CIMC ENRIC

CIMC Enric Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3899

Annual Report 2017

Vision

To be a respected world-leading enterprise in energy, chemical and liquid food industries.

Mission

To contribute to the healthy development for the global energy, chemical and liquid food equipment markets; to contribute a better living; to create value for the company's stakeholders.

About Us

Founded in 2004, CIMC Enric Holdings Limited has been listed on the Hong Kong Stock Exchange since 2005. We are a member of the CIMC Group.

Our production bases and R&D centres are located in various countries including China, the Netherlands, Germany, Belgium, Denmark and United Kingdom, shaping an interactive and complementary business model across China and Europe. Our sales and marketing network spans across the world.

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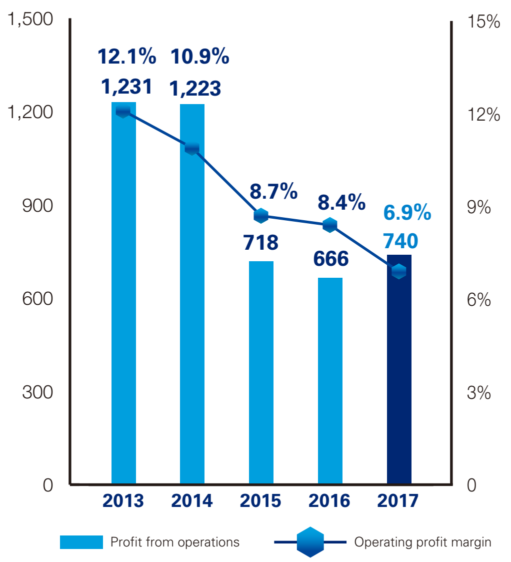
FIVE-YEAR FINANCIAL SUMMARY

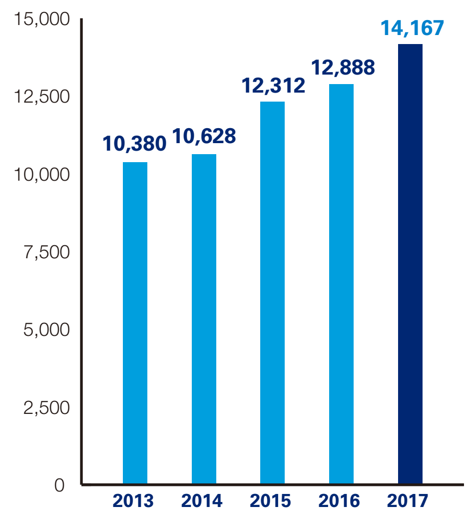
	For the year ended 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000 (restated)	2013 RMB'000
Revenue	**10,671,276**	7,968,403	8,241,333	11,266,822	10,171,813
Profit from operations	**740,475**	665,559	718,276	1,222,694	1,230,512
Finance costs	**(79,401)**	(106,897)	(36,820)	(33,496)	(35,188)
Impairment provision	**(105,549)**	(1,362,915)	–	–	–
Share of post-tax loss of associates	**(245)**	–	(426)	(1,497)	–
Profit/(loss) before taxation	**555,280**	(804,253)	681,030	1,187,701	1,195,324
Income tax expenses	**(135,099)**	(132,427)	(144,817)	(148,330)	(207,584)
Profit/(loss) for the year	**420,181**	(936,680)	536,213	1,039,371	987,740
Attributable to:					
Equity shareholders of the Company	**417,360**	(928,772)	519,194	1,027,638	979,595
Non-controlling interests	**2,821**	(7,908)	17,019	11,733	8,145
Profit/(loss) for the year	**420,181**	(936,680)	536,213	1,039,371	987,740
Earnings/(loss) per share					
– Basic	**RMB0.215**	(RMB0.480)	RMB0.268	RMB0.531	RMB0.509
– Diluted	**RMB0.213**	(RMB0.480)	RMB0.265	RMB0.521	RMB0.498

	As at 31 December				
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000 (restated)	2013 RMB'000
Total Assets	**14,167,219**	12,888,423	12,312,226	10,627,725	10,379,864
Total Liabilities	**(8,306,241)**	(7,586,358)	(5,846,754)	(4,499,095)	(5,056,848)
Net Assets	**5,860,978**	5,302,065	6,465,472	6,128,630	5,323,016

Profit from operations
RMB million



Total assets at 31 December
RMB million



FINANCIAL HIGHLIGHTS

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000	+/-
FINANCIAL POSITION			
Total assets	**14,167,219**	12,888,423	9.9%
Net assets	**5,860,978**	5,302,065	10.5%
Net current assets	**2,636,463**	3,806,749	-30.5%
Cash and cash equivalents	**2,251,175**	2,916,900	-22.8%
Bank loans and loans from related parties	**1,495,308**	2,473,994	-39.6%
Gearing ratio[1]	**25.5%**	46.7%	-21.2 ppt

For the year ended 31 December

	2017 RMB'000	2016 RMB'000	+/-
OPERATING RESULTS			
Revenue	**10,671,276**	7,968,403	33.9%
Gross profit	**1,796,289**	1,403,633	28.0%
EBITDA[2]	**992,736**	900,634	10.2%
Profit from operations	**740,475**	665,559	11.3%
Profit/(loss) attributable to equity shareholders	**417,360**	(928,772)	144.9%
PER SHARE DATA			
Earnings/(loss) per share – Basic	**RMB0.215**	(RMB0.480)	144.8%
Earnings/(loss) per share – Diluted	**RMB0.213**	(RMB0.480)	144.4%
Net asset value per share	**RMB3.017**	RMB2.737	10.2%
KEY STATISTICS			
GP ratio	**16.8%**	17.6%	-0.8 ppt
EBITDA margin	**9.3%**	11.3%	-2.0 ppt
Operating profit margin	**6.9%**	8.4%	-1.5 ppt
Net profit margin[3]	**3.9%**	-11.7%	15.6 ppt
Return on equity[4]	**7.7%**	-16.2%	23.9 ppt
Interest coverage – times	**9.6**	6.7	+2.9
Inventory turnover days	**109**	116	-7
Debtor turnover days	**98**	122	-24
Creditor turnover days	**90**	105	-15

Notes:

1 Gearing ratio = Bank loans and loans from related parties ÷ Total equity

2 Excludes impairment provision of RMB105,549,000 (2016: RMB1,362,915,000)

3 Net profit margin = Profit/(loss) attributable to equity shareholders ÷ Revenue

4 Return on equity = Profit/(loss) attributable to equity shareholders ÷ Average shareholders' equity

CORPORATE INFORMATION

Directors

Executive Directors

Gao Xiang *(Chairman)*
Yang Xiaohu *(General Manager)*

Non-executive Directors

Jin Jianlong
Yu Yuqun
Wang Yu
Jin Yongsheng

Independent Non-executive Directors

Wong Chun Ho
Tsui Kei Pang
Zhang Xueqian

Company Secretary

Cheong Siu Fai *CPA*

Audit Committee

Wong Chun Ho* *CFA, CPA*
Tsui Kei Pang
Zhang Xueqian

Remuneration Committee

Tsui Kei Pang*
Jin Jianlong
Zhang Xueqian

Nomination Committee

Gao Xiang*
Wong Chun Ho
Zhang Xueqian

* *chairman of the relevant Board committees*

Authorised Representatives

Gao Xiang
Cheong Siu Fai

Registered Office

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

Head Office in the PRC

CIMC R&D Center
No. 2 Gangwan Avenue
Shekou Industrial Zone
Shenzhen, Guangdong
The PRC

Principal Place of Business in Hong Kong

Unit 908, 9th Floor
Fairmont House
No. 8 Cotton Tree Drive
Central
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Legal Advisor

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

Principal Bankers

Agricultural Bank of China
ANZ Bank
Bank of Communications
Bank of China
China Construction Bank
Dah Sing Bank
Taipei Fubon Bank
Rabobank

Principal Share Registrar and Transfer Agent

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Important Date

Annual General Meeting

18 May 2018

Closure of Register of Members for the 2017 Final Dividend

28 May 2018 to 1 June 2018 (both days inclusive)

Payment of 2017 Final Dividend

On or about 25 June 2018

Stock Code

3899

Company Website

www.enricgroup.com

Investor Relations Portal

www.irasia.com/listco/hk/enric

CHAIRMAN'S STATEMENT

Dear Shareholders and Partners,

CIMC Enric experienced a crucial year in 2017 with a range of challenges facing the sectors it is engaged in. Compared to the Group recorded loss attributable to equity shareholders for the year of 2016, the Group reported the profit attributable to equity shareholders for the year of 2017. We strive to become a respected world-leading enterprise in the energy, chemical and liquid food industries.

Major Events of 2017

On 5 July 2017, the Group as a restructuring investor entered into an agreement to acquire the entire equity interests in SinoPacific Offshore & Engineering Co., Ltd. ("SOE"). The restructuring plan has been approved by the PRC Court under the relevant laws of the PRC on 4 August 2017. Moreover, SOE has become an indirect wholly-owned subsidiary of the Company and name of SOE has been changed to "南通中集太平洋海洋工程有限公司 Nantong CIMC SinoPacific Offshore & Engineering Co., Ltd.." SOE is principally engaged in the design and manufacturing of on-carrier Type C Tank complied with International Maritime Organization (IMO) standards; design, manufacturing and complete vessel delivery of small and midsize liquefied ethylene/ethane gas (LEG)/liquefied petroleum gas (LPG)/liquefied natural gas (LNG) carriers; design and manufacturing of fuel tanks for LNG-powered vessel and offshore oil and gas treatment modules. With the acquisition, the Group has the opportunity to extend its value chain for natural gas equipment and engineering from onshore to offshore and from downstream to upstream, and will facilitate the Group in building its integrated capabilities for purification, liquefaction, storage and transportation of natural gas both onshore and offshore.

On 18 October 2017, an indirect wholly-owned subsidiary of Company entered into the energy and environmental protection funds cooperation framework agreement in relation to the establishment of dedicated funds, which will focus on investing in equity interests of growing and matured energy and environmental projects with proprietary technologies, economies of scale or development potential.

On 27 October 2017, Mr. Liu Chunfeng resigned as an executive Director and general manager of the Company. And Mr. Yang Xiaohu was appointed as an executive Director and general manager of the Company. The Chairman and Nomination Committee would review the structure, size and composition, including skills, knowledge and experiences of the Board from time to time for the complement of the Group's development strategy.

Results of the Year

Revenue rebounded by 33.9% to RMB10,671,276,000 (2016: RMB7,968,403,000). The energy equipment and engineering segment's revenue recorded a surge of 53.0% to RMB4,958,683,000 (2016: RMB3,241,382,000) mainly because of a rise in demand for LNG products. Due to increase in volume, the chemical equipment segment posted a revenue increase of 22.4% to RMB3,026,389,000 (2016: RMB2,471,644,000). The liquid food equipment segment's revenue rose by 19.1% to RMB2,686,204,000 (2016: RMB2,255,377,000), partly due to acquisition of Briggs in 2016 and partly to appreciation of Euro against RMB.

Profit from operations rose from RMB665,559,000 in 2016 to RMB740,475,000 in 2017. The Company turned around from a loss of RMB928,772,000 in 2016 to a profit attributable to shareholders of RMB417,360,000 in 2017. Basic and diluted earnings per share increased to RMB0.215 and RMB0.213 respectively (2016: both basic and diluted loss per share RMB0.480).

2017 Final Dividend

Taking into consideration of the Group's business development and efforts to increase return on equity, the Board proposes a final dividend for 2017.

The Board recommends a final dividend in respect of 2017 of HKD0.08 (2016: Nil) per ordinary share payable in cash on or about 25 June 2018 to shareholders whose names appear on the register of members of the Company on 1 June 2018, subject to shareholders' approval in the forthcoming annual general meeting on 18 May 2018.

Market Recognitions

CIMC Enric is honoured to be continuously recognised by the market. Each of the following recognitions endorses the public's confidence in the Group.

- Since March 2013, CIMC Enric has been included as a constituent of Hang Seng Global Composite Index and Hang Seng Composite Index Series;
- Since March 2014, CIMC Enric has been selected as a constituent of FTSE Hong Kong Index and FTSE Hong Kong ex H Share Index;
- Since November 2014, CIMC Enric has been included as eligible listed shares for Southbound trading under Shanghai-Hong Kong Stock Connect; and
- Since December 2016, CIMC Enric has been included as eligible listed shares for Southbound trading under Shenzhen-Hong Kong Stock Connect.

The Group is delighted that CIMC Enric was awarded the fourth place among the "2014 Top 50 Energy Enterprises with the Most Promising Growth Potential" by "Energy" magazine and the Energy Business School in China. Several subsidiaries of the Group also received awards and certifications for financial performance, product innovation and prestige branding during 2015. These achievements fully demonstrated the Group's continuous commitment to strive for industry excellence.

Prospects

Since mid-2016, the recovery of global economy has been further strengthened. Approximately 120 economies (which accounted for 75% of the global GDP) reported faster year-on-year economic growth for 2017, which is a period of broadest global economic growth since 2010. This was underpinned by a notably higher global economic growth rate, ongoing improvements in the labour market, moderate increase in global consumer prices, rising bulk commodity prices, improved growth rates for international trade and so on. International Monetary Fund upped its 2017 global growth forecast to 3.7% in "World Economic Outlook", who believes the strong growth momentum is expected to sustain through 2018 and 2019, and revised the global growth rate upward to 3.9% for these two years accordingly.

The Chinese economy has been an instrumental force behind the robust global economic growth. According to the National Bureau of Statistics, China's full-year GDP for 2017 amounted to RMB82,700 billion, representing an annual growth rate of 6.9%, which makes China a leader among the major economies. It is worth noting that China's economic development in 2017 was chiefly characterised by the gradual consolidation of its transition from high-speed to high-quality growth.

Under the favourable context of global economic recovery and high-quality economic growth in China, the Group would adhere to the philosophy of sustainable development of clean energy, green logistics and beautiful life. We would continue to pursue the vision of becoming "a respected world-leading enterprise in energy/chemical/liquid food industries", to contribute to the healthy development of the global energy, chemical and liquid food industries, to contribute to a better living and to create value for the Company's stakeholders.

Energy Equipment and Engineering

During 2017, natural gas has grown into a hot topic, news about natural gas reforms, satellite supply stations, coal-to-gas conversion, pollution management, and also regional "gas shortage" in China have attracted many attentions. To some extent, the stable supply of natural gas has become one of the most important livelihood issues. Despite the ups and downs, China's natural gas market has gone through the stage of most rapid growth during 2017, whether in terms of market liberalisation or natural gas consumption.

Given the recovery of international oil price and the positive Chinese economy, a series of policies in favour of the development of natural-gas-related industry have been announced and implemented intensively, pushing China's natural gas consumption back on track to rapid growth. According to National Development and Reform Commission, China produced 148.7 billion cubic metres and imported 92.0 billion cubic metres of natural gas in 2017, representing year-on-year growth of 8.5% and 27.6%, respectively, while the volume of natural gas consumption increased to 237.3 billion cubic metres, with a year-on-year growth of 15.3%. Moreover, natural gas consumption is expected to maintain high growth in the long run, as BP Energy predicts that natural gas will overtake coal as the world's second largest energy source by 2035 and account for a larger share of primary energy. Therefore, we believe that the energy equipment and engineering segment is and will remain in a phase of rapid growth of the natural gas industry especially liquefied natural gas.

In view of such favourable prospect, the Group's energy equipment and engineering segment will continue to pursue strategies such as internal optimisation, capacity consolidation and business collaboration, etc, as it strengthens and expands its existing capabilities in key equipment manufacturing, engineering services and solutions, to strategically covering the whole natural gas industry value chain, more particularly, to cover LNG marine applications such as the small-medium sized multi-gas carriers, LNG marine fuel tank series and offshore engineering/oil gas treatment module. In the meantime, the segment strives to develop other natural-gas-oriented business such as clean fuel storage and transportation equipment manufacturing, on-vehicle fuel tank manufacturing and the integrated solution for distributed energy application. The segment also actively explores other clean energy business opportunities in order to sustain a stable business development.

Chemical Equipment

With advantages such as leak-proof, safety, eco-friendliness, recyclability, long service life, versatility with intermodal transportation for a diverse range of products and economic efficiency, tank container has been widely used in the European and American markets for years. Meanwhile, hazardous chemicals in China are transported via traditional modes with potential safety hazards such as tank trucks, drum barrels or bags, resulting in numerous serious accidents. Meanwhile, the Chinese government is applying more stringent requirements in the control of hazardous chemical transportation and, with the nation's standards gradually converging with international standards, the prospect of tank container usage in China is growing.

In May 2017, a full freight of liquefied chemicals was exported from Xinjiang to Europe via the "Xinjiang-Europe-Mediterranean" Sino-European rail freight service for the first time, using tank containers manufactured by the Group. The facilitation of liquefied chemical trading in tank containers between China and Europe, would promote the sharing of resources and the economic development of countries along the routes.

In the longer term, the global chemical industry is expected to sustain a steady growth following the gradually stabilising global economy as well as developments of the emerging markets. The global investment in chemical products is expected to recover gradually. Tank container as a safe, economical, eco-friendly and digitalised means of logistics will be the future development trend. Moreover, the advance in science and technology will result in the development of new chemical products which in turn will raise the demand for tank containers.

In view of the above, the chemical equipment segment of the Group would be engaged in offering chemical logistic solutions, targeting one-stop service for clients, with an aim to cement its leading position in the global market. On one hand, the segment will enhance its production efficiency and general competitiveness through innovations in manufacturing technology, cost control and optimised production. On the other hand, it will also provide in-depth after-sales services, while exploring new possibilities of the tank container business from internet-of-things (IOT) technology, helping clients to build digitalised operation system and improve their operating efficiency.

Liquid Food Equipment

Through the renowned brands of "Ziemann Holvrieka" and "Briggs", the Group possesses competitive strengths which are derived from its world-leading capabilities in design, manufacture and project engineering of breweries, brewery equipment and distilleries, proven business results and global brand influence. Meanwhile, the diverse geographic locations of production facilities in Europe and China have afforded a solid ability in global coordination over production, procurement, operation and regional marketing.

The acquisition of Briggs Group Limited in 2016, with headquarters located in the UK, strengthened the segment's process capabilities with extensive process design knowledge in breweries, pharmaceutics and distilleries. Integration of Briggs is an ongoing process and has proven to be successful, already resulting in projects with an extended scope in the distilling and pharmaceutical markets of North and South Americas.

The segment will continue to enhance the branding of "Ziemann Holvrieka" and "Briggs". Under the objective of a unified corporate image, the segment position itself as "engineers, enthusiasts, consultants and enablers" whose major capacity is to know customers business right down to the last detail. By acting and thinking sustainably, the segment will continue to implement marketing strategies to improve the market positioning as well as increase brand awareness and customer intimacy.

Appreciation

As Mr. Liu Chunfeng resigned from the Board on 27 October 2017, I would like to take this opportunity to thank him for his contribution to the Group during his tenure of office.

In addition, I would like to thank my fellow Directors for their contribution and all our staff for their dedication and hard work. On behalf of the Board and the management, I would like to express my sincere gratitude to our shareholders, customers, suppliers and business partners for their continuing support. Looking ahead, the Group remains prudently optimistic about the outlook of the sectors it is engaged in. The Group firmly believes that the combination of the Group's key strategies and diversified business model will create sustainable and long-term value to shareholders.

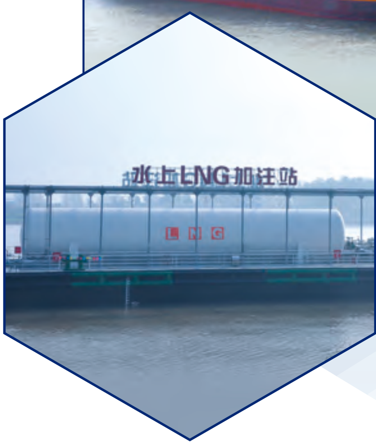
Gao Xiang
Chairman

Hong Kong, 21 March 2018

ENERGY EQUIPMENT AND ENGINEERING

LNG & CNG Products

LNG Marine Applications and Transportation



LNG EPC Projects

Industry Overview

During the past year, the global natural gas market shrugged off previous lacklustre performance as more positive sentiments began to set in. Both global supply and consumption of natural gas were back on the growth track, boosting natural gas trade especially LNG trade around the world. Meanwhile, 2017 is also a year of significant progress to China's natural gas market, whether in terms of market liberalisation or natural gas consumption, marking the beginning of a golden age for clean application of natural gas in China.

Policy and pricing remained two fundamental factors affecting the consumption of natural gas in China. Given the recovery of international oil prices and the positive China's economy, series of policies relating to the utilisation of natural gas and its pricing mechanism, infrastructure construction and operational management, have been announced and implemented intensively, pushing China's natural gas consumption back on track to rapid growth. In particular, the "Opinion on Procuring Faster Progress in Natural Gas Utilisation" published by 13 national authorities including the National Development and Reform Commission ("NDRC") in July 2017, specifically calls for faster progress in the utilisation of natural gas in sectors such as town gas supply, industrial fuel, gas-fired power generation and transportation. The opinion aims to build up China's modern clean energy system within which natural gas would play a key role.

Date	Authority	Document	Key contents
December 2016	NDRC and National Energy Administration	"Natural Gas Development 13th Five-Year Plan"	Natural gas will have 8–10% coverage of total energy consumption in year 2020, comparing with 5.9% in 2015.
February 2017	Ministry of Environmental Protection, NDRC, Ministry of Finance, National Energy Administration and other six provinces and cities	"2017 Work Plan for the Prevention of Atmospheric Pollution in Beijing, Tianjin, Hebei and the Surrounding Areas"	"Coal-to-gas" conversion initiated in "2+26" cities in year 2017.
April 2017	State Council Executive Meeting		State Council Executive Meeting resolved to lower natural gas VAT rate from 13% to 11%.
May 2017	Communist Party of China (CPC) Central Committee and State Council	"Structural Reform of Petroleum and Natural Gas Industry"	Clarifying the direction for mid- and downstream reform of the oil and gas industry to stimulate market vigour by encouraging competition
June 2017	NDRC	"Guiding Opinion on Strengthening Regulation over Gas Distribution Tariff"	Instructing local authorities to further enhance regulation over gas distribution tariff in cities and towns to expedite market liberalisation of the natural gas industry.
June 2017	NDRC and other twelve national authorities	"Opinion on Procuring Faster Progress in Natural Gas Utilisation"	Ascertaining the status of natural gas as a major energy form in China's modern clean energy regime.

Date	Authority	Document	Key contents
October 2017	NDRC and National Energy Administration	"Notice on Full Commencement of Self-inspection and Rectification for the Construction and Operation of Natural Gas Storage and Peak-shaving Facilities"	Calling for gas storage capacity of major gas supply companies to reach 10% of contracted gas supply volume by 2020, with all local regions having the gas storage capacity for 3 days' consumption in average.
December 2017	NDRC, National Energy Administration, Ministry of Finance, Ministry of Environmental and other six national departments	"Planning for Clean Heating in Winter in Northern Regions (2017–2021)"	Calling for the ratio for clean-heating in northern regions to reach 50% and 70% by 2019 and 2021, replacing 74 million tonnes and 150 million tonnes of coal (including low efficiency coal-fired boiler), respectively.
January 2018	Hebei Provincial Development and Reform Commission	"Notice on Expediting Submission of List of Natural Gas Storage Projects"	Further enhancing the ability of gas storage facilities in Henan for peak-shaving purpose and expediting the construction of gas storage facility projects.
February 2018	Ministry of Finance, General Administration of Customs and State Administration of Taxation	"Notice on Issues relating to the Adjustment of the Natural Gas Import Tax Concession Policy"	Adjusting the natural gas import tax concession policy by revising the price of piped natural gas to RMB0.94/cubic metre.

A Large-scale "coal-to-gas" conversion had been initiated in China to comply with the increasingly stringent environmental protection policies, contributing to a flood of new demand for natural gas domestically. Nevertheless, the domestic natural gas production is not likely to increase significantly in the short term, while the construction of natural gas storage facilities is only at a start-up stage. Thus, the sudden surge in domestic natural gas consumption can only be addressed by imports. As the gas transmission volume of the Central Asian pipeline failed to meet expectations, LNG receiving terminals had played a more significant role in catering to the drastic growth in domestic demand for natural gas in the short to medium term, boosting the demand for LNG storage and transportation equipment correspondingly. According to General Administration of Customs of PRC, China's natural gas rose by 26.9% in 2017, setting a record of 68.57 million tonnes, comprising LNG imports of 38.13 million tonnes which represented substantial annual growth of 46%. China has then become the world's second largest LNG importing country. China's LNG import continued to grow in 2018, with a new record of 5.18 million tonnes of monthly LNG import in January, besting the record of 5.03 million tonnes set in December 2017.

Besides, the continuous growth in global LNG trade, the commercial mass production of shale gas in US and ethane trading between China and US would all stimulated the development of liquefied multi-gas carriers. With the regulation on ships fuel efficiency getting more rigorous and more widely practised, natural-gas-powered ships would embrace a broader market in long term. In addition, there is a good prospect for the exploitation of offshore oil resources in long term as a national strategic industry, which has been featured prominently in initiatives such as the "18th CPC Congress" Maritime Power Strategy, "Made in China 2025", "Belt and Road" Strategy, the National Strategic Action Plan for Energy Development, 13th Five-Year Energy Planning and Upgrade for the Top 10 Industries in State Council planning. In particular, it would benefit the development of FLNG (LNG Floating Production Storage and of Floating Unit), LNG-FSRU (Floating Storage Regasification Unit) and LNG-FPSO (Floating Production Storage & Offloading Unit).

Business Overview

The "coal-to-gas" conversion was rapidly and thoroughly implemented during 2017, in tandem with stringent air pollution control, environmental emission reduction and even emission forbidden in northern regions, especially in the "2+26" cities. Coupled with generally insufficient capacity of gas storage and redistribution facilities in cities for peak-shaving purpose, the seasonal disparities between natural gas supply and demand was once again aggravated during 2017, resulting in rocketing LNG prices and regional "gas shortage" in winter. Under the background of tightened supply of natural gas, there is a "residential first" restriction of limiting gas supply to non-residential users to safeguard supply for residential usage which forced the industry users to reduce piped gas consumption and resort to LNG as alternative. LNG imports surged but was not enough for the domestic consumption, resulting in a sharp increase in the demand for LNG midstream and downstream storage and transportation equipment.

As a result, the demand for the LNG trailers increased substantially, so as the demand for LNG storage tanks as well as small and midsize LNG satellite supply equipment "Anjietong". There was also a substantial growth in the sales of on-vehicle LNG fuel tanks resulting from the explosive growth of LNG trucks in domestic market. In addition, LNG marine applications and intermodal LNG tank containers also achieved rapid development. The flourishing market has escalated peer competition. To cement the segment's leading market position, to further expand its business presence and to foster competitive strengths, the segment has adopted the strategy of differentiation and localisation which is tailored for domestic market competition, involving timely pricing adjustments in response to market changes, as well as the reallocation of production capacities of the LNG business and the CNG business and related business restructuring.

In August 2017, the Group completed the acquisition of the entire equity interests in SinoPacific Offshore & Engineering Co., Ltd, which was subsequently renamed as"Nantong CIMC SinoPacific Offshore & Engineering Co., Ltd." (南通中集太平洋海洋工程有限公司). SOE is not only a world leader in the niche market for small and midsized liquefied multi-gas carriers with top-ranking global market shares, but also a domestic pioneer in offshore module construction. The acquisition of SOE has enhanced the Company's capability of key equipment manufacturing and engineering service covering the entire natural gas industry chain, and extended its strategic business layout from onshore to offshore. Through the introduction of the Company's lean production and management system into SOE, notable improvements in safe production, quality control and cost management has been achieved after the acquisition. Currently, it has regained international market recognition and new orders keep coming in. The Group will strive to build SOE into an international marine engineering company with core competence.

Operational Performance

During the year, the energy equipment and engineering segment's revenue rose by 53.0% to RMB4,958,683,000 (2016: RMB3,241,382,000). The increase in import of LNG substantially boosted the demand for LNG trailers. While the widening of the price differential between natural gas and oil, caused natural gas vehicle related products like on-vehicle LNG fuel tanks to record a robust rebound in demand during 2017. At the same time the expansion into marine LNG module business and LNG tank containers, as a new LNG storage and transportation medium, also contributed to the growth in natural gas equipment's revenue during the year. The segment remains the top grossing segment and accounted for 46.4% of the Group's total revenue (2016: 40.7%). The segment's operating profit for the year rose to RMB109,567,000 (2016: RMB65,636,000) which was mainly due to the increase in revenue during the year.

Research and Development

The energy equipment and engineering segment completed a number of successful R&D projects in 2017, such as China's first batch of 40-ft intermodal LNG tank container, LNG marine fuel tanks and gas supply systems, Type B liquid cargo tank for LNG vessels, integrated LNG energy solution, and LNG full containment tank with metal secondary container. Some of the newly developed products have been successfully launched and generated revenue contributions for the Group. The segment continues to strengthen the development and reserve of core technology. There are series of ongoing R&D projects, such as large-scale LNG marine fuel tank, high cleanliness electronic gas cylinders, LNG cold energy utilisation, and Automotive LNG Active Intelligent Gas Supply System.

To satisfy customers' evolving demands and reinforce the Group's competitiveness, the segment has devoted to the continuing innovation of products and the positioning of overseas markets. Relevant R&D projects were commenced during the year to strengthen the Group's competitiveness, such as the R&D of new generation of LNG refilling station for international market, which marked the first export of Chinese-made LNG refilling station to European market. Our R&D team has also endeavoured to develop various types of LPG equipment as respond to the "Belt and Road" initiative, such as the successful delivery of LPG spherical tank compatible with international standards, which were tailored for overseas market. Development of LPG spherical tanks with larger capacities is currently underway. The segment is taking a full roll-out in international markets such as Southeast Asia, Africa and the Americas.

To facilitate Group's sustainable development, the segment has been making vigorous exploration in the R&D of new energy sectors, such as biomass energy and hydrogen energy, with a view to foster new growth points as well as increasing the Group's influence in the industry. Moreover, the R&D team has played an important role in the development of EPC (engineering, procurement, and construction) services, contributed to development of different types of equipment for LNG, CNG and LPG storage and transportation and creating addition value to customers.

Future Plans and Strategies

Given the recovery of international oil price and the positive Chinese economy, a serie of policies in favour of the development of natural-gas-related industry have been announced and implemented intensively since mid-2016, pushing China's natural gas consumption back on track to rapid growth. To alleviate the seasonal disparities between gas supply and demand and prevent "gas-supply shortage" during winter from happening again, the Chinese government will pursue a natural gas supply strategy which emphasises import via gas pipeline and LNG receiving terminal, and both conventional and non-conventional sources, with a view to accelerate LNG supply and to significantly boost the peak-shaving efficiency in major cities during peak seasons, while contributing to the fulfilment of goals set out in "Natural Gas Development 13th Five Year Plan".

The segment follows a strategy of expansion from domestic to international market and extend coverage through the entire industry value chain, which is highly consistent with Chinese national natural gas supply strategy as mentioned above. Thus, the segment would continue with its endeavours to connect the upstream, mid-stream and downstream natural gas industry value chain, develop comprehensive LNG and LPG business chains, adjust and optimise its pressure vessels business chain with an equal emphasis on hydrogen, electron gas and CNG. The segment also captures opportunities from the development of non-conventional natural gas sources and LNG marine applications, aiming to maintain competitiveness.

In the meantime, to seize opportunities arising from the growing trend of low-carbon economy and accelerated pace of clean energy application around the world, the segment will further consolidate its overseas energy business and commit greater resources to the clean energy sector, especially nuclear and hydrogen energy applications as well as energy storage and distribution. The segment also considers cooperation with leading players in the industry to gain more expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

CHEMICAL EQUIPMENT

Standard Tank Containers

Special Tank Containers

Industry Overview

As a safe and efficient component for chemical logistics, tank containers can be used to ship multiple types of chemical products. Research of the International Tank Container Organisation (ITCO) indicates that there were approximately 508,000 tank containers in operation around the world in January 2017, representing an increase of 8.5% as compared with January 2016. ITCO is of the view that the tank container industry will sustain a stable growth, while China will remain a major producer of tank containers in the world.

Intermodal transportation has a longer history and has been operated in a more comprehensive manner in the developed countries like Europe and America. In these countries, the local governments have issued regulations to force mandatory usage of tank containers in the transportation of hazardous goods, in the considerations of safety and environmental protection. As a result, there has been massive export of Chinese-made tank containers to these countries. Currently, the European and American markets have come to a stage of stable growth, while the demand for tank containers in emerging markets is rising as the local chemical industries continue to replace and upgrade their traditional logistic modes. With a stronger concern for the transportation of hazardous goods in a safer, more efficient and eco-friendly ways, the global tank container market is expecting to sustain growth in a certain level.

In China, laws and regulations providing for more comprehensive supervision over the transportation of hazardous goods have been introduced, while the relevant authorities have announced policies to encourage the use of tank container, by promoting construction of infrastructure facilities, the establishment of pilot demonstration project and construction of hub terminals respectively. Such initiatives will facilitate stronger penetration of tank containers in China's logistics industry.

Date	Authority	Document	Key contents
July 2016	Ministry of Transport	"Integrated Transportation Service 13th Five-Year Development Plan"	Pushing the transformation and upgrade of the traditional logistic industry to drive the development of intermodal transportation.
January 2017	18 ministries including Ministry of Transport	"Notice on Further Encouragement of Intermodal Transportation"	Calling for major effort in the development of intermodal transportation of containers, faster progress of containerisation of railway cargo freight, and express freight mode for bulk items.
January 2017	Ministry of Transport	JT/T1092-2016 "Glossary of Intermodal Cargo Transportation" JT/T1093-2016 Unit Mark of "Intermodal Transportation"	Issuing of industry standards for intermodal transportation.
April 2017	NDRC, Ministry of Transport, China Railway	"Rail-way Tank Container Intermodal Transportation Development 13th Five-Year Plan"	Expediting containerisation of railway cargo freight and connecting railway/marine intermodal transport and road/rail intermodal transport.

Date	Authority	Document	Key contents
November 2017	General Office, Henan Provincial Government	"Notice on the Implementation of Showcase Projects in Intermodal Transportation" "Notice on Promoting the Use of Tank Containers in the Transportation of Hazardous Liquid Goods under Atmospheric Pressure" "Notice on Road Toll Concessions for Vehicles Carrying ISO Containers Passing Through Expressways in Henan Province"	As a major province engaged in the transport of hazardous goods, Henan takes the lead in adopting tank containers and providing allowances and concessions to vehicles that use standardised tank containers.

The market research and government policies cited above point to the growth potential of the Group's chemical equipment business. The demand for chemical tank containers has been hitting record highs since recent years, underpinned by massive investments by global container leasing companies. According to ITCO statistics, the growth rate of tank container inventory peaked at 13.9% in 2014 before plunging into a period of deep adjustment lasting for years. At present, gradual rebound from the doldrums have been seen. While the demand for tank containers has varied from year to year, the overall trend has been relatively stable. The segment is well positioned to address market changes and endeavours to explore new growth points in the tank container business.

Business Overview

In 2017, the tank container business of the segment reported outstanding performance in a highly competitive market, various types of tank containers had delivered excellent results. The revenue of 2017 increased and sound earnings have been gained.

In view of major customers' growing preference for tank containers with features of larger capacity, light weight and better functions, the segment increased investment in the R&D to cater to customers' specific requirements. As a result, the production volume of special tank containers in 2017 increased by approximately 50%, year-on-year. Meanwhile, the US anti-dumping bill against Chinese-made refrigerant was lifted again in 2017, following a drastic increase of refrigerant exports from China to US. In addition, a positive cycle of supply had been established by reducing the use of outdated capacity and curbing new projects with overcapacity in China. These two factors contributed to a rising price of refrigerant and rapid growth in demand for gas tank containers, one of the special tank container types, resulting to a substantial rise in production of gas tank containers in 2017.

Operational Performance

The chemical equipment segment's revenue increased by 22.4% to RMB3,026,389,000 (2016: RMB2,471,644,000) due to an increase in the sales volume of tank containers. The segment made up 28.4% of the Group's total revenue (2016: 31.0%). The segment's operating profit for the year rose to RMB433,959,000 (2016: RMB411,644,000) which was mainly due to higher revenue level in 2017.

Research and Development

The chemical equipment segment is committed to providing new logistics solutions to customers. The segment is also devoted to the R&D of broader range of tank containers to satisfy customers' needs, with multi-series and multi-species as the two ways of directions. Currently, it has successfully developed special coating technologies and different types of lined tanks to carry highly corrosive hazardous chemical media. Products such as ultralight swap body tank container and the large capacity rounded rectangular tank container were successfully developed in 2017.

The segment focus on the R&D of tank container internet-of-things (IOT) technologies, aiming to provide 24-hour non-stop monitoring and operating platform, as well as the one-stop solutions to the chemical logistic industry. The segment also engages in the R&D of tank containers with anticorrosive linings and large-capacity rail-way tank containers that tailored for European customers. We would reinforce product innovations to perform beyond clients' expectation.

To facilitate sustainable development and further enrich the product lines of the Group, the segment is in vigorous exploration of the new sector of environmental industry, aiming to build up abilities in manufacturing core equipment and providing EPC service for the environmental industry and for solid waste environmental governance.

Future Plans and Strategies

Europe and US have been the major markets for tank containers as this sophisticated logistical system designed for chemicals have been established in these regions for years. With ongoing economic growth in emerging markets, such as China, Southeast Asia, India and Russia, the chemical sector in these markets have experienced rapid growth. In addition, there has been a steadily growing demand for tank containers in other emerging markets.

Contrary to the extensive application of tank containers in European and US markets, the chemical transportation sector in China mostly remains on traditional transportation modes such as tank trucks, drum barrels and bags, and consequently the demand for tank containers had been lower in Chinese market compared to those in European and American countries. This condition has improved in recent years as the relevant authorities have announced policies to encourage the use of tank container, by promoting construction of logistics infrastructure facilities, the establishment of pilot demonstration project and construction of hub terminals respectively. Such initiatives will facilitate stronger penetration of tank containers in China's logistics industry.

The chemical equipment segment will continue to devote effort into R&D and market exploration, so as to expand the scope of application of special tank containers and to maintain a leading market position in standard tank containers. By building supply chains that are efficient, mutually beneficial and of high quality, the segment seeks to establish comprehensive partnerships with clients through the whole service cycle, to implement full-scale upgrade of its manufacturing capabilities, to further consolidate competitiveness and thus to stay ahead of the industry. While consolidating its equipment manufacturing business, the segment will actively explore the potential in providing more intelligent products by utilising IOT technology, helping clients to build a digitalised operation system and improve their operating efficiency.

LIQUID FOOD EQUIPMENT

Industry Overview

The liquid food industry comprises several markets, including soft drinks, alcoholic drinks (such as beer, wine and spirits), distilleries, fruit juice, milk, sauces, soup and so on. In recent years, the liquid food industry has been growing fast due to the rising living standards and improving awareness of food safety and health. As a result, the Group's liquid food equipment business will see more opportunities for expansion.

According to "China Craft Beer Market Report 2017", global beer consumption had fallen into negative growth since 2014 in line with lacklustre retail spending amidst the slowdown of macro-economic growth. Nevertheless, after three years of decline in the volume of beer production and industry corrections, China's brewery sector started to pick up and revert to structural growth in 2017.

Being the world's largest beer producing country, China's beer market is still expected to maintain stable in the near future, due to improving living standards from development of the economy. The country's beer consumption is evolving and the demand for premium beer has great potential for further growth.

The storage, transportation and processing of liquid food require more innovative and integrated solutions. The Group's liquid food equipment segment develops, builds and installs complete systems and operates on a worldwide scale, complying with international quality and safety standards. We believe that with its comprehensive knowledge and global experience, the segment will drive further success in the liquid food equipment industry.

Business Overview

With a solid foothold in China and Europe, the segment has expanded production capacity in China and marketing network in Asia to facilitate the expansion plans to Southeast Asia and other global markets. In addition, the segment will continue to transfer advanced manufacturing technologies and know-how from Europe to its Chinese operations, while continuing to explore business opportunities and revenue sources in emerging markets such as Central America and Africa.

Relying on a high level of technical competence of brewing equipment production, the segment will strive vertically towards whole brewery construction capabilities and integrated EPC turnkey solutions for other liquid food; and horizontally towards diversification to other industries such as biopharmaceuticals, distilling and biofuels where competition is less intensive. After the acquisition of Briggs Group Limited in 2016, with headquarters located in the UK, not only the Group has better access to the US and UK markets, the Briggs brands, technologies and products will also be introduced into the Asian markets.

In 2017, the segment has reached expected production volumes. Despite the competitive environment, segment's net profit has exceeded expectation, mainly due to the high order backlog of 2016 coupled with higher order intake volumes than anticipated.

On 28 September 2017, Ziemann Holvrieka, a liquid food equipment company, won the Handelsblatt Energy Awards jointly with Regensburg Brewhouse, a brewery established for over 600 years, for the modularised energy design which recovers energy that otherwise would be wasted.

The award-winning innovative design concept has enabled: reduction in the consumption of primary energy sources; self-supplied power generation; use of natural energy sources (e.g. solar power); energy recycling through waste water; recording, assessment and analysis of off-peak power consumption and energy consumption to facilitate contract energy management. In other words, all energy generated in the local production process of Regensburg Brewhouse is capable of being reused for multiple times to achieve maximum self-sufficiency in meeting energy requirements. Moreover, the design concept has contributed to the protection of climate and the environment to a considerable extent. By adopting this design, Regensburg Brewhouse has reduced its carbon dioxide emission by 40% and, with further investments, carbon dioxide emission is expected to reduce by 99.5% by the end of 2018, which means that carbon dioxide emission generated by the production of 200 cartons of beer by then will be equivalent that generated by the production of 1 carton of beer in 2015.

Other milestone awards garnered by the segment during 2017 included: the Best Practice Label Award presented by Deutsche Energie-Agetur, the national energy agency of Germany, for Ziemann Holvrieka's program of energy efficiency optimisation for brewery plants and a nomination for the 2017 Germany Environmental Award.

Operational Performance

The liquid food equipment segment's revenue posted a growth of 19.1% to RMB2,686,204,000 during the year (2016: RMB2,255,377,000) due to both inorganic growth from an acquisition in 2016 and organic growth of its original business. The segment accounted for 25.2% of the Group's total revenue (2016: 28.3%). The segment's operating profit for the year rose to RMB339,249,000 (2016: RMB259,151,000) which was mainly due to the increase in revenue and improved GP margin during the year.

Research and Development

In 2017, the segment made improvements in its abilities to deliver brewery turnkey projects with the support of technologies developed by Ziemann and vigorously conducted R&D on novel brewing equipment to provide technological solutions to domestic and international markets, such as the R&D of the craft beer system, which has been officially commissioned in Budweiser's Goose Island Brewery in a further enrichment of the Group's portfolio, broadening Group's reach in the beer brewing market.

Apart from brewing equipment, the segment has also made active investigations into new business frontiers, such as biopharmaceuticals, fruit juice, beverages, milk and daily-use chemicals. Vigorous efforts have been made to drive technology upgrades and performance optimisation, resulting in the launch of new products commanding sound sales. The segment will continue to enhance its strengths in the R&D of new technologies in beer brewing and explore diversification opportunities.

Future Plans and Strategies

In the future, the liquid food equipment segment will expand globally and diversify to equipment and project engineering for the manufacturing of food items other than beer, following a two-dimensional approach covering vertically beer production and horizontally other liquid food businesses, leveraging its core technologies and strengths in EPC contracting. The acquisition of Briggs Group Limited in 2016, has enabled the business segment to tap into breweries, pharmaceutical and distilleries sectors on a global basis, as well as to provide process design and turnkey project engineering services for certain sub-sectors. Hence, the segment will actively explore business development in these new sectors in the future, striving to generate more opportunities for revenue and profit growth.

The liquid food equipment segment constantly reviews and develops its strategy, to gain opportunities in which it can excel and enhance its business position. For vertical diversification, the segment continues to enhance its capabilities to offer turnkey solutions for brewing and strives to develop and deliver such services and products to our customers. For horizontal diversification, the segment strives to proactively develop businesses for other liquid food industries apart from beer, such as juice storage, transportation and dairy product processing.

Production Capacity

In 2017, the Group invested RMB736,210,000 in capital expenditure for expansion of production capacity, general maintenance of production capacity and new business ventures. The energy equipment and engineering segment, chemical equipment segment and liquid food equipment segment invested RMB660,467,000, RMB47,592,000 and RMB27,542,000 respectively in capital expenditure during the year. In addition, the Group had capital expenditure of RMB608,000 that was not specific to any of the three business segments.

Qualifications

All accreditations and qualifications in quality manufacturing are subject to periodic review by industry bodies. The Group has secured such qualifications on a continuous basis on the back of advanced technologies and stringent manufacturing processes.

The Group possesses qualifications from both local and international industry authorities such as the American Society of Mechanical Engineers (ASME), the China Classification Society (CCS), the China Machinery Industry Federation (CMIF), China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), the TÜV NORD of Germany, the Ministry of Commerce, Industry and Energy of Korea, the National Board of Boiler and Pressure Vessel Inspectors (NB) of the United States, the Department of Transportation (DOT) of the United States, the Russian Federation (CEPKOHC), American Bureau of Shipping (ABS), Bureau Veritas (BV) of France, and the Lloyd's Register Group (LR) of the United Kingdom, as well as the ISO9001, ISO14001, OHSAS18001 certifications by the International Organization for Standardization.

The Group also possesses certain patented technologies in a number of countries to protect its invention and know-how. As at 31 December 2017, the Group held exclusive rights to over 680 patents, including 67 invention patents and 18 patents franchised by foreign parties. We also won a China Patent Award in 2017, underscoring the high standard of our technological innovation.

Sales and Marketing

The Group's energy equipment and engineering segment runs sales offices in China, Southeast Asia, Russian-speaking regions and North America. Subsidiary companies engaged in related business were set up in the US and Singapore. The Group's energy equipment products and services are mainly marketed under the brands of "Enric (安瑞科)", "Sanctum (聖達因)", "Hongtu (宏圖)", "CIMC TANK", "Nantong CIMC (南通中集)", "YPDI" and "Hashenleng (哈深冷)". Clients of energy equipment and engineering segment includes well-known companies such as ENN Energy, Shenzhen Gas, CR Gas, Towngas China, Sinotruk, Foton Daimler Automotive, FAW, Dongfeng Motor and Shaanxi Heavy Duty Automobile.

The Group's chemical equipment segment is represented by sales companies in Europe and sales offices in Russia and Korea. The chemical equipment products are mainly marketed under the brand of "CIMC TANK" to numerous countries and regions across the globe, and we have been an industry leader in the global tank containers market for more than a decade. Our major customers are container leasing companies such as EXSIF, TL International and Eurotainer, as well as operators such as Stolt, Hoyer and China Railway Tielong.

The Group's liquid food equipment segment is committed to the provision of project work services and systems solutions to the liquid food industry, having launched several thousand equipment and brewing system projects in fermentation, distilling and liquid food. The products and EPC project services of the segment are marketed under the brands of "Ziemann Holvrieka" and "Briggs", with over 160 years and over 260 years, respectively. The segment is represented by companies in China, the Netherlands, Germany, Belgium, Denmark and the UK, as well as representative offices in the US, Colombia, Vietnam and Russia. Its clientele features international and domestic breweries, such as Constellation Brands, Anheuser-Busch InBev, Heineken and Carlsberg.

To capitalise overseas business opportunities and diversify its revenue sources, the Group has been actively engaged in expansion in overseas markets. The Group's revenue derived from overseas for the year amounted to RMB5,420,454,000 (2016: RMB4,296,200,000).

Cost Control

The Group persists in fulfilling the objective of maximising cost efficiency by implementing and developing the ONE (Optimisation Never Ending) production model, with a view to lowering production costs and enhancing efficiency and quality. In the context of promoting environmental protection, the Group has also been vigorously engaged in the conservation and conversion projects and reported notable results. There are solar-powered projects and energy-saving equipment reconstruction projects under way now and they are expected to come into operation in 2018, leading to promising production cost reductions. In the meantime, we have made stronger efforts to improve OTD (Order to Delivery) cycle at subsidiaries by rearranging production process and making improvement correspondingly. We have seen a reduction of more than 10% in the turnover period for some key products. Initiatives in capacity coordination of the energy equipment and engineering segment have also yielded positive results, providing assurance for profitability against rising raw material prices by setting price limits, centralising negotiations and procurements, and making internal improvements. In addition, the Group has effectively enhanced the overall products competitiveness through making internal and external benchmarks in respect of key products. We have enhanced the security of supply and exercised reasonable cost control by persisting in the engagement of multiple suppliers and optimising our supplier management regime.

The Group achieved sound results in cost reduction in 2017, and will continue to closely monitor and lower its production costs in 2018.

Customer Services

The Group values long-standing relationship with customers and endeavours to help customers maintain safe and efficient operation. In tandem with the philosophy of "providing services to customers throughout the entire life cycle of products", the Group has established customer service centres in various cities in the PRC to provide technical instruction, training support and point-to-point services to customers on a 7x24 basis, assuring timely delivery of after-sales services and technical support.

The rapid development of new technologies such as artificial intelligence, big data and IOT, has also presented the Group's energy equipment and engineering segment with opportunities in connection with the transformation and upgrade to digitalised manufacturing. During the year, the Group established Anjiehui Internet of Things Information Technology (Suzhou) Co., Ltd. (安捷匯物聯信息技術（蘇州）有限公司) to facilitate functions ranging from unmanned duty shifts, security control, remote diagnostics, breakdown warning, preventive repair to post-market all-around service. Currently, several thousand of clients have signed up to experience our innovative, one-stop service package.

The chemical equipment segment places a particular emphasis on full-life-cycle service for tank containers. While strengthening its equipment manufacturing business, the segment has also actively expanded the scope of its services through the development of post-market networks to provide customers with repair services, renovation, conversion and supply of spare parts on a global basis. In the meantime, it has also enhanced the development of its "IOT + tank container" business by launching a unified platform for monitoring, managing and servicing throughout the full-life-cycle of the tank containers, with a view to providing customers with optimal services and solutions for tank container operation.

The technical knowledge of engineers in liquid food equipment segment paired with practical experience from countless projects make us a strong and reliable partner. We deliver tailor-made services to help clients realise objectives in improving cost effectiveness. We offer worldwide support in a broad range of services, including consultancy, operational assistance, maintenance service, control system support, periodical inspection service, staff training, upgrades and retrofitting of installations. All our services can be delivered on a project or case-to-case basis.

Other Revenue

Other revenue totalling RMB214,162,000 in 2017 (2016: RMB215,113,000) consisted of bank interest income, government grants and other operating revenue. The fall in other revenue during the year was mainly caused by lower interest income and government grant which were offset to some extent by an increase in the revenue from sale of scrap metals.

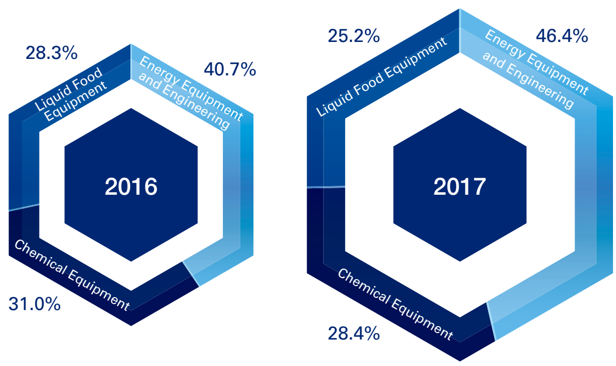
Selling Expenses

Selling expenses increased by 38.2% to RMB386,774,000 (2016: RMB279,790,000). Such expenses comprise transportation expenses, provision for product warranty, royalty fee, human resources, commission and other expenses directly attributable to selling activities. Selling expenses rose mainly because of higher freight charges, warranty expenses and advertising expenses in relation to higher revenue during the year.

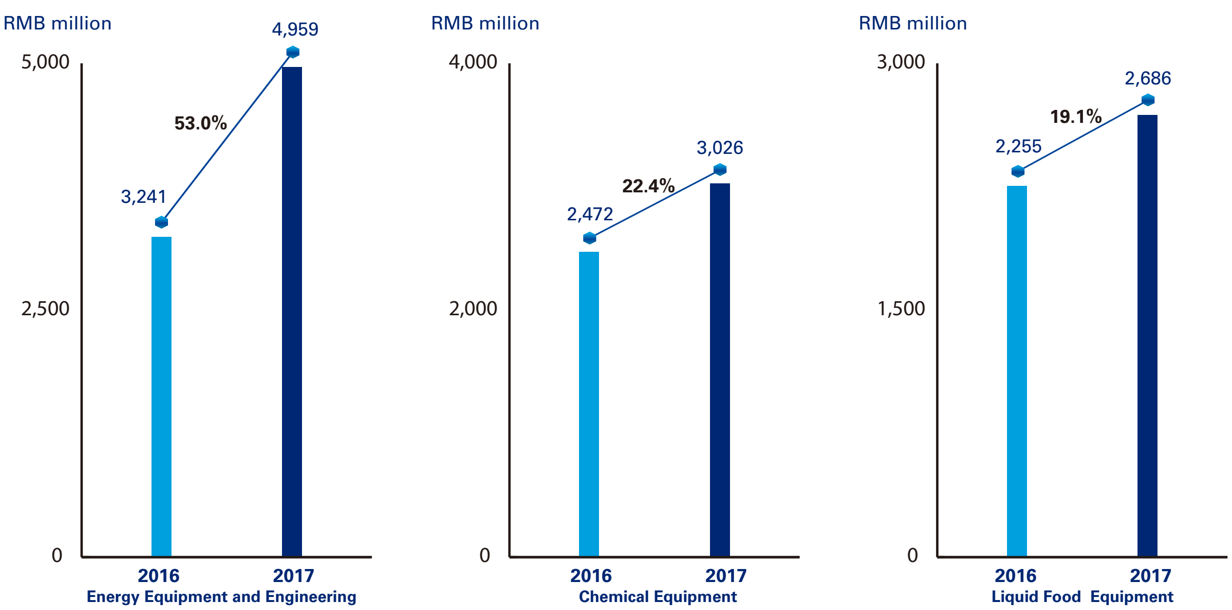
Administrative Expenses

Administrative expenses rose by 21.3% to RMB919,697,000 (2016: RMB756,585,000) which was mainly due to the increase in impairment provision on trade receivables and amortisation expenses on intangible assets.

Sales by Business Segments



Segment Revenue



Other Net Income

Other net income of RMB26,000,000 in 2017 (2016: RMB86,291,000) comprised loss on disposal of property, plant and equipment, charitable donations, gain from bargain purchase, exchange gain and various miscellaneous income. The drop in other net income in 2017 was mainly due to the exchange loss of RMB42,414,000 (2016: exchange gain of RMB69,476,000) as a result of the depreciation of USD against RMB on the Group's USD denominated trade receivables and bank deposits which was offset to some extent by the gain from bargain purchase on the acquisition of SOE.

Finance Costs

During 2017, finance costs declined by 25.7% to RMB79,401,000 (2016: RMB106,897,000). Finance costs mainly comprised interest on bank loans and other loans from related parties of RMB76,648,000 (2016: RMB98,331,000). The fall of interest expenses was mainly due to the repayment of bank and loans from related parties during the year. In addition, bank charges also fell due to the absence of drawdown of new bank loans.

Taxation

Tax expenses for the Group rose by 2.0% to RMB135,099,000 in 2017 (2016: RMB132,427,000) which was in line with the increase in operating profits during the year.

Employees and Remuneration Policies

At 31 December 2017, the total number of employees of the Group was approximately 9,900 (2016: approximately 8,900). Total staff costs (including Directors' emoluments, retirement benefits schemes contributions and share option expenses) were approximately RMB1,498,967,000 (2016: RMB1,262,951,000).

As an equal opportunity employer, the Group's remuneration and bonus policies are determined with reference to the performance, qualifications, and experience of individual employee and prevailing market rate. Other benefits include contributions to statutory mandatory provident fund scheme to employees in Hong Kong, contributions to government pension schemes to employees in Mainland China, and operation of various qualified defined benefit pension plans which are funded through payments to insurance companies for employees in Europe.

Liquidity and Financial Resources

At 31 December 2017, the cash and cash equivalents of the Group amounted to RMB2,251,175,000 (2016: RMB2,916,900,000). A portion of the Group's bank deposits totalling RMB265,592,000 (2016: RMB263,640,000), which had more than three months of maturity at acquisition, were restricted for guarantee of banking facilities. The Group has maintained sufficient cash on hand for repayment of bank loans and loans from related parties as they fall due and continued to take a prudent approach in future development and capital expenditure. Accordingly, the Group has been cautious in managing its financial resources and will constantly review and maintain an optimal gearing level.

At 31 December 2017, the Group's bank loans and overdrafts amounted to RMB1,390,308,000 (2016: RMB1,598,994,000) and are all repayable within one year. Apart from the syndicated bank loan denominated in USD and the term loan denominated in HKD that bear interest at floating rates, the overall bank loans bear interest at rates from 3.35% to 4.35% per annum. At 31 December 2017, the Group did not have any secured bank loan (2016: Nil). As of 31 December 2017, the Group had no bank loans that were guaranteed by the Company's subsidiaries (2016: RMB40,000,000). As at 31 December 2017, loans from related parties amounted to RMB105,000,000 (2016: RMB875,000,000), which are unsecured, interest bearing from 1.75% to 4.60% (2016: 4.35% to 4.65%) per annum and repayable within one year.

The net gearing ratio, which is calculated by dividing net debt over equity, was zero times (2016: zero times) as the Group retained a net cash balance of RMB755,867,000 (2016: RMB442,905,000). The rise in net cash balance was mainly attributable to an increase in the amount of advance payments received from customers. The Group's interest coverage was 9.6 times for the year (2016: 6.7 times) which represents an improvement that was mainly due to a higher operating profit and a lower interest expenses comparing with the previous year. Certainly, the Group's profit from operation and strong operating cash flow demonstrate that the Group is fully capable of meeting its interest expense commitments.

During 2017, net cash generated from operating activities amounted to RMB845,097,000 (2016: RMB1,079,743,000). The Group drew bank loans and loans from related parties totalling RMB795,865,000 (2016: RMB2,054,916,000) and repaid RMB1,697,225,000 (2016: RMB1,415,341,000). No final dividend in respect of the financial year 2016 were declared or paid in 2017. In addition, cash proceeds amounted to RMB15,466,000 (2016: RMB2,662,000) arose from the issuance of ordinary shares on exercise of share options.

	2017 RMB'000	2016 RMB'000
Net cash (used in)/ generated from		
– Operating Activities	**845,097**	1,079,743
– Investing activities	**(507,405)**	(646,047)
– Financing activities	**(971,229)**	383,407
Total	**(633,537)**	817,103

Assets and Liabilities

At 31 December 2017, total assets of the Group amounted to RMB14,167,219,000 (2016: RMB12,888,423,000) while total liabilities were RMB8,306,241,000 (2016: RMB7,586,358,000). The net asset value rose by 10.5% to RMB5,860,978,000 (2016: RMB5,302,065,000) which was mainly attributable to net profit RMB420,181,000 and capital contribution from exercise of option of RMB15,466,000 and was partially offset by exchange difference on translation of financial statements denominated in foreign currencies of RMB107,957,000 for the year. As a result, the net asset value per share increased to RMB3.017 at 31 December 2017 from RMB2.737 at 31 December 2016.

Contingent Liabilities

At 31 December 2017, the Group had outstanding balance of guarantees issued by relevant banks totalling RMB994,460,000 (2016: RMB779,018,000). Apart from these, the Group did not have other material contingent liabilities.

Future Plans for Source of Funding and Capital Commitments

Currently, the Group's operating and capital expenditures are mainly financed by its internal resources such as operating cash flow and shareholders' equity, and to some extent by loans from banks and related parties. At the same time, the Group will continuously take particular caution on the inventory level and credit policy, as well as further strengthening its receivable management in order to enhance its future operating cash flow. The Group has sufficient resources of funding and unutilised banking facilities to meet future capital expenditure and working capital requirement.

At 31 December 2017, the Group had contracted but not provided for capital commitments of RMB52,649,000 (2016: RMB28,779,000). As of 31 December 2017, the Group did not have any authorised but not contracted for capital commitments (2016: Nil).

Foreign Exchange Exposure

The Group is exposed to foreign currency risk primarily through trade transactions that are denominated in a currency other than its functional currency. The currencies which expose the Group to this risk are primarily US dollar and Euro. The Group continuously monitors its foreign exchange exposure and controls such exposure by conducting its business activities and raising funds primarily in the denominations of its principal operating assets and revenue. Moreover, if necessary, the Group enters into foreign exchange forward contracts with reputable financial institutions to hedge foreign exchange risk.

Directors

Mr. Gao Xiang

Chairman and Executive Director and chairman of Nomination Committee

Mr. Gao, aged 53, joined the Group as General Manager in January 2009, was appointed as an Executive Director in September 2009 and was re-designated to be Chairman of the Board from General Manger in April 2015. He graduated from the Tianjin University (天津大學), majoring in marine and vessel engineering, and is a senior engineer. From 1999 to 2008, Mr. Gao was the general manager of Tianjin CIMC North Ocean Containers Co., Ltd. (天津中集北洋集裝箱有限公司), Tianjin CIMC Containers Co., Ltd. (天津中集集裝箱有限公司), Tianjin CIMC Logistics Equipment Co., Ltd. (天津中集物流裝備有限公司), Tianjin CIMC Vehicles Sales and Service Center (天津中集車輛物流裝備有限公司) and Tianjin CIMC Special Vehicles Co., Ltd. (天津中集專用車有限公司), respectively. Mr. Gao was also an assistant to the president of CIMC from 2004 to 2008, and is currently a vice president of CIMC and holds directorships in certain subsidiaries of CIMC. He holds directorships in certain subsidiaries of the Company.

Mr. Yang Xiaohu

General Manager and Executive Director

Mr. Yang, aged 43, was appointed as an Executive Director and General Manager on 27 October 2017. He graduated from Huazhong University of Science and Technology (華中科技大學), majoring in vessel and marine engineering. Mr. Yang jointed CIMC as an officer of the quality control department of Shanghai CIMC Reefer Containers Co., Ltd. from 1997 to 1999, and was a sales manager of CIMC Group's container operation department from 2000 to 2009. He was a deputy general manager of the Company's sales and marketing department from April 2009 to April 2012, was an assistant to general manager of the Company from May 2012 to March 2015 and was general manager of Nantong CIMC Tank Equipment Co., Ltd., (南通中集罐式儲運設備製造有限公司) a wholly-owned subsidiary of the Company from April 2015 to December 2017. Mr. Yang was a deputy general manager of the Company from April 2015 to October 2017. He holds directorships in certain subsidiaries of the Company.

Mr. Jin Jianlong

Non-executive Director and member of Remuneration Committee

Mr. Jin, aged 64, joined the Group as an Executive Director in September 2007 and was re-designated to be a Non-executive Director on 5 September 2016. He graduated from the Maanshan University of Iron and Steel Technology (馬鞍山鋼鐵學院), majoring in accounting. Mr. Jin worked in the Hangzhou Iron and Steel Factory (杭州鋼鐵廠) from 1975 and served as a deputy manager of its accounting department from 1985 to 1989. He joined CIMC in 1989 and served as a manager of the financial management department of CIMC and then of the finance department of Shenzhen Southern CIMC Containers Manufacturing Co., Ltd. (深圳南方中集集裝箱製造有限公司) respectively. Mr. Jin was re-designated from the general manager of financial management department to senior consultant of CIMC. He holds directorships in certain subsidiaries of the Company.

Mr. Yu Yuqun

Non-executive Director

Mr. Yu, aged 52, joined the Group as an Executive Director in September 2007 and was re-designated to be a Non-executive Director on 5 September 2016. He obtained a bachelor's degree and a master's degree in economics, both from the Peking University (北京大學). Mr. Yu worked in the State Bureau of Commodity Price (國家物價局) of the PRC before joining CIMC in 1992. He is currently the secretary to the board of directors and company secretary of CIMC, responsible for investor relations, shareholder relations and financing management. Mr. Yu was a non-executive director of TSC Group Holdings Limited (formerly known as TSC Offshore Group Limited, shares of which are listed on the Main Board of the Stock Exchange) from 2011 to 2016. He is currently a Non-executive Director of China Fire Safety Enterprise Group Limited (shares of which are listed on the Main Board of the Stock Exchange), Pteris Global Limited, and Chairman of Shenzhen Sky Capital Ltd. (深圳天億投資有限公司), a wholly-owned subsidiary of CIMC. Mr. Yu is also a member of the Appellate Council Review Committee of the Shenzhen Stock Exchange and a member of the first session of the Mergers and Acquisitions Financing Committee of the China Association for Public Companies. He holds directorships in certain subsidiaries of the Company.

Mr. Wang Yu

Non-executive Director

Mr. Wang, aged 45, was appointed as a Non-executive Director on 5 September 2016. He graduated from Dalian Maritime University with Bachelor of Engineering (Transportation Management) in 1993 and Master of Laws (International Economic Law) in 1996. He worked in the legal affair department of China Ocean Shipping (Group) Company from 1996 to 2000 and America International Data Group's branch in China (美國國際數據集團(中國)公司) from 2001 to 2002. Mr. Wang joined CIMC in 2003, and has been the general manager of the legal department of CIMC since 2007. He holds a number of directorships in certain subsidiaries of CIMC. Mr. Wang was admitted as a lawyer in the People's Republic of China in 1997 and is currently a non-practising lawyer. Mr. Wang is also an arbitrator of South China International Economic and Trade Arbitration Commission (華南國際經濟貿易仲裁委員會) (also known as Shenzhen Court of International Arbitration 深圳國際仲裁院) and China International Economic and Trade Arbitration Commission.

Mr. Jin Yongsheng

Non-executive Director

Mr. Jin, aged 54, was re-designated from an Executive Director to a Non-executive Director and ceased to be the Chief Executive Officer in September 2009. He graduated from the Tianjin University of Finance and Economics (天津財經大學), specialising in finance, and also obtained an executive master's degree in business administration from the Guanghua School of Management of the Peking University (北京大學光華管理學院). Mr. Jin is qualified as a lawyer in the PRC. He joined the Group in September 2005 serving as an Investor Relations Manager of the Company, and was appointed as an Executive Director and the Chief Executive Officer of the Company in June 2006. Mr. Jin was an executive director of ENN Energy Holdings Limited (formerly known as XinAo Gas Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange) from 2000 to 2006 and was its non-executive director from 2006 to March 2017.

Mr. Wong Chun Ho

Independent Non-executive Director, chairman of Audit Committee and member of Nomination Committee

Mr. Wong, aged 45, joined the Group as an Independent Non-executive Director since February 2005. He obtained his bachelor's degrees in business (accounting) and computing (information system) from Monash University, Australia. Mr. Wong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a Certified Practising Accountant of CPA Australia and a Chartered Financial Analyst. He is currently a managing director of Rothschild (Hong Kong) Limited and prior to that he worked in KPMG. Mr. Wong has over 20 years of corporate finance and audit experience in the Hong Kong and China regions.

Mr. Tsui Kei Pang

Independent Non-executive Director, chairman of Remuneration Committee and member of Audit Committee

Mr. Tsui, aged 57, joined the Group as an Independent Non-executive Director since November 2009. He obtained a bachelor's degree in law (Honours) and a master's degree in law from The University of Hong Kong. He is a solicitor of Hong Kong, a China Appointed Attesting Officer and a Civil Celebrant of Marriages. Mr. Tsui is currently a partner of Gallant and specialises in Hong Kong and China cross-border commercial legal services. He is also the a member of the Greater China Legal Affairs Committee of The Law Society of Hong Kong, an honorary legal adviser of The Hong Kong Real Property Federation as well as a member of China Committee of Hong Kong General Chamber of Commerce. Mr. Tsui was an independent non-executive director of China Huishan Dairy Holdings Company Limited (shares of which are listed on the Main Board of the Stock Exchange) from September 2013 to March 2017.

Mr. Zhang Xueqian

Independent Non-executive Director, member of Audit Committee, Remuneration Committee and Nomination Committee

Mr. Zhang, aged 68, joined the Group as an Independent Non-executive Director since September 2010. He received a PhD degree in accounting from Xi'an Jiaotong University (西安交通大學) and a master's degree in economics from Wuhan University (武漢大學). He is a registered accountant in the PRC. Presently, Mr. Zhang is a professor of the Business School of University of International Business and Economics (對外經濟貿易大學國際商學院) in the PRC, and was a former associate dean of the school. He was also a senior member of the Chinese Society of Technology and Economics (中國技術經濟研究會) and a researcher of Beijing Asia-Pacific Research Center of China Financial Accounting (北京亞太華夏財務會計研究中心). Mr. Zhang possesses strong academic background in accounting and finance.

Senior Management

Ms. Yang Baoying

Deputy General Manager

Ms. Yang, aged 50, was appointed as a deputy general manager of the Company in May 2012. She received a master's degree in business administration from Guanghua School of Management of Peking University (北京大學光華管理學院). Ms. Yang held various management positions in a subsidiary of ENN Energy Holdings Limited (formerly known as XinAo Gas Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange) from 2002 to 2005, and then joined the Group in March 2005. She was the general manager of Shijiazhuang Enric Gas Equipment Company Limited (石家莊安瑞科氣體機械有限公司), a wholly-owned subsidiary of the Company from January 2010 to December 2016.

Mr. Shi Caixing

Deputy General Manager

Mr. Shi, aged 54, was appointed as a deputy general manager of the Company in May 2012. He graduated from a master's course at the School of Economics of the Peking University (北京大學經濟學院) and is a senior economist. Mr. Shi was an executive director of the Company from September 2007 to September 2009. Prior to joining the Group, he was an executive vice general manager of Zhangjiagang Sanctum Chemical Machinery Co., Ltd. (張家港市聖達因化工機械有限公司) from 1999 to 2004. Mr. Shi was the general manager of Zhangjiagang CIMC Sanctum Cryogenic Equipment Co., Ltd. (張家港中集聖達因低溫裝備有限公司), a wholly-owned subsidiary of the Company from September 2004 to December 2015.

Mr. Sun Hongli

Deputy General Manager

Mr. Sun, aged 49, was appointed as a deputy general manager of the Company in May 2012. He obtained a bachelor's degree and a master's degree in transportation and control of liquid from South China University of Technology (華南理工大學). Mr. Sun joined CIMC in 1994 as a design engineer and an assistant to quality manager in a subsidiary of CIMC and was a vice manager of the research and development centre of CIMC from 1997 to 2002. He was an assistant to general manager of Nantong CIMC Tank Equipment Co., Ltd. (南通中集罐式儲運設備製造有限公司), a wholly-owned subsidiary of the Company, from 2002 to 2009. Mr. Sun was a manager of technical management department from 2009 to 2010 and was an assistant to general manager of the Company from April 2010 to April 2012.

Mr. Gao Wenbao

Deputy General Manager

Mr. Gao, aged 44, was appointed as a deputy general manager of the Company in January 2016. He graduated in Jilin University of Technology (吉林工業大學), majoring in machinery enterprise management. Mr. Gao worked first in the enterprise management department of Tianjin Xiali Automobile Engine Plant and then in the integrated office in Tianjin Xiali Automobile Holdings Limited from 1995 to 1999, and was a manager of the enterprise management department, a manager of the human resources department and an assistant to general manager of Tianjin CIMC North Ocean Container Co., Ltd. from 2000 to 2009. He joined the Company in October 2009, and was a manager of the Company's enterprise management department and an assistant to general manager of the Company.

Mr. Huo Lating

Deputy General Manager

Mr. Huo, aged 54, was appointed as a deputy general manager of the Company in January 2016. He obtained a master's degree in accounting and financial management from Tianjin University of Finance (天津財經學院), and is a senior accountant. Mr. Huo worked in the supply and marketing cooperatives of Shijiazhuang from 1981 to 1995, was the general manager of Hebei Weiyuan Corporation from 1995 to 2003, and was an assistant to general manager of Hebei XinAo Gas Group from 2003 to 2007. He was an assistant to general manager of the Company from June 2007 to June 2008. Mr. Huo was the general manager of Jingmen Hongtu Special Aircraft Manufacturing Co., Ltd., (荊門宏圖特種飛行器製造有限公司), a wholly-owned subsidiary of the Company from September 2008 to March 2017.

Mr. Cheong Siu Fai

Financial Controller and Company Secretary

Mr. Cheong, aged 46, is responsible for financial reporting, financial management, corporate finance and implementation of corporate governance practices of the Company. He obtained a bachelor's degree in business administration from Thames Valley University, the United Kingdom. Mr. Cheong is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Association of International Accountants in the United Kingdom. Prior to joining the Group in December 2004, Mr. Cheong worked for an international certified public accountants firm and has many years of experience in audit, financial reporting, financial management and corporate finance.

CORPORATE GOVERNANCE REPORT

The Company understands that shareholders' confidence and faith in the Company comes with good corporate governance, which is fundamental to enhancing shareholders' value and interests. The principles of the Company's corporate governance practices emphasise on an effective board, prudent risk management and internal control systems, transparency and quality disclosure, and, most importantly, accountability to shareholders.

Continued efforts have been undertaken in reviewing and enhancing the quality of corporate governance practices with reference to local and international standards. Since its listing on the Stock Exchange in October 2005, the Company has adopted the CG Code as its principal guideline in relation to corporate governance practices.

The following policies and guidelines in connection with corporate governance are periodically reviewed and constitute supplementary components in the Company's governance framework:

- Policy on the Appointment of Directors;
- Director and Senior Management Remuneration Policy;
- Roles and Responsibilities of the Board and Senior Management;
- Procedures for Directors to seek Independent Professional Advice;
- Division of Responsibilities between the Chairman and the General Manager of the Company;
- Procedures for Disclosure of Interests in Shares of the Company and its Associated Corporations;
- Code for Securities Transactions by Relevant Persons;
- Procedures for Shareholders to Propose a Person for Election as a Director;
- Shareholders' Communication Policy;
- Internal Whistleblowing Policy;
- Information Disclosure Policy; and
- Board Diversity Policy.

Throughout the year ended 31 December 2017, the Company complied with all the code provisions of the CG Code.

Board of Directors

The board

The Board assumes the responsibility for leadership and control of the Group, and is collectively responsible for promoting the success of the Group.

Decisions which are taken by the Board include those relating to:

- long-term direction and objectives;
- strategic business development;
- corporate governance;
- risk management and internal control systems assessment;
- material financing projects;
- material acquisitions and disposals;
- interim and final results and dividends;
- connected and major transactions;
- appointments to the Board; and
- remuneration of the senior management.

The Board meets regularly to keep abreast of the business and operational performance of the Group. In 2017 and up to the date of this report, the Board, amongst others:

- reviewed the performance and formulated business strategies of the Group;
- reviewed and approved financial statements of the Group for the two years ended 31 December 2016 and 2017, and for the six months ended 30 June 2017 respectively;
- reviewed the effectiveness of risk management and internal control systems taken by the Group;
- reviewed and determined the remuneration packages of all Directors;
- reviewed the structure, size and composition of the Board;
- approved the continuing connected transaction contemplated under financial services framework agreement (2017) entered into among the Company, CIMC Finance Company Ltd. and CIMC;
- approved the acquisition of the entire equity interests of SinoPacific Offshore & Engineering Co., Ltd.;

Board of Directors *(Continued)*

The board *(Continued)*

- approved the connected transactions contemplated under the extension of terms of 2014 bank guarantee in relation to Zhoushan Project;

- approved connected transactions contemplated under Energy and Environmental Protection Funds Cooperation Framework Agreement entered into among the Company, Shenzhen Sky Capital Ltd. (深圳天億投資有限公司) and ZJU Joint Innovation Investment (浙江浙大聯合創新投資管理合夥企業(有限合夥));

- approved the resignation of Mr. Liu Chunfeng as Executive Director and General Manager and the appointment of Mr. Yang Xiaohu as Executive Director and General Manager with effect from 27 October 2017; and

- approved the revision of existing annual caps for continuing connected transactions under master procurement agreement (2016).

The Board is also responsible for performing the corporate governance functions of the Company, including developing, reviewing and monitoring the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the code applicable to employees and Directors; reviewing the Company's compliance with the CG Code and disclosure in its Corporate Governance Report.

In 2017 and up to the date of this Report, the Board, among others, performed the following corporate governance functions:

- reviewed the disclosure in the Corporate Governance Reports set out in the Company's Annual Reports for 2016 and 2017 respectively.

Notice of a regular Board meeting is given to all Directors at least 14 days in advance. Directors are invited to include items which they wish to be included in the agenda for the same to be finalised and are given the relevant meeting papers at least three days prior to a Board or Board Committee meeting.

Directors are properly briefed on agenda items and provided with opportunities to raise questions or comment at meetings. Where necessary, professional advisers will be invited to attend the meeting to give expert advice and explanations to the Directors on agenda items.

Where a Director is unable to attend a meeting, he is advised of the matters to be discussed and encouraged to express his views to the Chairman or the Company Secretary (or his assistant) prior to the meeting.

The Chairman of the Company had met with Non-executive Directors (including Independent Non-executive Directors) from time to time without the Executive Directors present during the year 2017.

Board of Directors *(Continued)*

The board *(Continued)*

As most of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of China, it may, in practice, be inconvenient to convene a full Board meeting on a frequent basis. Hence, the Board may review and approve certain issues in form of a written resolution. Relevant reference materials regarding the resolutions to be passed will be circulated with the draft resolutions. Nevertheless, to decide on any matter in relation to a notifiable transaction, a Board meeting will be convened; and to decide on any matter in which a substantial shareholder or a Director has a material interest, a Board meeting will be held with the presence of Independent Non-executive Directors who, and whose associates, have no interest in such matter.

The Chairman and the senior management will ensure all Directors (including the Non-executive Directors) have access to adequate, complete and timely information so that they can make informed decisions and discharge their duties and responsibilities as Directors. Directors may request further briefing or explanation on any aspect of the Group's operations or business and seek advice from the Company Secretary or his assistant on company secretarial and regulatory matters, including board procedures and corporate governance practices. Where appropriate, they can also seek independent professional advice at the Company's expenses pursuant to the "Procedures for Directors to seek Independent Professional Advice" adopted by the Board.

The Company Secretary or his assistant is responsible for taking minutes of Board and Board Committee meetings. Draft minutes and written resolutions will be circulated to all Board members or Board Committee members for review and comment for a reasonable period. Final version of the minutes and written resolutions will be provided for record within a reasonable time (generally within 14 days after the meeting) and the signed copies are kept in the Company's minutes book maintained by the Company Secretary for Directors' inspection.

With a view to facilitating Directors' attendance at Board meetings and committee meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board.

Chairman and general manager

The management of the Board and the day-to-day management of the Group's business are clearly divided and separately undertaken by the Chairman and the General Manager to ensure a balance of power and authority.

The roles of the Chairman and the General Manager are segregated with a clear division of responsibilities set out in writing. The Chairman is responsible for overseeing the effective functioning of the Board, setting the Group's strategies and direction, identifying business goals and the related business plans, monitoring the performance of senior management, and establishing good corporate governance practices. The General Manager focuses on leading the senior management to execute the strategies and plans set out by the Board and reporting to the Board on the Group's operation from time to time to ensure proper discharge of duties delegated by the Board.

Board composition

The Board consists of nine members of which three are Independent Non-executive Directors which constitutes one-third of the Board, bringing in a sufficient independent voice. The other members are two Executive Directors and four Non-executive Directors.

Composition of the Board, by categories of directors, including names of the Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors, is identified in all corporate communications that require disclosure of director names.

Board of Directors *(Continued)*

Board composition *(Continued)*

The list of Directors and their roles and functions has been published on the websites of the Stock Exchange and the Company.

The Board members come from a wide range of professional and educational backgrounds, including legal, accounting and corporate finance, economics, academic, management and industry expertise. It brings a diverse and balance set of skills and experience to the Board, contributing to the effective direction of the Group. Latest biographical details of all Directors are given in the section headed "Directors and Senior Management" on pages 27 to 30 and on the Company's website.

The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to the requirement of the Listing Rules. With reference to such confirmations, the Company, to its best knowledge, considers all the Independent Non-executive Directors fulfill the guidelines on independence as set out in Rule 3.13 of the Listing Rules and all to be independent.

No relationship (neither financial, business nor family) exists among members of the Board as at the date of this report.

Responsibilities of directors

The Directors shall take decisions objectively in the best interests of the Group as a whole. They meet regularly to keep abreast of its conduct, business activities, operational performance and latest development. Details of Director's attendance at Board and Board Committee meetings and general meetings held in 2017 and in 2018 (up to the date of this report) are set out in the paragraph headed "Director's attendance" in this section.

The Independent Non-executive Directors are particularly responsible for bringing an independent judgement on the Board. They take the lead where potential conflicts of interests arise and monitor the Company's performance in achieving agreed corporate goals and objectives and the relevant reporting.

In relation to each connected transaction or other transaction of the Company that requires independent shareholders' approval, an independent board committee comprising Independent Non-executive Directors who have no interests therein will be formed to give independent opinion on the transaction.

The Directors ensure that they can give sufficient time and attention to the affairs of the Company. All Directors have disclosed to the Company, upon their appointment, and in a timely manner for any change, their offices held in public companies or organisations and other significant commitments (if any). Information of Directors' office in other companies which is of significant nature is set out on pages 27 to 30 and on the Company's website.

The Company has issued and adopted it own Code for Securities Transactions by Relevant Persons as the code of conduct regarding dealing in securities of the Company by the Directors and specific employees of the Company or its subsidiaries who, because of his office or employment in the Company or such subsidiary, is or is likely to possess inside information in relation to the Company or its securities. Such code is on terms no less exacting than those set out in the Model Code.

Each Director is required to confirm with the Company in writing, twice a year, that he has complied with the Model Code. All the Directors have confirmed that they complied with the required standards thereof throughout the year ended 31 December 2017.

Board of Directors *(Continued)*

Director's attendance

	No. of meetings attended during 2017				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General meetings
Executive Directors					
Mr. Gao Xiang *(Chairman)*	10/10	–	–	2/2	2/2
Mr. Yang Xiaohu *(General Manager) (Note)*	1/1	–	–	–	–
Mr. Liu Chunfeng *(Note)*	9/9	–	–	–	1/2
Non-executive Directors					
Mr. Jin Jianlong	8/10	–	2/2	–	0/2
Mr. Yu Yuqun	7/10	–	–	–	0/2
Mr. Wang Yu	10/10	–	–	–	0/2
Mr. Jin Yongsheng	10/10	–	–	–	0/2
Independent Non-executive Directors					
Mr. Wong Chun Ho	10/10	4/4	–	2/2	1/2
Mr. Tsui Kei Pang	10/10	4/4	2/2	–	2/2
Mr. Zhang Xueqian	10/10	4/4	2/2	2/2	0/2

Note: With effective from 27 October 2017, Mr. Liu Chunfeng resigned as Executive Director and General Manager and Mr. Yang Xiaohu has been appointed as Executive Director and General Manager.

	No. of meetings attended during 1 January 2018 to the date of this report				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General meetings
Executive Directors					
Mr. Gao Xiang *(Chairman)*	1/1	–	–	1/1	–
Mr. Yang Xiaohu *(General Manager)*	1/1	–	–	–	–
Non-executive Directors					
Mr. Jin Jianlong	1/1	–	1/1	–	–
Mr. Yu Yuqun	1/1	–	–	–	–
Mr. Wang Yu	1/1	–	–	–	–
Mr. Jin Yongsheng	1/1	–	–	–	–
Independent Non-executive Directors					
Mr. Wong Chun Ho	1/1	2/2	–	1/1	–
Mr. Tsui Kei Pang	1/1	2/2	1/1	–	–
Mr. Zhang Xueqian	1/1	2/2	1/1	1/1	–

Directors' Training and Professional Development

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The Company is responsible for arranging and funding suitable training for the Directors.

Newly-appointed Director will be briefed by the Company's legal advisor on director's responsibilities under the relevant legal and regulatory requirements (including but not limited to the Companies Ordinances, the Listing Rules and the SFO). He will also be provided a memorandum on directors' duties and obligations which assists him in understanding his responsibilities as directors. The Chairman or the General Manager will give a general induction on the Group and the Company will provide relevant information and organise various activities, for example, plant visits, to ensure they properly understand the business and governance policies of the Company.

To update Directors' understanding of the Group's operations and business and refresh their knowledge and skills as directors, the Company provides with the Board materials on relevant regulation updates and on issues of significance or on new opportunities of the Group.

During the year, the Company organised one seminar for the Directors relating to updates on Corporate Governance Code and latest consultation of year 2017. Nine Directors, namely Mr. Gao Xiang, Mr. Yang Xiaohu, Mr. Jin Jianlong, Mr. Yu Yuqun, Mr. Wang Yu, Mr. Jin Yongsheng, Mr. Wong Chun Ho, Mr. Tsui Kei Pang and Mr. Zhang Xueqian attended the seminar in person or by video conferencing. Due to their own professional capacities, individual Directors also participated in other training relating to the roles, functions and duties as a director of a listed company or further enhancement of their professional development. All the Directors had provided their training records for the year ended 31 December 2017 to the Company.

Appointments and Resignations of Directors

The Company has the "Policy on the Appointment of Directors" in place which is a formal, considered and transparent procedure for the appointment of Directors.

The Nomination Committee identifies and recommends to the Board of suitable candidates as Directors, taken into account various criteria such as their education, qualification and experience to determine whether their attributes are relevant to the business of the Group and can complement to the capabilities of existing Directors, having due regard for the benefits of diversity on the Board, and their independence (in the case of candidates as Independent Non-executive Directors). The committee also makes recommendations to the Board on matters relating to the re-appointment of and succession planning for Directors.

The Articles stipulate that all Directors are subject to retirement by rotation at least once every three years and retiring Directors are eligible for re-election at the AGM at which they retire.

All Non-executive Directors (including the Independent Non-executive Directors) are appointed for a specific term of three years, subject to retirement by rotation.

Board Diversity Policy

The Company has adopted a "Board Diversity Policy" which sets out the approach to achieve diversity of the Board. The Company considers that having a diverse Board is of vital importance to the Company's business development. A summary of the Board Diversity Policy is set out below:

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, educational background, professional qualifications and work experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, educational background, professional qualifications and work experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board will consider from time to time whether it should set any measurable objectives to facilitate the implementation of the policy.

Remuneration of Directors and Senior Management

The Company's policy on remuneration is to maintain fair and competitive packages under a formal and transparent procedure to attract, retain and motivate talents.

The key components of the remuneration package of Executive Directors and senior management of the Company include basic salary and management bonus. The remuneration packages of Non-executive Directors (including Independent Non-executive Directors) includes a fixed director's fee. Share options were granted as a long-term incentive to motivate Directors and senior management in pursuit of corporate goal and objectives.

The level of remuneration is mainly based on the experience, scope of duties, work performance and time committed to the Company, prevailing market rates, salaries paid by comparable companies and remuneration packages elsewhere in the Company and its subsidiaries.

The Remuneration Committee has adopted the model to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The Company has established the "Director and Senior Management Remuneration Policy", a formal and transparent procedure for fixing remuneration packages of all Directors and senior management of the Company. The committee will review such policy periodically, and consult the Chairman and/or General Manager regarding proposed remuneration of other Executive Directors and senior management and make recommendations to the Board of the remuneration of Non-executive Directors in formal or informal meetings. No person shall be involved in deciding his own remuneration.

Details of the Remuneration Committee are set out in the section headed "Delegation by the Board" in this report.

Details of Directors' remuneration for the two years ended 31 December 2017 and 2016 respectively are listed out in note 9 to the financial statements.

Remuneration of Directors and Senior Management *(Continued)*

The remuneration payable to the members of senior management of the Company fell within the following bands for the year 2017:

	Number of individuals
HKD1,000,001 to HKD1,500,000	4
HKD1,500,001 to HKD2,000,000	1
HKD2,000,001 to HKD2,500,000	–

Delegation by the Board

Management functions

The Board gives clear directions as to the power delegated to the management for the administrative and management functions of the Company.

Division of functions reserved to the Board and those delegated to management are set out clearly in writing and will be reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the effective discharge of the Board's decision.

The senior management, led by the General Manager, is responsible for executing strategies and plans set out by the Board and reporting to the Board periodically to ensure proper execution. Functions and responsibilities of the Board are set out in the section headed "Board of Directors" in this report.

Board committees

To streamline its duties and uphold good corporate governance, the Board allocates certain of its executive and monitoring functions to three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

Each of the committees has adopted clear written terms of reference setting out details of its authorities and duties and obligations on no less exacting terms than the CG Code to report its findings, decisions and recommendations to the Board. Full terms of reference of each of the committees have been published on the websites of the Stock Exchange and the Company.

In common with the Board, senior management will give adequate resources to the committees. The committees can also seek independent professional advice where necessary at the Company's expense and is supported by the Company Secretary.

Delegation by the Board *(Continued)*

Board committees *(Continued)*

Audit Committee

The Audit Committee is chaired by Mr. Wong Chun Ho, who possesses professional accounting and financial qualifications. Its other members are Mr. Tsui Kei Pang and Mr. Zhang Xueqian. All of the above three are Independent Non-executive Directors and none of them is a former partner of the external auditor of the Group. Its major responsibilities are:

- to oversee the relationship with the external auditor, including:

  (i) making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and addressing any questions of its resignation or dismissal;

  (ii) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and

  (iii) developing and implementing policy on engaging the external auditor to supply non-audit services;

- to monitor the integrity of financial statements and reports of the Group and to review significant financial reporting judgements contained therein;

- to review the effectiveness of the Group's financial reporting system, risk management and internal control systems; and

- to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

The committee meets the external auditor and senior management of the Company regularly. During 2017, the Audit Committee reviewed, amongst others:

- the remuneration and terms of engagement of the external auditor for the year ended 31 December 2016;

- the effectiveness of the financial reporting procedures and risk management and internal control systems of the Group for each of the year ended 31 December 2016 and the six months ended 30 June 2017, and made recommendations to the Board;

- the integrity of the Group's annual accounts for the year ended 31 December 2016, and the interim results for the six months ended 30 June 2017 with the external auditor;

- the continuing connected transactions of the Group during 2016 which were subject to review by the Independent Non-executive Directors under the Listing Rules;

- the compliance and enforcement of the deed of non-compete undertakings dated 1 June 2009 (the "Deed of Non-compete Undertakings" or the "Deed") made by CIMC in favour of the Company which was subject to annual review by the Independent Non-executive Directors thereunder;

Delegation by the Board *(Continued)*

Board committees *(Continued)*

Audit Committee *(Continued)*

- the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- the nature and scope of audit and reporting obligations of external auditor;
- the policy for provision of non-audit services by external auditor;
- the external auditor's management letters and the management's response thereto; and
- the effectiveness of risk management and internal control systems of the Group for 2016.

In 2017 and up to the date of this Report, the Company engaged PricewaterhouseCoopers as the external auditor of the Group. PricewaterhouseCoopers provided audit and audit related services to the Group with remuneration and terms of engagement approved by the Audit Committee, as follows:

Nature of service	Fees RMB
Review of the Group's financial statements for the six months ended 30 June 2017	1,061,000
Audit of the Group's financial statements and report on the continuing connected transactions for the year ended 31 December 2017	4,755,000
Other audit services in relation to an acquisition	1,000,000
Financial services for potential acquisitions	1,309,000
Total	8,125,000

Save as disclosed above, the Group did not engage PricewaterhouseCoopers for any other services during 2017 and up to the date of this report.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Tsui Kei Pang, an Independent Non-executive Director. Its other members are Mr. Jin Jianlong, a Non-executive Director, and Mr. Zhang Xueqian, an Independent Non-executive Director.

It establishes and supervises a formal and transparent procedure for setting the Company's remuneration policies, including determining and reviewing the remuneration packages of Directors and senior management.

In 2017, the Remuneration Committee had, amongst others, having consulted the Chairman of the Board, considered, reviewed and made recommendations to the Board on the remuneration packages of the Directors appointed, and re-appointed during 2017 and the other Directors (except the members of the Remuneration Committee).

Delegation by the Board *(Continued)*

Board committees *(Continued)*

Nomination Committee

The Nomination Committee is chaired by Mr. Gao Xiang, the chairman of the Board. Its other members are Mr. Wong Chun Ho and Mr. Zhang Xueqian, both are Independent Non-executive Directors.

It identifies and recommends to the Board of suitable candidates as Directors, makes recommendations to the Board on matters relating to the appointment and re-appointment of and succession planning for Directors, and assesses the independence of Independent Non-executive Directors.

In 2017, the Nomination Committee had, amongst others:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- considered the need for identifying individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;
- assessed the independence of Independent Non-executive Directors;
- reported to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular for the chairman of the Board and the General Manager;
- considered the appointment of Mr. Yang Xiaohu as an Executive Director and general manager with effect from 27 October 2017; and
- reviewed the re-appointment of Directors whose terms of office were subject to renewal during 2017, and made recommendation to the Board.

Company Secretary

All Directors have access to the advice and services of the Company Secretary, Mr. Cheong Siu Fai, who is also the Financial Controller of the Company. The Company Secretary reports to the Chairman and/or the General Manager on corporate governance matters, and is responsible for ensuring that Board procedures are followed, facilitating communications among Directors as well as with shareholders and management.

The Company Secretary's biography is set out on page 27 under the section headed "Directors and Senior Management" and on the Company's website. During 2017, the Company Secretary undertook over 15 hours of relevant professional training.

Accountability and Audit

Financial reporting

The Board is collectively responsible for ensuring a balanced, clear and understandable assessment of the Group's annual and interim reports and other financial disclosures and reports under statutory requirements.

In order to enable the Board to make an informed assessment of the financial and other information put before its approval, Executive Directors are provided with financial and other operational information and analytical review reports of the Group on a monthly basis. Management would also meet with Directors regularly to present the quarterly results and discuss any variance between the budget and the actual results for monitoring purpose. Moreover, all the Directors were provided with monthly update from the management, to enable them to assess the Company's operational performance and financial position in a timely manner.

The accounting and finance department of the Company, headed by the Financial Controller of the Company, is specifically responsible for the accounting and financial reporting functions of the Group and for coordinating and supervising the relevant departments of all the operating subsidiaries of the Company. A majority of the staff of such departments possess academic qualifications and extensive working experience in accounting and financial reporting. The Group provides continuous training seminars, on-the-job training and offers allowance for external training programmes by professional bodies to motivate the staff to enhance and refresh their knowledge on an on-going basis.

The annual and interim results of the Group are announced in a timely manner within three months and two months respectively after the end of the respective financial periods. The integrity of the financial statements is monitored by the Audit Committee. A statement of Directors' responsibility for financial statements is set out in the Directors' Report on page 50. A statement of the reporting responsibility of the external auditor is set out in the Independent Auditor's Report on page 69.

Risk management and Internal controls

Risk management and internal control is a process effected by an entity's board, management and other personnel to provide reasonable but not absolute assurance regarding the achievement of corporate objectives. The Group's risk management and internal control systems are established to manage rather than eliminate all risks of failure, to safeguard shareholders' investment and assets from misappropriation, to maintain proper accounts and to ensure compliance with regulations towards the achievement of the Group's objectives.

The Board has the responsibility to ensure that appropriate and effective risk management and internal control systems for evaluating and determining and the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives are established and maintained by the Group. The Board also has the responsibility to oversee management in the design, implementation and monitoring of the risk management and internal control systems, while management is responsible for providing confirmation to the Board on the effectiveness of these systems.

The Board has the responsibility to oversee the Company's risk management and internal control systems on an ongoing basis, and ensure to conduct regular reviews on the effectiveness of the Group's risk management and internal control systems every year and will execute relevant enhancement and rectification processes accordingly.

The internal audit division of the Company is responsible for monitoring the risk management and internal control systems of the Group. The internal auditor assessed and reported on the adequacy and effectiveness of the established risk management and internal control systems of the Group for the reporting year by performing comprehensive reviews and testing. No major deficiencies were identified in the reviews.

Accountability and Audit *(Continued)*

Risk management and Internal controls *(Continued)*

The Board has reviewed the "Report on the Effectiveness of Risk Management and Internal Control Systems" and the Group will put in place measures to strengthen and rectify its risk management and internal control system as recommended in the report. The Board acknowledges that the strengthening of risk management and internal control systems is a crucial and continual process and will conduct periodical review on the progress of such enhancement and rectification.

The Audit Committee plays an essential role in overseeing the Group's risk management and internal control systems. To ensure sufficient resources are provided for the Audit Committee to make informed decisions, information and assessment of financial and non-financial controls, management letters from the external auditor on matters identified during the course of statutory audit and review as well as the internal review report from the internal auditor were presented to the committee. The committee discusses with the management twice a year for ensuring that they have discharged their duty to establish and implement an effective risk management and internal control systems. The committee will report its findings and recommendations to the Board for consideration.

The Company has an Internal Whistleblowing Policy in place to enable employees to raise their concerns about any possible impropriety in financial reporting, internal control or other matters within the Group in confidence, and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action. An employee can raise his/her concern to the Audit Committee. The outcome of any investigation and follow-up action of all legitimate allegations will be reported to the Board by the Audit Committee.

Regarding the disclosure of inside information, the Company has a mechanism in place for monitoring its business development so that potential inside information can be promptly identified and escalated up for deciding whether an announcement should be made, as set out in the Company's Information Disclosure Policy which is available on the Company's website, in order to ensure compliance with the continuous obligations under the Listing Rules and the statutory obligation to disclose inside information under the SFO.

In determining whether certain information constitutes inside information, the Company adopts a bottom-up approach to escalate information about business developments of the organisation. The final decision on the outcome of inside information assessment shall rest with the Board. The Company designates the Chairman, the General Manager, the Financial Controller, the Company Secretary and Investor Relation delegates to speak on behalf of the Company when communicating with external parties such as investors, analysts or media. Furthermore, all Directors and relevant employees (as defined in the Listing Rules) of the Group are required to follow the Company's Code for Securities Transactions by Relevant Persons when dealing with the Company's securities.

The Directors confirmed that they had conducted reviews on the effectiveness of the risk management and internal control systems of the Group in accordance with the Listing Rules and the Group's operational procedure guidelines. The Board considered the risk management and internal control systems of the Group effective and adequate throughout the year.

Non-compete Undertakings

In order to protect the best interests of the Group and uphold the integrity of independence from its controlling shareholder, CIMC, the Company entered into the Deed of Non-compete Undertakings with CIMC on 1 June 2009.

CIMC has given to the Company a letter of annual declaration where it declared, to the best of the knowledge of its board of directors and management, that it had been in compliance with all the non-competition undertakings and all other provisions set out in the Deed throughout the year ended 31 December 2017.

After reviewing the annual declaration and relevant information provided by CIMC, the Independent Non-executive Directors were of the view, to the best of their knowledge, that proper compliance on and enforcement of the Deed of Non-compete Undertakings was in place throughout the year.

Details of the Deed are set out in the circular of the Company dated 3 June 2009.

Communication with Shareholders

Effective communication

The Board believes that effective communication of full and clear information of the Company is the key to enhance corporate governance standards and shareholders' confidence.

The Company holds conferences with analysts and the press to announce its annual results. In order to facilitate communication between the Company, shareholders and the investment community, the Directors and designated employees will maintain on-going dialogue with investors and analysts through one-on-one meetings, roadshows and marketing activities for investors.

The Company will keep the shareholders and the investment community informed of its latest development via various publications such as announcements, circulars, annual and interim reports and press releases, which are available on the Company's website in both English and Chinese.

An AGM provides a constructive forum to maintain regular and mutual communication with shareholders. The Company will arrange the chairman of the Board and the respective chairman or member(s) of each of the Board committees (including the Independent Board Committee, where applicable), or if failing so due to unexpected and/or uncontrollable reasons, his/their duly appointed delegate(s), to attend the general meetings to exchange views with shareholders and answer their questions. All Directors are encouraged to attend general meetings and develop a balance understanding of the view of shareholders.

The external auditor will also be invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

Separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.

To ensure the votes cast are properly counted and recorded, it is the practice of the Company to appoint representatives of its branch share registrar as scrutineer of the voting procedures in general meetings.

Communication with Shareholders *(Continued)*

Effective communication *(Continued)*

Shareholders' rights

Any shareholder is encouraged and entitled to attend all general meetings, provided that their shares have been recorded in the register of members of the Company. Prior notice of general meetings will be given to all registered shareholders by post at least 20 clear business days' notice for AGMs and at least 10 clear business days' notice for all other general meetings.

In general meetings, all resolutions will be put to vote by polls pursuant to the Listing Rules and the Articles. The chairman of a general meeting will explain the detailed procedures for conducting a poll at the commencement of a meeting and address queries from shareholders.

There are no provision allowing shareholders to propose new resolutions at the general meetings under The Companies Law of the Cayman Islands. However, shareholders can convene an EGM by following article 58 of the Articles. Pursuant to article 58 of the Articles, any shareholder(s) (at the date of deposit of requisition holding not less than 10% of the paid up capital of the Company carrying voting right at a general meeting) can require an EGM by sending a written requisition together with the proposed agenda items to the Board or the Company Secretary. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/themselves may do so in the same manner, and all reasonable expenses incurred by him/them therefrom can be reimbursed by the Company.

Subject to the Articles and The Companies Law of the Cayman Islands, the Company may in general meeting by ordinary resolution elect any person to be a director of the Company either to fill a casual vacancy on the Board, or as an addition to the existing Board. A shareholder may propose a person other than a director of the Company for election as a director at a general meeting. The "Procedures for Shareholders to propose a person for election as a Director" has been published on the Company's website.

Shareholders should direct their questions about their shareholdings to the Company's branch registrar in Hong Kong.

Shareholders may make enquiries with the Board at the general meetings. Alternatively, shareholders may at any time send their enquiries and concerns to the Board by addressing to the Company Secretary whose contact details are set out in "Investor relations contacts" hereafter in this section.

Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.

General meetings held in 2017

In 2017, the Company held two general meetings, being one Extraordinary General Meeting ("EGM") and one AGM.

The EGM was held on 14 February 2017 at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Two resolutions were proposed in the meeting, less than 50% of votes were cast in favour of the first resolution and all the votes were cast in favour of the second resolution. The proposed second resolution was therefore passed as ordinary resolution of the Company. As the first resolution was not passed, the financial services framework agreement (2016) had been lapsed. The resolutions included:

- To approve, confirm and ratify the Financial Services Framework Agreement (2016), the continuing connected transactions of the Deposit Services contemplated thereunder and the Proposed Deposit Annual Caps.

- To approve, confirm and ratify the Master Sales Agreement (2016), the continuing connected transactions contemplated thereunder and the proposed annual caps for such transactions.

Communication with Shareholders *(Continued)*

Effective communication *(Continued)*

General meetings held in 2017 *(Continued)*

Full text of the above resolutions is set out in the notice of EGM of the Company dated 26 January 2017. The poll results of the EGM have been published on the websites of the Stock Exchange and the Company.

The AGM was held on 19 May 2017 at Regus Conference Centre, 35th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. Eight resolutions were proposed in the meeting and more than 50% of votes were cast in favour of all the resolutions. The proposed resolutions were therefore passed as ordinary resolutions of the Company. The major resolutions considered and approved included:

- receiving and considering the audited consolidated financial statements, directors' report and independent auditor's report for the year ended 31 December 2016;
- re-election of the retiring Directors and authorising the Board to fix the remuneration of Directors;
- re-appointment of auditor and authorising the Board to fix the remuneration of auditor; and
- granting of general mandates to issue shares and to repurchase shares.

Full text of the above resolutions is set out in the notice of AGM of the Company dated 11 April 2017. The poll results of the AGM have been published on the websites of the Stock Exchange and the Company.

Investor Relations Contacts

The Company values feedbacks from shareholders, investors and the public. Enquiries and proposals are welcome and can be put to the Company via the following means:

By phone	:	(852) 2528 9386
By fax	:	(852) 2865 9877
By post	:	Unit 908, 9th Floor, Fairmont House, No. 8 Cotton Tree Drive, Central, Hong Kong
By email	:	ir@enric.com.hk

The latest investor relations information is available at the Company's investor relations portal at www.irasia.com/listco/hk/enric.

Changes of the Memorandum and Articles of Association

During the year ended 31 December 2017, no amendments were made to the Company's memorandum and articles of association. The latest consolidated version of the Company's memorandum and articles of association has been published on the websites of the Stock Exchange and the Company.

By order of the Board
Gao Xiang
Chairman

Hong Kong, 21 March 2018

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2017.

Principal Activities and Business Review

The principal activity of the Company is investment holding.

The principal activities of the Group are the design, development, manufacturing, engineering and sales of, and the provision of technical maintenance service for, a wide spectrum of transportation, storage and processing equipment that is widely used for the energy, chemical and liquid food industries. Particulars of the Company's principal subsidiaries are set out in note 20 to the financial statements. A business review and further discussion and analysis of the principal activities can be found in "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report, which forms part of this directors' report.

Key financial and business performance indicators

The Group's key financial and business performance indicators comprise total assets growth, revenue growth, profit attribution to equity shareholders, return on equity and gearing ratio.

The Group's total assets have increased in 2017 to RMB14,167,219,000 (2016: RMB12,888,423,000) mainly due to increase in cash and cash equivalent from drawdown of loans during the year.

Revenue rose by 33.9% to RMB10,671,276,000 (2016: RMB7,968,403,000) which shows the Group's revenue generating ability improved due to favourable market conditions.

Profit attributable to equity shareholders is RMB417,360,000 (2016: loss RMB928,772,000) indicates value was added to equity shareholders of the Company during the year.

Return on equity increased by 23.9 percentage points to 7.7% (2016: -16.2%) which indicates a more efficient use of equity to generate profit comparing with the previous year.

Gearing ratio decreased from 46.7% in 2016 to 25.5% in 2017 mainly because of increase in assets and decrease in loans during the year.

Details of other key performance indicators are shown in "Financial Highlights" and "Financial Review" sections of this Annual Report.

Compliance with laws and regulations

The Group recognises the importance of compliance with regulatory requirements. The Group has been allocating system and staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators. During the year, the Company has complied, to the best of our knowledge, with the Companies Law of the Cayman Islands, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), Listing Rules, the SFO, and other relevant rules and regulations. Besides, the subsidiaries within the Group continue to comply with their applicable local laws. During the year, the Company was not aware of any particular law and regulation that would have a significant impact on the Group's operation.

Principal Activities and Business Review *(Continued)*

Principal risks and uncertainties

The Group operates as a manufacturer of specialised equipment and provider of project engineering services for energy, chemical and liquid food industries. The Group's normal course of business is exposed to a variety of key risks including credit, liquidity, interest rate and currency risks. Details of the aforesaid key risks and risk mitigation measures are elaborated in note 45 to the financial statements.

The Group's business is also affected by the volatility or uncertainty of, externally (i) the macro-economic conditions in China and other global nations; (ii) the Chinese government's policies, especially natural gas pricing policies; (iii) the industrial development and market trends; and internally (i) the effectiveness of the Group's strategic plans; (ii) the effects generated from transactions; (iii) the Group's recruitment and retention of talents with relevant expertise and experience. In response to the above, the Group has formulated a range of plans and strategies as a whole and for each segment, details of which can be found in "Chairman's Statement" and "Management Discussion and Analysis" sections of this Annual Report.

Environmental policies and performance

The Group is committed to promoting green operation. The subsidiaries within the Group have implemented relevant environmental protection measures, and have developed new technologies and skills for the promotion of energy saving and emission reduction, in order to minimise the environmental damage caused during the production process. Internally, the Group encourages its employees to adopt environmentally responsible behavior to reduce use of resources, minimise waste and increase recycling.

The subsidiaries of the Company in China strictly comply with the country's environmental laws and regulations and were not aware of any material non-compliance with relevant standards, rules and regulations during the year.

Environmental, Social and Governance Report will be reported separately from this report and will be published within three months after the publication of this report.

Relationships with key stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers, regulators and shareholders.

Employees

Employees are regarded as the most important and valuable assets of the Group. Apart from the compliance with relevant employment laws, the objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group's customers come from energy, chemical and liquid food industries. The Group has the mission to provide excellent customer service whilst maintaining long term profitability, business and asset growth. Special focus has been devoted to the Group's after-sale services to maintain safe and efficient operation of the products for customers.

Principal Activities and Business Review *(Continued)*

Suppliers

Sound relationships with suppliers of the Group are important in the supply chain, which can derive cost effectiveness and foster long term business benefits. The Group has formulated criteria for selection of strategic suppliers, in terms of their product offers, operational scale and development strategies. Under a win-win objective, the Group has cooperated with strategic suppliers to achieve interactive learning and mutual support.

Regulators

The Company is listed in Hong Kong under the regulation of the Stock Exchange, SFC and other relevant authorities. It is the Group's desire to keep up to date and ensure compliance with new rules and regulations.

Shareholders

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group targets to foster business development for achieving the sustainability of earnings growth and rewarding shareholders by stable dividend payouts, taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

Financial Statements

The Directors acknowledge that it is their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the Group's profit or loss for the year then ended. In preparation of the financial statements, the Directors are required to:

(a) select appropriate accounting policies and apply them on a consistent basis, making judgements and estimates that are prudent, fair and reasonable;

(b) explain any significant departure from accounting standards; and

(c) prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business for the foreseeable future.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and for employing reasonable procedures to prevent and detect fraud and other irregularities.

The profit of the Group for the year ended 31 December 2017 and the state of the Company's and the Group's affairs as at such date are set out in the financial statements on pages 71 to 163.

Dividends and Reserves

The Board is pleased to propose a final dividend in respect of 2017 of HKD0.08 per ordinary share (the "2017 Final Dividend"), subject to the approval of shareholders in the forthcoming annual general meeting to be held on Friday, 18 May 2018.

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the financial statements and the consolidated statement of changes in equity.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the year ended 31 December 2017 is as follows:

	Percentage of the Group's total	
	sales	purchases
The largest customer	7.3%	–
Five largest customers in aggregate	18.4%	–
The largest supplier	–	7.0%
Five largest suppliers in aggregate	–	13.6%

Note:

At no time during the year have the Directors, their associates, or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in any of the five largest customers or suppliers of the Group.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group are set out in note 14 to the financial statements.

Retirement Schemes

The Group participates in government pension schemes for its employees in Mainland China and in a mandatory provident fund scheme for its employees in Hong Kong. In Europe, the Group operates various qualified defined benefit pension plans which are funded through payments to insurance companies. Particulars of retirement benefits are set out in note 38 to the financial statements.

Charitable Donations

During the year, charitable donations made by the Group amounted to RMB262,000 (2016: RMB461,000).

Share Capital

Details of movements in the share capital of the Company during the year are set out in note 37 to the financial statements.

Share Issued

During the year, the Company has issued shares as a result of the exercise of share options under the share option scheme of the Company, a total of 5,814,000 shares of the Company, fully paid, were issued for a total consideration of RMB17,832,640.

Details of the shares issued during the year are set out in note 37 to the financial statements.

Share Capital *(Continued)*

Equity-linked Agreements

Save for the share option scheme of the Company as set out on pages 55 to 59, no equity-linked agreements were entered into by the Group, or existed during the year.

Bank Loans and Overdrafts

Details of bank loans and overdrafts of the Group at 31 December 2017 are set out in note 28 to the financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 2.

Directors

At the date of this report, the Board comprised:

Executive Directors

Mr. Gao Xiang *(Chairman)*
Mr. Yang Xiaohu *(General Manager)*

Non-executive Directors

Mr. Jin Jianlong
Mr. Yu Yuqun
Mr. Wang Yu
Mr. Jin Yongsheng

Independent Non-executive Directors

Mr. Wong Chun Ho
Mr. Tsui Kei Pang
Mr. Zhang Xueqian

Reference is made to the announcement of the Company dated 27 October 2017, where it had announced that, *inter alia*, Mr. Liu Chunfeng resigned as an Executive Director and general manager of the Company and Mr. Yang Xiaohu was appointed as an Executive Director and general manager with effect from 27 October 2017. Pursuant to code A.4.2 of the CG Code and article 86(3) of the Articles, Mr. Yang Xiaohu will be subject to re-election at the forthcoming AGM.

In accordance with articles 87(1) and 87(2) of the Articles, at the forthcoming AGM, Messrs. Gao Xiang, Jin Jianlong and Tsui Kei Pang will retire by rotation. Mr. Jin Jianlong has decided not to offer himself for re-election as he is going to reach the retirement age, and will retire as a Non-executive Director of the Company at the conclusion of the AGM. Mr. Jin Jianlong has confirmed that he did not have any disagreement with the Board and there is no matters relating his retirement as a Non-executive Director that need to be brought to the attention of the Shareholders of the Company or the Stock Exchange. The rest of retiring Directors, being eligible, offer themselves for re-election.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Shares

As at 31 December 2017, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long position in the shares of the Company

Name of Director	Capacity	Interests in underlying shares pursuant to share options	% of issued share capital (Note)
Gao Xiang	Beneficial owner	1,900,000	0.10%
Yang Xiaohu	Beneficial owner	764,000	0.04%
Jin Jianlong	Beneficial owner	1,400,000	0.07%
Yu Yuqun	Beneficial owner	1,298,000	0.07%
Jin Yongsheng	Beneficial owner	1,100,000	0.06%
Wong Chun Ho	Beneficial owner	1,100,000	0.06%
Tsui Kei Pang	Beneficial owner	600,000	0.03%
Zhang Xueqian	Beneficial owner	600,000	0.03%

Note:

The percentages are calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2017, which was 1,942,652,088.

Directors' Interests in Shares *(Continued)*

Long positions in the shares of associated corporations

Associated corporation	Name of Director	Capacity	Number of shares/ underlying shares held	Shareholding %
CIMC (A Shares)	Gao Xiang	Beneficial owner (Note 1)	375,000	0.03% (Note 2)
	Jin Jianlong	Beneficial owner (Note 1)	820,000	0.07% (Note 2)
	Yu Yuqun	Beneficial owner (Note 1)	750,000	0.06% (Note 2)

Notes:

1. Mr. Gao, Mr. Jin and Mr. Yu were granted stock options (A Shares) by CIMC, an associated corporation of the Company listed on the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange, on 28 September 2010, pursuant to a stock option incentive scheme adopted by CIMC. The stock options granted to any grantee are exercisable at an exercise price of RMB10.49 per share, and 75% of which are exercisable between 28 September 2014 and 27 September 2020.

2. The percentage is calculated based on the total number of share capital of CIMC (A Shares) in issue as at 31 December 2017, which was 1,266,312,527.

Save as disclosed above, as at 31 December 2017, no other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations were recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, no person had any rights to subscribe for equity or debt securities of the Company as at 31 December 2017, nor have any such rights been granted or exercised during the year.

Substantial shareholders' interests in shares

As at 31 December 2017, the interests and short positions of every substantial shareholder, other than the Directors and the chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Substantial shareholder	Capacity	Number of shares held	% of issued share capital (Note 1)
CIMC	Interest of controlled corporation	1,371,016,211 (Note 2)	70.57%
CIMC HK	Interest of controlled corporation	190,703,000 (Note 3)	9.82%
	Interest in controlled corporation	39,740,566 (Note 4)	2.04%
	Beneficial owner	1,140,572,645	58.71%
Charm Wise	Beneficial owner	190,703,000 (Note 3)	9.82%

Notes:

1. The percentages are calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2017, which was 1,942,652,088.

2. These ordinary shares comprise 190,703,000 ordinary shares held by Charm Wise, 1,140,572,645 ordinary shares held by CIMC HK and 39,740,566 ordinary shares held by CIMC Tank Equipment Investment Holdings Company Limited ("CIMC Tank Equipment"). Charm Wise, CIMC HK and CIMC Tank Equipment are wholly-owned subsidiaries of CIMC.

3. The two references to 190,703,000 ordinary shares refer to the same block of shares held by Charm Wise, which is a wholly-owned subsidiary of CIMC HK.

4. These ordinary shares are held by CIMC Tank Equipment, a wholly-owned subsidiary of CIMC HK.

Save as disclosed above, as at 31 December 2017, (i) the register required to be kept under section 336 of the SFO recorded no other interests or short positions in the shares or underlying shares of the Company and (ii) the Directors are not aware of any other persons or corporations who were interested in 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Share Options

The Company adopted the Share Option Scheme (the "Scheme") pursuant to an ordinary resolution passed at an EGM on 12 July 2006. Its purpose is to provide incentives and rewards to employees and Directors and eligible persons for their contributions to the Group.

On 11 November 2009, the Company granted share options to certain eligible persons to subscribe for a total of 43,750,000 ordinary shares of HKD0.01 each in the capital of the Company under the Scheme. A total of 3,440,000 number of these options were lapsed as at 31 December 2017.

Further, on 28 October 2011, the Company granted share options to certain eligible persons to subscribe for a total of 38,200,000 ordinary shares of HKD0.01 each in the capital of the Company under the Scheme. A total of 2,980,000 number of these options were lapsed as at 31 December 2017.

Share Options *(Continued)*

Further, on 5 June 2014, the Company granted share options to certain eligible persons to subscribe for a total of 38,420,000 ordinary shares of HKD0.01 each in the capital of the Company under the Scheme. A total of 3,200,000 number of these options were lapsed as at 31 December 2017.

All the above options granted were accepted by the respective participants.

During the year ended 31 December 2017, movements of the options under the Scheme were as follows:

			Number of share options					
Grantee	Date of grant	Exercisable period	outstanding at 1 January 2017	granted during the year	exercised during the year	lapsed during the year	transferred to/ from other category	outstanding at 31 December 2017
Directors								
Gao Xiang	11/11/2009	11/11/2010–10/11/2019	1,000,000	–	–	–	–	1,000,000
	28/10/2011	28/10/2013–27/10/2021	500,000	–	–	–	–	500,000
	05/06/2014	05/06/2016–04/06/2024	400,000	–	–	–	–	400,000
Yang Xiaohu	11/11/2009	11/11/2010–10/11/2019	164,000	–	–	–	–	164,000
(appointed on	28/10/2011	28/10/2013–27/10/2021	200,000	–	–	–	–	200,000
27 October 2017)	05/06/2014	05/06/2016–04/06/2024	400,000	–	–	–	–	400,000
Jin Jianlong	11/11/2009	11/11/2010–10/11/2019	800,000	–	–	–	–	800,000
	28/10/2011	28/10/2013–27/10/2021	300,000	–	–	–	–	300,000
	05/06/2014	05/06/2016–04/06/2024	300,000	–	–	–	–	300,000
Yu Yuqun	11/11/2009	11/11/2010–10/11/2019	698,000	–	–	–	–	698,000
	28/10/2011	28/10/2013–27/10/2021	300,000	–	–	–	–	300,000
	05/06/2014	05/06/2016–04/06/2024	300,000	–	–	–	–	300,000
Jin Yongsheng	11/11/2009	11/11/2010–10/11/2019	500,000	–	–	–	–	500,000
	28/10/2011	28/10/2013–27/10/2021	300,000	–	–	–	–	300,000
	05/06/2014	05/06/2016–04/06/2024	300,000	–	–	–	–	300,000
Wong Chun Ho	11/11/2009	11/11/2010–10/11/2019	500,000	–	–	–	–	500,000
	28/10/2011	28/10/2013–27/10/2021	300,000	–	–	–	–	300,000
	05/06/2014	05/06/2016–04/06/2024	300,000	–	–	–	–	300,000
Tsui Kei Pang	28/10/2011	28/10/2013–27/10/2021	300,000	–	–	–	–	300,000
	05/06/2014	05/06/2016–04/06/2024	300,000	–	–	–	–	300,000
Zhang Xueqian	28/10/2011	28/10/2013–27/10/2021	300,000	–	–	–	–	300,000
	05/06/2014	05/06/2016–04/06/2024	300,000	–	–	–	–	300,000
			8,762,000	–	–	–	–	8,762,000

Share Options *(Continued)*

Grantee	Date of grant	Exercisable period	Number of share options: outstanding at 1 January 2017	granted during the year	exercised during the year	lapsed during the year	transferred to/ from other category	outstanding at 31 December 2017
Employees	11/11/2009	11/11/2010–10/11/2019	8,422,000	–	(246,000)	–	–	8,176,000
	28/10/2011	28/10/2013–27/10/2021	22,172,000	–	(3,304,000)	–	–	18,868,000
	05/06/2014	05/06/2016–04/06/2024	29,254,000	–	–	(1,384,000)	–	27,870,000
Other participants	11/11/2009	11/11/2010–10/11/2019	8,330,000	–	(2,000,000)	–	–	6,330,000
	28/10/2011	28/10/2013–27/10/2021	1,882,000	–	(264,000)	–	–	1,618,000
	05/06/2014	05/06/2016–04/06/2024	4,750,000	–	–	–	–	4,750,000
Total			83,572,000	–	(5,814,000)	(1,384,000)	–	76,374,000

Notes:

1. Regarding the share options granted on 11 November 2009:

   Subject to certain conditions as stated in the offer letter to the respective grantee, 50% of the options granted to any grantee become exercisable from 11 November 2010 and up to 10 November 2019; and the remaining 50% of which become exercisable from 11 November 2011 and up to 10 November 2019. The exercise price of all the options granted is HKD4.00 per share.

2. Regarding the share options granted on 28 October 2011:

   Subject to certain conditions as stated in the offer letter to the respective grantee, 40% of the options granted to any grantee become exercisable from 28 October 2013 and up to 27 October 2021; 30% of which become exercisable from 28 October 2014 and up to 27 October 2021; and the remaining 30% of which become exercisable from 28 October 2015 and up to 27 October 2021. The exercise price of all the options granted is HKD2.48 per share.

3. Regarding the share options granted on 5 June 2014:

   Subject to certain conditions as stated in the offer letter to the respective grantee, 40% of the options granted to any grantee become exercisable from 5 June 2016 and up to 4 June 2024; 30% of which become exercisable from 5 June 2017 and up to 4 June 2024; and the remaining 30% of which become exercisable from 5 June 2018 and up to 4 June 2024. The exercise price of all the options granted is HKD11.24 per share.

4. The weighted average closing price of the shares immediately before the dates on which the options were exercised during the year ended 31 December 2017 was HKD5.23 per share.

Share Options *(Continued)*

At the annual general meeting of the Company held on 20 May 2016, an ordinary resolution was passed in relation to the adoption of a new share option scheme (the "New Scheme") and the termination of the Scheme. Upon termination of the Scheme, no further option may be granted under the Scheme, but in all other respects the provisions of the Scheme remain in full force and effect and options granted prior to such termination continue to be valid and exercisable in accordance with the provisions of the Scheme.

The New Scheme has a term of 10 years and will expire on 19 May 2026, after which no further options will be granted. The purpose of the New Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants, and for such other purposes as the Board may approve from time to time.

The Board may, at its discretion, invite (i) any executive or non-executive Director including any independent non-executive Director or any employee (whether full-time or part-time) of any member of the Group and its associated companies and its jointly controlled entities and its related companies from time to time ("Enric Group"); (ii) any discretionary object of a discretionary trust established by any substantial Shareholder of the Company or any employee, executive or non-executive Director of any member of the Enric Group; (iii) any consultant, professional and other adviser to any member of the Enric Group; (iv) any chief executive or substantial shareholder of any member of the Enric Group; any associate of any Director, chief executive or substantial shareholder of any member of Enric Group; and (v) any employee (whether full-time or part-time) of substantial shareholder of any member of the Enric Group to take up options under New Scheme.

The share options under New Scheme are exercisable for a period to be notified by the Board to each participant, which shall not exceed 10 years from the date of grant. There is no minimum period which an option must be held before it can be exercised, but the Board is authorised to impose at its discretion any such minimum period at the date of grant. The exercise price of an option shall be at least the highest of (i) the closing price of the Company's share as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a Business Day; (ii) the average price of the closing prices of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five consecutive trading days immediately preceding the date of grant; and (iii) the nominal value of a Company's share.

The maximum number of shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the issued share capital of the Company as at the date of adoption of the New Scheme. However, the Board may seek approval of the shareholders in general meeting for refreshing the 10% limit and/or for granting options beyond the 10% limit. Notwithstanding the refreshed limit and granting of options beyond the limit, the maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised must not exceed 30% of the total number of shares in issue from time to time.

The maximum number of shares issued and to be issued upon the exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Where further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total shares in issue, such further grant shall be subject to the shareholders' approval in general meeting with such participant and his associates abstaining from voting. Details of the New Scheme disclosed in the circular of the Company dated 6 April 2016.

Share Options *(Continued)*

No options have been granted under the New Scheme since its adoption.

As at the date of this report, 193,660,608 number of options, representing approximately 10.00% of the issued ordinary share capital of the Company are available for grant under the New Scheme.

As at the date of this report, a total number of 270,034,608 Shares representing 14.31% of the issued share capital of the Company, are available for grant under the Scheme and New Scheme.

Saved as disclosed above, no options were granted, exercised, lapsed or cancelled for the year ended 31 December 2017.

Directors' Interests in Competing Business

At the date of this report, no Director was interested in the business apart from the Group's business, which competes or may compete, either directly or indirectly, with the Group's business.

Permitted Indemnity Provision

The Company's articles of association provides that every Director is entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has purchased and maintained directors' liability insurance throughout the year, which provides appropriate cover for the Directors.

Management Contracts

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

Connected Transactions and Interests in Contracts

Connected transactions and continuing connected transactions subject to annual review

During the year, the Group carried out the following transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules and were subject to annual review:

On 23 December 2016, the Company entered into Master Sales Agreement (2016) with CIMC under which the Group agreed to sell to the CIMC Group certain products, for a term of three years from 1 January 2017 to 31 December 2019. During the year, the Group's sale to CIMC Group was RMB281,723,000.

On 23 December 2016, the Company entered into Master Services Agreement (2016) with CIMC under which the Group agreed to provide processing services, and other related services to the CIMC Group, for a term of three years from 1 January 2017 to 31 December 2019. During the year, the service income recognised by the Group was RMB8,058,000.

On 23 December 2016, the Company entered into Master Office Services Agreement (2016) with CIMC, whereby the Group agreed to provide office services to the CIMC Group, for a term of three years from 1 January 2017 to 31 December 2019. During the year, the office service income recognised by the Group was RMB15,038,000.

Connected Transactions and Interests in Contracts *(Continued)*

Connected transactions and continuing connected transactions subject to annual review *(Continued)*

On 23 December 2016, the Company entered into Master Processing Agreement (2016) with CIMC, whereby the CIMC Group agreed to provide processing services and other related services to the Group, for a term of three years from 1 January 2017 to 31 December 2019. During the year, the processing service charge incurred by the Group was RMB14,360,000.

On 23 December 2016, the Company entered into Master Procurement Agreement (2016) with CIMC, whereby the Group agreed to procure various spare parts and/or raw materials from the CIMC Group, for a term of three years from 1 January 2017 to 31 December 2019 and the agreement. During the year, the Group's total purchase from CIMC Group was RMB201,442,000.

On 24 April 2017, the Company entered into Financial Services Framework Agreement (2017) with CIMC Finance Company Ltd. (中集集團財務有限公司, a wholly-owned subsidiary of CIMC, "CIMC Finance") as service provider and CIMC as guarantor under which CIMC Finance agreed to provide various financial services to the Group from 27 April 2017 to 31 December 2019. During the year, the maximum daily outstanding balance of the Group's deposits placed with CIMC Finance was RMB358,153,000.

The Independent Non-executive Directors have reviewed the above transactions and confirmed that in their opinion the above transactions have been entered into:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms or better; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the above transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with Listing Rules 14A.56. The auditor has the following conclusions in the letter on continuing connected transactions disclosed by the Group:

a. nothing has come to the auditor's attention that causes him to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

b. for transactions involving the provision of goods or services by the Group, nothing has come to the auditor's attention that causes him to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

Connected Transactions and Interests in Contracts *(Continued)*

Connected transactions and continuing connected transactions subject to annual review *(Continued)*

c. nothing has come to the auditor's attention that causes him to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the above continuing connected transactions, nothing has come to the auditor's attention that causes him to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements and circular respectively dated 27 December 2016, 25 January 2017, 24 April 2017 and 14 November 2017 made by the Company in respect of each of the disclosed continuing connected transactions.

Note 42 to the financial statements set out the information regarding related party transactions prepared in accordance with the relevant accounting standards and these transactions are also connected transactions under Listing Rules. These transactions complied with requirements of the Listing Rules. Except for the financial statements were prepared applying merger accounting, certain connected transactions under Listing Rules are not related party transactions according to the relevant accounting standards.

Other connected transaction

Saved as disclosed above, the Group entered into the following connected transaction during the year:

Reference is made to the EPC (engineering, procurement and construction) agreements entered into Nanjing Yangzi Petrochemical Design & Engineering Co., Ltd. (南京揚子石油化工設計工程有限公司, an indirectly wholly-owned subsidiary of the Company, "YPDI") with ENN (Zhoushan) LNG Co., Ltd. (新奧(舟山)液化天然氣公司, the "Customer"), TGE Gas Engineering GmbH ("TGE (Germany)") and Shanghai CIMC TGE Gas Engineering Co., Ltd. (上海梯杰易氣體工程技術有限公司, "TGE (Shanghai)") on 30 June 2014. Pursuant to the EPC agreements, YPDI has engaged the bank to provide Bank Guarantee on behalf of YPDI to guarantee the performance of all the contractual obligations of each of the YPDI, TGE (Germany) and TGE (Shanghai) under the EPC agreements. Separately, TGE (Germany) has provided Counter Guarantee to YPDI to guarantee for full performance by itself and by TGE (Shanghai) of all terms and obligations under the EPC agreements. The Bank Guarantee expired on 31 August 2017. On 31 August 2017, the bank issued the supplemental letter to Bank Guarantee to extend the term to 31 December 2018. TGE (Germany) will continue to provide guarantee to YPDI under the Counter Guarantee. The maximum amount to be guaranteed by YPDI under Bank Guarantee is approximately RMB79,902,000.

Directors' interests in transactions, arrangement or contracts of significance

Save as disclosed above, no other transactions, arrangement or contracts of significance to which the Company or its subsidiaries or fellow subsidiaries or its parent company, was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Save as disclosed above, no other contracts of significance between the Company or its subsidiaries and the controlling shareholder or its subsidiaries subsisted at the end of the year or at any time during the year.

Note:

CIMC is the holding company of Charm Wise and CIMC HK, which are substantial shareholder and controlling shareholder of the Company respectively.

Confirmation of Independence

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence and considered each of them independent to the Group pursuant to Rule 3.13 of the Listing Rules.

Corporate Governance

The Company is committed to maintaining a high level of corporate governance practices.

The Company's corporate governance report is set out on pages 31 to 47. Details of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are given in the same report. The Audit Committee has reviewed and discussed with management the annual results and the audited financial statements for the year ended 31 December 2017.

Closure of Register of Members

To ascertain shareholders' entitlements to the 2017 Final Dividend, the register of members of the Company will be closed from Monday, 28 May 2018 to Friday, 1 June 2018 (both days inclusive). In order to qualify for the 2017 Final Dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 25 May 2018.

Subject to the approval by shareholders at the AGM to be held on 18 May 2018, the 2017 Final Dividend will be paid in cash on or about 25 June 2018 to shareholders whose names appear on the register of members of the Company on 1 June 2018 (the "Record Date").

Moreover, for determination of the entitlement to attend and vote at the AGM, the transfer books and register of members will be closed from Monday, 14 May 2018 to Friday, 18 May 2018 (both days inclusive), during which period no transfer of Shares will be effected. In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, all Share transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 11 May 2018.

Withholding and Payment of Enterprise Income Tax for Non-resident Enterprises on Distribution of the 2017 Final Dividend

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China" (the "Enterprise Income Tax Law"), "Notice of the State Administration of Taxation on Issues Concerning the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of Their Bodies of Actual Management" and "Announcement of the State Administration of Taxation on Issues Concerning the Determination of Resident Enterprises on the Basis of Their Actual Management Bodies", the Administration of Local Taxation of Shenzhen Municipality issued an approval under which the Company is regarded as a Chinese Resident Enterprise, effective from the year 2013.

Withholding and Payment of Enterprise Income Tax for Non-resident Enterprises on Distribution of the 2017 Final Dividend *(Continued)*

Pursuant to the Enterprise Income Tax Law and the "Implementation Regulations for the Enterprise Income Tax Law of the People's Republic of China", the Company is required to withhold and pay 10% enterprise income tax when it distributes the 2013 final dividend and dividends in subsequent years to its non-resident enterprise shareholders.

In respect of all shareholders whose names appear on the Company's register of members as at the Record Date who are not individuals (including HKSCC Nominees Limited, corporate nominees or trustees such as securities companies and banks, and other entities or organisations, which are all considered as non-resident enterprise shareholders), the Company will distribute the 2017 Final Dividend after deducting an enterprise income tax of 10%. The Company will not withhold and pay the income tax in respect of the 2017 Final Dividend payable to any natural person shareholders whose names appear on the Company's register of members as at the Record Date.

If any resident enterprise (as defined in the Enterprise Income Tax Law) listed on the Company's register of members which is duly incorporated in the PRC or under the laws of a foreign country (or a region) but with a PRC-based de facto management body, does not desire to have the Company withhold and pay the said 10% enterprise income tax, it shall lodge with Computershare Hong Kong Investor Services Limited documents from its governing tax authority confirming that the Company is not required to withhold and pay enterprise income tax in respect of the dividend that it is entitled, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at or before 4:30 p.m. on Friday, 25 May 2018.

With respect to individual investors of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect who hold Shares through HKSCC Nominees Limited, Hong Kong Securities Clearing Company Limited will pay the amount of the 2017 Final Dividend net of the 10% enterprise withholding tax to China Securities Depository and Clearing Corporation Limited for dividend distribution in accordance with relevant requirements under the Notice Regarding Tax Policies Related to the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知（財稅[2014]81號）》) and Notice Regarding Tax Policies Related to the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知（財稅[2016]127號）》) jointly published by the Ministry of Finance of the PRC, State Administration of Taxation of the PRC and China Securities Regulatory Commission.

If anyone would like to change the identity of the holders in the register of members, please enquire about the relevant procedures with the nominees or trustees. The Company will withhold and pay the enterprise income tax for its non-resident enterprise shareholders strictly in accordance with the relevant laws and requirements of the relevant government departments and adhere strictly to the information set out in the Company's register of members on the Record Date. The Company assumes no liability whatsoever in respect of and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders or any disputes over the mechanism of withholding and payment of enterprise income tax.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has, during the year and up to the date of this report, maintained a public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

Pre-Emptive Rights

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

Auditor

The financial statements for the year have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for reappointment at the forthcoming AGM.

By order of the Board
Gao Xiang
Chairman

Hong Kong, 21 March 2018

羅兵咸永道

To the Shareholders of CIMC Enric Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of CIMC Enric Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 163, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

- Recoverability of trade and bills receivables
- Impairment of goodwill
- Purchase price allocation for acquisition of Nantong CIMC SinoPacific Offshore & Engineering Co., Ltd. ("SOE", formerly known as SinoPacific Offshore & Engineering Co., Ltd.)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade and bills receivables	
Refer to Note 2(m) of accounting policy of impairment of assets, Note 3 – Accounting estimates and judgements and Note 23 – Trade and bills receivables to the consolidated financial statements. As at 31 December 2017, the carrying amount of trade and bills receivables amounted to Renminbi ("RMB") 2,979,199,000 (after provision of RMB254,980,000, among which RMB41,797,000 was charged to the consolidated income statement during the year), representing approximately 21% of the Group's total assets. At each period end, management performed individual credit evaluations on significant customers. These evaluations focused on the customers' settlement history and their current ability for payment, and took into account information specific to the customers as well as pertaining to the economic environment in which they operate. For receivables which were not subject to individual evaluations or individually assessed as not impaired, management collectively assessed the provision for impairment taking into account the ageing analysis and historical bad debt losses incurred in respect of those groups of customers based on their credit risk characteristic. We focused on this area due to the significance of the trade and bills receivables balance and the significant judgements involved in assessing their recoverability.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the controls over the assessment of the recoverability of trade and bills receivables. Those controls were related to the identification of impaired receivables and the quantification and recording of impairment provisions. (ii) We tested the accuracy of ageing analysis of receivables balances prepared by management on a sample basis. (iii) We obtained management's assessment on the collectability of individual significant outstanding balances, focusing on those aged more than one year. We assessed the collectability of the balances by checking the supporting evidence, including subsequent settlements, credit history, business performance and financial capability of these customers. (iv) Where impairment was provided, we checked the mathematical accuracy of the impairment charge calculations and tested the impairment of the receivables balances on a sample basis based on the supporting documents. (v) We examined samples of receivables which had not been identified as individually impaired by management and formed our own judgement as to whether that was appropriate, including assessing the appropriateness of the Group's grouping and calculation of estimating collective provisions by considering the historical bad debts amounts and pattern, and taking into consideration of factors such as customers' credit and market condition. Based on our work performed, we found that management's judgement on the estimates of impairment provision was supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of goodwill	
Refer to Note 2(m) of accounting policy of impairment of assets, Note 3 – Accounting estimates and judgements and Note 21 – Goodwill to the consolidated financial statements. As at 31 December 2017, the carrying amount of goodwill before impairment provision of the Group amounted to RMB311,926,000. During the year ended 31 December 2017, the Group made a provision of RMB38,000,000 to the goodwill related to Liaoning CIMC Hashenleng Gas Liquefaction Plant Co., Ltd. in the consolidated income statement. Management conducted an impairment review by comparing the recoverable amounts of the goodwill, estimated based on value-in-use calculations, with the carrying value. The key assumptions adopted by management in the cash flow forecasts included future revenue growth rates, gross margins and discount rates. We focused on this area due to the fact that significant judgements were involved in assessing the key assumptions of goodwill impairment.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the controls regarding goodwill impairment test, including the adoption of key assumptions and the review and approval of impairment provision. (ii) We obtained management's worksheets of impairment of goodwill and tested the mathematical accuracy of the calculations. (iii) We analysed and assessed the reasonableness of management's assumptions of future revenue growth rates and gross margins by considering the historical operating results and latest market conditions. (iv) We evaluated the discount rates by involving our internal valuation specialist. (v) We performed sensitivity test on gross margins and discount rates. Based on our work performed, we found that management's key assumptions on goodwill impairment test was supported by the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Purchase price allocation for acquisition of SOE	
Refer to Note 2(c)(i)(a) – Accounting policy of Business Combination, Note 3 – Accounting estimates and judgements and Note 43 – Business Combinations to the consolidated financial statements. On 4 August 2017, an indirect wholly-owned subsidiary of the Company, CIMC Enric Investment Holdings (Shenzhen) Ltd. ("EIHL") acquired the 100% equity interest in SOE at a cash consideration of RMB799,800,000. The transaction fell under the scope of Hong Kong Financial Reporting Standards 3 Business Combinations. Management has engaged an independent external valuer to perform a valuation on the identifiable assets and liabilities of SOE on the acquisition date. Based on the valuation results, the Group recognised a gain on bargain purchase of RMB68,701,000 and included in the consolidated income statement for the year ended 31 December 2017. We focused on this area because significant judgements were involved relating to the valuation of identifiable assets and liabilities.	We have performed the following procedures to address this key audit matter: (i) We understood, evaluated and validated the Group's controls over business combinations. (ii) We obtained and examined the documents (including the Restructuring Plan) entered into between EIHL and SOE in connection with the acquisition. (iii) We evaluated the competency, professionalism and objectivity of the independent valuer. (iv) We compared the assumptions regarding future operating and financial performance of SOE against the historical operating results and latest market conditions. (v) We engaged our internal valuation specialist to evaluate the reasonableness of the methodology and parameters including discount rate as adopted in the valuation report for the identifiable assets and liabilities. Based on our work performed, we found that management's assessment on the purchase price allocation was properly supported by the available evidence.

Other Information

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

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

- 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 those charged with governance 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 those charged with governance 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 those charged with governance, 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 Zee, Ho Sum.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	4&13	**10,671,276**	7,968,403
Cost of sales		**(8,874,987)**	(6,564,770)
Gross profit		**1,796,289**	1,403,633
Change in fair value of derivative financial instruments		**10,495**	(3,103)
Other revenue	5	**214,162**	215,113
Other income, net	5	**26,000**	86,291
Selling expenses		**(386,774)**	(279,790)
Administrative expenses		**(919,697)**	(756,585)
Profit from operations		**740,475**	665,559
Finance costs	6(a)	**(79,401)**	(106,897)
Impairment provision	7	**(105,549)**	(1,362,915)
Share of post-tax loss of associates	19	**(245)**	–
Profit/(loss) before taxation	6	**555,280**	(804,253)
Income tax expenses	8	**(135,099)**	(132,427)
Profit/(loss) for the year		**420,181**	(936,680)
Attributable to:			
Equity shareholders of the Company		**417,360**	(928,772)
Non-controlling interests		**2,821**	(7,908)
Profit/(loss) for the year		**420,181**	(936,680)
Earnings/(loss) per share	12		
– Basic		**RMB0.215**	(RMB0.480)
– Diluted		**RMB0.213**	(RMB0.480)

The notes on pages 79 to 163 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit/(loss) for the year	**420,181**	(936,680)
Other comprehensive income for the year		
Items that may be reclassified to profit or loss:		
Currency translation differences	**107,957**	(98,734)
Total comprehensive income for the year	**528,138**	(1,035,414)
Attributable to:		
Equity shareholders of the Company	**525,317**	(1,027,506)
Non-controlling interests	**2,821**	(7,908)
Total comprehensive income for the year	**528,138**	(1,035,414)

The notes on pages 79 to 163 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	14	**2,590,295**	2,148,410
Construction in progress	15	**129,917**	122,767
Investment property	16	**18,981**	–
Lease prepayments	17	**508,963**	430,176
Intangible assets	18	**230,136**	228,221
Investment in associates	19	**5,755**	6,000
Goodwill	21	**273,926**	317,528
Deferred tax assets	34(b)	**103,930**	92,593
		3,861,903	3,345,695
Current assets			
Derivative financial instruments	27	**298**	–
Inventories	22	**3,053,574**	2,248,202
Trade and bills receivables	23	**2,979,199**	2,769,315
Deposits, other receivables and prepayments	24	**1,568,579**	1,171,474
Amounts due from related parties	42(d)	**186,899**	173,197
Restricted bank deposits	26	**265,592**	263,640
Cash and cash equivalents	26	**2,251,175**	2,916,900
		10,305,316	9,542,728
Current liabilities			
Derivative financial instruments	27	**–**	10,197
Bank loans	28	**1,390,308**	177,055
Loans from related parties	42(e)	**105,000**	875,000
Trade and bills payables	29	**2,432,934**	1,966,345
Other payables and accrued expenses	30	**3,481,919**	2,539,317
Amounts due to related parties	42(d)	**127,712**	73,597
Warranty provision	31	**84,099**	43,563
Other borrowings	32	**8,163**	–
Income tax payable	34(a)	**38,278**	50,587
Employee benefit liabilities	36	**440**	318
		7,668,853	5,735,979
Net current assets		**2,636,463**	3,806,749
Total assets less current liabilities		**6,498,366**	7,152,444

	Note	2017 RMB'000	2016 RMB'000
		As at 31 December	
Non-current liabilities			
Bank loans	28	**–**	1,421,939
Warranty provision	31	**182,266**	38,524
Deferred tax liabilities	34(b)	**165,837**	122,562
Deferred income	35	**254,048**	264,650
Employee benefit liabilities	36	**3,793**	2,704
Other borrowings	32	**31,444**	–
		637,388	1,850,379
NET ASSETS		**5,860,978**	5,302,065
CAPITAL AND RESERVES			
Share capital	37(a)	**17,793**	17,743
Reserves	37(b)	**5,698,045**	5,140,988
Equity attributable to equity shareholders of the Company		**5,715,838**	5,158,731
Non-controlling interests		**145,140**	143,334
TOTAL EQUITY		**5,860,978**	5,302,065

The notes on pages 79 to 163 form an integral part of these consolidated financial statements.

The financial statements on pages 71 to 163 were approved by the Board of Directors on 21 March 2018 and were signed on its behalf.

Gao Xiang	**Yang Xiaohu**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 37(a)	Share premium RMB'000 37(b)(i)	Contributed surplus RMB'000 37(b)(ii)	Capital reserve RMB'000 37(b)(iii)	Exchange reserve RMB'000 37(b)(iv)	General reserve fund RMB'000 37(b)(v)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	17,733	143,236	1,124,571	138,501	(330,020)	405,141	4,812,841	6,312,003	153,469	6,465,472
Comprehensive income										
Loss for the year	–	–	–	–	–	–	(928,772)	(928,772)	(7,908)	(936,680)
Other comprehensive income										
Currency translation differences	–	–	–	–	(98,734)	–	–	(98,734)	–	(98,734)
Total comprehensive income	–	–	–	–	(98,734)	–	(928,772)	(1,027,506)	(7,908)	(1,035,414)
Issuance of ordinary shares in connection with exercise of share options	10	3,769	–	(1,117)	–	–	–	2,662	–	2,662
Transfer to retained earnings	–	–	–	(103)	–	–	103	–	–	–
Equity-settled share-based transactions (note 33)	–	–	–	34,467	–	–	–	34,467	–	34,467
Transfer to general reserve	–	–	–	–	–	47,283	(47,283)	–	–	–
Final dividends paid	–	–	–	–	–	–	(162,895)	(162,895)	(2,227)	(165,122)
Total contributions by and distributions to owners of the company, recognised directly in equity	10	3,769	–	33,247	–	47,283	(210,075)	(125,766)	(2,227)	(127,993)
At 31 December 2016	17,743	147,005	1,124,571	171,748	(428,754)	452,424	3,673,994	5,158,731	143,334	5,302,065

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

Attributable to equity shareholders of the Company

	Share capital RMB'000 37(a)	Share premium RMB'000 37(b)(i)	Contributed surplus RMB'000 37(b)(ii)	Capital reserve RMB'000 37(b)(iii)	Exchange reserve RMB'000 37(b)(iv)	General reserve fund RMB'000 37(b)(v)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	17,743	147,005	1,124,571	171,748	(428,754)	452,424	3,673,994	5,158,731	143,334	5,302,065
Comprehensive income										
Profit for the year	–	–	–	–	–	–	417,360	417,360	2,821	420,181
Other comprehensive income										
Currency translation differences	–	–	–	–	107,957	–	–	107,957	–	107,957
Total comprehensive income	–	–	–	–	107,957	–	417,360	525,317	2,821	528,138
Issuance of ordinary shares in connection with exercise of share options	50	21,897	–	(6,481)	–	–	–	15,466	–	15,466
Transfer to retained earnings	–	–	–	(3,892)	–	–	3,892	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	1,007	1,007
Equity-settled share-based transactions (note 33)	–	–	–	16,324	–	–	–	16,324	–	16,324
Transfer to general reserve	–	–	–	–	–	30,837	(30,837)	–	–	–
Dividends distribution made by a subsidiary to non-controlling interests	–	–	–	–	–	–	–	–	(2,022)	(2,022)
Total contributions by and distributions to owners of the company, recognised directly in equity	50	21,897	–	5,951	–	30,837	(26,945)	31,790	(1,015)	30,775
At 31 December 2017	17,793	168,902	1,124,571	177,699	(320,797)	483,261	4,064,409	5,715,838	145,140	5,860,978

The notes on pages 79 to 163 form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Operating activities			
Profit/(loss) before taxation		**555,280**	(804,253)
Adjustments for:			
Depreciation and amortisation		**255,260**	243,641
Impairment provision	7	**105,549**	1,362,915
Impairment of Goodwill	21	**38,000**	–
Change in fair value of derivative financial instruments		**(10,495)**	3,103
Share of post-tax loss of associates		**245**	–
Interest income	5	**(27,395)**	(43,003)
Interest charges	6(a)	**76,648**	98,331
Net loss on disposal of property, plant and equipment and lease prepayment	5	**577**	3,308
Gain from bargain purchase	5	**(68,701)**	–
Equity-settled share-based payment expenses	6(b)	**16,324**	34,467
Foreign exchange loss/(gain)	5	**42,414**	(69,476)
Operating profit before changes in working capital		**983,706**	829,033
Increase in inventories		**(750,398)**	(327,415)
Decrease/(increase) in trade and bills receivables		**77,634**	(161,866)
(Increase)/decrease in deposits, other receivables and prepayments		**(395,646)**	11,352
Increase in amounts due from related parties		**(13,702)**	(46,973)
Increase in trade and bill payables		**364,890**	129,360
Increase in other payables and accrued expenses		**642,092**	900,600
Increase/(decrease) in amounts due to related parties		**54,115**	(41,034)
Increase in employee benefit liabilities		**1,211**	1,177
Decrease in deferred income		**(10,602)**	(12,104)
Increase/(decrease) in warranty provisions		**87,125**	(3,701)
Cash generated from operations		**1,040,425**	1,278,429
Income tax paid	34(a)	**(195,328)**	(198,686)
Net cash from operating activities		**845,097**	1,079,743

Consolidated Cash Flow Statement
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Investing activities			
Payment for acquisition of property, plant and equipment and construction in progress		**(172,497)**	(117,315)
Payment for acquisition of intangible assets		**(13,704)**	(3,676)
Proceeds from disposal of property, plant and equipment		**14,179**	3,883
Proceeds from disposal of lease prepayments		**–**	403
Interest received		**27,395**	41,313
Acquisition of a subsidiary and an associate, net of cash acquired		**(550,008)**	(118,188)
Loans to a third party		**–**	(50,351)
Loan repayment from a third party		**189,182**	–
Restricted bank deposits		**(1,952)**	(402,116)
Net cash used in investing activities		**(507,405)**	(646,047)
Financing activities			
Proceeds from new bank loans		**387,865**	874,916
Repayment of bank loans		**(519,225)**	(420,341)
Interest paid		**(80,127)**	(93,708)
Proceeds from issuance of ordinary shares		**15,466**	2,662
Repayment of other borrowings		**(4,193)**	–
Capital contribution from the non-controlling interest		**1,007**	–
Dividends paid to Company's shareholders		**–**	(162,895)
Loans from related parties		**408,000**	1,180,000
Repayment of loans from related parties		**(1,178,000)**	(995,000)
Dividends paid to non-controlling interest		**(2,022)**	(2,227)
Net cash (used in)/generated from financing activities		**(971,229)**	383,407
Net (decrease)/increase in cash and cash equivalents		**(633,537)**	817,103
Cash and cash equivalents at 1 January		**2,916,900**	2,035,950
Effect of foreign exchange rate changes		**(32,188)**	63,847
Cash and cash equivalents at 31 December	26(b)	**2,251,175**	2,916,900

The notes on pages 79 to 163 form an integral part of these consolidated financial statements.

1 General information

CIMC Enric Holdings Limited (the "Company") and its subsidiaries (together the "Group") is principally engaged in the design, development, manufacturing, engineering and sales of, and the provision of technical maintenance services for, a wide spectrum of transportation, storage and processing equipment that is widely used in the energy, chemical and liquid food industries.

The Company is a limited liability company incorporated in the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company has its listing on the Stock Exchange of Hong Kong Limited.

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 21 March 2018.

2 Significant accounting policies

(a) Basis of preparation of the financial statements

The consolidated financial statements of CIMC Enric Holdings Limited have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3(b).

(b) Changes in accounting policies and disclosures

(i) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses – amendments to HKAS 12;
- Disclosure initiative – amendments to HKAS 7;
- Disclosure of Interests in Other Entities – amendments to HKFRS 12.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 39.

2 Significant accounting policies *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(ii) New standards and interpretations not yet adopted

The following new standards and amendments to standards have been issued but are not effective for the financial period beginning 1 January 2017 and have not been early adopted:

	Effective for accounting periods beginning on or after
HKFRS 9 "Financial Instruments"	1 January 2018
HKFRS 15 "Revenue from Contracts with Customers"	1 January 2018
HKFRS 2 (Amendment) "Classification and Measurement of Share-based Payment Transactions"	1 January 2018
HKFRS 4 (Amendment) "Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts"	1 January 2018
HKFRS 1 (Amendment) "First time adoption of HKFRS"	1 January 2018
HKAS 28 (Amendment) "Investments in Associates and Joint Ventures"	1 January 2018
HKAS 40 (Amendment) "Transfers of investment property"	1 January 2018
HK (IFRIC) 22 "Foreign Currency Transactions and Advance Consideration"	1 January 2018
HK (IFRIC) 23 "Uncertainty over Income Tax Treatments"	1 January 2019
HKFRS 16 "Leases"	1 January 2019
HKFRS 9 (Amendment) "Prepayment Feature with Negative Compensation"	1 January 2019
Amendments to HKFRS "Annual Improvements to HKFRS Standards 2015–2017 Cycle "	1 January 2019
HKFRS 17 "Insurance Contracts"	1 January 2021
Amendments to HKFRS 10 and HKAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretations and amendments, certain of which are relevant to the Group's operations.

HKFRS 9 replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

2 Significant accounting policies *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(ii) New standards and interpretations not yet adopted *(Continued)*

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. The Group assesses that adopting HKFRS 9 will not have material impact to the Group's results of operations and financial position.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an approach of transfer of risk and rewards to an approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied.

Management is currently assessing the effects of applying the new standard of HKFRS 15 on the Group's financial statements and has identified the following areas that are likely to be affected:

Presentation of contract assets and contract liabilities in the balance sheet – HKFRS 15 requires separate presentation of contract assets and contract liabilities in the balance sheet. This will result in some reclassifications as of 1 January 2018 in relation to contract liabilities which are currently included in other balance sheet line items.

The Group considers that the adoption of the new standard of HKFRS 15 will not have a significant impact on the Group's financial position and results of operations.

2 Significant accounting policies *(Continued)*

(b) Changes in accounting policies and disclosures *(Continued)*

(ii) New standards and interpretations not yet adopted *(Continued)*

Under HKFRS 16, lessees are required to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the balance sheet. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under HKAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees.

The Group is a lessee of certain properties and office equipment, which are currently accounted for as operating leases under HKAS 17 based on the accounting policy as set out in note 2(l), is to record the rental expenses in the Group's consolidated income statement for the current year with the disclosure of related future minimum lease payments as operating lease commitments (note 41(b)). As at 31 December 2017, the Group's total non-cancellable operating lease commitments amounted to RMB38,142,000. The new standard will therefore result in a derecognition of prepaid operating lease, increase in right-of-use assets and increase in lease liabilities in the consolidated balance sheet. In the consolidated income statement, as a result, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. Given that the total non-cancellable operating lease commitments accounts for 0.5% of the total liabilities of the Group as at 31 December 2017, the Directors of the Company expect that the adoption of HKFRS 16 as compared with the current accounting policy would not result in significant impact on the Group's financial positions. The new standard is not expected to apply until the financial year beginning on or after 1 January 2019.

(c) Subsidiaries

(i) Consolidation

(a) Business Combination

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2 Significant accounting policies *(Continued)*

(c) Subsidiaries *(Continued)*

(i) Consolidation *(Continued)*

(a) Business Combination *(Continued)*

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in income statement.

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

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

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

(b) Changes in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Significant accounting policies *(Continued)*

(c) Subsidiaries *(Continued)*

(i) Consolidation *(Continued)*

(c) Disposal of subsidiaries

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

(ii) Separate financial statements

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment losses. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

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

(d) Associates

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

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

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2 Significant accounting policies *(Continued)*

(d) Associates *(Continued)*

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

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

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating business level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed (see note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Significant accounting policies *(Continued)*

(f) Investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in income statement. Dividend income from these investments is recognised in income statement in accordance with the policy set out in note 2(x)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement in accordance with the policy set out in note 2(x)(v). When these investments are derecognised or impaired (see note 2(m)), the cumulative gain or loss is reclassified from equity to income statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is re-measured. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

2 Significant accounting policies *(Continued)*

(h) Property, plant and equipment

(i) Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

(ii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	10 to 30 years
Leasehold improvements	2 to 5 years
Machinery	3 to 12 years
Motor vehicles	3 to 6 years
Office equipment	3 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(iii) Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less impairment losses (see note 2(m)). Cost comprises direct and indirect costs, related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

2 Significant accounting policies *(Continued)*

(i) Investment property

Property that is held for long-term rental yields and not occupied by the Group, is classified as investment property.

Investment property is stated at historical cost less accumulated depreciation and impairment loss, if any. It is depreciated using the straight-line method over its estimated useful life of 30 years. Subsequent expenditure is charged to the carrying amount of the asset only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in income statement during the financial period in which they are incurred.

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(m)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Technical know-how	5 to 10 years
Trade-name	15 years
Trademarks	5 years
Software	3 to 10 years
Customer relationship	4 to 10 years

Both the period and method of amortisation are reviewed annually.

(k) Lease prepayments

Lease prepayments represent payments for land use rights to the People's Republic of China ("PRC") authorities. Land use rights are stated at cost less accumulated amortisation and impairment losses (see note 2(m)). Amortisation is charged to the income statement on a straight-line basis over the respective periods of the rights.

2 Significant accounting policies *(Continued)*

(l) Lease

(i) Finance lease

Leases of equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term.

(ii) Operating Lease

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

2 Significant accounting policies *(Continued)*

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries in the Company's financial statements, and investments in associates accounted for under the equity method in the consolidated financial statements, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies *(Continued)*

(m) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables *(Continued)*

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

  Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– intangible assets;

– goodwill; and

– investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 Significant accounting policies *(Continued)*

(m) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 Significant accounting policies *(Continued)*

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Project engineering contracts

Project engineering contracts are contracts specifically negotiated with a customer for the engineering design or the construction of an asset or a group of assets where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(x)(ii). When the outcome of a project engineering contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a project engineering contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

Project engineering contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and bills receivables". Amounts received before the related work is performed are presented as "Advances from customers" under "Other payables and accrued expenses".

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)).

2 Significant accounting policies *(Continued)*

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

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

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

(r) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in note 2(q) and accordingly dividends thereon are recognised on an accruals basis in the income statement as part of finance costs.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2 Significant accounting policies *(Continued)*

(u) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations of the PRC, the PRC subsidiaries have joined a defined contribution basic retirement scheme for their employees arranged by the local Labour and Social Security Bureau. The subsidiaries make contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the government organisation. The contributions are accrued in the year in which the associated services are rendered by employees. When employees retire, the local Labour and Social Security Bureau are responsible for the payment of the basic retirement benefits to the retired employees. The Group has no further obligations beyond the annual contributions.

Besides the retirement benefits, pursuant to the relevant laws and regulations of the PRC, the PRC subsidiaries are obligated to make contributions to social security plans for employees, including housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance, at the applicable rate(s) based on the employees' salaries. The contributions are accrued in the year in which the associated services are rendered by employees.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Jubilee benefits

Jubilee benefits ascribed to past service are calculated and added to the staff remuneration provision. Changes in the provision are recognised in the income statement.

2 Significant accounting policies *(Continued)*

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 Significant accounting policies *(Continued)*

(v) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Revenue and income recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value-added tax or other sales taxes and is after deduction of any trade discounts.

2 Significant accounting policies *(Continued)*

(x) Revenue and income recognition *(Continued)*

(ii) Contract revenue

When the outcome of a project engineering contract can be estimated reliably:

– revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and

– revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date to the estimated total costs of the contract.

When the outcome of a project engineering contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Services

Revenue from services is recognised in the income statement at the time when services are rendered.

(iv) Dividends

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vi) Government grants

Unconditional government grants are recognised in the income statement as income when the grants become receivable.

Other government grants are presented initially in the balance sheet and shall be recognised in the income statement when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grants. Grants related to the subsidy of acquiring assets are presented as deferred income in the balance sheet and are recognised in the income statement on a systematic and rational basis over the useful lives of the assets. Grants related to compensating expenses are recognised in the income statement on a systematic and rational basis in the same period as those expenses are charged in the income statement and are deducted in reporting the related expenses.

2 Significant accounting policies *(Continued)*

(y) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's functional currency is HK dollars ("HKD"), because the funds generated from financial activities are majority HKD, and impacted the Company as a whole. As the majority subsidiaries of the Company locate and operate in the Mainland China and apply functional currency of Renminbi ("RMB"), the consolidated financial statements are presented in RMB, which is the Group's presentation currency.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

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

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

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

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to income statement.

2 Significant accounting policies *(Continued)*

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 Significant accounting policies *(Continued)*

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(ac) Profit from operations

Profit from operations is the profit before taxation generated from the Group's manufacture and engineering businesses excluding share of post-tax loss of associates, finance costs, taxation and material impairment provision which are of capital nature or non-operational related.

3 Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Notes 7, 21, 31, 33 and 45 contain information about the assumptions and their risk factors relating to impairment provision for receivables, goodwill impairment, warranty provisions, fair value of share options granted and financial instruments.

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

(i) Impairment of receivables

As described in note 2(m), receivables that are measured at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is recognised. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there has been a change in the factors used to determine the provision for impairment which indicates that the value of the receivables has recovered, the impairment loss recognised in prior years is reversed.

3 Accounting estimates and judgements *(Continued)*

(b) Critical accounting judgements in applying the Group's accounting policies *(Continued)*

(ii) Impairment of non-financial assets

In considering the impairment losses that may be required for certain of the Group's assets which include goodwill, property, plant and equipment, construction in progress, intangible assets and lease prepayments (see note 2(m)) the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables and other financial assets, future cash flows need to be determined. One of the key assumptions that has to be applied is the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

(iii) Project engineering contracts

As explained in policy notes 2(o) and 2(x)(ii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the project engineering contract, as well as the work done to date. Based on the Group's recent experience and the nature of the project engineering activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 25 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(iv) Warranty provisions

As explained in note 31, the Group makes provisions under the warranties it gives on sale of its products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect the income statement in future years.

(v) Fair value estimates on acquisition of subsidiaries

As explained in policy notes 2(c)(i)(a), the initial accounting on the acquisition of subsidiaries involves identifying and determining the fair value of the consideration and the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. Any changes in the assumptions used and estimates made in determining the fair values, and management's ability to measure reliably the contingent liabilities of the acquired entities will impact the carrying amounts of goodwill or negative goodwill to be recognised in income statement and the identifiable assets and liabilities.

4 Revenue

The Group is principally engaged in the design, development, manufacturing, engineering and sales of, and the provision of technical maintenance services for, a wide spectrum of transportation, storage and processing equipment that is widely used in the energy, chemical and liquid food industries.

Revenue represents: (i) the sales value of goods sold after allowances for returns of goods, excluding value-added taxes or other sales taxes and after the deduction of any trade discounts; and (ii) revenue from project engineering contracts. The amount of each significant category of revenue recognised in revenue during the year is as follows:

	2017 RMB'000	2016 RMB'000
Sales of goods	**7,561,559**	5,273,462
Revenue from project engineering contracts	**3,109,717**	2,694,941
	10,671,276	7,968,403

5 Other revenue and other income, net

		2017 RMB'000	2016 RMB'000
Other revenue			
Government grants	(i)	**39,733**	51,871
Other operating revenue	(ii)	**147,034**	120,239
Interest income from SinoPacific Offshore & Engineering Co., Ltd. ("SOE")	(iii)	**–**	8,163
Interest income from bank deposits		**27,395**	34,840
		214,162	215,113

(i) Government grants represent various forms of incentives and subsidies given to the Company's subsidiaries by the PRC government, and the recognition of deferred government grants as set out in note 35.

(ii) Other operating revenue consists mainly of income earned from the sale of scrap materials and provision of maintenance services and subcontracting services.

(iii) Interest income from SOE represents the interest income derived from loans to SOE, which was prior to the acquisition of its entire equity interest by the Company, with an interest rate of 4.85% per annum.

5 Other revenue and other income, net *(Continued)*

	2017 RMB'000	2016 RMB'000
Other income, net		
Gain from bargain purchase (note 43)	**68,701**	–
Foreign exchange (loss)/gain	**(42,414)**	69,476
Net loss on disposal of property, plant and equipment and lease prepayments	**(577)**	(3,308)
Write-off of advances from customers and payables	**387**	21,737
Other net loss	**(97)**	(1,614)
	26,000	86,291

6 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2017 RMB'000	2016 RMB'000
Interest on bank loans and other borrowings	**76,648**	98,331
Bank charges	**2,753**	8,566
	79,401	106,897

(b) Staff costs[(i)]

	2017 RMB'000	2016 RMB'000
Salaries, wages and allowances	**1,418,309**	1,164,743
Contributions to retirement schemes (note 38)	**64,334**	63,741
Equity-settled share-based payment expenses (note 33)	**16,324**	34,467
	1,498,967	1,262,951

6 Profit/(loss) before taxation *(Continued)*

(c) Other items

	2017 RMB'000	2016 RMB'000
Cost of inventories[(i)]	**5,960,470**	4,309,111
Auditors' remuneration		
– Audit services	**6,816**	6,008
– Non-audit services	**1,309**	1,344
Depreciation of property, plant and equipment[(i)] (note 14)	**202,951**	190,524
Amortisation of intangible assets (note 18)	**40,496**	43,036
Amortisation of lease prepayments (note 17)	**11,813**	10,081
Impairment of goodwill (note 21)	**38,000**	–
Impairment provision for trade receivables (note 23)	**69,721**	73,209
Reversal of impairment provision for trade receivables (note 23)	**(27,924)**	(683)
Impairment provision for receivables from SOE (note 7)	**105,549**	1,362,915
Reversal of impairment provision for other receivables	**(3,388)**	(245)
Write-down of inventories (note 22)	**37,044**	18,256
Reversal of write-down of inventories (note 22)	**(14,648)**	(1,816)
Acquisition-related cost (note 43)	**20,593**	3,289
Research and development costs	**170,529**	146,827
Operating lease charges for property rental	**19,547**	12,874
Provision for product warranties (note 31)	**116,038**	17,093

(i) Cost of inventories includes RMB427,852,000 (2016: RMB355,503,000) relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above.

7 Impairment provision

The amount represents the provisions for impairments which is analysed as below:

	2017 RMB'000	2016 RMB'000
Impairment provision for receivable from the Vendors	–	178,634
Impairment provision for receivable from SOE	**105,549**	1,184,281
	105,549	1,362,915

As disclosed in the 2015 Annual Report, an indirect wholly-owned subsidiary of the Company, CIMC Enric Investment Holdings (Shenzhen) Ltd. ("EIHL"), entered into an agreement ("Agreement") on 27 August 2015 with SOEG PTE LTD ("SOEG"), Jiangsu Pacific Shipbuilding Group Co., Ltd. ("Jiangsu Pacific") and Evergreen Group Co., Ltd. ("Evergreen") (collectively, the "Vendors"), shareholders of SOE, pursuant to which the Vendors agreed to sell and EIHL agreed to purchase 100% equity interest in SOE. Afterwards, the Company, SOE and Evergreen entered into a financial assistance framework agreement ("Financial Assistance Agreement") which governed the financial assistance provided by the Group to SOE in the form of loans and guarantees.

As the Directors considered certain conditions precedents in the Agreement cannot be fulfilled and the Vendors breached certain material terms of the Agreement, hence the Agreement and the Financial Assistance Agreement were terminated by EIHL. The Company has assessed the recoverability of the receivable from the Vendors and the receivable from SOE. For the year ended 31 December 2016, a full of provision of RMB178,634,000 was provided for the receivable from the Vendors, and a substantial provision of RMB1,184,281,000 was provided for receivable from SOE.

The Company, based on the best knowledge available and the repayment capability analysis provided by the Receiver, estimated the recoverable amount of the receivables due from SOE was approximately RMB190,521,000. Accordingly, the Company made a further impairment provision of approximately RMB105,549,000 to write down the receivables due from SOE and recorded this provision amount in the consolidated income statement for the year ended 31 December 2017.

SOE was in receivership of the SOE Insolvency and Liquidation Team (the "Receiver") which was appointed by the PRC Court. On 5 July 2017, EIHL, SOE and the Receiver entered into a restructuring investment agreement (the "Restructuring Plan") pursuant to which EIHL as the restructuring investor, offered to purchase the major assets of the SOE through acquiring the entire equity interest in SOE for a cash consideration of RMB799,800,000. Subsequently, the Restructuring Plan was officially approved by SOE's creditors at the creditors' meeting and the PRC Court on 22 July 2017 and 4 August 2017 respectively and SOE became a direct wholly-owned subsidiary of EIHL on 4 August 2017. For details refer to note 43 "Business Combination".

8 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2017 RMB'000	2016 RMB'000
Current tax		
Provision for the year	**187,954**	218,115
Over-provision in respect of prior years	**(6,973)**	(2,553)
	180,981	215,562
Deferred tax		
Origination and reversal of temporary differences	**(45,882)**	(83,135)
	135,099	132,427

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years.

According to the Corporate Income Tax Law of the People's Republic of China (the "Tax Law"), the Company's subsidiaries in the PRC are subject to statutory income tax rate of 25%, except for those which are entitled to a preferential tax rate applicable to advanced and new technology enterprises of 15%.

Pursuant to the Tax Law, "Notice of the State Administration of Taxation on Issues Concerning the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of Their Bodies of Actual Management" and "Announcement of the State Administration of Taxation on Issues Concerning the Determination of Resident Enterprises on the Basis of Their Actual Management Bodies", the Administration of Local Taxation of Shenzhen Municipality issued an approval under which the Company and all the foreign incorporated subsidiaries with shareholdings in the PRC subsidiaries of the Group are regarded as Chinese resident enterprises. Therefore, during the year, no deferred withholding tax liability was provided for the distributable profits of PRC subsidiaries.

Taxation of subsidiaries in the Netherlands, Belgium, Denmark, Germany, United Kingdom and Singapore are charged at the prevailing rates of 25%, 33.99%, 25%, 30%, 20% and 17% respectively in the relevant countries and are calculated on a stand-alone basis.

8 Income tax in the consolidated income statement *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit/(loss) before taxation	**555,280**	(804,253)
Notional tax on profit/(loss) before taxation, calculated at the applicable rates	**141,494**	(194,047)
Effect of tax concessions	**(54,443)**	(25,281)
Tax effect of super deduction	**(12,031)**	(18,902)
Tax effect of non-deductible expenses	**10,488**	17,259
Tax effect of impairment provision for which no deferred tax assets were recognised[(i)]	**26,387**	340,729
Tax effect of unused tax losses not recognised	**32,169**	15,222
Over-provision in prior years	**(6,973)**	(2,553)
Utilisation of tax losses which no deferred tax assets were recognised before	**(1,992)**	–
Income tax expenses	**135,099**	132,427

(i) It represents the tax effect of the impairment provision of approximately RMB105,549,000 (2016: RMB1,362,915,000) in aggregate recorded by EIHL for the receivables due from the Vendors and SOE (note 7). For the year ended 31 December 2017, the Group did not recognise deferred tax assets of RMB26,387,000 (2016: RMB340,729,000) in respect of the impairment provision as management considered it is uncertain that EIHL will generate sufficient taxable profit to realise these deferred tax assets in foreseeable future.

9 Directors' remuneration

Details of Directors' remuneration for the year ended 31 December 2017 are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Share-based payments (i) RMB'000	Total RMB'000
Executive Directors:							
Gao Xiang (ii)	–	167	–	–	167	233	400
Liu Chunfeng (iv)	–	1,060	30	–	1,090	200	1,290
Yang Xiaohu (iii)	–	158	9	–	167	26	193
Non-executive Directors:							
Jin Yongsheng	191	–	–	–	191	174	365
Jin Jianlong (v)	–	–	–	–	–	174	174
Yu Yuqun (v)	156	–	–	–	156	174	330
Wang Yu (vi)	156	–	–	–	156	–	156
Independent Non-Executive Directors:							
Tsui Kei Pang	191	–	–	–	191	174	365
Wong Chun Ho	191	–	–	–	191	174	365
Zhang Xueqian	191	–	–	–	191	174	365
	1,076	1,385	39	–	2,500	1,503	4,003

9 Directors' remuneration *(Continued)*

Details of Directors' remuneration for the year ended 31 December 2016 are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonuses RMB'000	Sub-total RMB'000	Share-based payments (i) RMB'000	Total RMB'000
Executive Directors:							
Gao Xiang (ii)	–	–	–	–	–	437	437
Liu Chunfeng (iv)	–	1,144	18	463	1,625	420	2,045
Non-executive Directors:							
Jin Yongsheng	180	–	–	–	180	328	508
Jin Jianlong (v)	–	–	–	–	–	328	328
Yu Yuqun (v)	154	–	–	–	154	328	482
Wang Yu (vi)	50	–	–	–	50	–	50
Independent Non-Executive Directors:							
Tsui Kei Pang	180	–	–	–	180	328	508
Wong Chun Ho	180	–	–	–	180	328	508
Zhang Xueqian	180	–	–	–	180	328	508
	924	1,144	18	463	2,549	2,825	5,374

(i) These represent the estimated value of share options granted to the Directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(u)(ii).

(ii) Mr. Gao was appointed as Chairman of the Company with effect from 1 April 2015. Mr. Gao is also a vice president of China International Marine Containers (Group) Co., Ltd ("CIMC"), the Company's ultimate controlling shareholder.

(iii) Mr. Yang was appointed as Executive Director and General Manager of the Company with effect from 27 October 2017.

(iv) Mr. Liu resigned as Executive Director and General Manager of the Company with effect from 27 October 2017.

(v) Mr. Jin Jianlong and Mr. Yu Yuqun were re-designated from Executive Directors of the Company to Non-executive Directors with effect from 5 September 2016.

(vi) Mr. Wang Yu was appointed as a Non-executive Director of the Company with effect from 5 September 2016.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the section headed "Share Options" in the Directors' Report and note 33.

10 Individuals with highest emoluments

The aggregate of the emoluments in respect of the five (2016: five) individuals with the highest emoluments, including none of the Directors (2016: one), are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	9,673	6,633
Bonuses	9,122	14,186
Share-based payments	699	369
Retirement scheme contributions	586	1,627
	20,080	22,815

The emoluments of the five (2016: five) individuals with the highest emoluments, including none of the Directors (2016: one), are within the following bands:

	2017 Number of Individuals	2016 Number of Individuals
HKD2,000,001 – HKD2,500,000	1	1
HKD2,500,001 – HKD3,000,000	1	–
HKD4,000,001 – HKD4,500,000	1	1
HKD5,000,001 – HKD5,500,000	–	1
HKD6,500,001 – HKD7,000,000	2	1
HKD7,500,001 – HKD8,000,000	–	1

11 Dividends

No dividend in respect of the year ended 31 December 2016 was paid in 2017. A final dividend in respect of the year ended 31 December 2017 of HKD0.08 (equivalent to approximately RMB0.07) per share has been proposed by the Directors. The proposed final dividend in respect of 2017 is subject to the approval of shareholders in the forthcoming annual general meeting. These financial statements do not reflect this dividend payable as it was not approved as at the balance sheet date.

12 Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share attributable to equity shareholders of the Company is based on the following data:

	2017 RMB'000	2016 RMB'000
Earnings/(loss)		
Earnings/(loss) for the purposes of basic and diluted earnings/(loss) per share	**417,360**	(928,772)

	2017	2016
Number of shares		
Weighted average number of shares for the purpose of basic earnings/(loss) per share	**1,939,576,170**	1,936,489,910
Effect of dilutive potential ordinary shares in respect of the Company's share option scheme (note 33)	**16,443,232**	–
Weighted average number of shares for the purpose of diluted earnings/(loss) per share	**1,956,019,402**	1,936,489,910

No potential ordinary shares for the year ended 31 December 2016 were dilutive since their conversion to ordinary shares would result in a decrease in loss per share.

13 Segment reporting

The Group manages its businesses by divisions organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments based on the economic characteristics of the business units.

- Energy equipment and engineering: this segment specialises in the manufacture and sale of a wide range of equipment for the storage, transportation, processing and distribution of natural gas such as compressed natural gas trailers, seamless pressure cylinders, liquefied natural gas ("LNG") trailers, LNG storage tanks, liquefied petroleum gas ("LPG") tanks, LPG trailers, natural gas refuelling station systems and natural gas compressors; and the provision of engineering, procurement and construction services for the natural gas industry.

- Chemical equipment: this segment specialises in the manufacture and sale of a wide range of equipment, such as tank containers, for the storage and transportation of liquefied or gasified chemicals.

- Liquid food equipment: this segment specialises in the engineering, manufacture and sale of stainless steel tanks for storage and processing liquid food such as beer, fruit juice and milk and the provision of engineering, procurement and construction services for the brewery industry as well as other liquid food industries.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision-maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include non-current assets and current assets with the exception of deferred tax assets and certain assets unallocated to an individual reportable segment. Segment liabilities include non-current liabilities and current liabilities with the exception of income tax payable, deferred tax liabilities, bank loans and certain liabilities unallocated to an individual reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted profit from operations". To arrive at the Group's profits, the reporting segments' adjusted profits from operations are further adjusted for items not specifically attributed to an individual reportable segment, such as finance costs, share of post-tax loss of associates, impairment provision in relation with the receivables from the Vendors and SOE, directors' remuneration, auditors' remuneration and other head office or corporate administrative expenses.

In addition to receiving segment information concerning adjusted profit from operations, management is provided with segment information concerning revenue (including inter-segment sales), interest income from bank deposits, interest expenses, depreciation and amortisation, impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

13 Segment reporting *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	Energy equipment and engineering		Chemical equipment		Liquid food equipment		Total	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue from external customers	4,958,683	3,241,382	3,026,389	2,471,644	2,686,204	2,255,377	10,671,276	7,968,403
Inter-segment revenue	14,348	2,391	119,437	68,925	–	3,111	133,785	74,427
Reportable segment revenue	4,973,031	3,243,773	3,145,826	2,540,569	2,686,204	2,258,488	10,805,061	8,042,830
Reportable segment profit (adjusted profit from operations)	109,567	65,636	433,959	411,644	339,249	259,151	882,775	736,431
Interest income from bank deposits	5,406	6,219	886	25,041	2,842	3,580	9,134	34,840
Interest expense	(4,270)	(8,025)	(10,770)	(25,013)	(957)	(7,294)	(15,997)	(40,332)
Depreciation and amortisation for the year	(157,215)	(147,527)	(40,984)	(40,982)	(56,392)	(54,510)	(254,591)	(243,019)
Reportable segment assets	9,200,987	6,776,022	1,873,827	2,126,082	2,915,838	2,944,387	13,990,652	11,846,491
Additions to non-current assets during the year	705,277	190,803	48,966	38,232	27,021	96,262	781,264	325,297
Reportable segment liabilities	4,307,024	2,810,174	1,007,373	851,249	1,856,260	1,790,889	7,170,657	5,452,312

13 Segment reporting *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2017 RMB'000	2016 RMB'000
Revenue		
Reportable segment revenue	**10,805,061**	8,042,830
Elimination of inter-segment revenue	**(133,785)**	(74,427)
Consolidated revenue	**10,671,276**	7,968,403

	2017 RMB'000	2016 RMB'000
Profit/(loss)		
Reportable segment profit	**882,775**	736,431
Elimination of inter-segment profit	**(4,670)**	(10,366)
Reportable segment profit derived from Group's external customers	**878,105**	726,065
Finance costs	**(79,401)**	(106,897)
Impairment provision	**(105,549)**	(1,362,915)
Share of post-tax loss of associates	**(245)**	–
Unallocated operating income and expenses	**(137,630)**	(60,506)
Consolidated profit/(loss) before taxation	**555,280**	(804,253)

	2017 RMB'000	2016 RMB'000
Assets		
Reportable segment assets	**13,990,652**	11,846,491
Elimination of inter-segment receivables	**(249,202)**	(160,800)
	13,741,450	11,685,691
Deferred tax assets	**103,930**	92,593
Unallocated assets	**321,839**	1,110,139
Consolidated total assets	**14,167,219**	12,888,423

13 Segment reporting *(Continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities *(Continued)*

	2017 RMB'000	2016 RMB'000
Liabilities		
Reportable segment liabilities	**7,170,657**	5,452,312
Elimination of inter-segment payables	**(249,202)**	(160,800)
	6,921,455	5,291,512
Income tax payable	**38,278**	50,587
Deferred tax liabilities	**165,837**	122,562
Unallocated liabilities	**1,180,671**	2,121,697
Consolidated total liabilities	**8,306,241**	7,586,358

(c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, construction in progress, lease prepayments, prepayments, and goodwill ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

	Revenues from external customers		**Specified non-current assets**	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
PRC (place of domicile)	**5,250,822**	3,672,203	**3,321,318**	2,816,156
United States	**897,465**	641,639	**87**	–
European countries	**1,641,137**	1,219,934	**410,802**	427,678
Asian countries (other than PRC)	**1,308,558**	987,134	**1,031**	–
Other American countries	**1,280,914**	1,314,892	**–**	–
Other countries	**292,380**	132,601	**–**	–
	5,420,454	4,296,200	**411,920**	427,678
	10,671,276	7,968,403	**3,733,238**	3,243,834

For the year ended 31 December 2017, there was no single external customer that accounted for 10% or more of the Group's total revenue (2016: one).

14 Property, plant and equipment

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2016	1,783,283	85	1,361,196	87,690	214,412	3,446,666
Additions	2,845	–	10,256	11,477	12,656	37,234
Disposals	(2,128)	–	(15,611)	(3,767)	(2,982)	(24,488)
Transfers from construction in progress (note 15)	7,102	–	61,447	707	2,393	71,649
Acquisition through business combination	6,507	–	19,655	–	3,633	29,795
Exchange adjustment	9,840	–	6,818	387	482	17,527
At 31 December 2016	1,807,449	85	1,443,761	96,494	230,594	3,578,383
At 1 January 2017	1,807,449	85	1,443,761	96,494	230,594	3,578,383
Additions	2,265	221	25,122	25,695	14,152	67,455
Disposals	–	–	(12,988)	(8,178)	(3,578)	(24,744)
Transfers from construction in progress (note 15)	68,815	–	102,494	–	–	171,309
Acquisition through business combination (note 43)	368,475	–	10,134	29,986	13,695	422,290
Transfer to investment property (note 16)	(83,840)	–	–	–	–	(83,840)
Exchange adjustment	24,246	–	17,218	1,627	4,656	47,747
At 31 December 2017	**2,187,410**	**306**	**1,585,741**	**145,624**	**259,519**	**4,178,600**
Accumulated depreciation:						
At 1 January 2016	(360,994)	(85)	(660,444)	(52,133)	(148,413)	(1,222,069)
Charge for the year	(64,376)	–	(90,194)	(14,184)	(21,770)	(190,524)
Written back on disposals	1,554	–	10,801	3,210	1,731	17,296
Acquisition through business combination	(3,851)	–	(16,212)	–	(3,453)	(23,516)
Exchange adjustment	(4,131)	–	(6,264)	(233)	(532)	(11,160)
At 31 December 2016	(431,798)	(85)	(762,313)	(63,340)	(172,437)	(1,429,973)
At 1 January 2017	(431,798)	(85)	(762,313)	(63,340)	(172,437)	(1,429,973)
Charge for the year	(77,610)	(106)	(96,474)	(7,453)	(21,308)	(202,951)
Written back on disposals	–	–	4,068	4,034	1,886	9,988
Transfer to investment property (note 16)	64,859	–	–	–	–	64,859
Exchange adjustment	(9,659)	–	(15,299)	(1,031)	(4,239)	(30,228)
At 31 December 2017	**(454,208)**	**(191)**	**(870,018)**	**(67,790)**	**(196,098)**	**(1,588,305)**
Net book value:						
At 31 December 2017	**1,733,202**	**115**	**715,723**	**77,834**	**63,421**	**2,590,295**
At 31 December 2016	1,375,651	–	681,448	33,154	58,157	2,148,410

As at 31 December 2017, the Group was in the process of registering the title of buildings with net book value of RMB126,730,000 (2016: RMB295,995,000).

15 Construction in progress

	2017 RMB'000	2016 RMB'000
At 1 January	**122,767**	114,297
Additions	**105,042**	80,081
Acquisition through business combination (note 43)	**72,900**	–
Transfers to property, plant and equipment	**(171,309)**	(71,649)
Exchange adjustment	**517**	38
At 31 December	**129,917**	122,767

16 Investment Property

	RMB'000
Cost:	
At 1 January 2017	**–**
Transfers from owner-occupied property	**83,840**
At 31 December 2017	**83,840**
Accumulated depreciation:	
At 1 January 2017	**–**
Transfers from owner-occupied property	**(64,859)**
At 31 December 2017	**(64,859)**
Net book value:	
At 31 December 2017	**18,981**

The Group's property interest held under operating leases for the purpose of earning rentals is accounted for as investment property measured using the cost model. During the year, an existing property located in the Netherlands was transferred from owner-occupied property to investment property after a change in use. According to management's assessment, the fair value of the investment property as at 31 December 2017 was not significantly different from its carrying amount.

17 Lease prepayments

	2017 RMB'000	2016 RMB'000
Cost:		
At 1 January	**508,997**	509,506
Acquisition through business combination (note 43)	**90,600**	–
Disposals	**–**	(509)
At 31 December	**599,597**	508,997
Accumulated amortisation:		
At 1 January	**(78,821)**	(68,845)
Charge for the year	**(11,813)**	(10,081)
Written back on disposals	**–**	105
At 31 December	**(90,634)**	(78,821)
Net book value:		
At 31 December	**508,963**	430,176

Lease prepayments represent payments for land use rights situated in the PRC. The Group's land use rights have remaining terms ranging from 30 to 46 years as at 31 December 2017 (2016: 31 to 47 years).

18 Intangible assets

	Technical know-how RMB'000	Trade-name RMB'000	Trademarks RMB'000	Software RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2016	274,763	25,188	82	5,807	27,000	332,840
Acquisition through business combination	–	50,389	–	–	–	50,389
Additions	2,987	–	141	548	–	3,676
Exchange adjustment	1,978	(11,253)	2	89	–	(9,184)
At 31 December 2016	279,728	64,324	225	6,444	27,000	377,721
At 1 January 2017	279,728	64,324	225	6,444	27,000	377,721
Acquisition through business combination (note 43)	–	–	–	–	20,000	20,000
Additions	1,739	–	–	11,965	–	13,704
Exchange adjustment	4,633	10,288	15	261	–	15,197
At 31 December 2017	**286,100**	**74,612**	**240**	**18,670**	**47,000**	**426,622**
Accumulated amortisation:						
At 1 January 2016	(84,540)	(5,737)	(59)	(3,912)	(10,800)	(105,048)
Charge for the year	(37,790)	(1,733)	(25)	(788)	(2,700)	(43,036)
Exchange adjustment	(1,194)	(167)	(2)	(53)	–	(1,416)
At 31 December 2016	(123,524)	(7,637)	(86)	(4,753)	(13,500)	(149,500)
At 1 January 2017	(123,524)	(7,637)	(86)	(4,753)	(13,500)	(149,500)
Charge for the year	(29,895)	(4,678)	(44)	(1,096)	(4,783)	(40,496)
Exchange adjustment	347	(6,659)	(7)	(171)	–	(6,490)
At 31 December 2017	**(153,072)**	**(18,974)**	**(137)**	**(6,020)**	**(18,283)**	**(196,486)**
Net book value:						
At 31 December 2017	**133,028**	**55,638**	**103**	**12,650**	**28,717**	**230,136**
At 31 December 2016	156,204	56,687	139	1,691	13,500	228,221

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

19 Investment in associates

The movement of the investment in associates during the year is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**6,000**	4,000
Addition	**–**	2,000
Share of post-tax loss of associates	**(245)**	–
At 31 December	**5,755**	6,000

Nature of investment in associates as at 31 December 2017 and 2016

Name of entity	Place and date of establishment/ incorporation	Authorised/ registered/ paid-in capital	Proportion of ownership interest	Measurement method
Jiuquan Enric Kunlun Cryogenic Equipment Limited	PRC 15 August 2013	Registered and paid-in capital of RMB10,000,000	40%	Equity
Shanghai Tanklink Technology Development Co., Ltd. ("Tanklink")	PRC 12 March 2014	Registered and paid-in capital of RMB7,500,000	20%	Equity

There are no contingent liabilities relating to the Group's interest in associates.

20 Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of establishment/ incorporation	Authorised/registered/ paid-in capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
Enric Investment Group Limited	British Virgin Islands 1 May 2002	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Enric (Bengbu) Compressor Company Limited	PRC 14 March 2002	Registered and paid-in capital of HKD60,808,385	–	100%	Manufacture and sale of compressors and related accessories
Enric Anhui Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Shijiazhuang Investment Limited	British Virgin Islands 29 April 2002	Authorised capital of USD50,000 and paid-in capital of USD1,000	100%	–	Investment holding
Shijiazhuang Enric Gas Equipment Company Limited	PRC 30 September 2003	Registered and paid-in capital of USD32,000,000	–	100%	Manufacture and sale of pressure vessels
Enric Langfang Investment Limited	British Virgin Islands 14 September 2004	Authorised capital of USD50,000 and paid-in capital of USD1	–	100%	Investment holding
Enric Integration (HK) Company Limited	Hong Kong 15 October 2007	Paid-in capital of HKD1	–	100%	Investment holding
CIMC Enric Hong Kong Limited	Hong Kong 15 October 2007	Paid-in capital of HKD1 and RMB341,268,513	100%	–	Investment holding
Enric (Langfang) Energy Equipment Integration Company Limited	PRC 28 December 2004	Registered and paid-in capital of HKD115,000,000	–	100%	Provision of integrated business solutions for gas equipment

20 Subsidiaries *(Continued)*

Name of company	Place and date of establishment/ incorporation	Authorised/registered/ paid-in capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
Beijing Enric Energy Technologies Limited	PRC 16 December 2005	Registered and paid-in capital of HKD40,000,000	–	100%	Research and development of technology for application in natural gas equipment
CIMC Enric (Jingmen) Energy Equipment Company Limited	PRC 16 July 2008	Registered and paid-in capital of HKD50,000,000	–	100%	Investment holding
Jingmen Hongtu Special Aircraft Manufacturing Co., Ltd. ("Hongtu") (i)	PRC 29 October 2004	Registered and paid-in capital of RMB100,000,000	–	80%	Manufacture and sale of specialised transportation equipment
Zhangjiagang Greenergy Cryogenic Engineering Company Limited (i)	PRC 2 November 2009	Registered and paid-in capital of RMB500,000	–	90%	Investment holding
Sound Winner Holdings Limited	British Virgin Islands 11 December 2007	Authorised capital of USD50,000 and paid-in capital of USD10,000	100%	–	Investment holding
Perfect Vision International Limited	British Virgin Islands 21 November 2007	Authorised capital of USD50,000 and paid-in capital of USD1	100%	–	Investment holding
Win Score Investments Limited	Hong Kong 29 January 2008	Paid-in capital of HKD10,000	100%	–	Investment holding
Charm Ray Holdings Limited	Hong Kong 28 January 2008	Paid-in capital of HKD10,000	100%	–	Investment holding
Nantong CIMC Tank Equipment Co., Ltd. ("Nantong Tank")	PRC 14 August 2003	Registered and paid-in capital of USD35,000,000	–	100%	Production and sales of tank containers

20 Subsidiaries *(Continued)*

Name of company	Place and date of establishment/ incorporation	Authorised/registered/ paid-in capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
Zhangjiagang CIMC Sanctum Cryogenic Equipment Co., Ltd. ("Sanctum")	PRC 7 December 1999	Registered and paid-in capital of RMB795,532,042 and RMB 364,862,042 respectively	–	100%	Design, production, sales and technical service of cryogenic storage and transportation equipment
Zhangjiagang CIMC Sanctum Special Equipment Co., Ltd. ("Sanctum Special Equipment") (i)	PRC 28 April 2009	Registered and paid-in capital of RMB30,000,000	–	100%	Manufacture and sale of pressure vessel
Full Medal Limited	British Virgin Islands 8 August 2008	Authorised capital of USD50,000 and paid-in capital of USD100	100%	–	Investment holding
Coöperatie Vela Holding U.A.	The Netherlands 29 August 2008	Member capital and paid-in capital of EUR18,000	–	100%	Investment holding
CIMC Enric Tank and Process B.V.	The Netherlands 16 July 1976	Authorised capital of EUR20,000,000 and paid-in capital of EUR14,038,200	–	100%	Investment holding
Ziemann Holvrieka B.V.	The Netherlands 1 November 1963	Authorised and paid-in capital of EUR136,200	–	100%	Sales and engineering of tanks
Noordkoel B.V.	The Netherlands 20 October 1977	Authorised capital of EUR500,000 and paid-in capital of EUR100,000	–	100%	Manufacture of tanks
Ziemann Holvrieka International B.V.	The Netherlands 8 June 1961	Authorised capital of EUR682,500 and paid-in capital of EUR227,500	–	100%	Sales, engineering and manufacture of tanks
Ziemann Holvrieka N.V.	Belgium 1 January 1968	Authorised and paid-in capital of EUR991,574	–	100%	Sales, engineering and manufacture of tanks

20 Subsidiaries *(Continued)*

Name of company	Place and date of establishment/ incorporation	Authorised/registered/ paid-in capital	Proportion of ownership interest Held by the Company	Held by a subsidiary	Principal activities
Ziemann Holvrieka A/S	Denmark 2 March 1978	Registered and paid-in capital of DKK1,000,001	–	100%	Sales, engineering and manufacture of tanks
Enric Gas Equipment Yangzhou Company Limited	PRC 3 October 2010	Registered and paid-in capital of RMB12,000,000	–	100%	Repair and maintenance of pressure vessels
CIMC Enric Investment Holdings (Shenzhen) Limited	PRC 10 December 2010	Registered capital of USD80,000,000 and paid-in capital of USD48,160,000	–	100%	Investment holding
CIMC Enric International Trading Limited	Hong Kong 15 October 2007	Paid-in capital of HKD1	–	100%	Trading
Nanjing Yangzi Petrochemical Design & Engineering Co., Ltd. ("YPDI")	PRC 15 September 2001	Registered and paid-in capital of RMB88,000,000	–	100%	Provision of project engineering services
Nantong CIMC Energy Equipment Co., Ltd ("Nantong Transport")	PRC 20 March 2007	Registered and paid-in capital of RMB333,778,755	–	100%	Manufacture and sales of special vehicles
Ziemann Holvrieka GmbH	Germany 21 August 2012	Authorised and paid-in capital of EUR16,000,000	–	100%	Sales, engineering and manufacturing of tanks
CIMC Enric SJZ Gas Equipment, INC.	United States of America 14 February 2013	Registered and paid-in capital of USD900,000	–	100%	Manufacture and sale of pressure vessels

20 Subsidiaries *(Continued)*

Name of company	Place and date of establishment/ incorporation	Authorised/registered/ paid-in capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
Enric Management Limited	British Virgin Islands 30 May 2014	Authorised capital of 50,000 no par value shares and paid-in capital of RMB20,000	100%	–	Investment holding
CIMC Sanctum Cryogenic Equipment Nantong Co., Ltd.	PRC 11 September 2014	Registered and paid-in capital of RMB20,000,000 and RMB10,000,000 respectively	–	100%	Manufacture and sale of pressure vessels
Ziemann Holvrieka Asia Co., Ltd	PRC 20 December 2007	Registered and paid-in capital of USD47,700,000	–	100%	Manufacture and sale of tanks
Sichuan Jinke Cryogenic Engineering Co., Ltd. ("Jinke") (i)	PRC 6 August 2009	Registered capital of RMB14,000,000 and paid-in capital of RMB10,864,000	–	71%	Provision of integrated business solutions for gas equipment
Liaoning CIMC Hashenleng Gas Liquefaction Plant Co., Ltd. ("Hashenleng") (i)	PRC 26 January 2010	Registered capital and paid-in capital of RMB50,000,000	–	60%	Provision of integrated business solutions for gas equipment
Briggs Group Limited ("Briggs")	United Kingdom 28 February 2008	Paid-in capital of GBP50,001	–	100%	Investment holding
Briggs Holdings Limited	United Kingdom 21 April 1994	Paid-in capital of GBP787,525	–	100%	Investment holding

20 Subsidiaries *(Continued)*

Name of company	Place and date of establishment/ incorporation	Authorised/registered/ paid-in capital	Proportion of ownership interest Held by the Company	Proportion of ownership interest Held by a subsidiary	Principal activities
Briggs of Burton PLC	United Kingdom 12 October 1990	Paid-in capital of GBP142,397	–	100%	Process engineering
CIMC Enric Energy Engineering (S) Pte. Ltd. ("CEE") (i)	Singapore 26 November 2014	Paid-in capital of SNG4,750,000	–	70%	Engineering and manufacture services for the oil and gas industry
Nantong CIMC SinoPacific Offshore & Engineering Co., Ltd. (formerly known as SinoPacific Offshore & Engineering Co., Ltd.)	PRC 17 November 2006	Registered and paid-in capital of RMB1,223,916,838 and RMB1,183,886,838 respectively	–	100%	Design and manufacture of liquefied gas carriers and marine oil and gas module
Anjiehui Internet of Things Information Technology (Suzhou) Co., Ltd.	PRC 2 June 2017	Registered and paid-in capital of RMB3,000,000 and RMB1,500,000 respectively	–	100%	Information technology

(i) The Group's effective interests in Hongtu, Zhangjiagang Greenergy Cryogenic Engineering Company Limited, Sanctum Special Equipment, Jinke, Hashenleng and CEE are 80%, 90%, 90%, 71%, 60% and 70% respectively.

21 Goodwill

	2017 RMB'000	2016 RMB'000
Cost		
At 1 January	**317,528**	232,871
Acquisition through business combination	**–**	84,657
Exchange effect	**(5,602)**	–
At 31 December	**311,926**	317,528
Less: Impairment provision (b)	**(38,000)**	–
Net Goodwill	**273,926**	317,528

(a) Impairment tests for Goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") as follows:

	2017 RMB'000	2016 RMB'000
Sanctum	**8,297**	8,297
Nantong Tank	**7,265**	7,265
Hongtu	**27,221**	27,221
YPDI	**86,558**	86,558
Jinke	**2,087**	2,087
Hashenleng (b)	**63,443**	101,443
Briggs	**79,055**	84,657
At 31 December	**273,926**	317,528

For the significant amount of goodwill allocated to the CGU relating to YPDI, Hashenleng and Briggs, the key assumptions and discount rate used in the value-in-use calculations in 2017 and 2016 are as follows.

	YPDI		Hashenleng		Briggs	
	2017	2016	2017	2016	2017	2016
Revenue (average annual growth rate)	**12%**	13%	**7%**	12%	**1%**	1%
Gross margin (% of revenue)	**10%**	11%	**21%**	23%	**27%**	27%
Other operating costs (RMB'000)	**27,217**	23,000	**27,836**	30,200	**37,865**	35,460
Pre-tax discount rate	**13.14%**	12.83%	**11.51%**	11.63%	**14.63%**	14.63%

21 Goodwill *(Continued)*

(a) Impairment tests for Goodwill *(Continued)*

Revenue refers to the average annual growth rate over the five-year forecast period. It is based on the CGU's growth forecasts and the average long-term growth rate for the relevant industry.

Gross margin refers to the average margin as a percentage of revenue over the five-year forecast period. It is determined based on the CGU's past performance and their expectations for market development.

Other operating costs are forecast on the current structure of the business, adjusted for inflationary increases but not the effect of any future restructurings or cost saving measures. The amounts disclosed above are the average operating costs for the five-year forecast period.

The discount rate used is pre-tax and reflect specific risks relating to the relevant CGU.

(b) Impairment charge

As at 31 December 2017, an impairment charge of RMB38,000,000 arose in the CGU of Hashenleng, resulting in the carrying amount of the CGU being written down to its recoverable amount. If the budgeted gross profit used in the value-in-use calculation for Hashenleng represents 95% of management's estimates for the year ended 31 December 2017 (RMB70,380,000 instead of RMB74,080,000 in 2018), the Group would have recognised a further impairment against the goodwill of RMB22,390,000.

22 Inventories

(a) Inventories in the consolidated balance sheet comprise:

	2017 **RMB'000**	2016 RMB'000
Raw materials	**1,052,718**	662,426
Consignment materials	**150,387**	64,475
Work in progress	**1,094,756**	778,272
Finished goods	**755,713**	743,029
	3,053,574	2,248,202

(b) The analysis of the amount of inventories recognised as an expense and included in income statement is as follows:

	2017 **RMB'000**	2016 RMB'000
Cost of inventories sold	**5,960,470**	4,309,111
Write-down of inventories	**37,044**	18,256
Reversal of write-down of inventories (i)	**(14,648)**	(1,816)
	5,982,866	4,325,551

(i) The Group reversed RMB14,648,000 of a previous inventory write-down in 2017, as the Group put the relevant raw materials that had been written-down into production at original cost. The amount reversed has been included in cost of sales in the income statement.

23 Trade and bills receivables

	2017 RMB'000	2016 RMB'000
Trade debtors and bills receivables	**3,234,179**	2,984,715
Less: allowance for doubtful debts	**(254,980)**	(215,400)
	2,979,199	2,769,315

(a) Ageing analysis

An ageing analysis of trade and bills receivables based on due date (net of impairment losses for bad and doubtful debts) is as follows:

	2017 RMB'000	2016 RMB'000
Current	**1,718,040**	1,697,877
Less than 1 month past due	**246,119**	47,148
1 to 3 months past due	**376,786**	280,974
More than 3 months but less than 12 months past due	**282,535**	338,841
More than 12 months past due	**355,719**	404,475
Amounts past due	**1,261,159**	1,071,438
	2,979,199	2,769,315

Trade and bills receivables are expected to be recovered within one year. In general, debts are due for payment upon billing. Subject to negotiation, credit terms up to twelve months are available for certain customers with well-established trading and payment records on a case-by-case basis. Further details on the Group's credit policy are set out in note 45(a).

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

23 Trade and bills receivables *(Continued)*

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless it is concluded that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 2(m)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	**215,400**	143,165
Impairment loss recognised	**69,721**	73,209
Reversal of provision	**(27,924)**	(683)
Uncollectible amounts written off	**(3,582)**	(798)
Exchange adjustment	**1,365**	507
At 31 December	**254,980**	215,400

At 31 December 2017, the Group's trade receivables of RMB908,591,000 (2016: RMB471,221,000) were individually determined to be impaired. The individually impaired receivables related to long outstanding receivables and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB254,980,000 (2016: RMB215,400,000) were recognised. The Group does not hold any collateral over these balances.

23 Trade and bills receivables *(Continued)*

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**1,718,040**	1,697,877
Less than 1 month past due	**129,810**	23,571
1 to 3 months past due	**190,786**	217,828
More than 3 months but less than 12 months past due	**85,659**	263,045
More than 12 months past due	**201,293**	311,173
	607,548	815,617
	2,325,588	2,513,494

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

24 Deposits, other receivables and prepayments

	2017 RMB'000	2016 RMB'000
Receivable from the Vendors (i)	**178,634**	178,634
Receivables from SOE	**–**	1,480,351
Less: Impairment provisions for receivables from the Vendors and SOE (i)	**(178,634)**	(1,362,915)
Advances to suppliers	**219,956**	134,311
Deposits for tenders and contract work	**163,487**	112,347
Staff advances	**12,705**	13,149
Deductible input value-added tax	**51,844**	26,221
Prepayments for services	**9,106**	9,488
Amounts due from customers for contract work	**1,051,728**	504,659
Others	**59,753**	75,229
	1,568,579	1,171,474

24 Deposits, other receivables and prepayments *(Continued)*

(i) As disclosed in note 7, the Company terminated the Agreement and requested the Vendors to return the prepaid consideration of RMB178,634,000 because the Vendors had breached certain material terms of the Agreement.

As disclosed in note 7, the Group made a full provision of RMB178,634,000 for the receivable from the Vendors as at 31 December 2017.

The carrying amount of deposits, other receivables and prepayments approximate their fair values.

25 Project engineering contracts

The amounts due from customers for contract work as set out in note 24 represent the aggregate amounts of costs incurred plus recognised profits less recognised losses to date on project engineering contracts of RMB2,878,225,000 (2016: RMB2,525,600,000), less progress payments received.

The amounts due to customers for contract work as set out in note 30 represent the aggregate amounts of progress payments received, less costs incurred plus recognised profits less recognised losses to date on project engineering contracts of RMB225,500,000 (2016: RMB140,100,000).

No gross amount due from/to customers for contract work at 31 December 2017 and 2016 will be recovered after more than one operating cycle.

In respect of project engineering contracts in progress at the balance sheet date, the amount of retentions receivable from customers, recorded within "Trade and bills receivables" at 31 December 2017 is RMB32,055,000 (2016: RMB44,909,000). Retentions amounting to RMB26,694,000 is expected to be recovered within one year, and retentions amounting to RMB5,361,000 is expected to be recovered beyond one year.

26 Restricted bank deposits and cash and cash equivalents

(a) Restricted bank deposits

	2017 RMB'000	2016 RMB'000
Deposits for banking facilities	**265,592**	263,640

(b) Cash and cash equivalents

	2017 RMB'000	2016 RMB'000
Cash in hand and demand deposits	**2,239,626**	2,916,445
Restricted bank deposits within three months of maturity	**11,549**	455
	2,251,175	2,916,900

27 Derivative financial instruments

	2017		2016	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Forward foreign exchange contracts	**298**	**–**	–	10,197

At 31 December 2017 and 2016, the Group held forward foreign currency contracts to manage the currency risk on expected future payments to suppliers for which the Group has firm commitments.

28 Bank loans

(a) At 31 December 2017, the bank loans were repayable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**1,390,308**	177,055
After 1 year but within 2 years	**–**	1,421,939
	1,390,308	1,598,994

(b) At 31 December 2017, all the bank loans were unsecured. None of the Group's bank loans were under the terms of cross-guarantee provided by the subsidiaries of the Company (2016: RMB40,000,000).

(c) The carrying amounts of the Group's bank loans are denominated in the following currencies:

	2017 RMB'000	2016 RMB'000
RMB	**337,500**	73,000
US dollar	**803,707**	1,304,156
Hong Kong dollar	**249,101**	221,838
	1,390,308	1,598,994

(d) All of the Group's banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial ratios. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 45(b).

29 Trade and bills payables

	2017 RMB'000	2016 RMB'000
Trade creditors	**2,143,575**	1,645,745
Bills payables	**289,359**	320,600
	2,432,934	1,966,345

An ageing analysis of trade and bills payables of the Group is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	**2,139,727**	1,560,219
3 months to 12 months	**186,677**	275,664
Over 12 months	**106,530**	130,462
	2,432,934	1,966,345

All the trade and bills payables are expected to be settled within one year.

30 Other payables and accrued expenses

	2017 RMB'000	2016 RMB'000
Advances from customers	**2,172,732**	1,716,366
Payables for construction work	**36,990**	11,988
Amounts due to customers for contract work	**112,299**	76,128
Accrued expenses	**406,363**	367,327
Employees' salary, bonus and welfare	**243,974**	213,357
Other surcharges payable	**16,206**	10,670
Other taxes payable	**60,155**	51,499
Deposits received	**92,554**	62,782
Payables to SOE's creditors (note 43)	**304,625**	–
Others	**36,021**	29,200
	3,481,919	2,539,317

All other payables and accrued expenses are expected to be settled within one year.

31 Warranty provision

	2017 RMB'000	2016 RMB'000
At 1 January	**82,087**	85,567
Additional provision made	**116,038**	17,093
Acquisition through business combination (note 43)	**99,997**	–
Provisions utilised	**(34,601)**	(20,794)
Exchange adjustment	**2,844**	221
At 31 December	**266,365**	82,087
Represented by:		
Current portion	**84,099**	43,563
Non-current portion	**182,266**	38,524
Balance at 31 December	**266,365**	82,087

The Group provides one to three year warranty period for certain products. Provision is made for the best estimate of the expected settlement within the warranty period under this arrangement in respect of sales made prior to the balance sheet date. The amount of provision has taken into account the Group's recent claim experience.

32 Other borrowings

Other borrowings represent the Group's obligation arising from a sale and leaseback transaction where the lease is regarded as a finance lease. Management considers that the transaction is a means whereby the lessor provides finance to the Group, with the asset as security. The borrowing is paid by instalments within five years.

	2017 RMB'000
Payments in relation to other borrowings as follows:	
Within one year	8,760
Later than one year but not later than two years	8,760
Later than two year but not later than three years	9,094
Later than three years	15,377
Total payments	41,991
Future finance charges	(2,384)
Total other borrowings	39,607
The present value of other borrowings is as follows:	
Within one year	8,163
Later than one year but not later than two years	8,435
Later than two year but not later than three years	8,541
Later than three years	14,468
Total other borrowings	39,607

33 Equity-settled share-based transactions

The Company has a share option scheme ("Scheme I") which was adopted on 12 July 2006 whereby the Directors of the Company are authorised, at their discretion, to invite eligible persons to subscribe for shares of the Company. A consideration of HKD1.00 should be paid by grantee on acceptance of share options granted. Each option gives the holder the right to subscribe for one ordinary share in the Company at its exercise price. Scheme I expired on 11 July 2016 and the Company has adopted a new share option scheme ("Scheme II") since 12 July 2016. Scheme II lasts for 10 years and as at 31 December 2017, no option under Scheme II was granted.

33 Equity-settled share-based transactions *(Continued)*

(a) The terms and conditions at the date of grants are as follows:

	Number of options	Vesting conditions	Contractual life of options
Options granted to Directors:			
– on 11 November 2009	6,100,000	50% after one year and 50% after two years from the date of grant	10 years commencing on the date of grant
– on 28 October 2011	3,150,000	40% after two years, 30% after three years and 30% after four years from the date of grant	10 years commencing on the date of grant
– on 5 June 2014	2,700,000	40% after two years, 30% after three years and 30% after four years from the date of grant	10 years commencing on the date of grant
Options granted to employees and other eligible persons:			
– on 11 November 2009	37,650,000	50% after one year and 50% after two years from the date of grant	10 years commencing on the date of grant
– on 28 October 2011	35,050,000	40% after two years, 30% after three years and 30% after four years from the date of grant	10 years commencing on the date of grant
– on 5 June 2014	35,720,000	40% after two years, 30% after three years and 30% after four years from the date of grant	10 years commencing on the date of grant
Total share options granted	120,370,000		

33 Equity-settled share-based transactions *(Continued)*

(b) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	**HKD6.65**	**83,572,000**	HKD6.73	86,599,000
Forfeited during the year	**HKD11.24**	**(417,000)**	HKD11.24	(1,776,000)
Exercised during the year	**HKD3.07**	**(5,814,000)**	HKD2.57	(1,211,000)
Lapsed during the year	**HKD11.24**	**(967,000)**	HKD11.24	(40,000)
Outstanding at the end of the year	**HKD6.88**	**76,374,000**	HKD6.65	83,572,000
Exercisable at the end of the year		**65,850,000**		46,968,000

The options outstanding at 31 December 2017 had an exercise price of HKD4.00, HKD2.48 and HKD11.24 (2016: HKD4.00, HKD2.48 and HKD11.24) and a weighted average remaining contractual life of 4.486 years (2016: 5.486 years).

(c) Fair value of share options and assumptions

The fair values of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimates of the fair value of the share options granted are measured based on a binomial lattice model. The contractual lives of the share option are used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

Fair value of share options and assumptions

Date granted	11 November 2009	28 October 2011	5 June 2014
Fair value at measurement date	HKD1.64	HKD1.02	HKD4.70
Share price	HKD4.00	HKD2.48	HKD11.00
Exercise price	HKD4.00	HKD2.48	HKD11.24
Expected volatility	64.78%	55.98%	45.89%
Option life	10 years	10 years	10 years
Expected dividends	0.68%	2.67%	1.55%
Risk-free interest rate	2.24%	1.57%	2.04%

33 Equity-settled share-based transactions *(Continued)*

(c) Fair value of share options and assumptions *(Continued)*

The expected volatilities are based on the historic volatilities (calculated based on the weighted average remaining lives of the share options), adjusted for any expected changes to future volatilities based on publicly available information. Expected dividends are based on estimated dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

34 Income tax in the consolidated balance sheet

(a) Current taxation in the consolidated balance sheet:

	2017 RMB'000	2016 RMB'000
Current tax payable at the beginning of the year	**50,587**	28,874
Acquisition through business combination	**–**	4,715
Provision for income tax on profit for the year	**180,981**	215,562
Current tax paid	**(195,328)**	(198,686)
Exchange adjustment	**2,038**	122
Current tax payable at the end of the year	**38,278**	50,587

(b) Deferred tax assets and liabilities recognised:

	2017 RMB'000	2016 RMB'000
Deferred tax assets recognised on the consolidated balance sheet	**103,930**	92,593
Deferred tax liabilities recognised on the consolidated balance sheet	**(165,837)**	(122,562)
Deferred tax liabilities (net)	**(61,907)**	(29,969)

34 Income tax in the consolidated balance sheet *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Provision for impairment losses RMB'000	Fair value adjustment of tangible and intangible assets RMB'000	Provision for product warranties RMB'000	Depreciation allowances in excess of the related depreciation RMB'000	Amortisation of intangible assets RMB'000	Accrued expenses RMB'000	Movements of fair value of liabilities held for trading RMB'000	Gains on disposal of land and buildings RMB'000	Income recognised on project engineering contract/ inventories RMB'000	Tax losses RMB'000	Gains on debt restructuring (note 43) RMB'000	Total RMB'000
At 1 January 2016	31,190	(52,541)	10,029	(3,047)	(313)	26,740	1,064	2,113	(115,986)	1,332	-	(99,419)
Credited to the income statement	15,810	6,360	102	138	-	796	434	38	56,187	3,270	-	83,135
Addition through business combination	-	(10,078)	-	-	-	-	-	-	-	-	-	(10,078)
Exchange adjustment	-	257	-	-	-	-	-	(325)	(3,539)	-	-	(3,607)
At 31 December 2016	47,000	(56,002)	10,131	(2,909)	(313)	27,536	1,498	1,826	(63,338)	4,602	-	(29,969)
At 1 January 2017	**47,000**	**(56,002)**	**10,131**	**(2,909)**	**(313)**	**27,536**	**1,498**	**1,826**	**(63,338)**	**4,602**	**-**	**(29,969)**
Credited/(charged) to the income statement	**2,029**	**19,708**	**549**	**1,076**	**-**	**1,825**	**(1,543)**	**(908)**	**(5,852)**	**28,998**	**-**	**45,882**
Addition through business combination (i) & (note 43)	**332,486**	**(19,423)**	**24,999**	**-**	**-**	**-**	**-**	**-**	**-**	**159,154**	**(568,686)**	**(71,470)**
Exchange adjustment	**-**	**(2,027)**	**-**	**-**	**-**	**-**	**-**	**103**	**(4,426)**	**-**	**-**	**(6,350)**
At 31 December 2017	**381,515**	**(57,744)**	**35,679**	**(1,833)**	**(313)**	**29,361**	**(45)**	**1,021**	**(73,616)**	**192,754**	**(568,686)**	**(61,907)**

(i) The deferred tax arising from business combination (note 43) are comprised of deferred tax assets of RMB516,639,000 and deferred tax liabilities of RMB588,109,000. Deferred tax assets mainly arose from asset impairment provision, warranty provision and tax loses recorded at SOE's separate financial statements whereas deferred tax liabilities arose from the taxable income on derecognised liabilities due to debt restructuring before business combination and the fair value adjustment on intangible assets and property, plant and equipment.

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(v), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB213,154,000 (2016: RMB170,580,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses shall expire in five years from year of occurrence under current tax legislation. Tax losses of approximately RMB1,367,000, RMB7,389,000, RMB44,511,000, RMB66,915,000 and RMB92,971,000 will expire in 2018, 2019, 2020, 2021 and 2022 respectively.

35 Deferred income

	2017 RMB'000	2016 RMB'000
At 1 January	**264,650**	276,754
Recognised in the income statement	**(10,602)**	(12,104)
At 31 December	**254,048**	264,650

Deferred income mainly represents government grants obtained for the purposes of sponsoring the costs of construction of plants incurred by the Group. The related deferred income was recognised in the income statement over the useful life of the assets to match the depreciation charge of the relevant assets after the completion.

36 Employee benefit liabilities

Employee benefit liabilities represent provision for jubilee benefits, a defined contribution scheme, which are payable to the employees under the employment benefit schemes operated by the Group.

37 Capital and reserves

(a) Share capital

	2017		2016	
	Number of shares	**RMB'000**	Number of shares	RMB'000
Authorised:				
Ordinary shares of the Company of HKD 0.01 each (i)	**10,000,000,000**		10,000,000,000	
Non-redeemable convertible preference shares of the Company of HKD 0.01 each (ii)	**2,000,000,000**		2,000,000,000	
Issued and fully paid:				
Ordinary shares				
At 31 December	**1,942,652,088**	**17,793**	1,936,838,088	17,743

37 Capital and reserves *(Continued)*

(a) Share capital *(Continued)*

A summary of the above movements in issued share capital of the Company is as follows:

	2017		2016	
	Number of shares of HKD0.01 each	**RMB'000**	Number of shares of HKD0.01 each	RMB'000
At 1 January	**1,936,838,088**	**17,743**	1,935,627,088	17,733
Exercise of share options (note 33)	**5,814,000**	**50**	1,211,000	10
At 31 December	**1,942,652,088**	**17,793**	1,936,838,088	17,743

(i) The Company was incorporated in the Cayman Islands under the Companies Law (Revised) as an exempted company with limited liability on 28 September 2004.

On 18 October 2005, the Company listed its shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On 20 July 2006, the Company withdrew the listing of its shares on the GEM of the Stock Exchange and listed its entire issued share capital by way of introduction on the Main Board of the Stock Exchange.

(ii) Pursuant to a special resolution passed at an extraordinary general meeting of the Company on 26 June 2009, the Company's authorised share capital was increased from HKD100,000,000 to HKD120,000,000 by the creation of 2,000,000,000 non-redeemable convertible preference shares ("Convertible Preference Shares") of HKD0.01 each.

The Convertible Preference Shares are non-redeemable by the Company. The holders of the Convertible Preference Shares ("Convertible Preference Shareholders") may request the Company to convert one Convertible Preference Share into one ordinary share during the period from the date of allotment and issue of the Convertible Preference Shares to the date the Company passes a voluntary winding up resolution or is otherwise placed into liquidation. The conversion is subject to the condition that the Convertible Preference Shareholders shall not exercise the conversion rights if upon the conversion, the percentage of the ordinary shares held by the public would drop below the minimum public float requirements under the Listing Rules applicable to the Company.

The Convertible Preference Shareholders are entitled to participate *pari passu* in any dividends payable to the holders of the ordinary shares on a pro rata as-if-converted basis. On return of capital on winding up or otherwise, the assets of the Company available for distribution shall be applied towards repayment of an amount equal to the aggregate of paid-up amounts of the Convertible Preference Shares, and the Convertible Preference Shareholders shall not have the right to participate in any remaining assets.

The Convertible Preference Shareholders shall not be entitled to vote at general meetings of the Company unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed at a general meeting which if passed would vary, modify or abrogate the rights and privileges of the Convertible Preference Shares.

37 Capital and reserves *(Continued)*

(a) Share capital *(Continued)*

The Convertible Preference Shares are not listed on the Stock Exchange.

As at 31 December 2017 and 2016, no convertible preference shares of the Company were issued.

(b) Nature and purpose of reserves

(i) Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands.

(ii) Contributed surplus

The contributed surplus of the Group includes the difference between

(a) the nominal value of the share capital and the existing balance on the share premium account of a subsidiary acquired; and the nominal value of the shares issued by the Company in exchange under a reorganisation of the Group during the year ended 31 December 2005;

(b) the nominal value of the share capital and the existing balance on the share premium account of the subsidiaries acquired; and the nominal value of the shares issued by the Company in exchange for the acquisition of certain subsidiaries during the year ended 31 December 2009;

(c) the registered capital of Nantong Transport acquired of RMB69,945,550; and the aggregate cash consideration paid by the Group of RMB66,330,000 for the acquisition of Nantong Transport during the year ended 31 December 2012;

(d) the registered capital of Holvrieka (China) Co.,Ltd. (currently known as Ziemann Holvrieka Asia Co., Ltd., "ZHA") acquired of RMB324,539,380; and the nominal value of the RMB39,740,566 ordinary shares issued by the Company in exchange for the acquisition of ZHA during the year ended 31 December 2014; and

(e) the nominal value of the share capital of Burg Service B.V. acquired of RMB1,263,000; and the aggregate cash consideration paid by the Company of RMB11,737,000 for the acquisition of Burg Service B.V. during the year ended 31 December 2015.

(iii) Capital reserve

Capital reserve comprises the portion of the grant date fair value of unexercised share options granted to Directors, employees and other eligible persons of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(u)(ii).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements denominated in foreign currency to Renminbi. The reserve is dealt with in accordance with the accounting policies set out in note 2(y).

37 Capital and reserves *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(v) General reserve fund

The Group's wholly-owned subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with PRC accounting rules and regulations, to the general reserve fund until the balance reaches 50% of the registered capital of the respective subsidiaries. The general reserve fund can be used for the subsidiaries' working capital purposes and to make up for previous years' losses, if any. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distributing dividends to the Company.

The Group's subsidiary in Belgium is required to set up a legal reserve of 10% of share capital in accordance with the Belgian Law. The legal reserve is not distributable.

(vi) Distributable reserves

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the contributed surplus account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

At 31 December 2017, the Company had RMB5,334,681,000 available for distribution to equity shareholders of the Company (2016: RMB5,163,893,000).

(vii) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt to adjusted capital ratio. For this purpose the Group regards net debt as total debt (which includes bank loans, trade and bill payables, other payables, other borrowings and accrued expenses and amounts due to related parties) less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

Consistent with the Group's capital management strategy in 2016, the Group aims to maintain the net debt to adjusted capital ratio within 100%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

37 Capital and reserves *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(vii) Capital management *(Continued)*

The net debt to adjusted capital ratio is as follows:

	Note	2017 RMB'000	2016 RMB'000
Current liabilities			
Bank loans	28	**1,390,308**	177,055
Loans from related parties	42(e)	**105,000**	875,000
Trade and bills payables	29	**2,432,934**	1,966,345
Other payables and accrued expenses	30	**3,481,919**	2,539,317
Amounts due to related parties	42(d)	**127,712**	73,597
Other borrowings	32	**8,163**	–
		7,546,036	5,631,314
Non-current liabilities			
Bank loans	28	**–**	1,421,939
Other borrowings	32	**31,444**	–
Total debt		**7,577,480**	7,053,253
Less: Cash and cash equivalents	26	**(2,251,175)**	(2,916,900)
Net debt		**5,326,305**	4,136,353
Total equity		**5,860,978**	5,302,065
Less: Proposed dividends	11	**(129,911)**	–
Adjusted capital		**5,731,067**	5,302,065
Net debt to adjusted capital ratio		**93%**	78%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

38 Retirement benefits

The subsidiaries in the PRC participate in government pension schemes whereby they are required to pay annual contributions at certain rates of the basic salaries of their PRC employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, employees contributions are subject to a cap of monthly relevant income of HKD30,000. Contributions to the plan vest immediately.

39 Reconciliation of liabilities arising from financing activities

This section sets out reconciliation of liabilities arising from financing activities for the period presented.

	Liabilities from financing activities				
	Bank loans and loans from related parties due within 1 year	Bank loans and loans from related parties due after 1 year	Other borrowings due within 1 year	Other borrowings due after 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 31 December 2016	(1,052,055)	(1,421,939)	–	–	(2,473,994)
Cash flows	481,349	439,225	4,193	–	924,767
Acquisitions	–	–	(12,356)	(31,444)	(43,800)
Foreign exchange adjustments	2,930	55,182	–	–	58,112
Other non-cash movements	(927,532)	927,532	–	–	–
Net debt as at 31 December 2017	(1,495,308)	–	(8,163)	(31,444)	(1,534,915)

40 Contingencies

As at 31 December 2017, the Group had outstanding balance of performance guarantees issued by relevant banks totalling RMB994,460,000.

41 Commitments

(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements are as follows:

	2017 RMB'000	2016 RMB'000
Contracted for		
– Production facilities	**52,649**	28,779

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**12,477**	12,552
After 1 year but within 5 years	**14,221**	16,470
After 5 years	**11,444**	7,609
	38,142	36,631

The Group leases a number of properties and office equipment under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

42 Material related party transactions

(a) Transactions with CIMC and its subsidiaries and associates

Nature of transactions

		2017 RMB'000	2016 RMB'000
Sales	(i)	**281,723**	235,908
Purchases	(ii)	**201,442**	102,686
Comprehensive charges	(iii)	**4,751**	3,408
Processing charges	(iv)	**14,360**	16,040
Processing income	(v)	**8,058**	7,753
Office services income	(vi)	**15,038**	13,672
Loans from related parties	(vii)	**408,000**	1,180,000
Repayment of loans from related parties	(vii)	**1,178,000**	995,000
Loan interest expenses	(vii)	**23,955**	47,269
Other financing services charges	(viii)	**209**	480
Deposit service	(ix)	**358,153**	358,180
Interest income from deposits	(ix)	**3,097**	4,465
Guarantee	(x)	**79,902**	–

(i) Sales to related parties mainly represent the sale of products to related parties.

(ii) Purchases from related parties mainly represent purchases of raw materials for production.

(iii) Comprehensive charges mainly represent services including staff messing, medical expenses and general services provided to the Group by related parties.

(iv) Processing charges mainly represent processing services, site leasing and other related services provided to the Group by related parties.

(v) Processing income mainly represent processing services of welding, heat treatment and testing provided to related parties by the Group.

(vi) Office services income mainly represents provision of office services including staff catering, transportation services, site leasing and general office services to related parties.

(vii) The loans are unsecured, interest bearing from 1.75% to 4.60% (2016: 4.35% to 4.65%) per annum and are repayable within one year.

(viii) Other financing services charges mainly represent commercial notes acceptance and discounting service provided to the Group by a related party.

42 Material related party transactions *(Continued)*

(a) Transactions with CIMC and its subsidiaries and associates *(Continued)*

(ix) Deposit service represents deposit acceptance service provided by a related party to the Group. The amount represents the maximum daily outstanding balance of the Group's deposits placed with a related party. The deposits bear interest and can be withdrawn on demand.

(x) Guarantee represents the maximum amount of bank guarantee provided by the Group to its customers on behalf of the Group and certain related parties.

All of the transactions above were carried out in the normal course of the Group's business and on terms as agreed between the transacting parties.

(b) Transactions with a Group's associate

Nature of transactions	2017 RMB'000	2016 RMB'000
Consultancy fee charges (i)	**3,967**	–

Note:

(i) Consultancy fee charges mainly represent consultancy fee paid by CEE to an associate of the Group.

(c) Remuneration for key management personnel

Remuneration for key management personnel, including amounts paid to the Company's Directors as disclosed in note 9, certain highest paid employees as disclosed in note 10 and other key management personnel is as follows:

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**28,624**	20,227
Share-based compensation benefits	**3,459**	9,080
	32,083	29,307

Total remuneration is included in "staff costs" (see note 6(b)).

(d) Amounts due from/(to) related parties

	2017 RMB'000	2016 RMB'000
Trade receivables for products sold	**186,899**	173,197
Trade payables for raw material purchased and receipts in advance for sales	**(127,712)**	(73,597)

Notes:

(i) The outstanding balances with these related parties are unsecured, interest free and repayable on demand.

(ii) No provisions for bad or doubtful debts have been made in respect of these outstanding receivable balances.

42 Material related party transactions *(Continued)*

(e) Loans from related parties

	2017 RMB'000	2016 RMB'000
Loans from related parties	**105,000**	875,000

Note:

(i) The loans are unsecured, interest bearing from 1.75% to 4.60% (2016: 4.35% to 4.65%) per annum and are repayable within one year.

(f) Deposits placed with a related party

	2017 RMB'000	2016 RMB'000
Deposits	**358,153**	349,634

Notes:

(i) The deposits bear interest and can be withdrawn on demand.

(ii) The deposits are included as part of the Group's cash and cash equivalents (note 26(b)).

43 Business Combination

(a) On 4 August 2017, the Group acquired 100% of the equity interests in SOE, which is principally engaged in offshore oil, transportation and storage of liquefied gas, offshore crane, topside module, cargo systems and manufacturing of other high-level equipment, for a cash consideration of RMB799,800,000 designated by the court.

Management has engaged an independent external valuer to perform a valuation on the identifiable assets and liabilities of SOE on the acquisition date. Based on the valuation results, the Group recognised a gain on bargain purchase of RMB68,701,000 represented a gain from purchase of distressed assets as SOE was in the process of liquidation, and is included in the consolidated income statement as "other income, net" for the year ended 31 December 2017.

43 Business Combination *(Continued)*

(b) The following table summarises the considerations paid and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	RMB'000
Total purchase consideration paid by cash	799,800

Recognised amounts of identifiable assets acquired and liabilities assumed:

	Fair value RMB'000
Cash and cash equivalents	249,792
Property, plant and equipment	422,290
Construction in progress	72,900
Intangible assets	20,000
Lease prepayments	90,600
Inventories	48,800
Trade and bills receivables (i)	288,884
Other receivables and prepayments (ii)	296,190
Trade and bills payables	(101,699)
Other payables and accrued expenses (iii)	(303,989)
Deferred tax liabilities (iv)	(71,470)
Warranty provision	(99,997)
Other borrowings	(43,800)
Total identifiable net assets	868,501
Gain from bargain purchase	(68,701)
	799,800
Acquisition-related costs (included in administrative expenses in the consolidated income statement for the year ended 31 December 2017)	20,593
Outflow of cash to acquire business, net of cash acquired	
– cash consideration paid	799,800
– cash and cash equivalents in subsidiary acquired	(249,792)
Net cash outflow on acquisition	550,008

43 Business Combination *(Continued)*

(i) The gross contractual amount of trade receivables amounted to RMB289,279,000, of which RMB395,000 was expected to be uncollectible.

(ii) The balance of other receivables and prepayments represented the amounts due from customers for contract work acquired on 4 August 2017.

(iii) As disclosed in note 7, the Restructuring Plan was approved by SOE's creditors and the PRC Court. According to the Restructuring Plan, SOE was authorised to derecognise a significant portion of payables balance, and the remaining obligations were recognised in "Other payables and accrued expenses" as at 4 August 2017.

(iv) The deferred tax liabilities of RMB71,470,000 represented a net-off balance of deferred tax assets of RMB516,639,000 and deferred tax liabilities of RMB588,109,000. Deferred tax assets mainly arose from asset impairment provision made and tax losses recorded by SOE whereas deferred tax liabilities arose from the taxable income on derecognised liabilities due to debt restructuring and the fair value adjustment on intangible assets and property, plant and equipment.

The acquired business contributed no revenue and a net loss of RMB13,001,000 to the Group during the period from 4 August 2017 to 31 December 2017 as the SOE was resuming its operation from receivership.

44 Balance sheet and reserve movement of the Company

(a) Balance sheet of the Company

	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Non-current assets		
Investments in subsidiaries	**4,735,160**	4,715,386
Current assets		
Other receivables	**248**	65
Amounts due from subsidiaries	**2,634,403**	2,438,329
Cash and cash equivalents	**43,960**	169,070
	2,678,611	2,607,464
Current liabilities		
Bank loans	**1,052,808**	104,055
Other payables and accrued expenses	**12,813**	13,801
Amounts due to subsidiaries	**817,977**	429,671
	1,883,598	547,527
Net current assets	**795,013**	2,059,937
Total assets less current liabilities	**5,530,173**	6,775,323
Non-current liabilities		
Bank loans	**–**	1,421,939
NET ASSETS	**5,530,173**	5,353,384
CAPITAL AND RESERVES		
Share capital	**17,793**	17,743
Reserves	**5,512,380**	5,335,641
TOTAL EQUITY	**5,530,173**	5,353,384

44 Balance sheet and reserve movement of the Company *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000 37(b)(i)	Contributed surplus RMB'000 37(b)(ii)	Capital reserve RMB'000 37(b)(iii)	Exchange reserve RMB'000 37(b)(iv)	Retained profits RMB'000	Total RMB'000
At 1 January 2016	143,236	4,903,654	138,501	(257,320)	136,608	5,064,679
2015 final dividend paid	–	–	–	–	(162,895)	(162,895)
Total comprehensive income for the year	–	–	–	169,911	226,827	396,738
Transfer to retained earnings	–	–	(103)	–	103	–
Issuance of shares in connection with exercise of share options	3,769	–	(1,117)	–	–	2,652
Equity-settled share-based transactions (note 33)	–	–	34,467	–	–	34,467
At 31 December 2016 and 1 January 2017	**147,005**	**4,903,654**	**171,748**	**(87,409)**	**200,643**	**5,335,641**
Total comprehensive income for the year	**–**	**–**	**–**	**(250,400)**	**395,399**	**144,999**
Transfer to retained earnings	**–**	**–**	**(3,892)**	**–**	**3,892**	**–**
Issuance of shares in connection with exercise of share options	**21,897**	**–**	**(6,481)**	**–**	**–**	**15,416**
Equity-settled share-based transactions (note 33)	**–**	**–**	**16,324**	**–**	**–**	**16,324**
At 31 December 2017	**168,902**	**4,903,654**	**177,699**	**(337,809)**	**599,934**	**5,512,380**

45 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivables and bank balances. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and bills receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 0% (2016: 0%) and 8.91% (2016: 7.35%) of the total trade and bills receivables are due from the Group's largest customer and the five largest customers respectively.

In respect of deposits with banks, the Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet and the contingencies disclosed in note 40. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 23.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the parent company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

45 Financial risk management and fair values *(Continued)*

(b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2017				2016			
	Contractual undiscounted cash flow				Contractual undiscounted cash flow			
	Within 1 year or on demand RMB'000	**1 to 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**	Within 1 year or on demand RMB'000	1 to 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank loans	**1,422,689**	**–**	**1,422,689**	**1,390,308**	220,202	1,454,916	1,675,118	1,598,994
Bill payables, creditors and accrued expenses	**3,325,694**	**–**	**3,325,694**	**3,325,694**	2,737,797	–	2,737,797	2,737,797
Other borrowings	**8,760**	**33,231**	**41,991**	**39,607**	–	–	–	–
Amounts due to related parties	**234,061**	**–**	**234,061**	**232,712**	960,968	–	960,968	948,597
	4,991,204	**33,231**	**5,024,435**	**4,988,321**	3,918,967	1,454,916	5,373,883	5,285,388

45 Financial risk management and fair values *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from floating rate bank deposits and bank loans. Floating rate bank deposits and bank loans at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's floating rate bank deposits and bank loans at variable rates at the balance sheet date.

	2017		2016	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Floating rate bank deposits	**1.06%**	**2,239,559**	1.74%	2,916,405
Bank loans	**3.51%**	**(1,052,808)**	2.81%	(1,525,994)
Other borrowings	**2.35%**	**(39,607)**	–	–

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB4,450,000 (2016: RMB4,940,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above in respect of the exposure to cash flow interest rate risk arising from floating rate bank deposits and bank loans held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest income assuming that such a change in interest rates had occurred at the balance sheet date. The analysis is performed on the same basis for 2016.

45 Financial risk management and fair values *(Continued)*

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in foreign currencies, i.e. currencies other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk is primarily United States dollar and Euro. The Group manages this risk as follows:

(i) Forecast transactions

Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

(ii) Recognised assets and liabilities

In respect of financial assets and liabilities held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The Group's borrowings are denominated in Renminbi, United States dollar and Hong Kong dollar. The period of these borrowings are generally within 12 months. The Group considered the foreign currency risk arising from these short term borrowings is insignificant and no hedge was made against its foreign currency exposure.

(iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

45 Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(iii) Exposure to currency risk *(Continued)*

Exposure to foreign currencies 2017

	RMB RMB'000	USD RMB'000	HKD RMB'000	Euro RMB'000	GBP RMB'000	DKK RMB'000
Trade and bill receivables	–	375,251	–	77,822	–	–
Deposits, other receivables	–	6,963	–	1,150	–	–
Cash and cash equivalents	4,140	265,633	57,600	125,923	42,583	7,330
Restricted cash	–	36,514	–	–	–	–
Trade and bill payables	–	(26,433)	–	(1,215)	(26,031)	–
Other payables and accrued expenses	–	(11,168)	–	(9,482)	–	–
Overall net exposure	4,140	646,760	57,600	194,198	16,552	7,330

Exposure to foreign currencies 2016

	RMB RMB'000	USD RMB'000	HKD RMB'000	Euro RMB'000	GBP RMB'000	DKK RMB'000
Trade and bill receivables	–	255,075	–	52,614	–	3,411
Deposits, other receivables	–	14,661	–	1,523	–	–
Cash and cash equivalents	61,895	622,008	8,899	355,557	–	3,411
Restricted cash	–	753	–	–	–	–
Trade and bill payables	–	(18,112)	–	(15,640)	(42,676)	–
Other payables and accrued expenses	–	(23,092)	–	(3,835)	–	–
Overall net exposure	61,895	851,293	8,899	390,219	(42,676)	6,822

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

45 Financial risk management and fair values *(Continued)*

(d) Currency risk *(Continued)*

(iv) Sensitivity analysis *(Continued)*

The Group

	2017		2016	
	Increase/ (decrease) in foreign exchange %	Increase/ (decrease) profit after tax and retained profit RMB'000	Increase/ (decrease) in foreign exchange %	Increase/ (decrease) profit after tax and retained profit RMB'000
RMB	5%	155	5%	2,321
	(5%)	(155)	(5%)	(2,321)
USD	5%	24,254	5%	31,923
	(5%)	(24,254)	(5%)	(31,923)
HKD	5%	2,160	5%	334
	(5%)	(2,160)	(5%)	(334)
Euro	5%	7,282	5%	14,633
	(5%)	(7,282)	(5%)	(14,633)
GBP	5%	621	5%	(1,600)
	(5%)	(621)	(5%)	1,600
DKK	5%	275	5%	256
	(5%)	(275)	(5%)	(256)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax (and retained profits) measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

45 Financial risk management and fair values *(Continued)*

(e) Fair value

(i) Financial instruments carried at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

Recurring fair value measurements At 31 December 2017	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Financial assets at fair value through profit or loss				
Derivative financial instruments:				
– Forward exchange contracts	**–**	**298**	**–**	**298**

Recurring fair value measurements At 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial instruments:				
– Forward exchange contracts	–	10,197	–	10,197

During the years ended 31 December 2017 and 2016, there were no transfers between instruments in Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

45 Financial risk management and fair values *(Continued)*

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Derivatives

Forward exchange contracts are marked to market using listed market prices, quoted by bank or by discounting the contractual forward price and deducting the current spot rate.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Interest rates used for determining fair value

The Group uses the relevant government yield curve as of 31 December 2017 plus an adequate constant credit spread to discount financial instruments. The interest rates used are as follows:

	2017	2016
Loans and borrowings	**1.75% – 4.60%**	2.59% – 4.65%

46 Immediate and ultimate controlling party

At 31 December 2017 and 2016, the Directors consider the immediate parent of the Company to be China International Marine Containers (Hong Kong) Limited ("CIMC HK"), which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

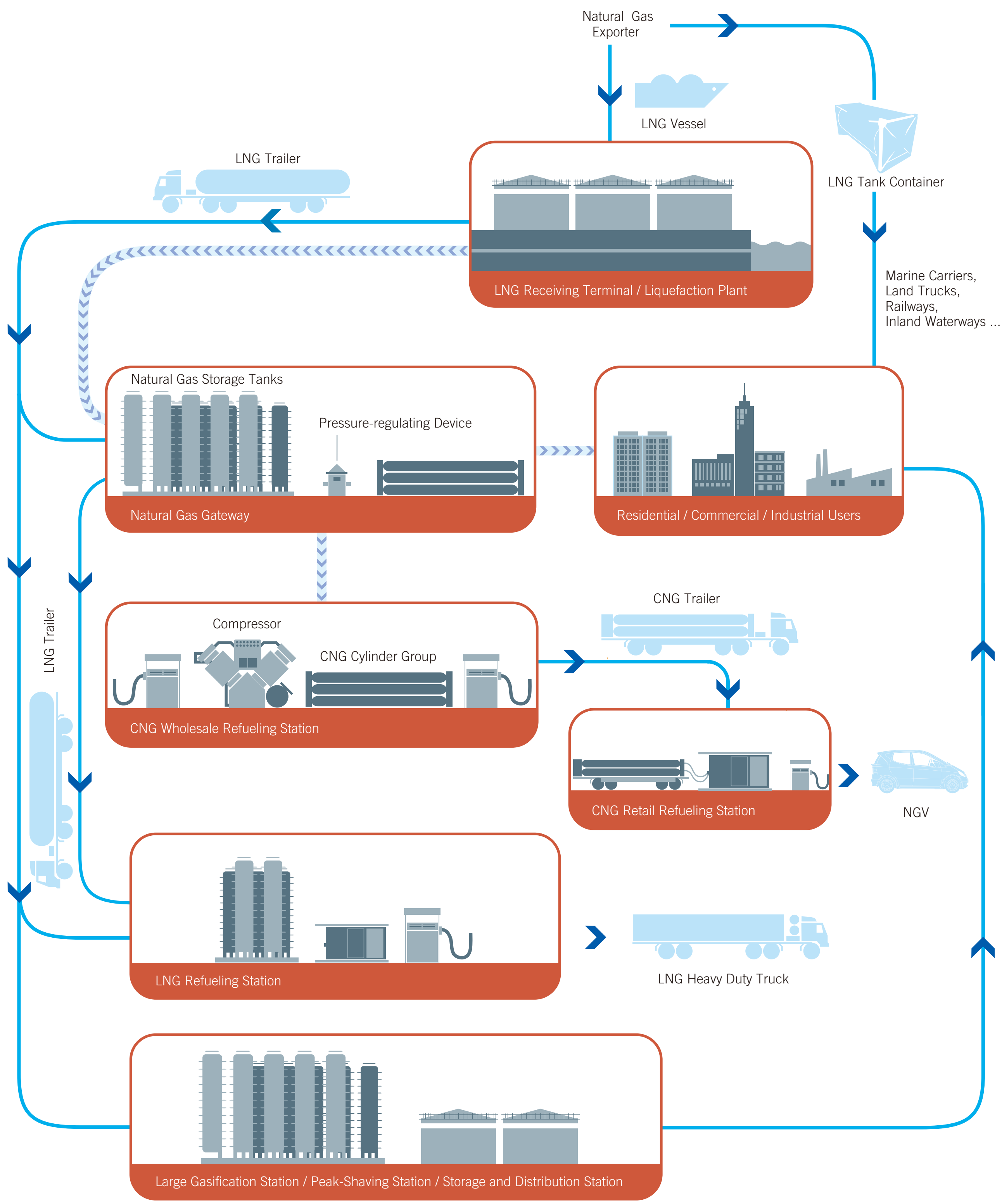
At 31 December 2017 and 2016, the Directors consider the ultimate controlling party of the Company to be CIMC, which is established in the PRC. This entity produces financial statements available for public use.

GLOSSARY

In this report, the following expressions have the following meanings, unless the context otherwise requires:

"AGM"	the annual general meeting of the Company
"Articles"	articles of association of the Company
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
"Charm Wise"	Charm Wise Limited
"CIMC"	中國國際海運集裝箱(集團)股份有限公司 China International Marine Containers (Group) Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange
"CIMC Group"	CIMC and its subsidiaries (excluding members of the Group) and associates
"CIMC HK"	China International Marine Containers (Hong Kong) Limited 中國國際海運集裝箱(香港)有限公司
"CNG"	compressed natural gas
"Company"	CIMC Enric Holdings Limited
"Group"	the Company and its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LNG"	liquefied natural gas
"LPG"	liquefied petroleum gas
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"SOE"	Nantong CIMC SinoPacific Offshore & Engineering Co., Ltd 南通中集太平洋海洋工程有限公司 (formerly known as SinoPacific Offshore & Engineering Co., Ltd)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"ZHA"	Ziemann Holvrieka Asia Company Limited

NATURAL GAS TRANSPORTATION, STORAGE AND DISTRIBUTION



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