Mr. Jiang Xihe *(Chairman)*
Dr. Chan Yau Ching, Bob
Mr. Nathan Yu Li

REMUNERATION COMMITTEE
Dr. Chan Yau Ching, Bob *(Chairman)*
Mr. Jiang Xihe
Mr. Chen Yongdao

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

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

AUDITOR
Ernst & Young

LEGAL ADVISER
Li & Partners

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 1302
13th Floor
COFCO Tower
No.262 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
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Wanchai
Hong Kong

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Hu Yueming
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

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

WEBSITE

www.chste.com

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(the "Hong Kong Stock Exchange")
(Stock Code: 00658)

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2017 RMB'000	Year ended 31 December 2016 RMB'000	Change
Revenue	**8,241,914**	8,966,049	-8.1%
Gross profit	**2,169,043**	2,987,378	-27.4%
Profit for the year attributable to owners of the Company	**451,699**	1,108,995	-59.3%
Basic earnings per share (RMB)	**0.276**	0.678	-59.3%
Proposed final dividend per share (HKD)	**0.18**	0.23	-21.7%

	At 31 December 2017 RMB'000	At 31 December 2016 RMB'000	Change
Total assets	**27,438,175**	26,295,600	4.3%
Total liabilities	**16,462,174**	15,055,252	9.3%
Net assets	**10,976,001**	11,240,348	-2.4%
Net assets per share (RMB)	**6.7**	6.9	-2.9%
Gearing ratio* (%)	**60.0**	57.3	2.7ppt

* Gearing ratio = total liabilities/total assets

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
RESULTS					
REVENUE	**8,241,914**	8,966,049	9,845,695	8,147,338	6,539,058
PROFIT FOR THE YEAR	**352,816**	1,059,435	1,002,897	175,682	31,157
Profit for the year attributable to owners of the Company	**451,699**	1,108,995	1,033,097	208,422	64,573

	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**27,438,175**	26,295,600	25,292,081	25,299,504	22,970,686
TOTAL LIABILITIES	**(16,462,174)**	(15,055,252)	(15,317,343)	(16,429,402)	(14,208,985)
	10,976,001	11,240,348	9,974,738	8,870,102	8,761,701
Attributable to:					
Owners of the Company	**10,904,962**	11,053,873	9,759,102	8,688,371	8,513,877
Non-controlling interests	**71,039**	186,475	215,636	181,731	247,824
	10,976,001	11,240,348	9,974,738	8,870,102	8,761,701

CHAIRMAN'S STATEMENT

I am pleased to present the 2017 annual report (the "Annual Report") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company" or "China High Speed Transmission"). For the year ended 31 December 2017 (the "Period under Review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded sales revenue of approximately RMB8,241,914,000, representing a decrease of approximately 8.1% from 2016. Profit attributable to owners of the Company was approximately RMB451,699,000, representing a decrease of approximately 59.3% from 2016. China High Speed Transmission continued to lead domestic wind power equipment industry by focusing on customers' need, keeping abreast of market demand, and optimizing product mix and cost control to sharpen our core competitive edges. The Company also adjusted the business development strategies of the industrial gear transmission equipment industry to enhance its market competitiveness.

In 2017, the global economy continued to improve. Developed economies had an overall stable recovery. Regarding the wind power industry, according to the preliminary statistics of Chinese Wind Energy Association, the overall installed capacity dropped to 19.66GW in 2017. Newly installed wind power grid-connected capacity was 15.03 million kilowatts, which is lower than 4.27 million kilowatts in 2016. The cumulative grid-connected installed capacity was 164GW, representing 9.2% of the total power-generating installed capacity. The annual wind power generation was 305,700GW, representing 4.8% of the total power generation and an increase of 0.7 percentage points over 2016.

Benefiting from the promotion of sustainable development plan and increase in the cost competitiveness of renewable energy, global investment in clean energy rebounded in 2017. According to the Bloomberg New Energy Finance report, the total investment in global clean energy reached USD 333.5 billion, representing an increase of 3% over 2016. 2017 was the second-highest year in terms of the scale of clean energy investment. The cumulative investment scale since 2010 has also increased to USD 2,500 billion. During the Period under Review, the total investment in wind energy globally was USD 107.2 billion. Wind energy became the clean energy technology with the largest investment scale other than photovoltaic energy. Although the investment scale of wind power in 2017 dropped by 12% as compared with 2016, there were record-breaking large-scale onshore and offshore projects in terms of investment scale.

Looking back to 2017, as a leader in wind gear transmission equipment in the world, a leading supplier of wind gear transmission equipment in China and a leading manufacturer of gear transmission equipment in China, the production technology of the Group reached an internationally advanced level, aligning with its international competitors. With quality products and services, we supplied in bulk to a portfolio of wind power customers including domestically and internationally renowned wind turbine general manufacturers and were well-recognized and trusted. The Group continued to adhere to the strategy of sustainable development and grasp opportunities in emerging markets. It set up the sixth overseas wholly-owned subsidiary in Vietnam, furthering a large and diversified service on a global scale. In the Period under Review, the Company not only won numerous awards, but also successfully developed the largest two-roll mill and decelerator in China. It showcased its products in exhibitions in Asia, Europe, India and the United States of America (the "US"). Its wind power gear box was also recognized as a famous brand product of in the Chinese mechanical industry.

CHAIRMAN’S STATEMENT

With the aim to “promote national brand and craftmanship”, the Group insisted on stimulating market demand with technological improvement. Through a self-developed and energy-saving production model and strengthening the sales strategy in supplying and selling relevant parts and components, the Group boosted product sales and competitiveness and maintained its market position. In addition, the Group has obtained International Railway Industry Standard (IRIS) certificate for its rail transportation products and they have been successfully applied to rail transportation transmission equipment in various countries and regions.

Looking ahead to 2018, according to the “Report on the Development of Chinese Wind Power Industry”, the reform in the energy structure in the PRC is moving towards renewable energy development as the clean energy consumption policy proposed in the energy policy under the Thirteenth Five-Year Plan is promoted, especially with the launch of electricity spot trading market. The wind power industry will continue in the state of “slowing down and seeking progress in stability” and enter the phase of valuing both efficiency and quality. Large-scale consumption of wind power is also expected to be further resolved. The Group will adhere to a “zero defect” procedure and a “coordinated, practical, expanding and innovative” operating strategy in face of future challenges. It will constantly improve its technological standard, upgrade its business scope, improve product quality, strengthen its service systems and expand collaboration opportunities. The Group aims to provide products with the highest safety and quality to customers around the world and create the highest value in the anticipation of low-priced wind power.

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

Hu Yueming
Chairman

29 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications. During the Period under Review, the Group recorded sales revenue of approximately RMB8,241,914,000 (2016: RMB8,966,049,000), representing a decrease of approximately 8.1% from 2016. The gross profit margin was approximately 26.3% (2016: 33.3%). Profit attributable to owners of the Company was approximately RMB451,699,000 (2016: RMB1,108,995,000), representing a decrease of 59.3% from 2016. Basic earnings per share amounted to RMB0.276 (2016: RMB0.678), representing a decrease of 59.3% from 2016.

Principal Business Review

1. Gear Segment

(i) Wind gear transmission equipment

Large, diversified and overseas market development

The wind gear transmission equipment is a major product that has been developed by the Group. During the Period under Review, sales revenue of wind gear transmission equipment business decreased by approximately 7.6% to approximately RMB6,803,417,000 (2016: RMB7,362,287,000) as compared with the corresponding period last year. The decrease in revenue was mainly due to the fact that wind power industry is still in a state of callback and downstream and customers are cautious about the new installed capacity during the Period under Review.

The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750KW, 1.5MW, 2MW and 3MW wind power transmission equipment which have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level and is well recognised by customers in general. In addition to the provision of diversified large wind power gear boxes to customers, the Group has also successfully developed 5MW and 6MW wind power gear box with a technological level comparable to its international peers, thus enabling it to have the capability and technology to produce those products.

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in Vietnam to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

(ii) **Industrial gear transmission equipment**

Enhance market competitiveness through changes in production mode and sales strategies

The Group's traditional gear transmission equipment products are mainly supplied to customers in industries such as metallurgy, construction materials, traffic, transportation, petrochemical, aerospace and mining.

The Group adjusted the development strategy for traditional industrial gear transmission equipment. Above all, with the focus on energy-saving and environmentally-friendly products, the Group self-developed standardized and modular products which are internationally competitive, in order to facilitate the change in sales strategies and explore new markets and new industries; at the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining the Company's position as a major supplier in the traditional industrial transmission product market.

In respect of transmission equipment for high-speed rails, metro lines, urban train and tram segments, the Group has obtained International Railway Industry Standard (IRIS) certificate for its rail transportation products, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets. Currently the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Qingdao, Dalian, Suzhou, Lanzhou, Nanchang, Shijiazhuang, Fuzhou, Jinan, Wenzhou, Xi'an, Wuhan, Hong Kong, Singapore, Brazil, India, Mexico, Tunisia and Australia. The Group will continue to actively extend the transmission equipment business into high-speed rails, metro lines, urban train and tram segments, and accelerate the research and development of rail transportation gear equipment products.

The metro gear box that are used in the metro of Shanghai, Hong Kong and Melbourne is PDM385 type two-stage metro gear box, which was developed by the Group on the basis of the assimilation of domestic and foreign standards and customer specifications and several years' experience in design and manufacturing. PDM385 type two-stage metro gear box is characterized by its compacted structure, low noise, and easy maintenance, etc. With a 1.2 million km, or 10-year maintenance-free life span, the key components can endure for a period of 35 years.

During the Period under Review, the industrial gear business segment generated sales revenue of approximately RMB1,001,004,000 for the Group (2016: RMB778,983,000), representing an increase of 28.5% over last year.

2. **Marine gear transmission equipment**

During the period from 1 January 2017 to the date of disposal, marine gear transmission equipment recorded sales revenue of approximately RMB23,573,000 (2016: RMB236,819,000). During the Period under Review, gain on disposal of this business was approximately RMB76,953,000.

3. **Computer numerical controlled ("CNC") machine tool products**

CNC machine tool is the core equipment of the equipment manufacturing industry. Due to the sophistication of the application of machine tools in heavy equipments, the international markets of machine tools are dominated by a few manufacturers. Despite the Group's relentless efforts on developing advanced and efficient machine tools in order to establish a presence in the heavy and high-end equipment manufacturing markets, the Group reported consecutive decrease in revenue of CNC machine tool business since the financial year ended 31 December 2014.

During the Period under Review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB60,554,000 (2016: RMB106,693,000), representing a decrease of 43.2% over last year.

4. **Diesel engine products**

The Group's diesel engine products business is operated by Nantong Diesel Engine Co., Ltd. ("Nantong Diesel").

The products of Nantong Diesel cover a wide range of models, including marine diesel engines, diesel engines for power generation and gas engines. Its products are widely used in fishing vessels, inland river vessels, generating units, engineering machinery, agricultural irrigation and drainage facilities, air compression equipment and other ancillary machines.

Nantong Diesel possessed the proprietary intellectual property rights and was recognised as "Famous Brand Product of China Fishery Vessel & Machine Field", "China's Key New Product", "Jiangsu Province Key Protective Product" and "Jiangsu Province Credit Product". It was also awarded "Scientific & Technological Progress Prize of State Mechanical Industry".

Recovery in shipping industry was faltered because the global economy remained uncertain. As such, the sales of the Group's diesel engine products were also affected.

During the Period under Review, the Group's sales revenue from diesel engines products amounted to approximately RMB115,591,000 (2016: RMB134,360,000), representing a decrease of 14.0% over last year.

MANAGEMENT DISCUSSION AND ANALYSIS

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB2,631,914,000 (2016: RMB3,098,607,000), representing a decrease of 15.1% over last year. Overseas sales accounted for 31.9% to total sales (2016: 34.6%), representing a decrease of 2.7 percentage points over the previous year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Japan. Although the economies in Europe and the U.S. were yet to be fully recovered during the Period under Review, the Group introduced different types of products in order to extend its coverage to the overseas markets.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its advanced technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As at 31 December 2017, a total of 251 patents were granted by the State. In addition, 52 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2015 quality management system certification, ISO14001:2015 environmental management system certification and OHSAS18001: 2007 Occupational Health and Safety Management System Certification. The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), a wholly-owned subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (DNVGL), Offshore and Certification Centre of Deutsches Windenergie-Institut (DEWI-OCC), CE and ETL, and its rail transportation products have obtained certifications from International Railway Industry Standard (IRIS).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Sales revenue of the Group for the Period under Review decreased by 8.1% to approximately RMB8,241,914,000.

	Revenue Year ended 31 December		
	2017 **RMB'000**	2016 RMB'000	Change
Gear Segment	**7,804,421**	8,141,270	-4.1%
— Wind Gear Transmission Equipment	**6,803,417**	7,362,287	-7.6%
— Industrial Gear Transmission Equipment	**1,001,004**	778,983	28.5%
Marine gear transmission equipment	**23,573**	236,819	-90.0%
CNC Machine Tool Products	**60,554**	106,693	-43.2%
Diesel Engine Products	**115,591**	134,360	-14.0%
Other Products	**237,775**	346,907	-31.5%
Total	**8,241,914**	8,966,049	-8.1%

Revenue

During the Period under Review, the Group's sales revenue was approximately RMB8,241,914,000, representing a decrease of 8.1% as compared with last year. The decrease was mainly due to the slowdown of the overall growth rate of domestic wind power industry in 2017 and the disposal of certain subsidiaries.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB6,803,417,000 (2016: RMB7,362,287,000), representing a decrease of 7.6%; sales revenue from industrial gear transmission equipment was approximately RMB1,001,004,000 (2016: RMB778,983,000), representing an increase of 28.5% as compared with last year. During the Period under Review, the Group's sales revenue from CNC machine tool products, diesel engine products and marine gear transmission equipment were approximately RMB60,554,000, RMB115,591,000 and RMB23,573,000 (2016: RMB106,693,000, RMB134,360,000 and RMB236,819,000), representing a decrease of 43.2%, 14.0% and 90.0% as compared with last year, respectively. During the period from 1 January 2017 to the date of disposal, marine gear transmission equipment recorded sales revenue of approximately RMB23,573,000 (2016: RMB236,819,000).

Gross profit margin and gross profit

During the Period under Review, the Group's consolidated gross profit margin was approximately 26.3% (2016: 33.3%), representing a decrease of 7.0 percentage point as compared with last year. Consolidated gross profit for the Period under Review amounted to approximately RMB2,169,043,000 (2016: RMB2,987,378,000), representing a decrease of 27.4% as compared with last year. During the Period under Review, the decrease in consolidated gross profit margin was mainly due to the squeezing pressure derived from both lower prices and higher costs along the supply chain and the adjustment to the mix of sales in our product portfolio as well as the increase of RMB57,402,000 in write-down of inventories to net realisable value mainly for non wind power equipment business. The decrease in consolidated gross profit was mainly due to the decrease in sales revenue and gross profit margin.

Other income and net gains

During the Period under Review, the Group's other income was approximately RMB265,831,000 (2016: RMB253,233,000), representing an increase of 5.0% as compared with last year. Other income is mainly comprised of bank interest income, investment income and sales of scraps and material. The increase was mainly due to an increase in investment income.

During the Period under Review, other gains and losses recorded a net gain of approximately RMB263,275,000 (2016: RMB85,378,000), mainly comprised of gain from land resumption of approximately RMB159,163,000 and gain on disposal of subsidiaries of approximately RMB129,608,000.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses was approximately RMB318,805,000 (2016: RMB367,337,000), representing a decrease of 13.2% as compared with last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and technical service fees. The percentage of selling and distribution expenses to sales revenue for the Period under Review was 3.9% (2016: 4.1%), representing a decrease of 0.2 percentage point as compared with last year.

Administrative expenses

During the Period under Review, the Group's administrative expenses was approximately RMB685,999,000 (2016: RMB615,894,000), representing an increase of 11.4% as compared with last year, which was mainly due to the increase in salary and welfare, and bank charges regarding the issuance of corporate bonds. The percentage of administrative expenses to sales revenue increased by 1.5 percentage points to 8.3% as compared with last year.

Other expenses

During the Period under Review, the Group's other expenses amounted to approximately RMB424,125,000 (2016: RMB132,152,000), primarily consisting of total impairment loss of approximately RMB388,057,000 made for property, plant and equipment, trade receivables, other receivables and prepayments, and intangible assets of non wind power business. The impairment loss was made in consideration of continuous loss of certain non wind power business over the years and after assessment of market condition of this sector.

Finance costs

During the Period under Review, the Group's finance costs was approximately RMB526,289,000 (2016: RMB495,585,000), representing an increase of 6.2% as compared with last year, which was mainly due to an increase in the average balance of bank loans and corporate bonds during the Period under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2017, the equity attributable to owners of the Company amounted to approximately RMB10,904,962,000 (31 December 2016: RMB11,053,873,000). The Group had total assets of approximately RMB27,438,175,000 (31 December 2016: RMB26,295,600,000), an increase of 4.3% as compared with the beginning of the year. Total current assets were approximately RMB18,013,876,000 (31 December 2016: RMB17,381,918,000), representing an increase of 3.6% as compared with the beginning of the year. Total non-current assets were approximately RMB9,424,299,000 (31 December 2016: RMB8,913,682,000), representing an increase of 5.7% as compared with the beginning of the year.

As at 31 December 2017, total liabilities of the Group were approximately RMB16,462,174,000 (31 December 2016: RMB15,055,252,000), representing an increase of approximately RMB1,406,922,000, or 9.3%, as compared with the beginning of the year. Total current liabilities were approximately RMB13,441,242,000 (31 December 2016: RMB13,495,451,000), representing a decrease of 0.4% as compared with the beginning of the year. The decrease was mainly due to a decrease in bank and other borrowings due within one year; whereas total non-current liabilities were approximately RMB3,020,932,000 (31 December 2016: RMB1,559,801,000), representing an increase of 93.7% as compared with the beginning of the year. The increase was mainly due to an increase in issue of corporate bonds during the Period under Review.

As at 31 December 2017, the net current asset of the Group was approximately RMB4,572,634,000 (31 December 2016: RMB3,886,467,000), representing an increase of approximately RMB686,167,000, or 17.7%, as compared with the beginning of the year.

As at 31 December 2017, total cash and bank balances of the Group were approximately RMB7,031,364,000 (31 December 2016: RMB5,485,418,000), representing an increase of approximately RMB1,545,946,000, or 28.2%, as compared with the beginning of the year. The cash and bank balances include pledged bank deposits of RMB2,892,955,000 (31 December 2016: RMB2,531,395,000) and structured bank deposits of RMB108,000,000 (31 December 2016: RMB209,000,000).

As at 31 December 2017, the Group had total borrowings of approximately RMB7,786,901,000 (31 December 2016: RMB6,501,813,000), representing an increase of approximately RMB1,285,088,000, or 19.8%, as compared with that at the beginning of the year, of which borrowings within one year were RMB5,030,608,000 (31 December 2016: RMB5,273,847,000), accounting for approximately 64.6% (31 December 2016: 81.1%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings for the Period under Review ranged from 1.05% to 8.50% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB4,572,634,000 as at 31 December 2017, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Available-for-sale investments

As at 31 December 2017, the Group's available-for-sale-investments amounted to RMB3,612,278,000 (31 December 2016: RMB870,090,000), approximately RMB2,742,188,000 or 315.2% higher than those at the beginning of the year, of which unlisted equity investments amounted to approximately RMB3,175,618,000 (31 December 2016: RMB88,582,000) and accounted for approximately 87.9% (31 December 2016: 10.2%) of the total amount. The increase was mainly due to Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive"), a wholly owned subsidiary of the Company, entered into a limited partnership agreement with thirty-four other partners on 17 April 2017 in respect of the establishment of an investment fund in the PRC and the subscription of interest therein. The Board considers that such investment could result in more investment opportunities and better investment returns by leveraging on the other partners' advantageous resources or experience in investment management. Pursuant to the limited partnership agreement, Nanjing Drive, as a limited partner, contributed RMB2 billion to the investment fund. For details, please refer to the announcement dated 18 April 2017 made by the Company.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 57.3% as at 31 December 2016 to 60.0% as at 31 December 2017, mainly due to the increase in bank and other borrowings.

Capital structure

The Group's operations were financed mainly by shareholders' equity, banking and other facilities available to the Group and internal resources. The Group will continue to adopt its treasury policy of placing its cash and cash equivalents as interest bearing deposits.

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Euro and U.S. dollars. The Group's bank borrowings denominated in Euro and U.S. dollars as at 31 December 2017 amounted to approximately EUR24,390,000 and USD73,750,000, respectively.

During the Period under Review, the Group's borrowings with fixed interest rates to total borrowings was approximately 85.0%.

PROSPECTS

Looking back to 2017, the global economy experienced a stronger recovery. Growth is recorded in all major countries around the world for the first time in a decade. Among the major economies, the United States had a mild economic growth. The European economy, which has long been affected by the debt crisis, was in full recovery with growth at a rate exceeding expectation. The economy of the UK was stable in general. As a representative in the emerging market, China furthered its "five in one" overall layout and the "four comprehensives" strategic layout. With an emphasis on structural reform on the supply front, there was expansion of effective supply and development of high quality. The economy made progress while largely remaining stable, which maintained a stable and healthy social development. The GDP also reached a new high exceeding RMB 80,000 billion.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking back to 2017, the wind power industry was restricted by wind resources available. The wind power construction in Northeastern, Northern and Northwestern China slowed down. As the onshore wind power installed capacity accelerated, the newly installed grid-connected wind power capacity reached its lowest in nearly 5 years at 15.03 million kilowatts. The acceleration of offshore wind power installation was significant. The cumulative grid-connected installed capacity was 164GW, representing 9.2% of the total power generating installed capacity. The total wind power installed capacity continued its leading position globally. At the same time, the government promoted reform in the energy structure and introduced multiple policies to protect wind power consumption. There has been continuous improvement in wind power curtailment. In 2017, the national wind power curtailment decreased by 7,800GW and the wind power curtailment rate decreased by 5.2% over last year. There was a decrease in both volume and rate of wind curtailment.

As a global leader in the wind gear transmission equipment, the Group emphasizes on the four core competitiveness of "innovation, zero defect, professional service and customer orientation". It strives to provide the best value-adding solutions to global users and provide customized service. Currently, the Group has a range of products including 750KW, 1.5MW, 2MW and 3MW wind gear transmission equipment. The wind power gear transmission equipment of 5MW and 6MW was further optimized in 2017. In the face of the huge development potential of the market, the Group actively undertakes the key technology research and development of 7MW grade wind power gear box and mainshaft bearing industrialization in the national science and technology support project. It seized market opportunities with an aim to maintain our position as a supplier of the most premium gears in the world.

Meanwhile, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in Vietnam to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

In addition to focusing on enhancing the wind power equipment business, the Group will put emphasis on the segment of traditional industrial gear transmission equipment as well as optimising and rationalising the loss-making and non wind power equipment business with a view to strengthen its overall profit model. The Group adjusted the development strategy for traditional industrial gear transmission equipment in the Period under Review. By leveraging its self-development, it maintained its position as a major supplier in the traditional transmission product market. The Group successfully developed the largest decelerator with an ancillary two-roll mill in China, which has been delivered in bulk.

To ride on and support the trend of saving energy, reducing emission and renewable energy, the Group developed the first electricity-driven high-speed satellite gear speed adjustment product, presenting a better solution for the industry. In addition, the Group has obtained International Railway Industry Standard (IRIS) certificate, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets.

Looking forward to 2018, the National Development and Reform Commission and National Energy Administration formulated "The implementation plan for resolving curtailment of hydro power, wind power and photovoltaic power" in November last year. The wind curtailment problem in China is expected to be further resolved with the gradual implementation of the clean energy consumption policy. According to the "2017-2020 Wind Power New Construction Plan", the annual additional scale of wind power will be over 25GW, facilitating the rapid development of the wind power industry. Meanwhile, the wind power development plan under the "Thirteenth Five-Year Plan" proposed that the national scale of offshore wind power construction will reach 10 million kilowatts in 2020 and the cumulative grid-connected capacity will be over 5 million kilowatts. Offshore wind power will be the direction of the future development of the wind power industry. The Group will keep abreast of changing market preferences to our products, provide customers with products, technology and services with the best quality and increase our market share in international markets to acquire a new high in the growth of our core business.

PLEDGE OF ASSETS

Save as disclosed on note 11 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2017.

CONTINGENT LIABILITIES

Save as disclosed in note 41 to the consolidated financial statements, as at 31 December 2017, the Directors were not aware of any other material contingent liabilities.

COMMITMENTS

As at 31 December 2017, the Group had capital commitments contracted for but not provided in the consolidated financial statements in respect of acquisition of land and buildings, plant and machinery, capital contribution payable to an associate and capital contribution payable to available-for-sale investment, and outstanding commitments payable under non-cancellable operating lease in respect of rented land and premises and office equipment of approximately RMB395,418,000 and RMB2,941,000 respectively (31 December 2016: RMB423,853,000 and RMB3,304,000). Details are set out in notes 43 and 42 to the consolidated financial statements respectively.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and the imported equipment which are transacted in U.S. dollars and Euros, the Group's domestic revenue and expense are denominated in Renminbi. Therefore, the Board is of the view that the Group's operating cash flow and liquidity during the Period under Review are not subject to significant foreign exchange rate risk. The Group has not need any foreign currency derivatives to hedge against the exposure in foreign exchange.

The Group's bank borrowings denominated in Euro and U.S. dollars as at 31 December 2017 amounted to approximately EUR24,390,000 and USD73,750,000 respectively. Therefore, the Group may be exposed to certain foreign exchange rate risk.

The net loss of foreign exchange recorded by the Group during the Period under Review was approximately RMB30,053,000 (2016: a net gain of RMB106,675,000), including loss from our export business denominated in U.S. dollars due to the appreciation of Renminbi against U.S. dollars during the Period under Review. The Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to foreign exchange risk in 2018.

INTEREST RATE RISK

As at 31 December 2017, the loans of the Group are mainly sourced from bank borrowings, corporate bonds and medium-term notes. Therefore, the benchmark lending rate announced by the People's Bank of China and the LIBOR will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, the Group employed approximately 6,988 employees (2016: 8,186). Staff cost of the Group for 2017 approximated to RMB1,375,223,000 (2016: RMB1,390,242,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

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

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

The Group has put in place various types of training programmes for the development of its staff.

PENSION SCHEME

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

CHANGE OF AUDITOR

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

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

SIGNIFICANT INVESTMENT DURING THE YEAR

On 17 April 2017, Nanjing Drive, a wholly-owned subsidiary of the Company, entered into a limited partnership agreement with thirty-four other partners in respect of, among other matters, the establishment of an investment fund in the PRC and the subscription of interest therein (the "Limited Partnership Agreement"). Pursuant to the Limited Partnership Agreement, the total capital commitment to the investment fund was RMB50.38 billion, among which, RMB2 billion would be contributed by Nanjing Drive as a limited partner. The details were set out in the Company's announcement dated 18 April 2017.

The Board was informed by the limited partnership that as at 31 December 2017, the operation of the limited partnership remained normal and that, according to the unaudited financial report of the limited partnership, there was no impairment loss of the investment. The limited partnership yields returns from investing in a variety of industries, including financial, fashion, travelling and environmentally friendly industries.

Going forward, the Board remains optimistic of its investment held because as disclosed in the announcement of the Company dated 18 April 2017, the Group considers that by leveraging on the other partners' advantageous resources or experience in investment management, its investment in the limited partnership could result in more investment opportunities and better investment returns.

Save as disclosed above, there was no other significant investment held by the Group during the Period under Review.

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR

Disposal of a subsidiary

On 20 April 2017, Nanjing Drive entered into an equity transfer agreement with Jiangsu Shiji Yuntong Technology Co., Ltd.* (江蘇世紀運通科技有限公司) to sell the entire equity interest of Nanjing Jingjing Photoelectric Science & Technology Co., Ltd.* (南京京晶光電科技有限公司) (the "Disposal Company") for a cash consideration of RMB155,176,000 (the "Disposal"). The Disposal Company was a company incorporated in PRC with limited liability and was principally engaged in the sales, manufacturing and design of digital products, transistor, chips and LED products. The business of the Disposal Company was in a state of loss-making as a result of unfavourable market conditions in the relevant industry. The Disposal represents a continuation of the Group's strategy to strip loss-making business, streamline its businesses and improve its overall performance and prospects. The Directors are of the view that the Disposal would enhance the cash position and working capital of the Group, and thus would allow the Group to restructure its strategic business positioning and focus on pursuing the development of its core businesses. The details were set out in the announcement of the Company dated 27 April 2017.

Capital reduction of and disposal of a joint venture company

In October 2017, Nanjing Drive, Nanjing Sanbao Technology Group Co., Ltd.* (南京三寶科技集團有限公司) and Zhongbang Jinkong Investment Co., Ltd.* (眾邦金控投資有限公司) agreed to adjust the total maximum capital contribution to Nanjing Dongbang Equipment Limited* (南京動邦裝備有限公司) ("Nanjing Dongbang"), a joint venture Company, from RMB2,000,000,000 to RMB50,000,000 by reducing their respective capital contribution to Nanjing Dongbang on a pro rata basis. The capital contribution made by Nanjing Drive was reduced to RMB22,500,000 from its original amount of RMB900,000,000.

The major business scope of the Nanjing Dongbang is investment in manufacturing industry. Due to the unfavorable economic environment as a whole, the capital contribution reduction can help retain resources for the development of other businesses of the Company and increase the effectiveness of use of funds. For details, please refer to the announcement dated 21 December 2017 made by the Company. On 22 December 2017, the Company also disposed its interest in Nanjing Dongbang to an independent third party.

Save as disclosed above, the Group did not carry out any other significant acquisition or disposal of subsidiaries and associated companies during the Period under Review.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

* *For identification Purposes only*

DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as of 31 December 2017 are listed as follows:

EXECUTIVE DIRECTORS

Mr. Chen Yongdao, aged 55, is an executive Director and a member of the Remuneration Committee of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. He served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and the deputy general manager of NGC since March 2007. He has served as the vice president of NGC since January 2017. Mr. Chen also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("**Nanjing High Accurate**"), Nanjing High Speed, Nanjing Marine, Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("**Nanjing Dongalloy**") , Nanjing Ningkai Mechanical Co., Ltd. ("**Nanjing Ningkai**"), Nantong Diesel, Zhenjiang Tongzhou Propeller Co., Ltd., China Transmission Holdings Limited (中傳控股有限公司) ("**China Transmission Holdings**") and NGC Marine. He is also the general manager of Nanjing Marine. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for over 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Wang Zhengbing, aged 46, is an executive Director of the Company. He is a holder of university degree. He graduated from Zhejiang University and obtained a Bachelor's degree in Mental Material & Heat Treatment in 1993 and a Master's degree in Engineering in Nanjing University of Science and Technology in 2011 as a senior engineer. Mr. Wang has joined Nanjing High Speed Gear Factory since August 1993 and held various positions, including deputy director and director of the workshop since January 1999. He has served as the vice general manager of Nanjing High Speed since July 2003. He has served as an executive Director of the Company since June 2015. Mr. Wang has served as a director and the vice president of NGC since November 2016 and January 2017, respectively. Mr. Wang also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, Nanjing Dongalloy, Nanjing Ningkai and China Transmission Holdings.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhou Zhijin, aged 45, is an executive Director of the Company. He graduated from Nanjing Industrial School in 1991 and joined Nanjing High Speed Gear Factory in August 1991. Mr. Zhou was appointed as vice director of personnel department in January 1999. He was promoted as deputy director of human resource department in September 2001. He served as the assistant to general manager of Nanjing High Speed and office head since July 2003. He has served as the vice general manager of Nanjing High Speed since July 2006. He has served as an executive director of the Company since June 2015. Mr. Zhou has been served as a director of NGC since November 2016. He has served as the vice president of NGC since January 2017. Mr. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed, Nanjing Ningkai and China Transmission Holdings.

Mr. Hu Jichun, aged 38, is an executive Director and the Chief Executive Officer of the Company. He is a holder of postgraduate degree. Mr. Hu graduated from Shanghai University in Control Theory and Control Engineering and obtained a Master's degree in Engineering in 2004. Mr. Hu has been served as the vice general manager of Nanjing E-crystal Energy Co., Ltd. since January 2012 and an executive Director of the Company since June 2015. Also, Mr. Hu has been served as a director of NGC since November 2016 and the chairman and the general manager of NGC since December 2016. He has served as the president of NGC since January 2017. Mr. Hu also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, NGC Transmission Equipment (America), Inc. ("**NGC (US)**") and China Transmission Holdings. Mr. Hu is the son of Mr. Hu Yueming, the Chairman, a non-executive Director, the chairman of the Nomination Committee and an authorized representative of the Company under Rule 3.05 of the Listing Rules.

Ms. Zheng Qing, aged 50, is an executive Director of the Company and a fellow member of the Association of Chartered Certified Accountants. She graduated from Nanjing Audit University in 1989. She obtained a Bachelor's (Honours) degree in Applied Accounting from Oxford Brookes University in 2005 and further obtained a Master degree in Business Administration from the Chinese University of Hong Kong in 2012.

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

Since June 2015, Ms. Zheng has been the financial controller of Nanjing region of Fullshare Holdings. She joined the Company as an executive Director in December 2016.

* *For identification Purposes only*

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 68, is the Chairman, a non-executive Director and the chairman of the Nomination Committee of the Company. Mr. Hu is a university graduate and was graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a senior engineer. He has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory (南京工藝裝備廠) and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. From March 2007 to December 2016, he served as the chairman and the general manager of NGC. Mr. Hu also holds directorship in certain subsidiaries (see the note below) of the Group. Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network (中國新能源發電網), a council member of China General Machine Components Industry Association (中國機械通用零部件工業協會), the vice chairman of Gear Manufacturers Association (齒輪專業協會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and chairman of Nanjing Renewable Energy Association (南京可再生能源協會). He has been awarded the "National May 1 Labour Medal" (全國五一勞動獎章) and title of "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家). Mr. Hu is the father of Mr. Hu Jichun, an executive Director and the Chief Executive Director of the Company.

Mr. Yuen Chi Ping, aged 38, is a non-executive Director of the Company and he joined the Company as a non-executive Director on 1 December 2016. He has been a qualified solicitor in Hong Kong since 2004 and in England and Wales since 2010. Mr. Yuen has over twelve years of practicing experience and has extensive experience in corporate law, China-related public and private mergers and acquisitions, and capital market transactions. Mr. Yuen obtained his Bachelor's degree in Laws in November 2001 from the University of Hong Kong and completed the PCLL programme in June 2002. Afterwards, Mr. Yuen undertook his traineeship and worked as a lawyer in various international law firms. Mr. Yuen worked as a special counsel in the Shanghai office of Baker & McKenzie from 2011 to 2014, responsible for the firm's securities practice in Shanghai.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yau Ching, **Bob,** aged 55, is a non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company and joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Doctorate degree in Finance. Dr. Chan graduated from the Chinese University of Hong Kong and obtained a Bachelor's degree in Business Administration in 1984. Dr. Chan further obtained a Master degree in Business Administration from the University of Wisconsin-Madison, the US in 1986, and a Doctorate degree in Finance from Purdue University, US in 1994. Dr. Chan is a member of the Chartered Financial Analyst Institution and the Hong Kong Society of Financial Analysts. Since April 2009, Dr. Chan has been a licenced representative/responsible officer engaging in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

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

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

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

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

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

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DIRECTORS AND SENIOR MANAGEMENT

Ms. Jiang Jianhua, aged 53, is an independent non-executive Director of the Company and she joined the Company as an independent non-executive Director in 31 December 2012. She is a holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor degree, majoring in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a Master degree of management. She studied and obtained a Doctor degree of management from Nanjing Agricultural University from September 2006 to December 2008.

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

Currently, Ms. Jiang serves as an independent director of Nanjing Yunhai Special Metals Co., Ltd. (Stock Code: 002182), a company listed on the Shenzhen Stock Exchange, Nanjing Baose Co., Ltd. (Stock Code: 300402), a company listed on the Shenzhen Stock Exchange, Sainty Marine Corporation Ltd. (Stock Code: 002608), a company listed on the Shenzhen Stock Exchange, and Jiangsu Holly Corporation (stock code: 600128), a company listed on the Shanghai Stock Exchange.

Mr. Jiang Xihe, aged 59, is an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 8 June 2007. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association and a standing member of Jiangsu Accounting Association.

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

Mr. Jiang is also an independent director of Hongbaoli Group Co., Ltd. (Stock Code: 002165), a company listed on the Shenzhen Stock Exchange and Nanjing Yunhai Special Metals Co., Ltd. (Stock Code: 002182), a company listed on the Shenzhen Stock Exchange).

Mr. Nathan Yu Li, aged 46, is an independent non-executive Director and a member of the Audit Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Master degree in Science and a Master degree in Business Administration.

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

Mr. Li was a senior software engineer from August 1995 to May 2001 at Brooks Automation Inc., where he was principally responsible for leading the software team to design semiconductor manufacturing robots. Between June 2001 to March 2006, Mr. Li held various positions at Axsun Technologies Inc., including as principal software engineer, R & D manager and senior technical marketing manager. During his service, optical communication equipment and near infrared laser source product lines of the company were launched. From March 2006 to August 2010, Mr. Li was a director of sales and marketing at Copley Controls Corporation and a director of business development of its parent company, Analogic Corporation, responsible for business of medical diagnostic imaging products, aviation security and motion control products.

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

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

* *For identification Purposes only*

SENIOR MANAGEMENT

Mr. Lui Wing Hong, **Edward**, aged 55, is a chief financial officer and company secretary and an authorised representative of the Company. He graduated from York University with a Bachelor of Arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Group.

Ms. Zhou Jingjia, aged 54, is the financial controller of NGC. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms Zhou joined the Group in July 2006. She became the director of NGC in March 2007. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, Gaochuan Sky, Nantong Diesel, Zhong-Chuan Heavy Duty Machine Tool Co., Ltd., AE&E Nanjing, NGC (US) and China Transmission Holdings.

DIRECTORS' REPORT

The Directors are pleased to present the Directors' report (the "Directors Report") and the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in design, production and sale of gear transmission equipment products. Details of the principal activities of the subsidiaries, joint ventures and associates of the Company are set out in notes 1, 18 and 19 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 8 to 20 of the Annual Report. These discussions form part of this Directors' Report. The Group is of the view that with the progress of economy and society, the Company is not only responsible for its business operation, but also responsible for environment. The Group values the environment and is committed to minimizing the carbon footprint arising from the Company's businesses in different ways, including (among others) by adopting new standards, new materials, new designs in project construction, improving the environmental awareness of employees, and also actively calling for our business partners to enhance environmental protection concept, with aims to enable the objective of environmental protection to penetrate into all levels of the Company's business.

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

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

The Group maintains good relationships with our clients and suppliers. As for human resources, in order to protect the interest and benefit of our staff, staff participated in the social protection system established and administered by government authorities according to the regulations in PRC. The Group has contributed to the social insurance funds (including basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident fund. The Company has established and implemented a human resources policy that is beneficial to our sustainable development. We consider code of ethics and professional abilities as an important criteria for staff employment and promotion. We practically reinforced staff training and continuous education, built up a rotation and interaction system and developed comprehensive knowledge and skill of professionals so as to constantly improve the quality of staff. We focus on development opportunity of internal staff when appointing and selecting outstanding talents. We view the continuous training of professional manager team with high level of professionalism, enthusiasm and responsibility as an important mission of our development.

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

KEY RISKS AND UNCERTAINTIES

Apart from the risk of foreign exchange rate fluctuation and interest rate risk set out in the Management Discussion and Analysis on pages 17 and 18 of the Annual Report, the following lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, the Annual Report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

DIRECTORS' REPORT

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

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

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed in note 49 to the consolidated financial statements, there are no other important events occurred subsequent to 31 December 2017.

OPERATING RESULTS AND APPROPRIATIONS

The operating results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 84 and 85 of the Annual Report.

The Board recommends the payment of a final dividend of HKD0.18 (tax inclusive) in cash per ordinary share for the year ended 31 December 2017 (2016: HKD0.23) and proposes that the remaining profit for the year be retained. It is expected that the final dividend will be paid to shareholders of the Company on 15 June 2018. The record date of proposed final dividend distribution and date of closure of register of members are set out in the circular of the Company to be dispatched to the shareholders of the Company in April 2018. The proposed final dividend will be paid subject to shareholders' approval at the Company's 2017 annual general meeting.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2017 was approximately RMB4,383,409,000 (2016: RMB4,908,811,000).

FIVE-YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2017 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

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

EQUITY-LINKED AGREEMENTS

The share option scheme of the Company, of which the details are set out on page 32 of the Annual Report, expired on 8 June 2017. No equity-linked agreements were entered into by the Group or existed during the Period under Review.

BORROWINGS

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

TAXATION

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

DONATION EXPENDITURE

During the Period under Review, the donation expenditure of the Group was approximately RMB5,417,000 (2016: RMB416,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

In November 2014, the Company issued 8.3% bonds due 20 November 2017 of a total principal amount of RMB650,000,000 with a listing on the Hong Kong Stock Exchange (the "Bonds"). As at 31 December 2015 and 31 December 2016, the outstanding principals of the Bonds amounted to RMB264,630,000.

On 29 November 2016, the Company issued an announcement to holders of the Bonds in relation to the occurrence of a relevant event. The relevant event was the change of control occurred on the Company on 29 November 2016. After the occurrence of the relevant event, a holder of the Bonds will have the right, at the option of such holder of the Bonds, to require the Company to redeem all, but not some only, of such bondholder's Bonds on 12 January 2017 at 101% of their principal amount together with accrued interest to 12 January 2017. As at 12 January 2017, the Company received valid put exercise notices from those holders of the Bonds holding such Bonds in the aggregate principal amount of RMB151,590,000 (the "Redeemed Bonds"). Settlement of the Redeemed Bonds (the "Redemption") was completed on 12 January 2017 (i.e., the Put Settlement Date) and the Redeemed Bonds were cancelled on the same date. The aggregate amount of consideration paid by the Company in relation to the Redemption was approximately RMB154,898,000. The Company redeemed all outstanding Bonds upon maturity ("Redemption on Maturity") on 20 November 2017 by payment of a total consideration of approximately RMB117,795,000. After completion of the Redemption on Maturity, the Bonds were cancelled and delisted from the Hong Kong Stock Exchange. For details, please refer to the announcement made by the Company dated 20 November 2017.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2017.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolution of all shareholders of the Company (the "Scheme"). The Scheme expired on 8 June 2017. The Company did not issue any share option during the Period under Review, and as at 31 December 2017, the Company had no unexercised outstanding share option.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2017, the purchase amount (not of a capital nature) from the Group's top five suppliers accounted for less than 30% of our total purchase amount.

Revenue from sales of goods to the Group's top five customers and the largest customer accounted for 64.9% and 31.6% of our total revenue from sales of goods during the year ended 31 December 2017, respectively. All transactions between the Group and relevant customers were carried out on normal commercial terms. To the best knowledge of the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their close associates (within the meanings of the Listing Rules) had any interests in the top five customers during the Period under Review.

DIRECTORS' SERVICE CONTRACTS

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

Under the Cayman Islands Companies Law, at every annual general meeting of the Company, no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to the offer themselves for re-election. In addition, according to code provision A.4.3 of the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules, if an independent non-executive Director serves more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

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

DIRECTORS AND THEIR TERMS

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

Executive Directors:

Mr. Chen Yongdao	Three years from the date of his re-election on 19 May 2017
Mr. Gou Jianhui	Resigned on 16 January 2018
Mr. Wang Zhengbing	Three years from the date of his re-election on 19 May 2017
Mr. Zhou Zhijin	Three years from the date of his re-election on 17 June 2016
Mr. Hu Jichun	Three years from the date of his re-election on 17 June 2016
Ms. Zheng Qing	Three years from the date of her re-election on 19 May 2017

Non-executive Directors:

Mr. Hu Yueming	Three years from the date of his re-election on 19 May 2017
Mr. Yuen Chi Ping	Three years from the date of his re-election on 19 May 2017

Independent Non-executive Directors:

Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 19 May 2017
Ms. Jiang Jianhua	Three years from the date of her re-election on 19 May 2017
Mr. Jiang Xihe	Three years from the date of his re-election on 17 June 2016
Mr. Nathan Yu Li	Three years from the date of his re-election on 19 May 2017

The biographies of the Directors as of 31 December 2017 are set out on pages 21 to 26 of the Annual Report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service contracts disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company or an entity related to a Director of the Company had a material interest, whether directly or indirectly, subsisted on 31 December 2017 or at any time during the Period under Review.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE ISSUED SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2017, none of the Directors or chief executives of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

As at 31 December 2017, none of the Directors and chief executives of the Company or any of their associates had any interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO). None of the Directors and chief executives of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

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

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

As at 31 December 2017, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

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

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

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2017, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

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

CONNECTED TRANSACTIONS

On 28 September 2017, Nanjing High Accurate (an indirect wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Fullshare Dazu Technology and Jiangsu Lipu Health Technology Co., Ltd.* (江蘇立譜健康科技有限公司) ("Jiangsu Lipu", an independent third party). Pursuant to the equity transfer agreement, Nanjing High Accurate agreed to transfer 40% and 30% equity interest respectively in Jiangsu Anlangda Health Industry Development Co., Ltd.* (江蘇安朗達健康產業發展有限公司) ("Anlangda") to Fullshare Dazu Technology and Jiangsu Lipu for the respective consideration of RMB101,432,000 and RMB76,074,000 (subject to adjustment of the land requisition compensation). After completion, the equity interest in Anlangda held by Nanjing High Accurate will reduce from 100% to 30%, and Anlangda will cease to be a subsidiary of the Company. As Fullshare Dazu Technology was a wholly-owned subsidiary controlled by Fullshare Holdings, a controlling shareholder of the Company, and it was thus a connected person of the Company. After completion of the transfer of the property, which includes the land use rights of the land and the factory erected thereon located at No.3, Youjiaao, Yuhuatai, Nanjing (南京市雨花台區尤家凹3號), of which the land has an area of approximately 100,000 square metres and the factory has a gross floor area of approximately 70,000 square metres (the "Property") from Nanjing High Accurate (the sole owner of the Property to Anlangda), the assets of Anlangda will mainly comprise the Property. The Property is currently designated for industrial use and includes the production plant of Nanjing High Accurate. Given a part of the Property may be recovered by the local government authority due to construction of municipal roads, and the area of the Property may decrease, the Directors are of the view that the Property will no longer be able to satisfy the large-scale industrial production needs of Nanjing High Accurate. As such, the Group intends to apply for a change of land use of the Property from industrial use to commercial use. However, due to a lack of professional experience in property development, operation and management, it will be difficult for the Group to develop the Property individually, not to mention the construction, sales, maintenance and operation of the commercial properties in future. On the other hand, Fullshare Dazu Technology and Jiangsu Lipu have professional knowledge and experience in property development, operation and management. After considering the capital required for land development, the professional knowledge required for future operation and the risks involved, the Directors are of the views that the cooperation between the Group and Fullshare Dazu Technology will allow the Group to capitalize the capital invested in the Property and realize gains, and will also be able to generate more gains in future with lower cost of production by leveraging on the relative advantages of Fullshare Dazu Technology in the aspects of property development, operation and management. The details are set out in the announcement of the Company dated 28 September 2017.

Save as disclosed above, the related party transactions set out in note 44 to the consolidated financial statements were not disclosable connected transactions under Chapter 14A of the Listing Rules. The Company confirmed that it had complied with the disclosure requirements under Chapter 14A of the Listing Rules.

The Directors of the Company (including our independent non-executive Directors) believe that the related party transactions set out in note 44 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

As at 31 December 2017, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

TAX RELIEF AND EXEMPTION

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

PRE-EMPTION RIGHTS

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

SUFFICIENT PUBLIC FLOAT

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

AUDITOR

The financial statements for the year ended 31 December 2017 was audited by Ernst & Young.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Ernst & Young as our auditor for 2018.

MATERIAL LITIGATIONS AND ARBITRATIONS

Mr. Gou Jianhui ("Mr. Gou"), a former Director, brought legal proceeding against Nanjing Drive, a wholly-owned subsidiary of the Company, and Mr. Hu Yueming, the chairman of the Board, in relation to payment of his incentives during his term of service as a senior management in Nanjing Drive. The Group was recently being informed that a judgment order from Nanjing Intermediate People's Court (江蘇省南京市中級人民法院) was entered into against Nanjing Drive for payment in a sum of approximately RMB65 million plus interests and legal costs, but the claim against Mr. Hu was rejected. The Group is preparing vigorously to defend for the interest of Nanjing Drive and itself. For details, please refer to the announcement of the Company dated 16 January 2018.

Save as disclosed above, the Group had no material litigations and arbitrations during the Period under Review.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 29 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provisions set out in the Corporate Governance Code during the year ended 31 December 2017 except for the deviation from code provision A.6.7 which states that independent non-executive Directors and other non-executive Directors should attend general meetings of shareholders of the Company.

During the Period under Review, the Company's Chairman, some of the executive Directors, non-executive Directors and independent non-executive Directors, chairman of the Audit Committee of the Company and external auditors have attended the 2016 annual general meeting of the Company. Mr. Hu Yueming, the Chairman of the Board, a non-executive Director and the chairman of the Nomination Committee of the Company, Dr. Chan Yau Ching, Bob, an independent non-executive Director and the chairman of the Remuneration Committee of the Company, and Mr. Nathan Yu Li, an independent non-executive Director, were absent from the 2016 annual general meeting of the Company due to their other business commitments.

CORPORATE STRATEGY AND BUSINESS MODEL

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

COMPOSITION AND PRACTICES OF THE BOARD

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

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

The Board comprises eleven Directors, including five executive Directors, two non-executive Directors and four independent non-executive Directors. The Board held 7 meetings during the Period under Review. Each of the Directors and members of all committees and their attendance at the meetings were as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2016 Annual General Meeting
No. of meetings held	7	2	1	1	1
Executive Directors					
Mr. Chen Yongdao	7/7		1/1		0/1
Mr. Gou Jianhui *(Resigned on 16 January 2018)*	4/7				0/1
Mr. Wang Zhengbing	7/7				0/1
Mr. Zhou Zhijin	7/7				0/1
Mr. Hu Jichun *(Chief Executive Officer)*	7/7				1/1
Ms. Zheng Qing	7/7				1/1
Non-Executive Directors					
Mr. Hu Yueming *(Chairman)*	7/7			1/1	0/1
Mr. Yuen Chi Ping	6/7				1/1

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2016 Annual General Meeting
Independent Non-executive Directors					
Dr. Chan Yau Ching, Bob	7/7	2/2	1/1		0/1
Ms. Jiang Jianhua	7/7				1/1
Mr. Jiang Xihe	6/7	2/2	1/1	1/1	1/1
Mr. Nathan Yu Li	7/7	2/2		1/1	0/1

The biographies of each of Directors are in "Directors and Senior Management" set out on pages 21 to 26 in the Annual Report.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Since 1 December 2016, Mr. Hu Yueming, the Chairman of the Company, has been re-designated from the position of executive Director to non-executive Director, and has resigned as the Chief Executive Officer of the Company. Since 5 December 2016, Mr. Hu Jichun, an executive Director, has been appointed as the Chief Executive Officer of the Company. Mr. Hu Yueming, being the Chairman of the Company, will lead the Board while Mr. Hu Jichun, being the Chief Executive Officer of the Company, will lead the formulation of the overall strategies and policies of the Company to enable efficient operation and discharge of duties of the management of the Company.

NON-EXECUTIVE DIRECTORS

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

Mr. Hu Yueming	Three years from the date of his re-election on 19 May 2017
Mr. Yuen Chi Ping	Three years from the date of his re-election on 19 May 2017
Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 19 May 2017
Ms. Jiang Jianhua	Three years from the date of her re-election on 19 May 2017
Mr. Jiang Xihe	Three years from the date of his re-election on 17 June 2016
Mr. Nathan Yu Li	Three years from the date of his re-election on 19 May 2017

EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

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

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

	No. of employees
RMB2,500,001 to RMB3,000,000	2

REMUNERATION COMMITTEE

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

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

During the Period under Review, the remuneration committee held one meeting, which made proposals on the remuneration of Directors and senior management during the Period under Review. The attendance record of each member of the committee is set out in the section entitled "Composition and Practices of the Board" on pages 39 and 40 of the Annual Report.

NOMINATION COMMITTEE

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

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

During the Period under Review, the nomination committee held one meeting to review the structure, number, composition and policy for diversity on the Board in respect of the Company's corporate strategy. The Company adopted the board diversity policy on 1 September 2013 and strives to select the most appropriate candidates to be appointed as a member of the Board. The nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained and neither the Board nor the nomination committee has set any measurable objective implementing the board diversity policy. When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference not only to the skills, experience, education background, professional knowledge, personal integrity and time commitments but also the gender, age, cultural background and ethnicity of the proposed candidates. The attendance record of each member of the committee is set out in the section entitled "Composition and Practices of the Board" on pages 39 and 40 of the Annual Report.

AUDIT COMMITTEE

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

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

During the Period under Review, the audit committee held two meetings to (i) review the internal control review reports, and review the annual report for the year 2016 and the interim report for the year 2017 of the Group and report the review conclusions to the Board; (ii) review the independence of external auditors; (iii) consider and approve the external auditor's fees and the letter of appointment for the year 2017 ; and (iv) make recommendations to the Board in respect of the appointment of external auditors. The attendance record of each member of the committee is set out in the section entitled "Composition and Practices of the Board" on pages 39 and 40 of the Annual Report.

The Annual Report had been reviewed by the audit committee.

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2017.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, company secretary of the Company, is responsible for facilitating the procedures of the Board and the communication among Directors, and between Directors and shareholders and the management. The biography of the company secretary is in "Directors and Senior Management" set out on page 27 in the Annual Report. During the year 2017, the company secretary received in aggregate of more than 15 hours professional trainings to update his skills and knowledge.

INDUCTION TRAINING AND DEVELOPMENT

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

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

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

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/ director's responsibilities attended or participated
Executive Directors		
Mr. Chen Yongdao	✓	✓
Mr. Gou Jianhui *(Resigned on 16 January 2018)*	✓	✓
Mr. Wang Zhengbing	✓	✓
Mr. Zhou Zhijin	✓	✓
Mr. Hu Jichun *(Chief Executive Officer)*	✓	✓
Ms. Zheng Qing	✓	✓
Non-executive Directors		
Mr. Hu Yueming *(Chairman)*	✓	✓
Mr. Yuen Chi Ping	✓	✓
Independent Non-executive Directors		
Dr. Chan Yau Ching, Bob	✓	✓
Ms. Jiang Jianhua	✓	✓
Mr. Jiang Xihe	✓	✓
Mr. Nathan Yu Li	✓	✓

REMUNERATION OF AUDITOR

For the year ended 31 December 2017, the statutory auditing fee was RMB2,600,000, and the non-auditing service fee (for the review of Interim Results) was RMB1,600,000.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

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

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 82 and 83 in the Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

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

HANDLING OF INSIDE INFORMATION

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

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

CONSTITUTIONAL DOCUMENTS

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

SHAREHOLDERS' RIGHTS

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

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

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

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

Contact details of the company secretary of the Company are as follows:

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the second Environmental, Social and Governance ("ESG") Report (the "Report") of China High Speed Transmission Equipment Group Company Limited ("China High Speed Transmission", the "Company" or "We"). This Report mainly introduces our management policies, strategies and achievements in environmental, social and governance and aims at strengthening the communication and relationship with stakeholders.

Unless otherwise stated, this Report covers our sustainability performance during period from 1 January 2017 to 31 December 2017 (the "Reporting Period") and it only covers our major business segments – wind gear transmission equipment and industrial gear transmission equipment (Environmental KPI only covers the wind gear transmission equipment segment). In preparation of this Report, we have adhered to the Environmental, Social and Governance Reporting Guide (the "ESG Guide") under Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") which is published by Hong Kong Exchanges and Clearing Limited ("HKEX"), to describe our sustainability achievements in material and related aspects during the Reporting Period.

We devote to integrate the concept of sustainability into every aspect of our operations and we are open to opinions and suggestions from people of all circles.

STAKEHOLDERS ENGAGEMENT

Our key stakeholders include customers and their business partners, suppliers, shareholders, employees and labor union, governments and regulatory authorities, general public and nearby communities. Understanding their expectations and demands is the foundation of our sustainable development. We actively communicate with stakeholders on multiple sustainability issues through daily operation, forums, meetings, shareholder meetings, training, sharing and seminars, etc. It helps to increase the consensus and built trust with our stakeholders. We continue to strengthen our efforts in sustainability work, adjust our development direction to achieve a balance and mutually beneficial relationship with our stakeholders.

ABOUT CHINA HIGH SPEED TRANSMISSION

China High Speed Transmission engages in the manufacture of high-speed and heavy-duty gears over nearly half a century. It features advanced gear manufacturing technologies that are widely applied to various industries, such as wind power, rail cars, building materials, metallurgy, high-speed drives, general drives, mining, rubber, and plastic machinery. While strengthening the domestic market. We speed up our business strategy around the globe. We have successfully established operation centers and service agencies in the US, Europe, and Asia-Pacific region, providing customers with high quality products and excellent services. This will further enhance our brand and global service quality, enabling a sustainable and global development.

SUSTAINABILITY PERFORMANCE SUMMARY

The following table presents the company's sustainability performance during the Reporting Period:

Air emissions		
Nitrogen Oxides (NOx)	7,217.52	kg
Sulphur Oxides (SOx)	19.29	kg
Particulate Matter (PM)	182.00	kg
Greenhouse gas (GHG) emissions		
Total GHG emissions (Scope 1&2)	150,755.57	tonnes of CO_2e
Direct emissions (Scope 1)	8,943.98	tonnes of CO_2e
Indirect emissions (Scope 2)	141,825.85	tonnes of CO_2e
GHG removal (Scope 1)	14.26	tonnes of CO_2e
GHG emissions intensity	22.16	kg of CO_2e/thousand RMB
Hazardous waste		
Total hazardous waste produced	1,467.06	tonnes
Hazardous waste intensity	0.22	kg/thousand RMB
Non-hazardous waste		
Total non-hazardous waste produced	3,671.43	tonnes
Non-hazardous waste intensity	0.54	kg/thousand RMB
Energy consumption		
Total energy consumption	204,619,087	kWh
Energy consumption intensity	30.08	kWh/thousand RMB
Water consumption		
Total water consumption	572,683	m^3
Water consumption intensity	84.18	Liter/thousand RMB
Packaging material		
Total packaging material	3,689.30	tonnes
Total packaging material intensity	0.54	kg/thousand RMB

AWARDS AND HONORS

The following table set forth the Company's awards and honors obtained during the Reporting Period:

Award/Certification	Awarding Institute/Organisation
Ministry of Industry and Information Technology: The Fifth Batch of Brand Cultivation Demonstration Enterprise	Ministry of Industry and Information Technology
China Machinery Industry Brand-name Product	China Machinery Industry Federation and China Machinery Industry Brand Strategy Promotion Committee
China Machinery Industry Quality Brand Benchmarking Enterprise	China Machinery Industry Federation and China Machinery Industry Brand Strategy Promotion Committee
Technological Innovation Awards for Companies in Jiangsu Province	The People's Government of Jiangsu Province
Quality Benchmarking Company in Jiangsu Province	The People's Government of Jiangsu Province
Outstanding Manufacturing Enterprise in Jiangsu Province	The People's Government of Jiangsu Province
Integration of Information and Industrialization Innovative Enterprise in Jiangsu Province	Jiangsu Economic and Information Technology Commission
High-tech Product in Jiangsu Province	Jiangsu Provincial Department of Science and Technology
Key Enterprise of Innovative and Entrepreneurial Platform Demonstration Project in Jiangsu Province	Jiangsu Economic and Information Technology Commission
First Set of Major Equipment and Key Components Resignation in Jiangsu Province	Jiangsu Economic and Information Technology Commission
Jiangsu Provincial Science and Technology Award Third Prize	Jiangsu Provincial Department of Science and Technology
Jiangsu Provincial Private Technology Enterprise	Jiangsu Private Technology Enterprise Association
Authorized Economic Operator (AEO) Certificate	World Customs Organization
Nanjing Intelligent Factory Construction Enterprise	Nanjing Intelligent Factory Construction Advance Commission
New Products Certification on Promotion and Application of Emerging Industries in Nanjing	Nanjing Municipal Commission of Economy & Information Technology
The Certification of the First Set of Heavy Equipment and Key Components in Nanjing	Nanjing Municipal Commission of Economy & Information Technology
Nanjing Technology Award	Nanjing Technology Bureau

1 Name of award, certification and institute in English are for identification purpose only. Please refer to the official name in Chinese.

CLEAN ENERGY

"Transmitting power against climate change"

Electricity supply mainly comes from the burning of fossil fuels. The rising population and urbanization have led to the increase of electricity demand and, as a result, greenhouse gas ("GHG") emissions. It causes our environment involving into a vicious cycle of global warming. At present, renewable energy sources are actively developed around the world and our gear products are widely used in wind power generation to help fight against climate change.

Our wind power gear box is a core component in wind power turbine, which transmits the wind power to the generator components. Our products are able to withstand extreme conditions, such as bitter cold or torrid heat, high altitude, low wind speed and marine climate, and produce reliable clean energy. We are committed to providing wind power gear products with outstanding performance and reliable quality for customers all around the world. Our wind power gear boxes in 1.5MW and 2MW are widely distributed to customers in China and all over the world, while adopting the world-class leading advanced technologies. Our wind power gear boxes in 3MW or above have been successfully applied to domestic offshore wind farms. We are also capable of producing wind power gear boxes in 5 MW and 6 MW.

Promoting the sustainable development of global climate

Our self-developed wind power gear boxes are used in China Guodian's wind power project in South Africa. The project was successfully launched in 2017, with installation of a total of 163 self-developed UP86-1.5MW wind turbine units. In which, our wind power gear boxes are one of the core components. As the temperature in South Africa is higher than usual wind farms, we have upgraded our product according to their situation, and optimized the box structure to improve the ventilation condition of the cabin and re-designed a new lubrication system to adapt the local temperature condition, so that the wind turbines can run stably in harsh environment and solve the gear boxes cooling issue. After the launch of the project, it is estimated that 644 million kWh of electricity can be generated annually, which is equivalent to the reduction of 619,900 tons of carbon dioxide emissions or saving 215,800 tons of coal, meeting the electricity demand of 85,000 local residents. We are proud of contributing to the adjustment of worldwide energy structures and promoting low-carbon development.

Wind power gear boxes used in China Guodian's wind power project in South Africa

EMISSIONS AND WASTE

"Neutralising, recycling, and reduction"

We are committed to protecting the environment, minimizing emissions and pollution during our business activities, and handling our emissions and waste disposal with three principles, namely "neutralising, recycling, and reduction ". We also apply innovative technologies to create more environmentally friendly products and meet the challenges on the road of sustainable development.

Direct emissions from our production are mainly cutting fluid produced during machining, oil-containing cleaning waste solution, non-methane hydrocarbon produced during carburizing process, shot blasting dust, exhaust gas from pickling, spray paint and bake painting, noise and iron scraps. Our indirect emissions are mainly the greenhouse gas emission from the use of electricity. Our environmental management system has certified with ISO 14001:2015 Environmental Management System. By effectively implementing the pollution prevention measures, we strictly abide by the national environmental laws and regulations to ensure compliance with the national emission standards.

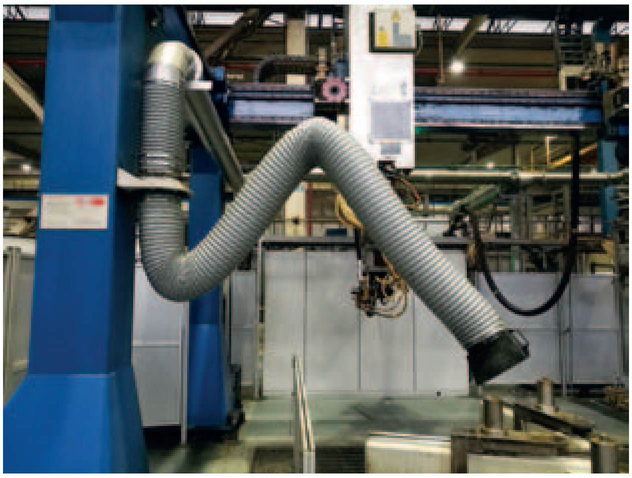
Exhaust gas and greenhouse gas emission

For the organic exhaust gas produced from spray painting and bake painting, we set up an oil curtain spray room to purify the painting smoke by the means of particle impact, inertial separation, waste trapping filtration and air curtain isolation, and adhere it with the mineral oil. Sedimentation is used to separate the paint residues for collection, so that the mineral oil can be reused. The purifying rate by the oil curtain spray room can reach to 95% while the remaining exhaust gas is adsorbed by active carbon filter cotton. For the non-methane hydrocarbon produced during the cutting and carburizing process, we use a purification device to absorb and filter and discharged through the 15m exhaust tube. For the shot blasting dust, our shot peening equipment is equipped with Donaldson drum type dust remover and baghouse dust remover. The removal rate has reached to 95%. The acid gas is neutralized through the alkali washing tower and discharged after the treatment. The following table shows our air emissions and greenhouse gas emissions during the Reporting Period:

Air emissions		
Nitrogen Oxides (NOx)	7,217.52	kg
Sulphur Oxides (SOx)	19.29	kg
Particulate Matter (PM)	182.00	kg
Greenhouse gas (GHG) emissions		
Total GHG emissions (Scope 1&2)	150,755.57	tonnes of CO_2e
Direct emissions (Scope 1)	8,943.98	tonnes of CO_2e
Indirect emissions (Scope 2)	141,825.85	tonnes of CO_2e
GHG removal (Scope 1)	14.26	tonnes of CO_2e
GHG emissions intensity	22.16	kg of CO_2e/thousand RMB

Heat treatment quenching fume purification

During the Reporting Period, we have improved the quenching fumes produced from the heat treatment plant. Pollution towards the atmosphere and working environment is caused when the quenching oil is heated and evaporated. Thus, we have installed a fume purification device to collect and treat the quenching fumes so as to reduce the exhaust gas emission.



Fume purification device

After entering the fume purification device, the exhaust gas passes through the primary spray filter, the secondary metal mesh filter, the tertiary metal wire, and the glass fiber mixed filter respectively. The concentration of particulate matter discharged from the processing point is less than $10mg/m^3$, and the concentration of the emission at the smoke treating equipment outlet is less than $30mg/m^3$. It effectively minimizes the pollution caused towards the atmosphere and the working environment and reduces the occupational hazards factors.

Fume purification device

Wastewater

In terms of wastewater treatment, we reuse and recycle the cutting fluids by filtration. For the cutting fluids with excess oil and oil-containing cleansing wastewater that have been used for several times, we have set up collection tanks for collection and treatment. After demulsification, separation, flotation, anaerobic treatment and sedimentation, the wastewater is discharged to the Sewage Treatment Plant of the Science Park for further treatment. Meanwhile, we set up specified sewerage outfall and conduct regular measurement to ensure compliance with the national wastewater standard. Our monitoring systems are connected to the local environmental protection bureau to enable real time monitoring.

Solid waste

The best way to prevent pollution is to reduce waste at the source. We recycle as many as possible. The metal scraps from machining process, packaging materials, and metal dust from baghouse dust removal equipment, they are collected and handled by authorized recycling company. We have entrusted qualified company to collect and handle our hazardous waste. We have set up special hazardous waste storage areas in accordance with the "Standard for Pollution Control on Hazardous Waste Storage". The hazardous waste is collected separately, stored properly, labelled and recorded. We follow the national laws and regulations requirements, we declare and obtained approval online, and then the hazardous waste will be transferred to a qualified contractor to handle appropriately. Other household garbage is duly cleared to ensure hygiene. The following table shows our waste disposal and recycling during the Reporting Period:

Hazardous waste		
Total hazardous waste produced	1,467.06	tonnes
Waste of paint bucket	74.00	tonnes
Waste of paint residue	217.62	tonnes
Waste of lead acid battery	25.33	tonnes
Waste oil	673.67	tonnes
Contaminants	230.21	tonnes
Washable waste containers	187.36	tonnes
Sludge	58.86	tonnes
Hazardous waste intensity	0.22	kg/thousand RMB
Non-hazardous waste		
Total non-hazardous waste produced	3,671.43	tonnes
Disposed to landfill[1]	N/A	
Collected for recycling[2]	3,749.40	tonnes
Non-hazardous waste intensity	0.54	kg/thousand RMB

1 The non-hazardous waste sent to landfills include general office wastes and a small amount of waste that could not be recycled from production lines. Since the relevant data lacks statistics or estimation, the data will not be disclosed this year.

2 The recycling volume contains a small portion of non-hazardous waste that was collected in 2016 but not yet handled by recycling company.

Recycling of iron scraps

In 2017, we had installed an iron scrap handling and centralized oil supply system, which enables us to centrifuge the iron scraps produced after hobbing, so as to separate the cutting fluid and iron scraps. The separated iron scraps are squeezed into a cylindrical block by a briquetting apparatus and transferred to a specialized recycler for recycling. After passing through the negative pressure filtration, the separated fluid can be supplied to the machine tool again. Replacing the manual work of iron scraps and oil removal, this system not only effectively recycles the useful resources, but also saves the iron scrap storage warehouse area and increases the recovery rate of cutting fluid by more than 4%.

Iron scrap handling and centralized oil supply system

Optimization of paint protection tooling

We have improved the protective packaging material and paint protection tooling used in spray painting and baking paint by adapting reusable materials and re-designed special paint protection tooling for each part where protection is needed. It effectively minimizes the generation of solid waste, increases the work efficiency and reduces the time needed for addition and disassembly of packaging, painting and cleaning.

RESOURCE CONSUMPTION

"Energy saving and carbon reduction"

We strive to reduce the greenhouse gas emission of our products in various production processes. We choose energy-efficient electrical equipment, set up a centralized heat treatment center, improve the process to improve productivity and energy efficiency, support the use of renewable energy, and actively consider the possibility of reducing energy consumption and efficient use of energy.

Support the use of renewable energy

Our resource consumption mainly comes from the use of electricity in machining and heat treatment processes, as well as illuminating the production area. We also consume other resources like water, natural gas, diesel and nitrogen. Our production center is responsible for recording and supervising the water and power consumption, while production lines and warehouse are responsible for controlling energy and resource consumption. The following table shows our energy consumption during the Reporting Period:

Energy consumption		
Total energy consumption	204,619,087	kWh
Electricity	201,600,356	kWh
LPG	1,740,516	kWh
Diesel oil	699,947	kWh
Unleaded petrol	356,840	kWh
Alcohol-based liquid fuel	218,151	kWh
Others	3,277	kWh
Energy consumption intensity	30.08	kWh/thousand RMB

Energy efficiency management platform


Energy efficiency management platform

Our energy efficiency management platform collects data from energy-consuming equipment of various levels, namely "company level,""factory level," and "key energy-using equipment level", to form a centralized database. With customized analysis software, it guides our on-site management how to improve energy efficiency continuously.

Support the use of renewable energy

In 2017, we provided rooftops of 5 plant sites for installing a distributed solar power systems with an installed capacity of 40 megawatts so as to support the use of renewable energy. The installation was completed on 31 December 2017. It is expected that the annual average power generation will be approximately 35 million kWh, which is equivalent to the reduction of approximately 28,000 tons of greenhouse gas emissions annually (or approximately 10,500 tons of coal per year). At the same time, air pollutants, about 214 tons of sulfur oxides and 73 tons of nitrogen oxides, can be reduced every year.

Distributed solar power systems

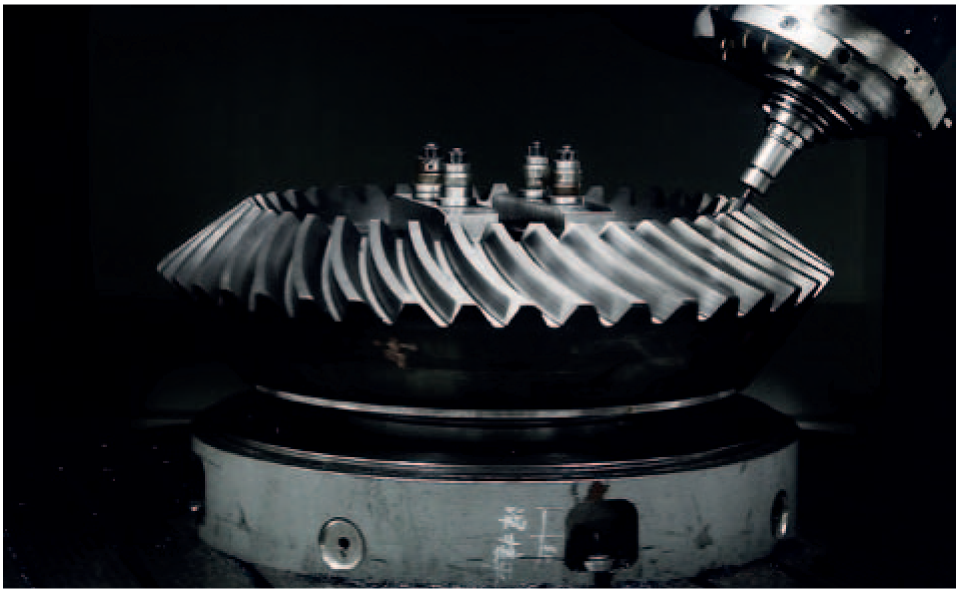
Water resources management

We actively advocate water saving measures, reinforce the management of repairing and maintenance of water supply equipments, facilities, and appliances. In addition, we adopt water circulation treatment systems during the production, enhance the water supply system and install water saving facilities and appliances to save water resources.

PRODUCT QUALITY

"Being responsible, do it right at the first time"

When a wind power gear equipment is not functioned properly, shutdown, disassembly, transportation, repairing and re-installation of gear not only bring economic losses but also generate additional emissions from the use of non-renewable fuel to supply the electricity gap. We strive to improve the quality of our products and set "Zero Defect" as our goal to maximize the effectiveness of wind power gear equipment.



Improving our products' quality

Gearbox is required to operate stably under extreme conditions. Factors like design, process, production, installation and quality assurance can determine whether our gearbox can withstand harsh environments and operate stably. It is difficult to accomplish "Zero Defect" in one move. Therefore, we have formulated comprehensive mid-term and long-term strategic goals and implementation measures, adopting management models such as Six Sigma Management, VDA6.3 Process Audit, Root Cause Analysis (RCA) closed-loop quality management, and Failure Modes and Effects Analysis (FMEA). We have turned the concept of "Zero Defect" from goal to our working attitudes. In conjunction with strict control of the production process, adoption of the world's most advanced equipments and refinement of production processes, we closely monitor all production processes, from technical development, design, inspection of raw materials, machining, verification testing, heat treatment, assembly to after-sales assurance so as to ensure the production process is meticulous.

Quality management system and certification

We have obtained ISO9001:2015 Quality Management System Certification and established a sound quality management system. Our wind power gear boxes have been certified by the Jiangsu Province Quality and Technical Supervision Bureau, China General Certification Center (CGC), China Classification Society (CCS), Germanischer Lloyd (DNVGL), Technische Uberwachungsvereine (TUV), and DEWI Offshore Wind Power and Wind Turbine Certification Center (DEWI-OCC), CE and ETL.

Detection equipment

We establish a research laboratory center which is responsible for acidification, ultrasonic flaw detection and magnetic particle testing. We import advanced deflect detection equipments, from Germany, Italy, Austria and Switzerland, such as trolley spectrometer, carbon and sulfur analyzer, nitrogen and oxygen gas analyzer, upright metallographic microscope, grinding and polishing machine, mounting machine, magnetic particle flaw detector and semi-automatic fluorescent magnetic particle inspection machine. Through a variety of sophisticated detection equipment and advanced technologies, we effectively manage the raw material inspection, production and quality control processes to ensure the products are of good quality.

Detection equipment

Active Research and Development (R&D)

We have an international product R&D team with core competitiveness and leadership in technology. A "standardized, modularized and platformized" product system has been established. There is constant technological innovation in "high torque density, high reliability, light weight and marine application technology". As at 31 December 2017, the Group has been granted 251 national patents. In addition, applications for 52 national patents have been filed and are being approved.

Invention Patents

- Step-Up Gearbox of Wind Power Generator with High Power of Electric Barring Gear
- Wind Power Yawing and Output End of Pitch Gearbox
- Planetary Gear Reducer Applied in Gearbox of Wind Power Generator
- Input End of Yawing and Variable Pitch Gearbox

Utility Model Patents

- New Structure of Bearings in Wind Power Generator Gearbox
- Lubricating Structure of Bearings in Wind Power Generator Gearbox
- Dynamic Braking Structure at Input End of Yawing and Variable Pitch Gearbox
- Double-support Output Structure of Wind Power Yawing Gearbox
- Modular of Yawing and Variable Pitch Driven Equipment

[4] Name of patents in English are for identification purpose only, please refer to the name in Chinese

SUPPLY CHAIN MANAGEMENT

"Uphold the same sustainable development vision"

Sustainable development is a universal concept and it is not something that a single institution can accomplish on its own. Therefore, we expect our business partners can uphold the same sustainable development vision and work with us to safeguard our future.

During the Reporting Period, we continue to share the sustainable development vision with our suppliers. We expect our suppliers to protect the environment, cherish resources, be charitable, comply with laws and regulations and treat employees kindly as we do. With collaboration and efforts, both parties can perform better on various aspects.

We have established "Supplier Compliance Management Policy" with the "Supplier Code of Conduct" to regulate our suppliers and we have "Supplier EHS Management Practices" in place to ensure suppliers followed our environmental, health and safety requirements. When selecting the suppliers, we evaluate our suppliers by considering factors such as quality, cost, resources, logistics and service technologies. Meanwhile, we take suppliers' environmental protection, ethics, social responsibility, environmental health and safety (EHS) management into considerations.

Green Procurement Policy

During the procurement, we always pay attention to relatively environmentally friendly products. We prefer to choose the products and equipment with less pollution and more resource-efficient without affecting the product quality. Moreover, we prefer to procure from domestic suppliers to minimize the emissions caused during transportation.

EMPLOYEE

"Building an ideal working environment"

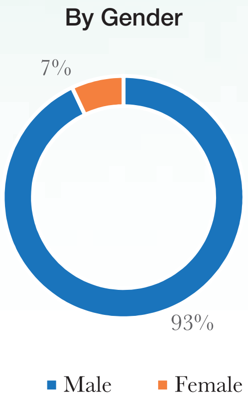
We promote respect and equality, safeguard and protect employees' rights in all aspects, practice the management philosophy of "people-oriented", actively communicate with employees to solve problems and share the fruits of our development with all employees.

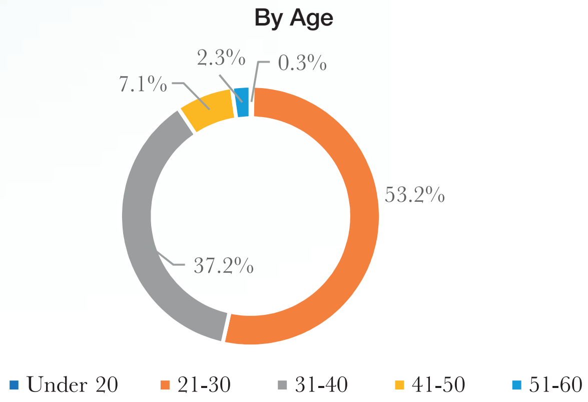
Protection of employee rights

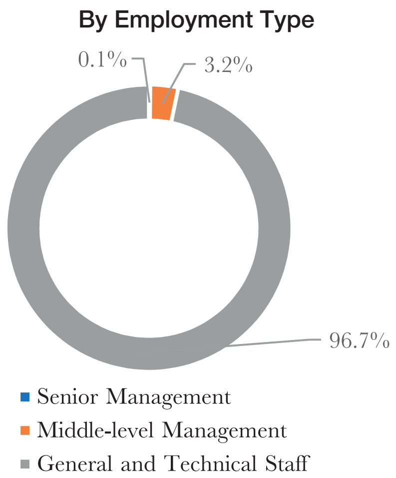
We strictly abide by employee-related laws and regulations, including the Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China. During the Reporting Period, we did not receive any complaints regarding violation of compensation, dismissal, recruitment, promotion, working hours, holidays, equal opportunities, diversity, discrimination, and other employee-related laws and regulations. We adopt the recruitment principles of diversity and zero discrimination. During the processes of recruitment and promotion, we are committed to providing equal opportunities and fair treatment to all employees regardless of their nationality, ethnicity, race, gender, religion and culture. A clear employee complaint mechanism is established to eliminate discrimination and inequality.

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

Employee overview





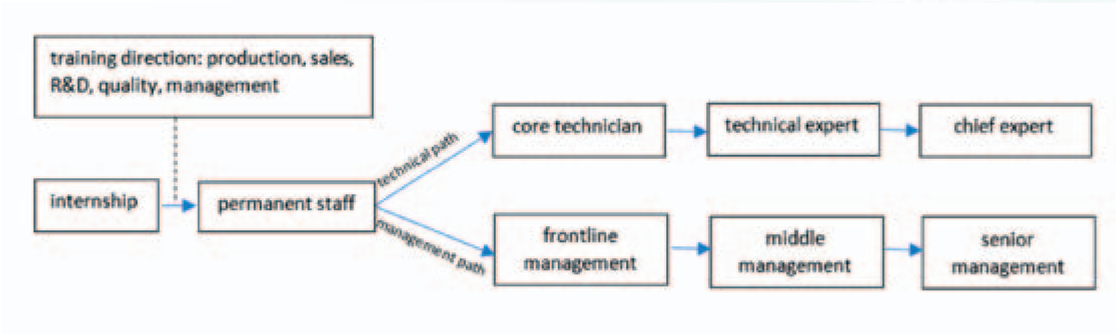


As of 31 December 2017, we have in total 3,489 employees[3], of which approximately 93% are males because our business nature is heavy manufacturing industry. In 2017, our employee turnover is 405 with employee turnover ratio of 11.5%.

Employee development

We organize a wide range of internal and external training programs tailored to different departments and individual employees, including new employee orientation training program, skill and product knowledge training, quality control training, managing personnel training of each level, production management, safety knowledge trainings and language class. For the new entry or rotation training, the Company implements the semi-annual new entry training program, which effectively supervises the department to carry out new job training and coordinated with the department to provide skills training to facilitate staff rotation. The Company also establishes a lecturer management system and organizes the material of internal lecturers regularly.

3 Number of employees only includes our major business segment – manufacturing of wind power gear boxes. As of 31 December 2017, the total number of employees of the Group is 6,988.



We provide competitive remuneration package and build up definite career development ladder. Employees can develop themselves according to their interests and strengths. We conduct talents reviews regularly and seek for talents for our talent pool and put emphasis on training key talents of high potential and performance to build a complete development ladder. We conduct employee performance appraisal at least once a year and the result of performance is served as the basis for adjustment in position and salary of staff, promotion and training arrangement, so that talents have full opportunities to develop their strengths.

Interactive communication

We establish multiple channels to communicate with employees and employees are encouraged to participate in the management of production and operations. We set up general manager's mailbox where employees can reflect their suggestions and comments to the management level directly. We also communicate with our employees through seminars, emails and employees' satisfaction surveys to understand their views. Furthermore, internal communication publication "NGC TIMES" is issued regularly, which helps in promoting the employees' understanding of the company and the communication between management and employees.

OCCUPATIONAL HEALTH AND SAFETY

"Being healthy and safe first"

Safe production is our top priority. We emphasize occupational health management and protection at field operation, earnestly implement protective measures against occupational hazards and improve working conditions to ensure our employees rest adequately and help them to achieve work-life balance. We give top priority to the physical and mental health and safety of our employees.

Dragon boat race in Dragon Boat Festival

Work-life balance

Our business nature belongs to heavy manufacturing industry. Providing adequate rest to employees plays an important role in safeguarding their occupational safety. We ensure that all employees are entitled to paid annual leave, marriage leave, maternity leave, funeral leave and other statutory leaves and holidays in accordance with the laws. We also have strict requirements in working overtime. We do not encourage our staff to work overtime, we ensure our staff to have at least one day off each week and the duration of work overtime should not exceed 3 hours each day. If overtime working is unavoidable, the staff should receive compensation leave or payment in lieu as regulatory requirements. We always organize sports activities for employees so as to strengthen their health, enhance the team cooperation and reduce the chance of accidents. In addition, physical examination is provided to employees every two years so that they can better understand their health conditions.

Safety management

We pay high attention to the work of health and safety. We always take safety as the first priority in our work. We establish the Environmental Health and Safety ("EHS") department, which is responsible for supervising and reviewing the Company's safety production management structure and coordinating and managing the Company's production safety. We also designate responsible person for safety production, formulate the occupational health management system and notification system for occupational hazard warnings, and promote performance assessment for safety production in order to enhance the prevention and control of safety production risks and strengthen the management control of safety production hazards.

We have obtained the OHSAS 18001:2007 Occupational Health and Safety Management System Certification and established a comprehensive occupational health and safety system. To guide employees on how to achieve safer production, we have formulated a number of policies and guidelines, including "Occupational Health and Safety Management and Education Policy", "Industrial Hygiene Site Supervision and Inspection Management Policy", "Employee Occupational Health Monitoring and File Management System Policy", "Labor Protective Equipment Management Policy" and "Occupational Hazards Emergency Assistance and Management Policy" to standardize occupational health management seriously. However, setting management rules and regulations is not sufficient while the implementation is more essential. We believe that the most important thing is safety education and raising the employees' awareness and knowledge of health and safety. We established a 3-tier safety training program, including company-level, department-level and team-level pre-job training, so as to ensure every employee is equipped with a solid foundation of safety awareness and knowledge before starting work.

Purification of oil mist

Since large amount of small oil mist particles could be produced during the grinding process, in order to prevent the particles from diffusing into the air and staying in the lungs after being absorbed by human, thus posing occupational health problem, high-efficient gear grinding machine imported from Germany is adopted in our grinding process and an oil mist purifying device is added in the production line. We set up mechanical or electrostatic oil mist separators to increase the number of loops for the absorption of oil mist particles, so that oil content at the discharge port is reduced. Thus, the air quality surrounding the production line could be improved, providing our employees with a more comfortable and healthier working environment.


Oil mist purifying device

Assembly line and laboratory renovation

We modify the assembly line to implement heating assembly instead of freezing assembly, thereby reducing the use of industrial alcohol and liquid nitrogen. The low-temperature laboratory uses air-conditioning compressors instead of liquid nitrogen refrigeration to protect the occupational health and safety of workers.

GIVING BACK TO COMMUNITY

"Accomplish youth dreams, build green homes"

While we promote the development of clean energy in the world, we are equally concerned with the growth of our children. We listen to their dreams and assist them in taking their first step towards success.

Concern the growth of our children

In 2017, we continued to pay attention to the growth of our children and strengthened our social work in education and poverty alleviation. We continued to sponsor impoverished students in Northern Jiangsu to complete their high school education, we visited and bring our blessing and support before their National Collage Entrance Examination. We also strengthened cooperation with charities such as The Amity Foundation and Pfrang Association to conduct charitable donations and visits for education and poverty alleviation.

Poverty Alleviation

Unwittingly, 2017 was our third consecutive year in implementing the education subvention scheme in Jiangsu Baita Senior High School in Donghai County, Lianyungang of Jiangsu Province. Ten impoverished high school students subsidized by the Company have completed their high school courses in a blink of an eye. In 2017, we visited them again and showed our care, encouragement and support to them before their National College Entrance Examination. We brought them graduation gift and shared our experience with them, helped them to relax before their examination. We wish them complete their college entrance examination successfully, continue to pursue their dreams and contribute to the society in the future to help more people in need.

Education subvention scheme in Jiangsu Baita Senior High School in Donghai County, Lianyungang of Jiangsu Province

"All of you are just like a big family to me. Having big brothers, big sisters as well as elders make me feel so warm and happy. Your every visiting was just like a family gathering, keep chatting and laughing. I feel so blessed. This is what I always dream of and you have made my dream comes true! I was impressed by your visit before our National College Entrance Examination, helping us to relieve our tension and pressure and bring us a lot of presents. We still remember the caring and kindness from big brother, the smile and encouragement from the big sister, as well as the support and care from everyone. It is one of my most joyful and wonderful memories and as if everything just happened yesterday. Your smile, caring and warmth have been deeply imprinted on my mind and in my heart." (Student, Baita Senior High School)

Participating in Community Welfare

In September 2017, volunteers formed by our corporate management department, youth league committees and employee representatives visited autistic children with the Amity Foundation in Nanjing. We helped them to build their confidence through drawing and guided them in developing their artistic potential.

Visiting autistic children

CORPORATE GOVERNANCE

“Integrity and Compliance”

We are committed to maintaining a high level of integrity and professional ethics through actively organizing ethical trainings to educate our staff to be honest, law-abiding, quality-focused and helpful. In terms of anti-corruption, we firmly adopt a zero-tolerance attitude and will never allow our employees, suppliers, customers and all our partners to commit any corruption, extortion, fraud, and money laundering.

Integrity and professional ethics

We value integrity and professional ethics, and require our employees to be honest, law-abiding, quality-focused and helpful at all the time. With regard to misconducts like corruption, extortion, fraud, and money laundering, we firmly adopt a zero-tolerance attitude. Our staff handbook has clearly stated the provisions on the conduct of employees' behaviors. We often educate our employees on morality. Also, our employees are required to keep the commercial and technical secrets of the company and shall not disclose any confidential documents or other undocumented operating conditions or financially sensitive data to any third party in any form without authorization.

Reporting channel

We have established reporting channels where employees can report illegal and non-compliance conducts that they have noticed by in-person, phone, email or letter. We keep the whistleblowers and their report contents confidential, and protect the legitimate rights and interests of whistleblowers, thereby encouraging employees to report violation and create a good business environment.

For further information regarding our corporate governance, please refer to the section of “Corporate Governance Report” in this Annual Report.

HKEX ESG REPORTING GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure Information on:			
(a)	the policies; and	Emissions and Waste	55-58
(b)	compliance with relevant laws and regulations that have a significant impact on the issuer		
relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.			
KPI A1.1	The types of emissions and respective emissions data.	Sustainability Performance	51
KPI A1.2	Greenhouse gas emissions in total and where appropriate, intensity.	Sustainability Performance	51
KPI A1.3	Total hazardous waste produced and where appropriate, intensity.	Sustainability Performance	51
KPI A1.4	Total non-hazardous waste produced and where appropriate, intensity.	Sustainability Performance	51
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Emissions and Waste	55-58
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions and Waste	55-58

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Resource Consumption	59-60
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Sustainability Performance	51
KPI A2.2	Water consumption in total and intensity.	Sustainability Performance	51
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Resource Consumption	59-60
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	We only consume water from the water company.	N/A
		Resource Consumption (Water resources management)	60
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	Sustainability Performance	51
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Our business activities have no significant negative impact on the environment and natural resources.	N/A
		See positive impact in the section of "Clean Energy"	53-54
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Our business activities have no significant negative impact on the environment and natural resources.	N/A
		See positive impact in the section of "Clean Energy"	53-54

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure Information on:			
(a)	the policies; and		
(b)	compliance with relevant laws and regulations that have a significant impact on the issuer	Employees	65-67
relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.			
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employees (portally disclosed)	66
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employees	66
Aspect B2: Health and Safety			
General Disclosure Information on:			
(a)	the policies; and	Occupational Health and Safety	68-69
(b)	compliance with relevant laws and regulations that have a significant impact on the issuer.		
relating to providing a safe working environment and protecting employees from occupational hazards.			
KPI B2.1	Number and rate of work-related fatalities.	No work-related death incident occurs during the Reporting Period.	N/A
KPI B2.2	Lost days due to work injury.	Not disclosed during the Reporting Period	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety	68-69

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employees	66-67
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed during the Reporting Period	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Not disclosed during the Reporting Period	N/A
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employees	65
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Employees	65
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Employees	65
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	64
KPI B5.1	Number of suppliers by geographical region.	Not disclosed during the Reporting Period	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Not disclosed during the Reporting Period	N/A

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
Aspect B6: Product Responsibility			
General Disclosure Information on:			
(a)	the policies; and		
(b)	compliance with relevant laws and regulations that have a significant impact on the issuer	Product Quality	61-63
relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.			
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not disclosed during the Reporting Period	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed during the Reporting Period	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not disclosed during the Reporting Period	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	Not disclosed during the Reporting Period	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Our business does not involve any consumer privacy data.	N/A
Aspect B7: Anti-corruption			
General Disclosure Information on:			
(a)	the policies; and	Corporate Governance	73
(b)	compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	During the Reporting Period, no corruption lawsuit against the Company or the Company's employees occurs.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Corporate Governance	73
Aspect B8: Community Investment			
General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		Giving Back to Community	70-72
KPI B8.1	Focus areas of contribution.	Giving Back to Community	70
KPI B8.2	Resources contributed to the focus area.	Not disclosed during the Reporting Period	N/A

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 196, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Impairment on trade and bills receivables	
As at 31 December 2017, the Group had trade and bills receivables of approximately RMB6,515 million after an allowance for impairment of approximately RMB576 million. The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. We identified the impairment of trade and bills receivables as a key audit matter because the carrying amount of trade and bills receivables are significant and the identification of bad and doubtful debts requires significant management judgements and estimates. The significant accounting judgements and estimates and the disclosures for the recognition of impairment of trade and bills receivables are included in notes 3 and 24 to the consolidated financial statements.	We evaluated the design and implementation of management's controls over the assessment of recoverability of trade and bills receivables and making provisions. We sent trade receivable and bills receivable confirmations and checked bank receipts for the payment received subsequent to the end of the current financial year on a sampling basis. We assessed the assumptions used to calculate the impairment provision for trade and bills receivables by checking the ageing of receivables. We also tested aged balances where no provision was recognised for any indicators of impairment by reviewing payments received since the end of the current financial year, historical payment patterns and, if information available, the financial ability of customers.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Net realisable value of inventories As at 31 December 2017, the Group held inventories of approximately RMB2,416 million measured at the lower of the cost and net realisable value. We identified the determination of net realisable value of inventories as a key audit matter because the carrying amount of inventories is significant and the calculation of inventories' net realisable value requires significant management estimation based on future market demands and estimated selling prices. The significant accounting judgements and estimates and the balance of inventories are disclosed in notes 3 and 23 to the consolidated financial statements.	We evaluated the design and implementation of management's controls over assessment of the net realisable values of inventories. We obtained an understanding of the Group's inventory provision policy and checked the calculation of the inventory provision based on the Group's policy. We evaluated management's assumptions used to calculate the provision by checking the ageing of inventories, subsequent sales and usage of inventories on a sampling basis. We also checked the subsequent selling prices to the sales orders and invoices on a sampling basis.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	8,241,914	8,966,049
Cost of sales		(6,072,871)	(5,978,671)
Gross profit		2,169,043	2,987,378
Other income and net gains	5	529,106	338,611
Selling and distribution expenses		(318,805)	(367,337)
Administrative expenses		(685,999)	(615,894)
Research and development costs		(295,427)	(360,520)
Other expenses		(424,125)	(132,152)
Finance costs	7	(526,289)	(495,585)
Share of profits and losses of:			
Joint ventures		74,160	11,663
Associates		5,137	1,309
PROFIT BEFORE TAX	6	526,801	1,367,473
Income tax expense	10	(173,985)	(308,038)
PROFIT FOR THE YEAR		352,816	1,059,435
OTHER COMPREHENSIVE INCOME			
Other comprehensive (expense) income to be reclassified to profit or loss in subsequent periods			
Available-for-sale investments:			
Change in fair value		(344,848)	678,133
Income tax effect on change in fair value		85,689	(169,533)
		(259,159)	508,600
Exchange differences on translation of foreign operations		(3,445)	(778)
OTHER COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR, NET OF TAX		(262,604)	507,822
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		90,212	1,567,257

continued/…

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Profit (loss) attributable to:			
Owners of the Company		**451,699**	1,108,995
Non-controlling interests		**(98,883)**	(49,560)
		352,816	1,059,435
Total comprehensive income (expense) attributable to:			
Owners of the Company		**190,460**	1,613,655
Non-controlling interests		**(100,248)**	(46,398)
		90,212	1,567,257
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	13	**RMB 0.276**	RMB 0.678

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,409,741**	5,111,201
Prepaid land lease payments	15	**669,236**	702,842
Goodwill	16	**2,991**	2,991
Other intangible assets	17	**37,875**	138,564
Interests in joint ventures	18	**99,958**	1,008,254
Interests in associates	19	**158,014**	142,187
Prepayment for acquisition of property, plant and equipment	25	**4,795**	3,332
Other receivables	20	**71,429**	551,524
Available-for-sale investments	21	**3,612,278**	870,090
Deposit for land lease	22	**116,800**	191,800
Deferred tax assets	33	**241,182**	190,897
Total non-current assets		**9,424,299**	8,913,682
CURRENT ASSETS			
Inventories	23	**2,415,777**	2,311,574
Prepaid land lease payments	15	**14,860**	16,250
Trade and bills receivables	24	**6,515,259**	6,964,944
Prepayments, deposits and other receivables	25	**2,036,616**	2,603,732
Structured bank deposits	26	**108,000**	209,000
Pledged bank deposits	26	**2,892,955**	2,531,395
Bank balances and cash	26	**4,030,409**	2,745,023
Total current assets		**18,013,876**	17,381,918

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	27	**6,637,045**	6,570,740
Other payables and accruals	28	**986,772**	903,490
Receipts in advance and deposits received		**542,429**	418,698
Interest-bearing bank and other borrowings	29	**5,030,608**	5,273,847
Taxation payable		**123,724**	220,421
Finance lease payables	30	—	7,007
Warranty provision	32	**120,664**	101,248
Total current liabilities		**13,441,242**	13,495,451
NET CURRENT ASSETS		**4,572,634**	3,886,467
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,996,933**	12,800,149
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**2,756,293**	1,227,966
Deferred tax liabilities	33	**178,981**	238,095
Deferred income	31	**85,658**	93,740
Total non-current liabilities		**3,020,932**	1,559,801
Net assets		**10,976,001**	11,240,348
EQUITY			
Equity attributable to owners of the Company			
Share capital	34	**119,218**	119,218
Reserves	35	**10,785,744**	10,934,655
		10,904,962	11,053,873
Non-controlling interests	37	**71,039**	186,475
Total equity		**10,976,001**	11,240,348

Hu Jichun
Director

Chen Yongdao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital RMB'000 (note 34)	Share premium* RMB'000 (note 35)	Deemed capital contribution reserve* RMB'000 (note 35)	Statutory surplus reserve* RMB'000 (note 35)	Capital reserve* RMB'000 (note 35)	Investment revaluation reserve* RMB'000	Other reserve* RMB'000 (note 35)	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	119,218	5,010,141	77,651	366,458	150,148	—	52,335	(826)	3,983,977	9,759,102	215,636	9,974,738
Profit (loss) for the year	—	—	—	—	—	—	—	—	1,108,995	1,108,995	(49,560)	1,059,435
Other comprehensive income (expense) for the year:												
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	505,438	—	—	—	505,438	3,162	508,600
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(778)	—	(778)	—	(778)
Total comprehensive income (expense) for the year	—	—	—	—	—	505,438	—	(778)	1,108,995	1,613,655	(46,398)	1,567,257
Final 2015 dividend declared (note 12)	—	(318,944)	—	—	—	—	—	—	—	(318,944)	—	(318,944)
Acquisition of non-controlling interests	—	—	—	—	60	—	—	—	—	60	(1,060)	(1,000)
Appropriation	—	—	—	337,798	—	—	—	—	(337,798)	—	—	—
Disposal of subsidiaries (note 39)	—	—	—	—	—	—	—	—	—	—	10,896	10,896
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	7,401	7,401
At 31 December 2016	119,218	4,691,197	77,651	704,256	150,208	505,438	52,335	(1,604)	4,755,174	11,053,873	186,475	11,240,348

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

Year ended 31 December 2017

	Attributable to owners of the Company											
	Share capital RMB'000 (note 34)	Share premium* RMB'000 (note 35)	Deemed capital contribution reserve* RMB'000 (note 35)	Statutory surplus reserve* RMB'000 (note 35)	Capital reserve* RMB'000 (note 35)	Investment revaluation reserve* RMB'000	Other reserve* RMB'000 (note 35)	Exchange reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	119,218	4,691,197	77,651	704,256	150,208	505,438	52,335	(1,604)	4,755,174	11,053,873	186,475	11,240,348
Profit (loss) for the year	—	—	—	—	—	—	—	—	451,699	451,699	(98,883)	352,816
Other comprehensive expense for the year:												
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	—	(257,794)	—	—	—	(257,794)	(1,365)	(259,159)
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	(3,445)	—	(3,445)	—	(3,445)
Total comprehensive (expense) income for the year	—	—	—	—	—	(257,794)	—	(3,445)	451,699	190,460	(100,248)	90,212
Final 2016 dividend declared (note 12)	—	(332,412)	—	—	—	—	—	—	—	(332,412)	—	(332,412)
Acquisition of non-controlling interests	—	—	—	—	(6,959)	—	—	—	—	(6,959)	(7,441)	(14,400)
Appropriation	—	—	—	131,308	—	—	—	—	(131,308)	—	—	—
Disposal of subsidiaries (note 39)	—	—	—	—	—	—	—	—	—	—	(10,247)	(10,247)
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	2,500	2,500
At 31 December 2017	119,218	4,358,785	77,651	835,564	143,249	247,644	52,335	(5,049)	5,075,565	10,904,962	71,039	10,976,001

* These reserve accounts comprise the consolidated reserves of RMB10,785,744,000 (2016: RMB10,934,655,000) in the consolidated statement of financial position.

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		526,801	1,367,473
Adjustments for:			
Write-down of inventories	6	138,054	80,652
Finance costs	7	526,289	495,585
Share of profits and losses of joint ventures and associates		(79,297)	(12,972)
Interest income	5	(116,835)	(119,712)
Investment income	5	(74,304)	(33,024)
(Gain) loss on disposal of property, plant and equipment, net	5	(833)	9,385
Gain on disposal of available-for-sale investments	5	(3,666)	(10,047)
(Gain) loss on disposal of subsidiaries, net	5	(129,608)	27,670
Gain on disposal of an associate	5	(58)	(11,143)
Loss on liquidation of an associate	5	—	5,432
Depreciation of property, plant and equipment	14	489,215	582,265
Amortisation on prepaid land lease payments	15	16,547	15,521
Amortisation of technical know-how	17	2,596	2,263
Amortisation of development costs	17	24,735	38,017
Impairment of property, plant and equipment	6	142,045	65,784
Impairment of available-for-sale investments	6	—	4,217
Impairment of other intangible assets	6	52,507	5,094
Impairment of trade and bills receivables, net	6	107,841	58,713
Impairment (reversal) of other receivables and prepayments, net	6	85,664	(1,656)
Gain from land resumption	5	(159,163)	—
Release of deferred income		(7,538)	(3,728)
		1,540,992	2,565,789
Increase in inventories		(584,766)	(363,847)
Increase in trade and bills receivables		(121,894)	(109,258)
Decrease (increase) in prepayments, deposits and other receivables		998,060	(438,492)
Increase in trade and bills payables		361,485	1,842,132
Increase (decrease) in other payables and accruals		293,736	(250,639)
Increase in provision for product warranties		19,416	906
Cash generated from operations		2,507,029	3,246,591
Income tax paid		(304,306)	(355,207)
Net cash from operating activities		2,202,723	2,891,384

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CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Net cash from operating activities		**2,202,723**	2,891,384
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement in pledged bank deposits		**(8,140,895)**	(9,038,432)
Investment in structured bank deposits		**(458,000)**	(579,600)
Withdrawal of pledged bank deposits		**7,765,779**	8,910,677
Withdrawal of structured bank deposits		**559,000**	2,125,600
Expenditure on other intangible assets	17	**(208)**	(20,398)
Expenditure on prepaid land lease payments	15	**(4,297)**	(51,062)
Purchases of property, plant and equipment		**(545,411)**	(346,072)
Prepayment for acquisition of property, plant and equipment		**(1,463)**	—
Proceeds from disposal of property, plant and equipment		**59,699**	63,158
Proceeds from liquidation of an associate		**—**	4,480
Capital withdrawal from a joint venture	18	**877,500**	—
Disposal of a joint venture	18	**40,000**	—
Disposal of associates		**23,565**	—
Capital injection in an associate		**(12,000)**	—
Investment in a joint venture	18	**—**	(900,000)
Acquisition of assets and liabilities through acquisition of subsidiaries	38	**(149,031)**	—
Interests received		**108,293**	119,712
Disposal of subsidiaries	39	**699,022**	71,685
Disposal of available-for-sale investments		**773,292**	310,047
Purchase of available-for-sale investments		**(3,854,329)**	(300,000)
Receipt of government grants		**16,853**	817
Loans to third parties		**(2,386,038)**	(550,000)
Repayment from third parties		**2,386,038**	550,000
Other investment income received		**7,814**	—
Receipt of land resumption	48	**600,000**	—
Net cash (used in) from investing activities		**(1,634,817)**	370,612

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**8,880,981**	5,923,026
Capital contribution by non-controlling shareholders		**2,500**	7,401
Repayment of bank and other borrowings		**(7,285,893)**	(6,987,533)
Repayment of financial liabilities at fair value through profit or loss		**—**	(596,656)
Interest paid		**(526,289)**	(507,075)
Repayment of finance lease payables		**(7,007)**	(158,065)
Acquisition of additional interests in subsidiaries		**(14,400)**	(1,000)
Dividends paid		**(332,412)**	(318,944)
Net cash from (used in) financing activities		**717,480**	(2,638,846)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,285,386**	623,150
Cash and cash equivalents at beginning of year	26	**2,745,023**	2,121,873
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**4,030,409**	2,745,023

1. CORPORATE AND GROUP INFORMATION

China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is a limited liability company incorporated in the Cayman Islands as an exempted company on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 4 July 2007. The registered office of the Company is located at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands. The head office and principal place of business is located at Room 1302, 13th Floor, COFCO Tower, No.262 Gloucester Road, Causeway Bay, Hong Kong.

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

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

Information about subsidiaries

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

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company		Principal activities
			2017 %	2016 %	
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate") 南京高精齒輪集團有限公司***	People's Republic of China ("PRC")/ Mainland China 16 August 2001	RMB693,800,000	**100**	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed") 南京高速齒輪製造有限公司*	PRC/ Mainland China 8 July 2003	RMB2,000,000,000	**100**	100	Manufacture and sale of gear, gear box and fittings

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company 2017 %	2016 %	Principal activities
Nanjing Ningkai Mechanical Co., Ltd. 南京寧凱機械有限公司*	PRC/ Mainland China 19 November 2002	RMB41,077,000	**85.83**	85.83	Engineering processing and manufacturing
Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine") 南京高精船用設備有限公司 #	PRC/ Mainland China 2 February 2007	RMB500,000,000	**—**	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive") 南京高精傳動設備製造集團有限公司**	PRC/ Mainland China 27 March 2007	USD470,644,000@	**100**	100	Sale of gear box and fittings
Nanjing Zhong-Chuan Shipping Drive Equipment Co., Ltd. ("Zhong-Chuan Shipping Drive") 南京中傳船舶設備有限公司****	PRC/ Mainland China 10 June 2008	USD45,600,000	**—**	100	Manufacture and sale of shipping drive equipment
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. 北京中傳首高冶金成套設備有限公司*	PRC/ Mainland China 25 April 2008	RMB30,000,000	**75**	75	Metallurgical engineering and manufacturing
Nantong Diesel Engine Co., Ltd. 南通柴油機股份有限公司*	PRC/ Mainland China 27 November 1993	RMB300,000,000	**89.36**	89.36	Manufacture and sale of diesel engines

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company 2017 %	2016 %	Principal activities
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. 南京高傳四開數控裝備製造有限公司*	PRC/ Mainland China 27 February 1993	RMB26,000,000	**99.16**	99.16	Engineering processing and manufacturing
Zhenjiang Tongzhou Propeller Co., Ltd ("Zhenjiang Tongzhou") 鎮江同舟螺旋槳有限公司 #	PRC/ Mainland China 24 November 2005	RMB50,000,000	**—**	76.33	Manufacture and sale of propellers
Zhong-Chuan Heavy Duty Machine Tool Corporation Ltd. 中傳重型機床有限公司***	PRC/ Mainland China 11 October 2010	USD31,380,000	**90**	90	Manufacture and sale of heavy duty machine tools
AE&E Nanjing Boiler Co., Ltd. 南京奧能鍋爐有限公司***	PRC/ Mainland China 25 January 1991	RMB128,824,800	**90**	90	Manufacture and sale of industrial boilers, heat recovery equipment and related products
Nanjing Jingjing Photoelectric Science & Technology Co., Ltd. ("Nanjing Jingjing") 南京京晶光電科技有限公司 #	PRC/ Mainland China 15 March 2012	RMB300,000,000	**—**	100	Manufacture and sale of LED products
Nanjing Handa Import and Export Trading Co., Ltd. 南京翰達進出口貿易有限公司*	PRC/ Mainland China 25 April 2012	RMB41,000,000	**100**	100	Trading business
China Transmission Holdings Limited 中傳控股有限公司	Hong Kong 7 November 2007	HKD100	**100**	100	Investment holding and sale of gear box and fittings

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

* Domestic enterprises established in the PRC

** Wholly-foreign owned enterprise established in the PRC

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

**** During the year ended 31 December 2017, Zhong-Chuan Shipping Drive has been absorbed by Nanjing Drive

During the year ended 31 December 2017, the Group disposed of its entire equity interests in these subsidiaries. Further details of the disposals are included in note 39 to the consolidated financial statements

@ During the year ended 31 December 2017, the registered capital of Nanjing Drive increased from USD448,300,000 to USD470,644,000

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries 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 Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a material impact on the Group's financial performance and positions for the period presented in these financial statements. Disclosures have been made in note 40 to the consolidated financial statements upon the adoption of amendments to IAS 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.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new and revised IFRSs that are issued, but not yet effective are described below. The Group intends to adopt these new and revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Employee Benefits*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 13*[2]

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

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 IFRSs that are expected to be applicable to the Group is described below.

Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 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 performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

Currently, the Group's financial assets are classified into loans and receivables and available-for-sale financial investments.

The Group does not expect that the adoption of IFRS 9 will have a significant impact on loans and receivables except for certain trade and bills receivables. Certain Group's trade and bills receivables are managed with a business model under which they are either held to collect contractual cash flows or sold prior to their expiry date. Accordingly, these trade and bills receivables will be reclassified as financial assets at fair value through other comprehensive income ("FVTOCI"). Gains and losses recorded in other comprehensive income for the trade and bills receivables will be recycled to profit or loss when the trade and bills receivables are derecognised.

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

IFRS 9 Financial Instruments *(Continued)*

(a) Classification and measurement *(Continued)*

For the available-for-sale financial investments carried at fair value, they are qualified for designation as measured at FVTOCI under IFRS 9. Accordingly, the Group does not expect the adoption of IFRS 9 will have a significant impact on the classification and measurement. However, the fair value gains or losses accumulated in the investment revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss.

For the available-for-sale financial investments carried at cost less impairment, they are qualified for designation as measured at FVTOCI under IFRS9. The Group expects to apply the option to measure these available-for-sale financial investments at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investment revaluation reserve. Since the Group has a number of available-for-sale financial investments of which it required time to gather information to assess and finalised their fair values as at 1 January 2018, the assessment has yet been completed. Based on the preliminary assessment, the Group does not expect the fair values of these investments are significant different from their carrying amount as at 1 January 2018.

(b) Impairment

IFRS 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 IFRS 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 has expected that the provision for impairment and related deferred tax assets will increase upon the initial adoption of the standard.

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

IFRS 15 Revenue From Contracts with customers

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits 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 IFRS 15 will not be material. Moreover, the expected changes in accounting policies, will not have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a preliminary assessment on the impact of the adoption of IFRS 15 and expected no material impacts on the adoption of the standard.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interests in associates and joint ventures

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill

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

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

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

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

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

Impairment of non-financial assets

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

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

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 profit or loss in the period in which it arises.

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

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

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

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

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

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

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

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.

Technical Know-how

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

Research and development costs

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

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

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

Leases

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial investments

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

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

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

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

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

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.

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group’s financial liabilities include trade and bills payables, other payables, finance lease payables, bank and other borrowings.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Loans and borrowings

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

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

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 profit or loss.

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

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

Government grants

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

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

Revenue recognition

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefit

Pension schemes

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

Borrowing costs

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

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. At 31 December 2017, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB60,669,000 (2016: RMB49,087,000).

Control over Tianjin Chuanzai Jingtong Financial Leasing Co., Ltd.

At 31 December 2017, Tianjin Chuanzai Jingtong Financial Leasing Co., Ltd. ("Tianjin Chuanzai") is considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest (note 37). Based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Tianjin Chuanzai that has the power to direct the relevant activities of Tianjin Chuanzai. Therefore, the directors of the Company concluded that the Group has the practical ability to direct the relevant activities of Tianjin Chuanzai unilaterally and hence the Group has control over Tianjin Chuanzai.

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

Judgements *(Continued)*

Acquisition of assets and liabilities through acquisition of Nanjing Gaote Gearbox Manufacturing Co., Ltd. and its subsidiary

During the year ended 31 December 2017, the Group acquired 100% equity interest in Nanjing Gaote Gearbox Manufacturing Co., Ltd. (南京高特齒輪製造箱製造有限公司 "Nanjing Gaote") and its wholly owned subsidiary Nanjing Jiuyi Heavy Gearbox Manufacturing Co., Ltd (南京九一重型齒輪箱製造有限公司"Nanjing Jiuyi") (collectively referred to as "Nanjing Gaote Group") from two independent third parties. Prior to the acquisition, Nanjing Gaote Group has suspended production. At the date of acquisition, Nanjing Gaote Group mainly held prepaid land lease payments and property, plant and equipment which can be used for the production of gear products. The Group's intention to acquire Nanjing Gaote Group is to acquire its machinery for gear products and its prepaid land lease payments for future use. No incomplete order or employee has been transferred in this acquisition. Therefore, the acquisition of Nanjing Gaote Group has been accounted for as acquisition of assets and liabilities through acquisition of subsidiaries. Further details of the acquisition are given in note 38 to the consolidated financial statements.

Estimation uncertainty

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

Impairment of trade and bills receivables

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and bills receivables. Allowances are applied to trade and bills receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of estimates. Where the expectation of future cash receipts is different from the original estimate, such difference will impact the carrying amounts of trade and bills receivables and doubtful debts expenses in the year in which such estimate is changed. At 31 December 2017, the provision for impairment of trade and bills receivables was approximately RMB576,098,000 (2016: RMB475,970,000).

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in market conditions. Management reassesses these estimates at the end of each reporting period. At 31 December 2017, the carrying value of inventories was approximately RMB2,415,777,000 (2016: RMB2,311,574,000).

4. OPERATING SEGMENT INFORMATION

The Group is organised in one business division only. The Group's chief operating decision maker (the "CODM"), being the Company's Board of Directors, make decisions according to the revenue and operating results of each geographical area by location of customers and the related reports on the ageing analysis of trade and bills receivables for the purposes of resource allocation and performance assessment. Accordingly, the Group's operating segments are based on geographical location of customers.

No information of liabilities is provided to CODM for the assessment of performance of different geographical area. Therefore, only segment revenue, segment results and segment assets are presented.

PRC, the United States of America (the "USA") and the Europe are three major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment results represent the gross profit (including depreciation of production plants), government grants, sales of scraps and materials, and selling and distribution expenses earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

Only trade and bills receivables of each segment are reported to the CODM for the purposes of resources allocation and performance assessment. Hence, total segment assets represent the trade and bills receivables of the Group while the unallocated assets represent the assets of the Group excluding trade and bills receivables. The related impairment loss on trade and bills receivables is not reported to the CODM as part of segment results.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	5,610,000	1,932,173	364,977	334,764	8,241,914
Intersegment sales	2,172,837	54,782	—	—	2,227,619
Reconciliation:					
Elimination of intersegment sales					(2,227,619)
Revenue					8,241,914
Segment results	1,277,784	489,630	67,355	78,913	1,913,682
Reconciliation:					
Unallocated other income and net gains					465,662
Other expenses					(424,125)
Finance costs					(526,289)
Share of profits and losses of joint ventures					74,160
Share of profits and losses of associates					5,137
Corporation and other unallocated expenses					(981,426)
Profit before tax					526,801

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2017	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Segment assets	6,114,535	157,480	96,857	146,387	6,515,259
Reconciliation:					
Corporate and other unallocated assets					20,922,916
Total assets					27,438,175
Other segment information:					
Write-down of inventories	135,367	—	—	2,687	138,054
Impairment losses recognised in profit or loss	388,057	—	—	—	388,057
Depreciation and amortisation	494,958	6,701	1,455	639	503,753
Reconciliation:					
Corporate and other unallocated					29,340
Total depreciation and amortisation					533,093
Capital expenditure	530,181	157	1,648	206	532,192

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	5,867,442	2,211,317	804,630	82,660	8,966,049
Intersegment sales	2,527,476	42,492	—	—	2,569,968
Reconciliation:					
Elimination of intersegment sales					(2,569,968)
Revenue					8,966,049
Segment results	1,603,680	779,353	289,195	17,555	2,689,783
Reconciliation:					
Unallocated other income and net gains					268,869
Other expenses					(132,152)
Finance costs					(495,585)
Share of profits and losses of joint ventures					11,663
Share of profits and losses of associates					1,309
Corporation and other unallocated expenses					(976,414)
Profit before tax					1,367,473

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2016	PRC	USA	Europe	Other countries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	6,064,339	681,404	187,138	32,063	6,964,944
Reconciliation:					
Corporate and other unallocated assets					19,330,656
Total assets					26,295,600
Other segment information:					
Write-down of inventories	80,652	—	—	—	80,652
Impairment losses recognised in profit or loss	127,935	—	—	—	127,935
Reconciliation:					
Corporate and other unallocated					4,217
Total impairment losses recognised in profit or loss					132,152
Depreciation and amortisation	598,991	2,949	202	417	602,559
Reconciliation:					
Corporate and other unallocated					35,507
Total depreciation and amortisation					638,066
Capital expenditure	392,904	32,826	2,850	766	429,346
Capital injection in a joint venture	900,000	—	—	—	900,000

4. OPERATING SEGMENT INFORMATION *(Continued)*

Other geographical information

Non-current assets by the locations of the assets and excludes available-for-sale investments and deferred tax assets are detailed below:

	2017 RMB'000	2016 RMB'000
PRC	**5,372,805**	7,652,749
USA	**155,342**	168,250
Europe	**3,185**	2,992
Other countries	**39,507**	28,704
	5,570,839	7,852,695

Revenue from major products and services

	2017 RMB'000	2016 RMB'000
Wind gear transmission equipment	**6,803,417**	7,362,287
Industrial gear transmission equipment	**1,001,004**	778,983
Marine gear transmission equipment	**23,573**	236,819
Computer numerical controlled products	**60,554**	106,693
Diesel engine products	**115,591**	134,360
Others	**237,775**	346,907
	8,241,914	8,966,049

Information about major customers

Revenue from customers of the corresponding years individually amounted to over 10% of the total sales of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Customer A[1]	**2,603,785**	2,852,392
Customer B[2]	**N/A**	1,232,475
Customer C[2]	**N/A**	922,839

1 Revenue from sale of wind gear transmission equipment in the segments of PRC, USA, Europe and other countries.

2 Revenue from sale of wind gear transmission equipment in the PRC segment.

5. REVENUE, OTHER INCOME AND NET GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue, other income and net gains is as follows:

	Notes	2017 RMB'000	2016 RMB'000
Revenue			
Sale of goods		**8,241,914**	8,966,049
Other income			
Interest income		**116,835**	119,712
Gross rental income		**10,520**	13,952
Government grants*		**24,391**	30,875
Sale of scraps and material		**39,053**	38,867
Investment income		**74,304**	33,024
Others		**728**	16,803
		265,831	253,233
Net gains			
Gain (loss) on disposal of property, plant and equipment, net		**833**	(9,385)
Gain from land resumption	48	**159,163**	—
Loss on liquidation of an associate		**—**	(5,432)
Gain (loss) on disposal of subsidiaries, net	39	**129,608**	(27,670)
Gain on disposal of an associate		**58**	11,143
Gain on disposal of available-for-sale investments		**3,666**	10,047
Foreign exchange differences, net		**(30,053)**	106,675
		263,275	85,378
		529,106	338,611

* There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Cost of inventories sold		**5,934,817**	5,898,019
Depreciation of property, plant and equipment	14	**489,215**	582,265
Amortisation of technical know-how (included in administrative expenses)	17	**2,596**	2,263
Amortisation of development costs (included in administrative expenses)	17	**24,735**	38,017
Amortisation of prepaid land lease payments	15	**16,547**	15,521
Auditor's remuneration		**4,200**	5,180
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**916,798**	922,796
Pension scheme contributions		**223,539**	248,361
Other benefits		**234,886**	219,085
		1,375,223	1,390,242
Write-down of inventories to net realisable value (included in cost of sales)		**138,054**	80,652
Product warranty provision	32	**83,882**	46,544
Items included in other expenses:			
Impairment loss of property, plant and equipment	14	**142,045**	65,784
Impairment loss of other intangible assets	17	**52,507**	5,094
Impairment loss of available-for-sale investments		**—**	4,217
Impairment loss of trade and bills receivables, net	24	**107,841**	58,713
Impairment loss (reversal) of other receivables and prepayments, net	25	**85,664**	(1,656)

7. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest on bank and other borrowings	**526,126**	501,431
Interest on finance leases	**163**	5,644
	526,289	507,075
Less: interest capitalised in property, plant and equipment	**—**	(11,490)
	526,289	495,585

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2017 RMB'000	2016 RMB'000
Fees	**832**	586
Other emoluments:		
Salaries, allowances and benefits in kind	**17,663**	17,298
Pension scheme contributions	**318**	371
	17,981	17,669
	18,813	18,255

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

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Mr. Jiang Xihe	**208**	150
Mr. Zhu Junsheng (note)	—	150
Mr. Chen Shimin (note)	—	150
Ms. Jiang Jianhua	**208**	100
Mr. Nathan Yu Li (note)	**208**	18
Dr. Chan Yau Ching, Bob (note)	**208**	18
	832	586

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

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

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

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017			
Executive directors:			
Mr. Chen Yongdao	3,097	53	3,150
Mr. Gou Jianhui (note 2)	2,962	53	3,015
Mr. Wang Zhengbing	2,697	53	2,750
Mr. Zhou Zhijin	2,697	53	2,750
Mr. Hu Jichun	2,397	53	2,450
Ms. Zheng Qing	208	—	208
	14,058	265	14,323
Non-executive directors:			
Mr. Hu Yueming	3,397	53	3,450
Mr. Yuen Chi Ping	208	—	208
	3,605	53	3,658
	17,663	318	17,981

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

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

	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016			
Executive directors:			
Mr. Chen Yongdao	3,097	53	3,150
Mr. Liao Enrong (note 4)	1,260	53	1,313
Mr. Gou Jianhui	6,037	53	6,090
Mr. Wang Zhengbing	1,467	53	1,520
Mr. Zhou Zhijin	1,367	53	1,420
Mr. Hu Jichun (note 3)	637	53	690
Ms. Zheng Qing (note 4)	18	—	18
	13,883	318	14,201
Non-executive directors:			
Mr. Hu Yueming (notes 3 & 4)	3,397	53	3,450
Mr. Yuen Chi Ping (note 4)	18	—	18
	3,415	53	3,468
	17,298	371	17,669

Note 1: There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Note 2: On 16 January 2018, Mr. Gou Jianhui resigned as an executive director of the Company.

Note 3: As at 31 December 2016, Mr. Hu Jichun is also the Chief Executive of the Company as Mr. Hu Yueming resigned as the Chief Executive of the Company on 1 December 2016, and Mr. Hu Jichun was appointed as the Chief Executive of the Company on 5 December 2016. Mr. Hu Jichun's emoluments disclosed above include those for services rendered by him as the Chief Executive.

Note 4: On 3 June 2016, Mr. Liao Enrong resigned as an executive director of the Company. On 1 December 2016, Mr. Yuen Chi Ping and Ms. Zheng Qing were appointed as directors of the Company and Mr. Hu Yueming resigned as an executive director of the Company and was appointed as a non-executive director of the Company.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all directors (2016: five directors), details of whose remuneration are set out in note 8 above. Their emoluments were within the following bands:

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000		
(equivalent to RMB1,300,001 to RMB1,734,000)	—	2
HK$3,000,001 to HK$3,500,000		
(equivalent to RMB2,684,001 to RMB3,035,000)	3	—
HK$3,500,001 to HK$4,000,000		
(equivalent to RMB3,035,001 to RMB3,468,000)	2	2
HK$6,500,001 to HK$7,000,000		
(equivalent to RMB5,655,001 to RMB6,090,000)	—	1

10. INCOME TAX EXPENSE

Income tax expense has been calculated at the rates of tax prevailing in the relevant tax jurisdictions in which the Group operates. The major components of the income tax expense in profit or loss are:

	2017 RMB'000	2016 RMB'000
Current tax – charge for the year		
PRC	170,049	249,312
HK	46,638	—
Overprovision in respect of prior years	(8,488)	(5)
Deferred tax – (credit) charge for the year (note 33)	(34,214)	58,731
Total tax charge for the year	173,985	308,038

10. INCOME TAX EXPENSE *(Continued)*

PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2016: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2017.

The following subsidiaries are qualified as high technology development enterprises and thus subject to a preferential tax rate of 15% for 3 years from the date of approval:

Name of company	Year ended during which approval was obtained	Year ended/ending during which approval will expire/expired
Nanjing High Speed	31 December 2017	31 December 2019
Nanjing High Accurate	31 December 2017	31 December 2019
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd.	31 December 2015	31 December 2017
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.	31 December 2015	31 December 2017
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	31 December 2017	31 December 2019

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2017 (2016: nil).

Singapore corporate income tax

No provision for Singapore profits tax has been made, as the Group did not generate any assessable profits arising in Singapore for the year ended 31 December 2017 (2016: nil).

10. INCOME TAX EXPENSE *(Continued)*

Withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB6,327 million at 31 December 2017 (2016: RMB5,881 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	**526,801**	1,367,473
Tax at the statutory tax rate of 25%	**131,700**	341,868
Lower tax rate for specific provinces or enacted by local authority	**(133,782)**	(204,748)
Overprovision in respect of prior years	**(8,488)**	(5)
Profits and losses attributable to joint ventures and associates	**(19,825)**	(3,243)
Income not subject to tax	**(40,952)**	(7,343)
Expenses not deductible for tax	**20,390**	21,417
Tax effect of tax losses not recognised	**131,636**	116,900
Utilisation of tax losses not recognised	**(3,609)**	(7,501)
Temporary differences not recognised	**85,333**	33,805
Effect of withholding tax at 5% on the undistributed earnings of the PRC subsidiaries	**11,582**	16,888
Tax charge at the Group's effective rate	**173,985**	308,038

11. PLEDGE OF ASSETS

As at 31 December 2017, certain assets of the Group were pledged to secure certain banking facilities granted to the Group as follows:

	2017 RMB'000	2016 RMB'000
Trade receivables	**19,502**	239,583
Bills receivable	**958,484**	953,070
Property, plant and equipment	**154,999**	114,750
Prepaid land lease payments	**45,846**	178,482
Pledged bank deposits	**2,892,955**	2,531,395
	4,071,786	4,017,280

As at 31 December 2016, the Group has pledged its 25% equity interest in Nanjing High Speed, a wholly-owned subsidiary, for certain banking facilities granted to the Group, which is released during 2017.

12. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed final – HK18 cents (2016: HK23 cents) per ordinary share	**231,640**	332,412

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

The final dividend in respect of the year ended 31 December 2016 was proposed by the directors of the Company on 31 March 2017, and subsequently approved at the annual general meeting on 19 May 2017 and recognised as distribution during the year ended 31 December 2017.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company.

The calculations of basic and diluted earnings per share are based on:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**451,699**	1,108,995

	Number of shares	
	2017 '000	2016 '000
Shares		
Number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,635,291**	1,635,291

No adjustment is made to the diluted earnings per share for the years ended 31 December 2017 and 31 December 2016 as there was no potential dilutive shares in issue.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017:							
Cost	2,440,678	15,268	5,095,596	272,876	269,497	949,085	9,043,000
Accumulated depreciation and impairment	(492,786)	(5,864)	(2,974,917)	(191,788)	(242,793)	(23,651)	(3,931,799)
Net carrying amount	1,947,892	9,404	2,120,679	81,088	26,704	925,434	5,111,201
At 1 January 2017, net of accumulated depreciation and impairment	1,947,892	9,404	2,120,679	81,088	26,704	925,434	5,111,201
Additions	—	—	37,461	35,620	1,567	453,039	527,687
Acquisition of assets and liabilities through acquisition of subsidiaries (note 38)	238,663	—	514,136	4,066	2,057	25,000	783,922
Depreciation provided during the year	(74,680)	(4,702)	(378,742)	(21,108)	(9,983)	—	(489,215)
Disposal of subsidiaries (note 39)	(428,390)	—	(442,925)	(6,724)	(1,402)	(228,700)	(1,108,141)
Disposals	—	—	(50,062)	(7,366)	(1,438)	—	(58,866)
Land resumption (note 48)	(171,714)	—	(38,821)	(1,205)	(3,062)	—	(214,802)
Transfers	142,806	—	102,866	7,938	37,283	(290,893)	—
Impairment provided during the year	(102)	—	(107,485)	(3,636)	(414)	(30,408)	(142,045)
At 31 December 2017, net of accumulated depreciation and impairment	1,654,475	4,702	1,757,107	88,673	51,312	853,472	4,409,741
At 31 December 2017:							
Cost	2,105,331	15,268	4,858,981	277,775	247,242	907,533	8,412,130
Accumulated depreciation and impairment	(450,856)	(10,566)	(3,101,874)	(189,102)	(195,930)	(54,061)	(4,002,389)
Net carrying amount	1,654,475	4,702	1,757,107	88,673	51,312	853,472	4,409,741

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

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

The net carrying amount of the Group's fixed assets under finance leases included in the total amounts of plant and machinery at 31 December 2017 was nil (2016: RMB42,310,000).

The Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB835,423,000 (2016: RMB1,207,690,000) at the end of the reporting period.

The freehold land is located in the USA.

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

During the year ended 31 December 2017, since the competition of the industries were keen and the economic environment was not favourable to these products and services, the cash-generating units (the "CGUs") of the machine tools, chips and diesel engine manufacturing and sales suffered from operating losses. Accordingly, impairment indicators were identified for the relevant CGUs' non-current assets (including property, plant and equipment and other intangible assets). The Group performed impairment test for the relevant CGUs, for which impairment indicators were identified. However, the projected discount future cash flow conducted to determine the value-in-use calculation at 31 December 2016 for the diesel engine manufacturing and sales CGU is no longer considered attainable as a result of the expected generally long term drop in sales which affected the return. Accordingly, the revision of the estimate future cash flows (including the projected cash flows and cash from ultimate disposal of the CGU) cannot generate a positive value-in-use as at 31 December 2017. Consequently, the respective recoverable amounts derived from fair-value-less-costs of disposal are higher than the recoverable amounts derived from the revised value-in-use calculation, accordingly, the fair values of the property, plant and equipment for the relevant CGUs were based on the valuation performed by Cushman & Wakefield, an independent professionally qualified valuer on the basis of market value of the underlying property, plant and equipment. Based on the assessment, the recoverable amounts of the property, plant and equipment for the CGUs which had impairment indicators were RMB2,418,000, RMB31,929,000 and RMB236,427,000, respectively, which led to the recognition of an impairment loss in profit or loss in aggregate of RMB142,045,000 (2016: RMB65,784,000), because the recoverable amounts were lower than the carrying amounts of these CGUs.

During the year ended 31 December 2016, as a result of poor performance of the LED and diesel engine manufacturing and sales, the Group carried out a review of the recoverable amount of the manufacturing plant and the related equipment, which represent the value-in-use of the smallest CGU in which those assets were included. The recoverable amount of the CGU which had impairment indicator was RMB832,698,000, and the review led to the recognition of an impairment loss in profit or loss of RMB65,784,000. The discount rate used in measuring the recoverable amount was 11% per annum.

15. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**719,092**	685,199
Additions	**4,297**	51,062
Acquisition of assets and liabilities through acquisition of subsidiaries (note 38)	**112,790**	—
Land resumption (note 48)	**(13,918)**	—
Disposal of subsidiaries (note 39)	**(121,618)**	(1,648)
Release during the year	**(16,547)**	(15,521)
Carrying amount at 31 December	**684,096**	719,092
Current portion	**14,860**	16,250
Non-current portion	**669,236**	702,842
	684,096	719,092

The above prepaid land lease payments are land use rights located in the PRC. At 31 December 2017, the Group is in the process of obtaining land use rights certificates in respect of land use rights located in the PRC with a carrying amount of RMB185,940,000 (2016: RMB317,876,000).

16. GOODWILL

	RMB'000
At 1 January 2016, 31 December 2016 and 31 December 2017:	
Cost	17,715
Accumulated impairment	(14,724)
Net carrying amount	2,991

16. GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the CGU of engineering processing and manufacturing for impairment testing.

The recoverable amount of the engineering processing and manufacturing CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 11% (2016: 11%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2016: 5%), which was the same as the long term average growth rate of the infrastructure industry.

Assumptions were used in the value-in-use calculation of the engineering processing and manufacturing cash-generating units for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

17. OTHER INTANGIBLE ASSETS

	Technical Know-how RMB'000	Development costs RMB'000	Total RMB'000
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation and impairment	25,973	112,591	138,564
Additions	—	208	208
Disposal of subsidiaries (note 39)	(410)	(20,649)	(21,059)
Amortisation provided during the year	(2,596)	(24,735)	(27,331)
Impairment provided during the year	(14,342)	(38,165)	(52,507)
At 31 December 2017	8,625	29,250	37,875
At 31 December 2017:			
Cost	39,322	700,938	740,260
Accumulated amortisation and impairment	(30,697)	(671,688)	(702,385)
Net carrying amount	8,625	29,250	37,875

17. OTHER INTANGIBLE ASSETS *(Continued)*

	Technical Know-how RMB'000	Development costs RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation and impairment	28,236	135,564	163,800
Additions	—	20,398	20,398
Disposal of subsidiaries (note 39)	—	(260)	(260)
Amortisation provided during the year	(2,263)	(38,017)	(40,280)
Impairment provided during the year	—	(5,094)	(5,094)
At 31 December 2016	25,973	112,591	138,564
At 31 December 2016:			
Cost	41,782	758,731	800,513
Accumulated amortisation and impairment	(15,809)	(646,140)	(661,949)
Net carrying amount	25,973	112,591	138,564

As detailed in note 14, impairment indicators were identified for CGUs of machine tools, chips and diesel engine manufacturing and sales. The Group performed the impairment test for the relevant CGUs.

Based on the assessment, the recoverable amounts of other intangible assets for the respective CGUs which had impairment indicators were nil, and led to the recognition of an impairment loss in profit or loss of RMB52,507,000 (2016: RMB5,094,000) during the year ended 31 December 2017.

18. INTERESTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	**99,958**	1,008,254
Goodwill on acquisition	**—**	—
	99,958	1,008,254

In December 2016, Nanjing Drive set up a joint venture named as "南京動邦裝備有限公司 Nanjing Dongbang Equipment Co., Ltd." ("Nanjing Dongbang") with two independent partners. Nanjing Drive invested RMB900,000,000 in Nanjing Dongbang. During the year ended 31 December 2017, the Group withdrew the capital contribution in Nanjing Dongbang of RMB877,500,000 with other two independent partners on a pro rata basis. On 22 December 2017, the Group disposed of its interest in Nanjing Dongbang at carrying value to Ningbo Yuanquan Investment Management LLP"寧波淵泉投資管理合夥企業(有限合夥)" for a consideration of RMB79,419,000. The first instalment of the consideration of RMB40,000,000 has been settled in December 2017. Pursuant to the agreement, the deferred consideration of RMB39,419,000 would be settled in 3 months once the change of industrial and commercial registration has been completed.

18. INTERESTS IN JOINT VENTURES *(Continued)*

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

2017

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

2016

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Nanjing Construction	Registered capital of RMB20,000,000	PRC/ Mainland China	50%	50%	50%	Metallurgical engineering and manufacturing
Nanjing Dongbang	Registered capital of RMB2,000,000,000	PRC/ Mainland China	45%	45%	45%	Engineering processing and manufacturing of machine

The above investments are indirectly held by the Company.

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

18. INTERESTS IN JOINT VENTURES *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	77,177	20,076
Other current assets	347,408	341,332
Current assets	424,585	361,408
Non-current assets, excluding goodwill	1,069	1,676
Goodwill on acquisition of the joint venture	—	—
Financial liabilities, excluding trade and other payables	—	—
Other current liabilities	(297,359)	(219,300)
Current liabilities	(297,359)	(219,300)
Non-current liabilities	—	—
Net assets	128,295	143,784
Reconciliation to the Group's interest in Nanjing Construction:		
Proportion of the Group's ownership	50%	50%
Carrying amount of the Group's interest in Nanjing Construction	64,148	71,892
Revenue	300,485	191,857
Interest income	134	22
Depreciation and amortisation	(608)	(603)
Finance costs	(2,120)	(961)
Income tax expenses	(6,096)	(4,083)
Profit and total comprehensive income for the year	34,511	22,050
Dividend from Nanjing Construction	25,000	—

18. INTERESTS IN JOINT VENTURES *(Continued)*

Nanjing Dongbang, which was considered a material joint venture of the Group for the year ended 31 December 2016 is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of Nanjing Dongbang adjusted for any differences in the accounting policies and reconciled to the carrying amount in the financial statements as 31 December 2016:

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

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

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' profit and total comprehensive income for the year	**56,904**	638
Aggregate carrying amount of the Group's interests in the joint ventures	**35,810**	36,362

19. INTERESTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**140,701**	135,982
Goodwill on acquisition	**6,205**	6,205
	146,906	142,187
Financial guarantees granted to an associate (note)	**11,108**	—
	158,014	142,187

Note: Further details of the financial guarantees granted to an associate are given in note 44(b) to the consolidated financial statements.

The Group's trade receivable and payable balances with the associates are disclosed in notes 24 and 27 to the consolidated financial statements, respectively.

In December 2016, 南京蘇陽光電薄膜有限公司Nanjing Suyang Optoelectronics Co., Ltd. completed its liquidation and resulted in a loss of RMB5,432,000.

On 31 August 2016, the Group disposed of its 30% equity interest in 長源(南京)鑄造有限公司 Changyuan (Nanjing) Casting Co., Ltd. ("Changyuan") to one of the shareholders in Changyuan at a consideration of RMB11,143,000 and resulted in a gain of RMB11,143,000.

Particular of the Group's material associate is as follows:

2017 & 2016

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

Nantong FLW is accounted for using the equity method.

19. INTERESTS IN ASSOCIATES *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Current assets	**78,190**	81,915
Non-current assets, excluding goodwill	**65,955**	71,654
Goodwill on acquisition of the associate	**1,470**	1,470
Current liabilities	**(18,055)**	(18,132)
Net assets	**127,560**	136,907
Net assets, excluding goodwill	**126,090**	135,437
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**49.58%**	49.58%
Group's share of net assets of the associate, excluding goodwill	**62,515**	67,149
Goodwill on acquisition (less cumulative impairment)	**1,470**	1,470
Carrying amount of the Group's interest in Nantong FLW	**63,985**	68,619
Revenue	**15,027**	61,015
(Loss)/profit and total comprehensive (expense) income for the year	**(9,347)**	1,075
Dividend from Nantong FLW	**—**	—

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

	2017 RMB'000	2016 RMB'000
Share of the associates' profit and total comprehensive income for the year	**9,771**	776
Dividend from an associate	**—**	5,897
Aggregate carrying amount of the Group's interests in the associates	**94,029**	73,568

20. OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Other receivables	**71,429**	551,524

During the year ended 31 December 2017, the Group entered into an agreement with 南京市雨花經濟開發管委會 Nanjing Yuhua Economic Development Zone Management Committee (the ''Management Committee''), and the Management Committee agreed to return the land lease deposit previously paid by the Group of RMB75,000,000 in two years, which carries no interest.

As at 31 December 2016, the deposit paid was included in the deposit for land lease classified as non-current asset.

21. AVAILABLE-FOR-SALE INVESTMENTS

		2017 RMB'000	2016 RMB'000
Listed equity investments, at fair value	(a)	**436,660**	781,508
Unlisted equity investments, at cost	(b)	**3,175,618**	88,582
		3,612,278	870,090

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

Notes:

(a) At 31 December 2017, the balance includes the Group's investments in 50,093,000 H shares of 國電科技環保集團股份有限公司Guodian Technology & Environment Group Corporation Limited amounting to RMB22,110,000 (2016: RMB24,197,000), net of accumulated impairment loss of RMB4,217,000 (2016: RMB4,217,000), the investments in 16,962,000 shares of 日月重工股份有限公司 Riyue Heavy Industry Co., Ltd. ("Riyue Heavy") amounting to RMB380,794,000 (2016: RMB706,461,000), and the investment in 4,593,000 shares of江蘇銀行股份有限公司Bank of Jiangsu Co., Ltd. amounting to RMB33,756,000 (2016: RMB50,850,000).

Up to the date of approval of these consolidated financial statements, there were no addition or disposal of Riyue Heavy. The market value of the Group's equity investments in Riyue Heavy at the date of approval of these consolidated financial statements was approximately RMB330,929,000. In accordance with the respective accounting policy, the change in fair value will be recognised in other comprehensive income subsequent to the year end.

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

Notes: *(Continued)*

(b) (i) On 17 April 2017, Nanjing Drive entered into a limited partnership agreement with thirty-four other partners in respect of, among other matters, the establishment of an investment fund in the PRC named "浙江浙商產融股權投資基金合夥企業 (有限合夥) Zhejiang Zheshang Chanrong Equity Investment Fund L.P." and the subscription of interest therein. The general partner and executive partner of the investment fund is 寧波錢潮涌鑫投資管理合夥企業(有限合夥) Ningbo Qianchao Yongxin Investment Management L.P., a limited partnership established in the PRC. The objective of the investment fund is to invest in businesses arising from government's economic reform especially in Zhejiang region. The Group considers that such investment could result in more investment opportunities and better investment returns by leveraging on the other partners' advantageous resources or experience in investment management. Pursuant to the limited partnership agreement, the full capital contribution to the investment fund is RMB50.38 billion, among which, RMB2 billion is to be contributed by Nanjing Drive as a limited partner. As at 31 December 2017, RMB2 billion has been paid up by Nanjing Drive to the investment fund.

(ii) On 31 August 2017, Nanjing Drive entered into a limited partnership agreement with Ningbo Zhongbang Chanrong Holding Co., Ltd. (寧波眾邦產融控股有限公司) and Ningbo Jingbang Asset Management Co., Ltd. (寧波靖邦資產管理有限公司) in respect of the establishment of an investment fund in the PRC named Shanghai Guiman Enterprise Management L.P. (上海圭蔓企業管理合夥企業 (有限合夥)) (the "Guiman Fund"). Nanjing Drive is a limited partner and has invested RMB500,000,000 in the Guiman Fund.

(iii) The remaining amount includes the unlisted equity investments with individual amount less than RMB500,000,000 and are held by the Group as non-current assets, which are measured at cost less impairment.

22. DEPOSIT FOR LAND LEASE

The amount represents deposit for land lease paid partly in relation to the acquisition of land leases situated in the PRC and the transfer is subject to the approval of the PRC government. As disclosed in note 20, the deposit for land lease of RMB75,000,000 was recognised as a receivable during the year ended 31 December 2017.

23. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	546,526	620,292
Work in progress	1,012,961	785,948
Finished goods	856,290	905,334
	2,415,777	2,311,574

24. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	4,238,036	4,154,615
Bills receivable	2,853,321	3,286,299
Impairment	(576,098)	(475,970)
	6,515,259	6,964,944

The Group generally allows a credit period of 180 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2017 RMB'000	2016 RMB'000
0 - 90 days	3,609,544	3,547,209
91 - 120 days	479,238	455,908
121 - 180 days	958,477	911,817
181 - 365 days	963,645	1,490,468
1 - 2 years	344,473	391,738
Over 2 years	159,882	167,804
	6,515,259	6,964,944

24. TRADE AND BILLS RECEIVABLES *(Continued)*

At 31 December 2017, retentions receivable included in trade receivables amounted to RMB223,473,000 (2016: RMB294,351,000), which are repayable within terms ranging from one to five years. Included in retentions receivable of RMB72,467,000 (2016: RMB33,946,000) were expected to be recovered after more than one year.

Included in the Group's trade and bills receivable balances are debtors with an aggregate carrying amount of RMB1,271,539,000 (2016: RMB1,874,797,000) which are past due at the end of the reporting period against which an impairment of RMB576,098,000 (2016: RMB475,970,000) had been made under collective assessment based on the ageing analysis of the trade and bills receivables. Individual impairment was not made, as these receivables relate to customers having good track record with the Group. There has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlements.

The ageing of trade and bills receivables which are past due based on the overdue date and net of provisions of RMB576,098,000 (2016: RMB475,970,000) under collective assessment, is as follows:

	2017 RMB'000	2016 RMB'000
0 - 180 days past due	**956,816**	1,489,674
181 days to 1.5 years past due	**218,358**	315,262
Over 1.5 years past due	**96,365**	69,861
	1,271,539	1,874,797

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

	2017 RMB'000	2016 RMB'000
At beginning of year	**(475,970)**	(418,288)
Disposal of subsidiaries (note 39)	**7,172**	—
Impairment losses recognised during the year, net	**(107,841)**	(58,713)
Amount written off as uncollectible	**541**	1,031
	(576,098)	(475,970)

24. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**5,243,720**	5,090,147

Transfers of financial assets

The following were the Group's bills receivable accepted by banks in the PRC (the "Endorsed Bills") that were endorsed to certain of the Group's suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

Bills receivable endorsed to suppliers with full recourse are as follows:

	2017 RMB'000	2016 RMB'000
Carrying amount of transferred assets	**176,747**	99,080
Carrying amount of associated liabilities	**(176,747)**	(99,080)
Net position	**—**	—

24. TRADE AND BILLS RECEIVABLES *(Continued)*

Transfers of financial assets *(Continued)*

In addition to the above, as at 31 December 2017 and 31 December 2016, the Group discounted certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to banks and transferred certain bills receivable to its suppliers to settle its payables through endorsing the bills to its suppliers, both with full recourse. The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The Group has derecognised these bills receivable and the payables to suppliers in their entirety as in the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers under the relevant PRC practice, rules and regulations. In the opinion of the directors, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2017, the Group's maximum exposure to loss and cash outflow from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the Derecognised Bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB3,179,972,000 and RMB3,738,980,000, respectively (2016: RMB2,344,000,000 and RMB2,134,665,000). In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2017 and 31 December 2016, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

Included in the Group's trade and bills receivables are amounts due from the Group's joint ventures and associates of RMB15,364,000 (2016: RMB21,090,000) and nil (2016: RMB3,413,000), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments	**516,239**	1,270,734
Deposits and other receivables (note)	**1,497,101**	304,538
Value-added tax recoverable	**80,104**	131,684
Amounts due from the Group's joint ventures	**14,126**	191,156
Amounts due from the Group's associates	**23,569**	713,016
Impairment	**(89,728)**	(4,064)
	2,041,411	2,607,064
For reporting purpose:		
Current portion	**2,036,616**	2,603,732
Non-current portion	**4,795**	3,332
	2,041,411	2,607,064

Note: Included in the above deposits and other receivables, RMB583,174,000 represented an advance made to an insurance company in the PRC with maturity at year 2018, which was classified as non-current asset at 31 December 2016 and included in other receivables, and carried interest at an annualised fixed rate at 6.33% per annum. Interest and the principal amount are repayable at the maturity date and it is stated at amortised cost less impairment, if any, at the end of the reporting period.

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

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of year	**(4,064)**	(5,720)
Impairment losses (recognised) reversed during the year, net	**(85,664)**	1,656
	(89,728)	(4,064)

Included in the above provision for impairment of prepayments, deposits and other receivables is a provision for individually impaired receivables of RMB89,728,000 (2016: RMB4,064,000) with a carrying amount before a provision of RMB151,829,000 (2016: RMB5,886,000).

The individually impaired prepayments, deposits and other receivables relate to debtors that were in financial difficulties or were in default in principal payments and none of the receivables is expected to be recovered.

Except for those prepayments, deposits and other receivables that are already impaired, the financial assets included in the above balance are related to receivables for which there was no recent history of default and with no fixed term of repayment.

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

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

a) Cash and cash equivalents and pledged bank deposits

	2017 RMB'000	2016 RMB'000
Bank balances and cash	4,030,409	2,745,023
Pledged bank deposits	2,892,955	2,531,395
	6,923,364	5,276,418
Less:		
Pledged bank deposits	(2,892,955)	(2,531,395)
Cash and cash equivalents	4,030,409	2,745,023

At the end of the reporting period, the bank balances and cash and pledged bank deposits of the Group denominated in RMB amounted to RMB2,861,930,000 (2016: RMB1,847,546,000) and RMB2,892,955,000 (2016: RMB2,531,395,000) respectively. The RMB is not freely convertible into other currencies, however, under PRC'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.

26. CASH AND CASH EQUIVALENTS, PLEDGED BANK DEPOSITS AND STRUCTURED BANK DEPOSITS *(Continued)*

b) Structured bank deposits

At 31 December 2017, structured bank deposits of RMB108,000,000 (2016: RMB209,000,000) represented financial instruments placed by the Group to two banks in the PRC for a term within one year. The structured bank deposits contain embedded derivatives representing return which would vary with market exchange rates or investment return. Considering the principal-protected or short maturity nature of the deposits, the directors of the Company consider that the fair value of the embedded derivatives is minimal and hence no derivative financial instrument is recognised. Parts of the structured bank deposits amounted to RMB8,000,000 were redeemed subsequent to the end of the reporting period and the changes on redeemed amounts are not significant.

27. TRADE AND BILLS PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables	1,855,137	1,906,234
Bills payable	4,781,908	4,664,506
	6,637,045	6,570,740

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

	2017 RMB'000	2016 RMB'000
0 - 30 days	1,753,609	723,379
31- 60 days	1,889,929	1,463,639
61 - 180 days	2,031,427	3,966,120
181 - 365 days	729,339	156,224
Over 365 days	232,741	261,378
	6,637,045	6,570,740

Included in the trade and bills payables are trade payables of RMB4,244,000 (2016: RMB91,770,000) due to the Group's associates and RMB178,000 (2016: RMB194,000) due to the Group's joint ventures which are repayable within 90 days.

The trade payables are non-interest-bearing and are normally settled on terms of 90 to 180 days.

28. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Deferred income	**6,239**	10,326
Accruals	**307,156**	146,082
Amounts due to the Group's joint ventures	**30,000**	31,096
Amounts due to the Group's associates	**1,350**	28,208
Amount due to a fellow subsidiary (note)	**8,000**	—
Other tax payables	**68,700**	85,708
Purchase of property, plant and equipment	**122,284**	140,008
Payroll and welfare payables	**137,743**	156,559
Receipt from government for land resumption (note 48)	—	180,728
Financial guarantee liability	**11,108**	—
Other payables	**294,192**	124,775
	986,772	903,490

Note: On 28 September 2017, Nanjing High Accurate entered into an agreement with 南京豐盛大族科技股份有限公司Nanjing Fullshare Property Dazu Technology Company Limited ("Fullshare Dazu"), a subsidiary of Fullshare Holdings, and a third party 江蘇立譜健康科技有限公司Jiangsu Li Pu Health Technology Co., Ltd. to dispose of a prepaid land lease payment at a consideration of RMB177,506,000. On 30 November 2017, Fullshare Dazu paid RMB8,000,000 to the Group as deposit. As of 31 December 2017, the transaction is in progress.

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

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017		2016	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current				
Bank loans – unsecured	1.05~5.80	4,250,763	4.57~6.40	2,699,123
Bank loans – secured	2.80~5.78	279,845	1.48~6.55	2,314,030
Guaranteed listed bonds (note 1)		—	9.77	260,694
Medium-term notes - unsecured	6.20	500,000		—
		5,030,608		5,273,847
Non-current				
Bank loans – secured	2.94~5.78	344,275	5.78~6.15	227,966
Corporate bonds –unsecured (note 2)	6.47~6.50	1,912,018		—
Medium-term notes– unsecured	8.50	500,000	6.20~8.50	1,000,000
		2,756,293		1,227,966

Note 1: In November 2014, the Company issued guaranteed bonds (the "Guaranteed Bonds"), which are listed on the Hong Kong Stock Exchange, with a principal amount of RMB650,000,000 bearing interest at the coupon rate of 8.3% per annum, which will mature on 20 November 2017. The Guaranteed Bonds are guaranteed by subsidiaries of the Group, namely Goodgain Group Limited and China Transmission Holdings Limited. During the year ended 31 December 2015, the Group repurchased RMB385,370,000 principal amount of the Guaranteed Bonds. On 12 January 2017, the Group paid out RMB154,898,000 for redemption of RMB151,590,000 principal amount of the Guaranteed Bonds. The Group has redeemed all outstanding Guaranteed Bonds on 20 November 2017 at a cost of approximately RMB117,795,000. After the redemption, the Guaranteed Bonds have been cancelled and revoked their listing on the Hong Kong Stock Exchange.

Note 2: In March 2017, Nanjing Drive issued a corporate bond of RMB900,000,000 which carries an interest rate of 6.47% per annum. In July 2017, Nanjing Drive issued another corporate bond of RMB1,020,000,000 which carries an interest rate of 6.50% per annum. Both corporate bonds have a period of 5 years, attached with the option of adjusting the nominal interest rate for issuer and the option of selling back for investors at the end of the third year.

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

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**4,530,608**	5,013,153
In the second year	**343,150**	226,841
In the third to fifth years, inclusive	**1,125**	1,125
	4,874,883	5,241,119
Other borrowings repayable:		
Within one year	**500,000**	260,694
In the second year	**500,000**	500,000
In the third to fifth years, inclusive	**1,912,018**	500,000
	2,912,018	1,260,694
	7,786,901	6,501,813

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	2017 RMB'000	2016 RMB'000
Fixed-rate borrowings:		
Within one year	**4,190,958**	4,635,107
More than one year	**2,429,583**	1,227,966
	6,620,541	5,863,073

In addition, the Group has variable-rate borrowings of RMB1,166,360,000 (2016: RMB638,740,000) which carry interest rates based on the rate of People's Bank of China prescribed interest rate or the London Interbank Offered Rate (the "LIBOR").

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

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2017	2016
Effective interest rates:		
Fixed-rate borrowings	1.05%~8.50%	3.90% – 9.77%
Variable-rate borrowings	2.94%~5.25%	1.48% – 2.65%

As at 31 December 2017, the Group's borrowing denominated in currency other than RMB was USD73,750,000, which was equivalent to RMB481,897,000 and EUR24,390,000 which was equivalent to RMB190,298,000 (2016: bank borrowing of USD20,000,000, which was equivalent to RMB138,740,000). All other borrowings are denominated in RMB.

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 11.

30. FINANCE LEASE PAYABLES

The Group leased certain of its plant and machinery for its manufacturing and sales of gear last year. The lease became due in June 2017 (2016: one finance lease of remaining lease terms for half a year).

Interest rate is carried at 8.51% per annum (2016: 8.51% per annum).

The total future minimum lease payment under finance lease and its present value was as follows:

	Minimum lease payments 2017 RMB'000	Minimum lease payments 2016 RMB'000	**Present value of minimum lease payments 2017 RMB'000**	Present value of minimum lease payments 2016 RMB'000
Amounts payable:				
Within one year	—	7,170	—	7,007
In more than one year				
But not more than two years	—	—	—	—
Total minimum finance lease payments	—	7,170	—	7,007
Future finance charges	—	(163)		
Total net finance lease payables	—	7,007		
Portion classified as current liabilities	—	(7,007)		
Non-current portion	—	—		

31. DEFERRED INCOME

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

32. WARRANTY PROVISION

	Product warranties RMB'000
At 1 January 2016	100,342
Additional provision	46,544
Amounts utilised during the year	(45,638)
At 31 December 2016, and 1 January 2017	**101,248**
Additional provision	**83,882**
Amounts utilised during the year	**(64,466)**
At 31 December 2017	**120,664**

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

33. DEFERRED TAX

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

	Taxable loss RMB'000	Impairment of receivables RMB'000	Write-down of inventories RMB'000	Deferred income arising from land resumption RMB'000	Provisions RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	(13,353)	(77,210)	(46,974)	(27,109)	(14,124)	(23,774)	(3,018)	(205,562)
Disposal of subsidiaries (note 39)	—	7	—	—	—	255	—	262
Deferred tax (credited) charged to profit or loss during the year	(19,425)	(8,120)	(7,321)	27,109	(3,872)	881	(30,534)	(41,282)
Gross deferred tax assets at 31 December 2017	(32,778)	(85,323)	(54,295)	—	(17,996)	(22,638)	(33,552)	(246,582)

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

At 31 December 2017, the Group has unused tax losses of RMB1,403,031,000 (2016: RMB992,746,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB131,112,000 (2016: RMB53,415,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB1,271,919,000 (2016: RMB939,331,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. During the year ended 31 December 2017, the temporary differences not recognised are RMB347,302,000 (2016: RMB135,220,000).

33. DEFERRED TAX *(Continued)*

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

	Change in fair value of identified assets upon acquisition of subsidiaries RMB'000	Develop-ment costs RMB'000	Withholding taxes RMB'000	Fair value change on available-for-sale investments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	—	14,708	49,087	169,533	19,432	252,760
Acquisition of assets and liabilities through acquisition of subsidiaries (note 38)	13,522	—	—	—	—	13,522
Disposal of subsidiaries (note 39)	—	(3,280)	—	—	—	(3,280)
Deferred tax (credited) charged:						
to profit or loss during the year	—	(11,428)	11,582	—	6,914	7,068
to other comprehensive income during the year	—	—	—	(85,689)	—	(85,689)
Gross deferred tax liabilities at 31 December 2017	13,522	—	60,669	83,844	26,346	184,381

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

33. DEFERRED TAX *(Continued)*

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

	2017	2016
	RMB'000	RMB'000
Net deferred tax assets presented in the consolidated statement of financial position	**(241,182)**	(190,897)
Net deferred tax liabilities presented in the consolidated statement of financial position	**178,981**	238,095
	(62,201)	47,198

34. SHARE CAPITAL

Shares

	Number of shares (in thousand)	Amount USD'000	Equivalent to RMB'000
Ordinary shares of USD0.01 each			
Authorised:			
At 1 January 2016, 31 December 2016 and 31 December 2017	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2016, 31 December 2016 and 31 December 2017	1,635,291	16,352	119,218

35. RESERVES

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

(a) Share premium

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

(b) Deemed capital contribution reserve

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

(c) Statutory surplus reserve

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

(d) Capital reserve

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

(e) Other reserve

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

36. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

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

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders to refresh the said limit to not exceed 30% of the issued share capital of the Company from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of their associates in excess of 0.1% of the Company's share capital or with a value in excess of HKD5 million must be approved in advance by the Company's shareholders.

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

No share option was granted in 2016 and 2017, and the Scheme expired in 2017.

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

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

	2017	2016
Percentage of equity interest held by non-controlling interests of Tianjin Chuanzai*	53.04%	53.04%

	2017 RMB'000	2016 RMB'000
Loss for the year allocated to non-controlling interests of Tianjin Chuanzai	(2)	(29)
Dividend paid to non-controlling interests of Tianjin Chuanzai	—	—
Carrying amount of the non-controlling interests of Tianjin Chuanzai as at 31 December	97,178	97,180

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

	2017 RMB'000	2016 RMB'000
Revenue	—	—
Total expenses	(5)	(56)
Loss and total comprehensive expense for the year	(5)	(53)
Current assets	184,722	184,690
Non-current assets	—	—
Current liabilities	(1,507)	(1,471)
Non-current liabilities	—	—
Net cash from/(used in) operating activities	11	(214)
Net cash from investing activities	—	—
Net cash from financing activities	—	—
Increase/(decrease) in cash and cash equivalents	11	(214)

* At 31 December 2017, Tianjin Chuanzai was considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest. Based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Tianjin Chuanzai that has the power to direct the relevant activities of Tianjin Chuanzai. Therefore, the directors of the Company concluded that the Group has the practical ability to direct the relevant activities of Tianjin Chuanzai unilaterally and hence the Group has control over Tianjin Chuanzai.

38. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

On 20 March 2017, the Group acquired 100% equity interest in Nanjing Gaote Group from two independent third parties. Nanjing Gaote Group was principally engaged in the manufacturing of gearbox. Prior to the acquisition, Nanjing Gaote Group has suspended production with no incomplete order and no employee. At the date of acquisition, Nanjing Gaote Group mainly held certain prepaid land lease payments and property, plant and equipment. The acquisition was made solely to acquire its machinery and land and buildings for gear production. Accordingly, the acquisition of the Nanjing Gaote Group has been accounted for as acquisition of assets through acquisition of subsidiaries.

The assets and liabilities of Nanjing Gaote Group as at the date of acquisition were as follows:

	Fair value consideration allocated RMB'000
Bank balances and cash	2,319
Pledged bank deposits	1,972
Inventories	15,701
Trade and bills receivables	6,551
Prepayments, deposits and other receivables	12,342
Other tax prepaid	65,636
Total current assets	104,521
Property, plant and equipment	783,922
Prepaid land lease payments	112,790
Total non-current assets	896,712
Trade and bills payables	(11,026)
Other payables and accruals	(825,335)
Total current liabilities	(836,361)
Deferred tax liabilities	(13,522)
Total non-current liabilities	(13,522)
Total net assets acquired	151,350
Satisfied by cash	151,350

38. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	RMB'000
Cash consideration	151,350
Bank balances and cash acquired	(2,319)
Net outflow of cash and cash equivalents included in cash from investing activities	149,031

39. DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2017:

On 23 February 2017 and 27 March 2017, the Group entered into two equity transfer agreements with two independent third parties to dispose of its entire equity interests held in Nanjing Marine and Zhenjiang Tongzhou (collectively the "**Marine Disposal Group**") for an aggregate cash consideration of RMB607,000,000. In addition, the acquirer of Zhenjiang Tongzhou agreed to settle the payables to the Group of RMB245,312,000 on behalf of Zhenjiang Tongzhou, which was due to a subsidiary of the Group prior to the disposal. The Marine Disposal Group is engaged in the manufacturing and sales of marine gear transmission equipment. These disposals were completed on 27 February 2017 and 18 April 2017 respectively.

On 20 April 2017, the Group entered into an equity transfer agreement with an independent third party to dispose of its entire equity interests in Nanjing Jingjing and its subsidiaries (collectively the "**LED Disposal Group**") for a cash consideration of RMB155,176,000. The LED Disposal Group is engaged in the manufacturing and sales of LED products. The disposal was completed on 20 April 2017.

In December 2017, Nanjing Drive entered into an agreement with Datong Haode, the non-controlling interest shareholder of Ordos Shenchuan, to dispose of 45% of total shares of Ordos Shenchuan to Datong Haode. The disposal was completed on 5 December 2017. After the disposal, the Group retains 15% equity interest in Ordos Shenchuan and recognised as an available-for-sale investment at the end of the reporting period.

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

The net assets of the Marine Disposal Group, the LED Disposal Group and Ordos Shenchuan at the date of disposal and the resulting gain or loss on disposal recognised were as follows:

	Marine Disposal Group RMB'000	LED Disposal Group RMB'000	Ordos Shenchuan RMB'000	Total RMB'000
Net assets disposed of:				
Property, plant and equipment	594,054	507,243	6,844	1,108,141
Prepaid land lease payments	95,690	23,419	2,509	121,618
Interest in a joint venture	—	537	—	537
Other intangible assets	21,059	—	—	21,059
Deferred tax assets	262	—	—	262
Inventories	248,753	96,842	12,615	358,210
Pledged bank deposits	5,725	9,803	—	15,528
Bank balances and cash	12,262	58,475	5,417	76,154
Trade and bills receivables	210,513	261,574	11,202	483,289
Prepayments and other receivables	68,635	150,341	6,876	225,852
Trade and bills payables	(84,512)	(206,639)	(15,055)	(306,206)
Other payables and accruals	(288,764)	(477,070)	(1,909)	(767,743)
Receipts in advance and deposits received	(353,184)	(9,262)	—	(362,446)
Interest-bearing bank and other borrowings	—	(310,000)	—	(310,000)
Taxation payable	(148)	(467)	—	(615)
Deferred tax liabilities	(3,280)	—	—	(3,280)
Deferred income	(1,700)	(6,512)	—	(8,212)
	525,365	98,284	28,499	652,148
Non-controlling interests	4,682	(3,529)	(11,400)	(10,247)
Fair value of the retained interest	—	—	(2,333)	(2,333)
Gain/(loss) on disposal recognised in profit or loss	76,953	60,421	(7,766)	129,608
Net consideration	607,000	155,176	7,000	769,176

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

	Marine Disposal Group RMB'000	LED Disposal Group RMB'000	Ordos Shenchuan RMB'000	Total RMB'000
Satisfied by:				
Cash	607,000	155,176	1,000	763,176
Deferred cash consideration (note)	—	—	6,000	6,000
	607,000	155,176	7,000	769,176

Note: For the disposal of Ordos Shenchuan, the deferred consideration of RMB6,000,000 was settled in January 2018.

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

	Marine Disposal Group RMB'000	LED Disposal Group RMB'000	Ordos Shenchuan RMB'000	Total RMB'000
Cash consideration	607,000	155,176	1,000	763,176
Bank balances and cash disposed of	(12,262)	(58,475)	(5,417)	(76,154)
Net inflow (outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	594,738	96,701	(4,417)	687,022

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2016:

During the year ended 31 December 2016, Nanjing High Speed entered into an agreement with an independent third party to dispose of the Group's 100% equity interest in 南京寧宏建機械有限公司 Nanjing Ninghongjian Machinery Co., Ltd. ("Nanjing Ninghongjian"). The disposal was completed on 30 April 2016.

During the year, Nanjing Drive entered into an agreement with the other shareholder of 江蘇新貝斯特中傳科技有限公司 New Best Zhong-Chuan Technology Co., Ltd. ("New Best") to dispose of the Group's 63% equity interest in New Best. The disposal was completed on 30 December 2016.

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

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

39. DISPOSAL OF SUBSIDIARIES *(Continued)*

Year ended 31 December 2016: *(Continued)*

Note: For the disposal of New Best, the first instalment of RMB12,000,000 was settled in January 2017, the second instalment of RMB6,000,000 will be settled before 30 December 2019. For the disposal of Nanjing Ninghongjian, the deferred consideration is agreed to be settled on or before 30 October 2018.

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

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

40. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Finance lease payables RMB'000
At 1 January 2017	6,501,813	7,007
Changes from financing cash flows	1,595,088	(7,007)
Decrease arising from disposal of subsidiaries (note 39)	(310,000)	—
At 31 December 2017	7,786,901	—

41. CONTINGENT LIABILITIES

The Group entered an agreement (the "Agreement") effective from 1 January 2013 with a third party (the "Subcontractor"), pursuant to which, the Group assigns the Subcontractor and the Subcontractor agrees to repair certain of the wind gear products sold for the Group at a fixed fee at certain percentage of annual sales of those wind gear products of the Group (the "Fixed Fee"). The Group is not liable for any additional cost incurred by the Subcontractor in relation to the repair of those wind gear products, other than the Fixed Fee.

The Subcontractor however has not entered into any agreements with the customers of the wind gear products for the repair services. In the event of closure, liquidation, or inability of the Subcontractor to provide those repair services, the Group is still liable for such repair obligations should those customers claim for that against the Group. In the opinion of the directors, based on their experience, the financial position of the Subcontractor and their assessment of the current economic environment, the possibility of the default or inability by the Subcontractor to carry out the obligation is remote. Accordingly, no provision for the repair obligation of wind gear products has been made in the Group's financial statements at the end of the reporting period.

At 31 December 2017, the Group provided guarantees to one of the Group's associates in favour of its bank loans of RMB320,000,000 (2016: RMB236,000,000). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB11,108,000 (2016: nil) has been recognised in the consolidated statement of financial position as liabilities.

42. OPERATING LEASE ARRANGEMENTS

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

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**1,661**	3,304
In the second to fifth years, inclusive after five years	**1,280**	—
	2,941	3,304

43. COMMITMENTS

In addition to the operating lease commitments detailed in note 42 above, the Group had the following capital commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Land and buildings	**62,400**	90,277
Plant and machinery	**238,758**	274,316
Capital contributions payable to an associate	**59,260**	59,260
Capital contributions payable to available-for-sale investment	**35,000**	—
	395,418	423,853

44. RELATED PARTY TRANSACTIONS

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

	Notes	2017 RMB'000	2016 RMB'000
Associates:			
Purchases of products	(ii)	**104,194**	160,222
Sales of property, plant and equipment	(iii)	**—**	49,441
Other income	(iv)	**295**	9,410
Joint ventures:			
Sales of products	(i)	**10,997**	16,198
Purchases of products	(ii)	**7,887**	989
Other income	(iv)	**497**	462
Holding company of a non-controlling shareholder of a subsidiary:			
Rental expenses	(v)	**1,782**	1,521

Notes:

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

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

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

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

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

44. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties:

At 31 December 2017, the Group provided financial guarantees to Nanjing Gaochuan Mechanical and Electrical Automatic Control Equipment Co., Ltd., an associate of the Group, and its subsidiaries ("Nanjing Gaochuan") in favour of Nanjing Gaochuan's bank loans of RMB320,000,000 (2016: RMB236,000,000). The carrying amount of the financial guarantee liability was RMB11,108,000 as at 31 December 2017 (2016: nil).

(c) Outstanding balances with related parties:

The Group's trade and other balances with its joint ventures and associates as at the end of the reporting period are disclosed in notes 24, 25, 27 and 28 to the consolidated financial statements.

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

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

45. 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

	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	3,612,278	3,612,278
Trade and bills receivables	6,515,259	—	6,515,259
Financial assets included in prepayments, deposits and other receivables	1,546,073	—	1,546,073
Pledged bank deposits	2,892,955	—	2,892,955
Bank balances and cash	4,030,409	—	4,030,409
Structured bank deposits	108,000	—	108,000
	15,092,696	3,612,278	18,704,974

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	6,637,045
Financial liabilities included in other payables and accruals	455,826
Interest-bearing bank and other borrowings	7,786,901
	14,879,772

45. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

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

2016

Financial assets

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

Financial liabilities

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

46. 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	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Available-for-sale investments –				
listed equity investment, at fair value	**436,660**	781,508	**436,660**	781,508
Financial liabilities				
Bank and other borrowings	**7,786,901**	6,501,813	**7,964,058**	6,600,021

Management has assessed that the fair values of bank balances and cash, pledged bank deposits, structured bank deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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.

46. 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:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2017				
Available-for-sale investments:				
Listed equity investments	**436,660**	—	—	**436,660**
As at 31 December 2016				
Available-for-sale investments:				
Listed equity investments	781,508	—	—	781,508

Liabilities for which fair value are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
As at 31 December 2017				
Bank and other borrowings	—	**7,964,058**	—	**7,964,058**
As at 31 December 2016				
Bank and other borrowings	—	6,600,021	—	6,600,021

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

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

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

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

For variable-rate bank and other borrowings, if the interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2017 would have decreased by approximately RMB2,250,000 (2016: RMB1,572,000).

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 28% (2016: 33%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 1% (2016: 1%) of costs were not denominated in the units' functional currencies.

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

Assets

	2017 RMB'000	2016 RMB'000
United States Dollars (USD)	**691,294**	1,513,594
Hong Kong Dollars (HKD)	**112,934**	33,065
Euro (EUR)	**337,108**	312,656
Singapore Dollars (SGD)	**39,431**	7,736

Liabilities

	2017 RMB'000	2016 RMB'000
United States Dollars (USD)	**512,919**	142,779
Hong Kong Dollars (HKD)	**27,041**	6
Euro (EUR)	**190,441**	524
Singapore Dollars (SGD)	**4,598**	3,975

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

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

Foreign currency risk *(Continued)*

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

	Increase (decrease) in RMB rate %	Increase (decrease) in profit after tax RMB'000	Increase (decrease) in equity* RMB'000
2017			
If the HKD weakens against the RMB	**5%**	**(2,392)**	**(1,106)**
If the HKD dollar strengthens against the RMB	**(5%)**	**2,392**	**1,106**
If the USD weakens against the RMB	**5%**	**(6,689)**	**—**
If the USD strengthens against the RMB	**(5%)**	**6,689**	**—**
If the EUR weakens against the RMB	**5%**	**(5,500)**	**—**
If the EUR strengthens against the RMB	**(5%)**	**5,500**	**—**
2016			
If the HKD weakens against the RMB	5%	(443)	(1,210)
If the HKD dollar strengthens against the RMB	(5%)	443	1,210
If the USD weakens against the RMB	5%	(66,936)	—
If the USD strengthens against the RMB	(5%)	66,936	—
If the EUR weakens against the RMB	5%	(14,930)	—
If the EUR strengthens against the RMB	(5%)	14,930	—

* Excluding retained profits

Equity price risk

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

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective listed equity instruments had been 10% (2016: 10%) higher/lower, the other comprehensive income for the year ended 31 December 2017 would have increased/decreased by approximately RMB33,302,000 (2016: RMB58,116,000) as a result of the changes in fair value of the listed equity instruments.

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

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and discounted and endorsed bills with full recourse which were derecognised by the Group (see note 24 for details).

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

The Group has concentration of credit risk in respect of bank balances, structured bank deposits and pledged bank deposits. At 31 December 2017, approximately 51% (2016: 40%) of the total bank balances, structured bank deposits and pledged bank deposits were deposited at 3 (2016: 3) banks, with deposits at each bank with a balance exceeding 10% of total bank balances, structured bank deposits and pledged bank deposits. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks with good reputation.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2017, trade and bills receivables from five customers engaged in the wind milling industry accounted for approximately 38% (2016: 41%) of the Group's trade and bills receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Group's trade and bills receivables.

Liquidity risk

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

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

Liquidity risk *(Continued)*

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

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

	2017				
	Less than 3 months RMB'000	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**More than 5 year RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**1,305,838**	**4,367,935**	**2,815,200**	**—**	**8,488,973**
Trade and bills payables	**1,587,130**	**5,049,915**	**—**	**—**	**6,637,045**
Other payables	**307,972**	**147,854**	**—**	**—**	**455,826**
Financial guarantee contract	**24,531**	**190,336**	**30,576**	**140,575**	**386,018**
	3,225,471	**9,756,040**	**2,845,776**	**140,575**	**15,967,862**

	2016				
	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	More than 5 year RMB'000	Total RMB'000
Finance lease payables	6,575	595	—	—	7,170
Interest-bearing bank and other borrowings	1,600,010	3,875,609	1,302,595	—	6,778,214
Trade and bills payables	1,571,275	4,999,465	—	—	6,570,740
Other payables	270,596	240,293	—	—	510,889
Financial guarantee contract	3,336	243,896	—	—	247,232
	3,451,792	9,359,858	1,302,595	—	14,114,245

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

Liquidity risk *(Continued)*

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

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

Capital management

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

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

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

48. OTHER MATTER

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

During the year ended 31 December 2015, the Group collected an aggregate RMB700 million from the Jiangning Government, representing the full amount of the first instalment and the second instalment. The RMB700 million is principally to compensate for the costs incurred in relation to and as a result of the Land Resumption and was accounted for as a government grant for compensation of expenses or losses. During the current year, the Land Resumption was completed and the Group collected the last instalment of RMB600 million from the Jiangning Government.

	RMB'000
Receipt from the Jiangning Government	700,000
Release and credited to related costs	(192,505)
Balance at 31 December 2015	507,495
Release and credited to related costs	(326,767)
Balance at 31 December 2016	180,728
Receipt from the Jiangning Government	600,000
Release and credited to related costs	(392,845)
Release and set-off with the related property, plant and equipment	(214,802)
Release and set-off with the related prepaid land lease payments	(13,918)
Gain from land resumption	(159,163)
Balance at 31 December 2017	—

49. EVENTS AFTER THE REPORTING PERIOD

On 3 January 2018, Nanjing Drive issued a corporate bond of RMB500,000,000, which carries an interest rate of 7.5% per annum with a term of not more than 5 years.

As disclosed in the announcement jointly issued by the Company and Fullshare Holdings on 18 January 2018, the Company was informed by Fullshare Holdings that, on 17 January 2018, each of Five Seasons XVI Limited, the immediate holding company of the Company and Mr. Ji Changqun, the chairman of the board of directors of Fullshare Holdings, the chief executive officer and an ultimate controlling shareholder of Fullshare Holdings, is also personally interested in 17,890,000 shares of the Company, representing approximately 1.09% of the entire issued share capital of the Company entered into a non-legally binding memorandum of understanding ("MOU") with an independent third party, Neoglory Prosperity Inc.* (新光圓成股份有限公司), a PRC company listed on the Shenzhen Stock Exchange (SZSE Stock Code: 002147) ("Potential Offeror"), respectively, in relation to a possible conditional voluntary partial cash offer for more than 50% but not exceeding 75% of the issued capital of the Company.

Subsequent to the entering into of the MOU, as disclosed in the joint announcement of the Company and Fullshare Holdings dated 15 March 2018, instead of a possible conditional voluntary partial cash offer for issued shares of the Company, the Potential Offeror and Five Seasons XVI Limited have been in discussions of a possible sale and purchase of Five Seasons XVI Limited' direct shareholding interests in the Company that would represent more than 50% but not exceeding 73.91% of the issued shares of the Company ("Possible Transaction"). Despite the possible change of transaction structure, if the Possible Transaction materialises and is completed, it will still result in a change in control of the Company and a mandatory general offer ("Possible Mandatory Offer"), in cash, for the issued shares of the Company will be made under Rule 26.1 of the Takeovers Code by the Potential Offeror. As at the date of approval of these consolidated financial statements, as advised by Fullshare Holdings, the discussion between all parties are still on-going and no commitment or any formal or legally binding agreement has been reached or entered into, nor any material terms and conditions in respect of the Possible Transaction and the Possible Mandatory Offer have been agreed. For details, please refer to the joint announcements dated 18 January 2018, 14 February 2018 and 15 March 2018 made by the Company and Fullshare Holdings.

50. 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	**3**	3
Interests in subsidiaries	**4,484,944**	5,270,201
Available-for-sale investments	**22,111**	24,197
Total non-current assets	**4,507,058**	5,294,401
CURRENT ASSETS		
Prepayments, deposits and other receivables	**60,436**	69,083
Bank balances and cash	**18,832**	15,708
Total current assets	**79,268**	84,791
CURRENT LIABILITIES		
Amounts due to subsidiaries	**7,842**	10,246
Other payables and accruals	**292**	2,572
Interest-bearing bank and other borrowings	**—**	260,694
Total current liabilities	**8,134**	273,512
NET CURRENT ASSETS/(LIABILITIES)	**71,134**	(188,721)
TOTAL ASSETS LESS CURRENT LIABILITIES	**4,578,192**	5,105,680
Net assets	**4,578,192**	5,105,680
EQUITY		
Share capital	**119,218**	119,218
Reserves (Note)	**4,458,974**	4,986,462
Total equity	**4,578,192**	5,105,680

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

Note:

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

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	5,010,141	77,651	—	17,707	5,105,499
Profit and total comprehensive income for the year	—	—	—	199,907	199,907
Final 2015 dividend declared	(318,944)	—	—	—	(318,944)
At 31 December 2016	4,691,197	77,651	—	217,614	4,986,462
Loss for the year	—	—	—	(192,990)	(192,990)
Other comprehensive expense for the year:					
Change in fair value of available-for-sale investments	—	—	(2,086)	—	(2,086)
Total comprehensive expense for the year	—	—	(2,086)	(192,990)	(195,076)
Final 2016 dividend declared	(332,412)	—	—	—	(332,412)
At 31 December 2017	4,358,785	77,651	(2,086)	24,624	4,458,974

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2018.