



**GITI TIRE PTE. LTD.
AND ITS SUBSIDIARIES
(Registration No. 199304649R)**

**DIRECTORS' STATEMENT AND
FINANCIAL STATEMENTS**

YEAR ENDED DECEMBER 31, 2016

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

DIRECTORS' STATEMENT AND FINANCIAL STATEMENTS

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GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

DIRECTORS' STATEMENT

The directors present their statement together with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2016.

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 11 to 102 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at December 31, 2016, and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

1 DIRECTORS

The directors of the Company in office at the date of this statement are:

Michelle Liem Mei Fung
Lei Huai Chin
Tan Enk Ee

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

Name of director and company in which interests are held	Shareholdings registered in name of director	
	At beginning of year	At end of year
Ultimate holding company - GITI Holdings Ltd.	Ordinary shares	
Michelle Liem Mei Fung	25,500	25,500
Tan Enk Ee	12,000	12,000

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

DIRECTORS' STATEMENT

By virtue of Section 7 of the Singapore Companies Act, Ms Michelle Liem Mei Fung and Mr Tan Enk Ee are deemed to have interest in all the related companies of the ultimate holding company.

4 SHARE OPTIONS

(a) *Options to take up unissued shares*

During the financial year, no options to take up unissued shares of the Company or any corporation in the Group were granted.

(b) *Options exercised*

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

(c) *Unissued shares under option*

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

DIRECTORS' STATEMENT

5 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS



Michelle Liem Mei Fung



Lei Huai Chin

Date: **12 MAY 2017**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

GITI TIRE PTE. LTD.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Giti Tire Pte. Ltd. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 11 to 102.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at December 31, 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

GITI TIRE PTE. LTD.

Key Audit Matters	Our audit performed and responses thereon
Recoverability of trade and other receivables <i>(Refer to Note 10 to the consolidated financial statements)</i> Management makes allowance for doubtful receivables based on an assessment of the recoverability of trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The estimation of allowance for doubtful receivables requires the use of estimates. Where the expectation is different from the original estimate, such differences will impact the carrying value of trade and other receivables and doubtful receivables expenses in the period in which such estimate has been changed.	We evaluated the adequacy of the valuation of the trade and other receivables and the appropriateness of the impairment recognised taking into account the local facts and circumstances which are considered key considerations for each individual receivable. We tested the accuracy and completeness of the trade and other receivables aging as at year end. We performed independent checks on the historical collection pattern for customers with past due receivables, the subsequent collection from customers and financial performance or position of the customer. Based on our procedures, we noted that the allowance for doubtful receivables is within a reasonable range of our expectation. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements regarding trade receivables and the related risks such as credit risk and the aging of trade and other receivables as disclosed in Note 10.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

GITI TIRE PTE. LTD.

Key Audit Matters	Our audit performed and responses thereon
Allowance for inventories <i>(Refer to Note 12 to the consolidated financial statements)</i> The Group is exposed to price fluctuations in raw materials used for production and current market requirements for inventory items which are no longer suitable for use or trading. At the end of each reporting period, management assesses whether there is any objective evidence that certain inventories, which are stated at cost, are above their net realisable value. If so, these inventories are written down to their net realisable value. Assessing the net realisable value is an area of significant judgement, with specific consideration in relation to the estimate of allowance for slow moving and obsolete inventory. Management's provision is subjective and is influenced by estimates concerning the level of sale activity.	We assessed management's allowance for inventories policy and underlying analysis with respect to slow moving and obsolete inventory; the expected demand and market value. We tested inventories to assess if they are stated at the lower of cost or net realisable value by comparing the discounted unit sales price from the approved master price list to the book value for the inventories. We have assessed the appropriateness of the inventory allowance by initially understanding the methodology and then challenging management on this methodology with reference to the historical accuracy of the allowance against actual losses. We assessed the accuracy of the application of allowance methodology by recalculation, assessing actual and forecast sales of provisioned inventory to check that the provision percentage applied is appropriate and in line with documented allowance policy and inventory aging. Based on our procedures, we noted that the allowance for inventories is within a reasonable range of our expectation. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements regarding allowance for inventories as disclosed in Note 12.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

GITI TIRE PTE. LTD.

Key Audit Matters	Our audit performed and responses thereon
Impairment analysis of property, plant and equipment <i>(Refer to Note 13 to the consolidated financial statements)</i> At December 31, 2016, the property, plant and equipment ("PPE") of the Group totaling RMB10,108 million represented 39.36% of the Group's total assets and comprise mainly of leasehold land and buildings, plant and equipment and construction in progress. Management assesses for any indication on impairment of property, plant and equipment based on expected utilisation rate of the plant and machinery for production of tires, reduction of demand in major principal products and specific identification of plant and machinery used for production of principal products. Management also carries out assessment of the list of obsolete assets and assets that are not suitable for use on an annual basis and determine for disposal or impairment.	We assessed and evaluated management's assessment for indicators of impairment of property, plant and equipment. We looked out for property, plant and equipment that are not suitable for use during our observation of physical sighting. We obtained and evaluated management's plan on utilisation of property, plant and equipment. We have assessed and challenged the assumptions used by management in arriving at the impairment of property, plant and equipment. Based on our procedures, we noted that the impairment for property, plant and equipment is within a reasonable range of our expectations. We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements regarding property, plant and equipment and the related disclosure such as useful lives and impairment loss of property, plant and equipment as disclosed in Note 13.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

GITI TIRE PTE. LTD.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Directors' Statement as set out on pages 1 to 3.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs 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 financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF

GITI TIRE PTE. LTD.

- (a) Identify and assess the risks of material misstatement of the 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.
- (b) 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.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (d) Conclude on the appropriateness of management's 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 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.
- (e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

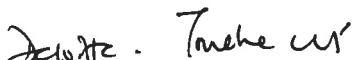
From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public 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.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF
GITI TIRE PTE. LTD.**

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Seah Gek Choo.


Public Accountants and
Chartered Accountants
Singapore

May 12, 2017

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
December 31, 2016

	<u>Note</u>	<u>Group</u>		<u>Company</u>	
		2016	2015	2016	2015
		RMB'million	RMB'million	RMB'million	RMB'million
ASSETS					
Current assets					
Bank balances and cash	8	1,426	1,223	6	4
Restricted bank deposits	9	671	727	90	127
Trade and other receivables	10	4,525	4,117	5	4
Prepaid lease payments	11	49	44	-	-
Amounts due from subsidiaries	5	-	-	4,020	1,139
Amount due from immediate holding company	7	397	395	397	395
Amounts due from related companies/parties	7	461	389	-	-
Inventories	12	3,978	3,475	-	-
Available-for-sale investments	19	201	169	-	-
Derivative financial instruments	25	1	-	-	-
		11,709	10,539	4,518	1,669
Assets classified as held for sale	26	1	-	109	-
Total current assets		11,710	10,539	4,627	1,669
Non-current assets					
Property, plant and equipment	13	10,108	8,680	3	3
Investment properties	14	93	17	-	-
Prepaid lease payments	11	1,166	1,088	-	-
Goodwill	15	- *	- *	-	-
Intangible assets	16	62	60	4	4
Investments in subsidiaries	17	-	-	3,893	3,413
Interest in an associate	18	202	233	-	-
Available-for-sale investments	19	17	144	-	-
Deferred tax assets	22	521	426	-	-
Amount due from immediate holding company	7	788	694	788	694
Deposits for purchase of property, plant and equipment		323	241	-	-
Other receivables - non-current		12	13	-	-
Amounts due from related parties	7	677	648	-	-
Total non-current assets		13,969	12,244	4,688	4,114
Total assets		25,679	22,783	9,315	5,783

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION (cont'd)
December 31, 2016

	Note	<u>Group</u>		<u>Company</u>	
		2016	2015	2016	2015
		RMB'million	RMB'million	RMB'million	RMB'million
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	20	6,835	5,319	310	18
Derivative financial instruments	25	-	8	-	-
Amounts due to subsidiaries	5	-	-	1,909	2,323
Amounts due to related companies/parties	7	220	149	-	-
Tax payable		152	69	1	1
Borrowings - due within one year	21	4,422	4,347	1,665	970
Total current liabilities		11,629	9,892	3,885	3,312
Non-current liabilities					
Trade and other payables	20	363	343	-	-
Borrowings - due after one year	21	6,461	5,696	1,190	456
Retirement benefit obligations	23	946	711	-	-
Deferred tax liabilities	22	149	137	-	-
Total non-current liabilities		7,919	6,887	1,190	456
Capital, reserves and non-controlling interests					
Share capital	24	1,758	1,758	1,758	1,758
Reserves		2,133	2,206	2,482	257
Equity attributable to owner of the Company		3,891	3,964	4,240	2,015
Non-controlling interests		2,240	2,040	-	-
Total equity		6,131	6,004	4,240	2,015
Total liabilities and equity		25,679	22,783	9,315	5,783

* Amount is less than RMB1 million.

See accompanying notes to financial statements.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
Year ended December 31, 2016**

		<u>Group</u>	
	<u>Note</u>	<u>2016</u>	<u>2015</u>
		<u>RMB'million</u>	<u>RMB'million</u>
Revenue	27	20,104	19,467
Cost of sales		(14,494)	(14,066)
Gross profit		5,610	5,401
Other income	28	219	33
Selling and distribution expenses		(2,627)	(2,877)
Administrative expenses		(1,454)	(1,349)
Share of results of an associate	18	(41)	(42)
Finance costs	29	(909)	(826)
Profit before tax		798	340
Income tax expense	30	(634)	(263)
Profit for the year	31	164	77
Other comprehensive income, net of income tax:			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Actuarial loss - net of tax benefit	23	(96)	(12)
Share in other comprehensive loss of associate		(1)	(1)
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange difference arising on translation of foreign operations		251	(82)
Fair value gain on available-for-sale investments		8	8
Share in other comprehensive (loss) income of associate		(8)	28
Total comprehensive income for the year		318	18
(Loss) Profit for the year attributable to:			
Owner of the Company		(136)	56
Non-controlling interests		300	21
		164	77
Total comprehensive (loss) income attributable to:			
Owner of the Company		(73)	21
Non-controlling interests		391	(3)
		318	18

See accompanying notes to financial statements.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY
Year ended December 31, 2016

<----- Attributable to owner of the Company ----->

	Share capital RMB' million	Statutory surplus reserve RMB' million (Note A)	Capital reserve RMB' million	Equity reserve RMB' million (Note B)	Retained earnings RMB' million	Exchange reserve RMB' million (Note C)	Subtotal RMB' million	Non- controlling interests RMB' million	Total RMB' million
Balance at January 1, 2015	1,758	679	(92)	(120)	2,302	(584)	3,943	2,002	5,945
<i>Total comprehensive income for the year</i>	-	-	-	-	56	-	56	21	77
Profit for the year	-	-	23	-	(4)	(54)	(35)	(24)	(59)
Other comprehensive loss for the year	-	-	23	-	52	(54)	21	(3)	18
Total	-	-	-	-	-	-	-	-	-
<i>Transactions with owner, recognised directly in equity</i>									
Transfer from retained earnings to statutory surplus reserve	-	130	-	-	(130)	-	-	-	-
Dividends	-	-	-	-	-	-	-	(122)	(122)
Acquisition of subsidiary (Note 33)	-	-	-	-	-	-	-	163	163
	-	130	-	-	(130)	-	-	41	41
Balance at December 31, 2015	1,758	809	(69)	(120)	2,224	(638)	3,964	2,040	6,004
<i>Total comprehensive income for the year</i>	-	-	-	-	(136)	-	(136)	300	164
Profit for the year	-	-	(8)	-	(36)	107	63	91	154
Other comprehensive loss for the year	-	-	(8)	-	(172)	107	(73)	391	318
Total	-	-	-	-	-	-	-	-	-
<i>Transactions with owner, recognised directly in equity</i>									
Transfer from retained earnings to statutory surplus reserve	-	67	-	-	(67)	-	-	-	-
Dividends	-	-	-	-	-	-	-	(187)	(187)
Effects of acquiring part of non-controlling interest in subsidiary (Note 17)	-	-	-	*	-	-	-	(4)	(4)
	-	67	-	-	(67)	-	-	(191)	(191)
Balance at December 31, 2016	1,758	876	(77)	(120)	1,985	(531)	3,891	2,240	6,131

* Amount is less than RMB1 million.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY (cont'd)

Year ended December 31, 2016

Note A:

In accordance with the relevant People's Republic of China ("PRC") laws and regulations, the companies established in the PRC are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC Generally Accepted Accounting Principles (the "PRC GAAP") to the statutory surplus reserve. Allocation to the statutory surplus reserve shall be approved by the board of directors. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC companies' registered capital. The statutory surplus reserves may be used to make up losses or for conversion into capital. The PRC companies may, upon the approval by a resolution of shareholders' general meeting/board of directors' meeting, convert their statutory surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC companies' statutory surplus reserve into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

Note B:

The equity reserve represents effects of changes in ownership interests in subsidiaries when there is no change in control.

Note C:

The exchange reserve represents exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into Renminbi.

	Share capital	Retained earnings	Total
<u>Company</u>	<u>RMB'million</u>	<u>RMB'million</u>	<u>RMB'million</u>
Balance at January 1, 2015	1,758	159	1,917
Profit for the year, representing total comprehensive income for the year	-	98	98
Balance at December 31, 2015	1,758	257	2,015
Profit for the year, representing total comprehensive income for the year	-	2,225	2,225
Balance at December 31, 2016	1,758	2,482	4,240

See accompanying notes to financial statements.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended December 31, 2016

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Operating activities		
Profit before tax	798	340
Adjustments for:		
Amortisation of intangible assets	9	20
Depreciation of property, plant and equipment	1,082	1,013
Depreciation of investment properties	5	2
Amortisation of goodwill	-	2
Impairment loss recognised on (reversed):		
Inventories	14	(1)
Trade and other receivables	8	6
Property, plant and equipment	11	11
Interest expense	909	826
Interest income	(91)	(74)
Dividend income from equity investments	(8)	(145)
Gain on disposal of property, plant and equipment	(7)	(4)
(Gain) Loss from fair value adjustments on forward exchange contracts	(9)	20
Release of prepaid lease payments	46	43
Share of results of an associate	41	42
Income from government grants	(3)	(1)
Income from available-for-sale investments	(2)	(6)
Provision for post-employment benefits	100	94
(Gain) Loss from disposal of available-for-sale investments	(103)	36
Gain from bargain purchase of investment in a subsidiary (Note 33)	-	(79)
Operating cash flows before movements in working capital	2,800	2,145
Inventories	(571)	767
Trade and other receivables	(312)	30
Amounts due from related companies	(77)	10
Trade and other payables	1,150	(528)
Amounts due to related companies	73	15
Cash generated from operations	3,063	2,439
Income taxes paid	(246)	(140)
Interest paid	(854)	(791)
Payment of post-employment benefits	(35)	(37)
Net cash from operating activities	1,928	1,471

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
Year ended December 31, 2016

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Investing activities		
Payment for acquisition of property, plant and equipment	(1,927)	(1,459)
Deposits for acquisition of property, plant and equipment	(258)	(259)
Deposits for acquisition of land use rights	-	(48)
Acquisition of investment properties	(9)	-
Acquisition of intangible assets	(10)	(9)
Proceeds on disposal of property, plant and equipment	80	27
Acquisition of a subsidiary	-	(52)
Placement of deposit for purchase of investment	(21)	-
Proceeds on disposal of held-for-trading investment	-	31
Acquisition of available-for-sale investments	(38)	(138)
Proceeds from sale of available-for-sale investments	251	18
Investment income received from available-for-sale investments	2	6
Prepaid lease payments	(33)	(11)
Dividends received from other equity investments	35	125
Interest received	27	22
Government grants received	37	77
Net cash used in investing activities	(1,864)	(1,670)
Financing activities		
Restricted deposits	56	(176)
New borrowings raised	8,426	5,180
Repayment of borrowings	(8,183)	(5,007)
Payment of finance lease payables	(24)	(11)
Acquisition of non-controlling interests in a subsidiary	(4)	-
Dividends paid to non-controlling interest	(189)	(117)
Net cash from (used in) financing activities	82	(131)
Net increase (decrease) in cash and cash equivalents	146	(330)
Cash and cash equivalents at beginning of the year	1,223	1,545
Effect of foreign exchange rate changes	57	8
Cash and cash equivalents at end of the year, represented by bank balances and cash	1,426	1,223

See accompanying notes to financial statements.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1 GENERAL

The Company (Registration No. 199304649R) is incorporated in the Republic of Singapore with its principal place of business and registered office at 9 Oxley Rise, #01-02 The Oxley, Singapore 238697. The financial statements are expressed in Renminbi ("RMB").

The principal activity of the Company is that of investment holding. During the year, the Company is also involved in provision of services.

The principal activities of the subsidiaries and associate are disclosed in Note 17 and Note 18 to the financial statements respectively.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2016 were authorised for issue by the Board of Directors on May 12, 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Financial Reporting Standards in Singapore ("FRSs").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of FRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- b) Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- c) Level 3 inputs are unobservable inputs for the asset or liability.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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ADOPTION OF NEW AND REVISED STANDARDS - On January 1, 2016, the Group adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following FRSs, INT FRSs and amendments to FRS that are relevant to the Group and the Company were issued but not effective:

- FRS 109 *Financial Instruments*²
- FRS 115 *Revenue from Contracts with Customers (with clarification issued)*²
- FRS 116 *Leases*³
- Amendments to FRS 7 *Statement of Cash Flows: Disclosure Initiative*¹
- Amendments to FRS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*¹
- Amendments to FRS 110 *Consolidated Financial Statements* and FRS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*⁴
- Amendments to FRS 40 *Transfers of Investment Property*²
- Improvement to FRSs (December 2016)⁵
- INT FRS 122 *Foreign Currency Transactions and Advance Consideration*²

¹ Applies to annual periods beginning on or after January 1, 2017, with early application permitted.

² Applies to annual periods beginning on or after January 1, 2018, with early application permitted.

³ Applies to annual periods beginning on or after January 1, 2019, with earlier application permitted if FRS 115 is adopted.

⁴ Application has been deferred indefinitely, however, early application is still permitted.

⁵ For effective date, refer to summary for more information

Consequential amendments were also made to various standards as a result of these new/revised standards.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for the following:

FRS 109 Financial Instruments

FRS 109 was issued in December 2014 to replace FRS 39 *Financial Instruments: Recognition and Measurement* and introduced new requirements for (i) the classification and measurement of financial assets and financial liabilities (ii) general hedge accounting (iii) impairment requirements for financial assets.

Key requirements of FRS 109:

- All recognised financial assets that are within the scope of FRS 39 are now required to be subsequently measured at amortised cost or fair value through profit or loss (FVTPL). Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at FVTPL at the end of subsequent accounting periods. In addition, under FRS 109, entities may make an irrevocable election, at initial recognition, to measure an equity investment (that is not held for trading) at FVTOCI, with only dividend income generally recognised in profit or loss.
- With some exceptions, financial liabilities are generally subsequently measured at amortised cost. With regard to the measurement of financial liabilities designated as at FVTPL, FRS 109 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch to profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- In relation to the impairment of financial assets, FRS 109 requires an expected credit loss model, as opposed to an incurred credit loss model under FRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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Management anticipates that the initial application of the new FRS 109 will result in changes to the accounting policies relating to financial assets and financial liabilities. Additional disclosures will also be made with respect of financial assets and financial liabilities, including any significant judgement and estimation made. Management is currently performing an assessment of the possible impact of implementing FRS 109. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the new FRS 109.

FRS 115 Revenue from Contracts with Customers

In November 2015, FRS 115 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. FRS 115 will supersede the current revenue recognition guidance including FRS 18 *Revenue*, FRS 11 *Construction Contracts* and the related Interpretations when it becomes effective. Further clarifications to FRS 115 were also issued in June 2016.

The core principle of FRS 115 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under FRS 115, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in FRS 115 to deal with specific scenarios. Furthermore, extensive disclosures are required by FRS 115.

Management anticipates that the initial application of the new FRS 115 will result in changes to the accounting policies relating to revenue. Additional disclosures will also be made with respect of revenue, including any significant judgement and estimation made. Management is currently performing an assessment of the possible impact of implementing FRS 115. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the new FRS 115.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

FRS 116 Leases

FRS 116 was issued in June 2016 and will supersede FRS 17 *Leases* and its associated interpretative guidance.

The standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the predecessor FRS 17.

Management anticipates that the initial application of the new FRS 116 will result in changes to the accounting policies relating to revenue. Additional disclosures will also be made with respect of revenue, including any significant judgement and estimation made. Management is currently performing an assessment of the possible impact of implementing FRS 116. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as the management has yet to complete its detailed assessment. Management does not plan to early adopt the new FRS 116.

Improvements to FRSs (December 2016)

Standard	Topic	Key amendment
FRS 112 Disclosure of Interests in Other Entities	Clarification of the scope of the disclosure requirements	The amendments clarify the scope of FRS 112 by specifying that disclosure requirements in the Standard, except for those in paragraphs B10-B16 (on summarised financial information), apply to any interests that are classified as held for sale, held for distribution to owners or discontinued operations in accordance with FRS 105 Non-current Assets Held for Sale and Discontinued Operations. The amendments apply for periods beginning on or after January 1, 2017.

Management anticipates that the initial application of the new FRS 112 will result in additional disclosures made with respect of investment in other entities, including any significant judgement and estimation made. Management has set up a committee to perform an assessment of the possible impact of implementing FRS 112. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as the management has yet to complete its detailed assessment.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owner of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owner of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable FRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under FRS 39, when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

BUSINESS COMBINATION - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the FRSs are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with FRS 12 *Income Taxes* and FRS 19 *Employee Benefits* respectively; and
- Assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another FRS.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from acquisition date.

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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Financial assets

All financial assets are recognised and de-recognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as at FVTPL where the financial asset is held for trading.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- On initial recognition, it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in "Other Income" line in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 4.

Available-for-sale financial assets

Certain shares held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 4. Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in reserves is reclassified to profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at end of the reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the available-for-sale monetary asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables (including trade and other receivables, and bank balances and cash) are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 5 to 160 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income and accumulated in reserves.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or other financial liabilities.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL when the financial liability is held for trading.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of repurchasing it in the near future; or
- It is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are initially measured at fair value and subsequently stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "Other Income" line in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 4.

Other financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group enters into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks. Further details of derivative financial instruments are disclosed in Note 25 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Offsetting arrangements

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Company and the Group has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

LEASES - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NON-CURRENT ASSETS HELD FOR SALE - Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

INVENTORIES - Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold land and buildings	Shorter of lease term or estimated useful life
Plant and equipment	5 to 20 years
Furniture, fittings and equipment	3 to 10 years
Motor vehicles	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in profit or loss.

INVESTMENT PROPERTIES - Investment property, which is property held to earn rentals and/or for capital appreciation, including property under construction for such purposes, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and accumulated impairment losses, if any, made in recognition of a decline in value which is other than temporary.

The leasehold properties are depreciated on a straight-line basis over their estimated useful lives of 5 to 25 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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GOODWILL - Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after assessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

PREPAID LEASE PAYMENTS - Payment for obtaining land use rights is accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms.

INTANGIBLE ASSETS

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation (where they have finite useful lives) and accumulated impairment losses. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are not amortised. Each period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy below.

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Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated impairment losses, on the same basis as intangible assets acquired separately.

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Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL - At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

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INVESTMENT IN ASSOCIATE - An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of the associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of FRS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with FRS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with FRS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

PROVISIONS - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

GOVERNMENT GRANTS - Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

REVENUE RECOGNITION - Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

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Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

The Group's policy for recognition of revenue from operating leases is described above.

BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

RETIREMENT BENEFIT OBLIGATIONS - Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement

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The Group presents the first two components of defined benefit costs in profit or loss in the line item "Administrative Expenses". Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

INCOME TAX - Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity respectively), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Renminbi, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

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Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Renminbi using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of exchange reserve.

On the disposal of a foreign operation (i.e. 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, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS - Cash and cash equivalents in the statement of cash flows comprise cash at bank and are subject to an insignificant risk of changes in value.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following is the critical judgment, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Control over Giti Tire Corporation

Giti Tire Corporation is listed on the Shanghai Stock Exchange. Although the Group has only 44.4% (2015 : 44.4%) equity interest in Giti Tire Corporation, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of Giti Tire Corporation on the basis of the Group's absolute size of shareholding and the relative size of and dispersion of the shareholdings owned by other shareholders. The remaining 55.6% (2015 : 55.6%) of the ordinary shares in Giti Tire Corporation are owned by numerous other shareholders.

Control over PT. Gajah Tunggal Tbk

Note 17 describes that PT. Gajah Tunggal Tbk is a subsidiary of the Group even though the Group has only 49.50% (2015 : 49.50%) ownership interest and has only 49.50% (2015 : 49.50%) of the voting rights in PT. Gajah Tunggal Tbk. PT. Gajah Tunggal Tbk is listed on the Jakarta Stock Exchange. The remaining 50.50% (2015 : 50.50%) of the ownership interests are held by numerous other shareholders that are unrelated to the Group.

The directors of the Group assessed whether or not the Group has control over PT. Gajah Tunggal Tbk based on whether the Group has the practical ability to direct the relevant activities of PT. Gajah Tunggal Tbk unilaterally. In making their judgement, the directors considered the Group's absolute size of holding in PT. Gajah Tunggal Tbk and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of PT. Gajah Tunggal Tbk and therefore the Group has control over PT. Gajah Tunggal Tbk.

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Control over PT. KMI Wire and Cable Tbk

Note 17 describes that PT. KMI Wire And Cable Tbk is a subsidiary of the Group even though the Group has only 49.83% (2015 : 48.83%) ownership interest and has only 49.83% (2015 : 48.83%) of the voting rights in PT. KMI Wire And Cable Tbk. PT. KMI Wire And Cable Tbk is listed on the Jakarta Stock Exchange. The remaining 50.17% (2015 : 51.17%) of the ownership interests are held by numerous other shareholders that are unrelated to the Group.

The directors of the Group assessed whether or not the Group has control over PT. KMI Wire And Cable Tbk based on whether the Group has the practical ability to direct the relevant activities of PT. KMI Wire And Cable Tbk unilaterally. In making their judgement, the directors considered the Group's absolute size of holding in PT. KMI Wire And Cable Tbk and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of PT. KMI Wire And Cable Tbk and therefore the Group has control over PT. KMI Wire And Cable Tbk.

Key sources of estimation uncertainty

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

Useful lives, residual value and impairment of property, plant and equipment

Management determines the estimated useful lives, residual value and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Details of the useful lives of the property, plant and equipment, and impairment loss on property, plant and equipment are set out in Notes 2 and 13 respectively.

Impairment of investments in subsidiaries

Determining whether investments in subsidiaries are impaired requires an estimation of the value in use of those investments. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the investments and a suitable discount rate in order to calculate present value. The carrying amount of investments in subsidiaries in the Company's financial statements at the end of the reporting period are set out in Note 17 to the financial statements.

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Impairment of inventories

Management carries out an inventory review and an aging analysis on a product-by-product basis at the end of each reporting period, and makes allowance for obsolete or slow-moving inventory items identified that are no longer suitable for use in production or trading. The Group is exposed to fluctuations in the prices of the raw materials it requires for the production of the Group's tire products, including natural rubber and synthetic rubber. The Group purchases its raw materials at market prices. Therefore, fluctuations in prices of raw materials required for its production could have a significant effect on the Group's results. The management estimates net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Should there are changes in market conditions of the inventories, additional impairment may be required. Details of the impairment of inventories are set out in Note 12 to the financial statements.

Impairment of trade and other receivables

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash inflows from the outstanding trade and other receivables. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The movements of the impairment loss recognised and carrying amounts of trade and other receivables are set out in Note 10 to the financial statements.

Income taxes

As at December 31, 2016, deferred tax assets of RMB521 million (2015 : RMB426 million) principally in relation to unused tax losses, other payables and accruals, accelerated accounting depreciation on property, plant and equipment, impairment loss on trade receivables and impairment loss on inventories has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB952 million (2015 : RMB660 million) for the year ended December 31, 2016, due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place. Details of the deferred tax assets are set out in Note 22 to the financial statements.

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4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

(a) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period.

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Financial assets				
Loans and receivables (including cash and cash equivalents)	8,403	7,616	5,410	2,359
Available-for-sale investments	218	313		
Derivative financial instruments	1	-	-	-
Financial liabilities				
Liabilities measured at amortised cost	16,991	14,949	4,787	3,767
Derivative financial instruments	-	8	-	-

(b) Financial instruments subjected to offsetting, enforcing master netting arrangements and similar agreements.

Group

The Group does not have any financial instruments which are subject to enforceable master netting arrangements or similar netting agreements as at December 31, 2015 and 2016.

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Company

As at December 31, 2016 (RMB'million)

<i>Financial assets</i>						
	(a)	(b)	(c) = (a) - (b)	(d) <i>Related amounts not set off in the statement of financial position</i>		(e) = (c) + (d)
<i>Type of financial asset</i>	<i>Gross amounts of recognised financial asset</i>	<i>Gross amounts of recognised financial liabilities set off in the statement of financial position</i>	<i>Net amounts of financial assets presented in the statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
Amount due from subsidiaries	7	7	-	-	-	-
Total	7	7	-	-	-	-

<i>Financial liabilities</i>						
	(a)	(b)	(c) = (a) - (b)	(d) <i>Related amounts not set off in the statement of financial position</i>		(e) = (c) + (d)
<i>Type of financial liabilities</i>	<i>Gross amounts of recognised financial liabilities</i>	<i>Gross amounts of recognised financial assets set off in the statement of financial position</i>	<i>Net amounts of financial liabilities presented in the statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
Amount due to subsidiaries	7	7	-	-	-	-
Total	7	7	-	-	-	-

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As at December 31, 2015 (RMB'million)

<i>Financial assets</i>						
	(a)	(b)	(c) = (a) - (b)	(d) <i>Related amounts not set off in the statement of financial position</i>		(e) = (c) + (d)
<i>Type of financial asset</i>	<i>Gross amounts of recognised financial asset</i>	<i>Gross amounts of recognised financial liabilities set off in the statement of financial position</i>	<i>Net amounts of financial assets presented in the statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
Amount due from subsidiaries	1,155	17	1,138	-	-	1,138
Total	1,155	17	1,138	-	-	1,138

<i>Financial liabilities</i>						
	(a)	(b)	(c) = (a) - (b)	(d) <i>Related amounts not set off in the statement of financial position</i>		(e) = (c) + (d)
<i>Type of financial liabilities</i>	<i>Gross amounts of recognised financial liabilities</i>	<i>Gross amounts of recognised financial assets set off in the statement of financial position</i>	<i>Net amounts of financial liabilities presented in the statement of financial position</i>	<i>Financial instruments</i>	<i>Cash collateral received</i>	<i>Net amount</i>
Amount due to subsidiaries	17	17	-	-	-	-
Total	17	17	-	-	-	-

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In reconciling the 'net amounts of financial assets and financial liabilities presented in the statement of financial position' to the line item amounts presented in the statement of financial position, the above amounts represent only those which are subject to offsetting, enforceable master netting arrangements and similar agreements. The residual amounts relate to those that are not in scope of the offsetting disclosures.

(c) **Financial risk management policies and objectives**

The Group's major financial instruments include trade and other receivables, trade and other payables, amount due from immediate holding company, amounts due from/to related companies, borrowings, restricted bank deposits and bank balances.

Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

(i) Credit risk management

As at the end of each reporting period, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure by the counterparties to discharge the obligations arises from the carrying amount of the respective recognised financial assets as stated in the Group's and the Company's statements of financial position.

In order to minimise the credit risk, management has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Other than the concentration of credit risk from the amount due from the immediate holding company, related companies and related parties, the Group and the Company have limited concentration of credit risk, with exposure spread over a large number of counterparties and customers. In order to minimise the credit risk, management continuously monitor the level of exposure to ensure that corrective actions are taken as appropriate.

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(ii) Market risks management

The Group's and the Company's activities expose it primarily to the financial risks of changes in interest rate risk, foreign currency rate risk and equity price risk. Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's and the Company's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

Interest rate risk management

The Group's fair value interest rate risk relates primarily to fixed-rate restricted bank deposits and bank deposits, fixed-rate borrowings, fixed-rate senior secured notes and unsecured notes, and the Company's fair value interest rate risk relates primarily to fixed-rate unsecured notes. The Group's and the Company's cash flow interest rate risk relates primarily to variable-rate promissory note due from immediate holding company, variable-rate restricted bank deposits and variable-rate borrowings (see Note 21 for details of these borrowings). The Group and the Company currently do not have an interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on bank deposits is insignificant as the restricted deposits are short-term.

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest rates for borrowings at the end of the reporting periods and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

For year ended December 31, 2016, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit before tax would decrease/increase by approximately RMB21 million (2015 : RMB30 million), and the Company's profit before tax would decrease/increase by approximately RMB10 million (2015 : RMB5 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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Foreign currency risk management

The Group and the Company undertake certain transactions denominated in foreign currency hence exposes to exchange rate fluctuation arise.

The carrying amounts of the monetary assets and monetary liabilities denominated in currencies other than the respective Group entities' functional currencies at the end of respective reporting periods (excluding the effect of hedging with forward currencies derivatives in Note 25) are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
<u>Group</u>				
United States dollars ("US dollars")	1,446	1,401	7,124	5,712
Sterling pounds	42	73	-	-
Euros	172	267	109	132
Canadian dollars	-	18	-	-
Japanese yen	1	1	1	1
Singapore dollars	6	5	498	466
Hong Kong dollars	2	1	-	-
<u>Company</u>				
US dollars	3,057	1,958	4,264	3,274
Singapore dollars	6	3	507	478

One of the Group's subsidiaries had entered into forward foreign exchange contracts with a bank during the year to manage its exposure to foreign exchange movements. Details of the forward exchange contracts are disclosed in Note 25 to the financial statements.

The Group is mainly exposed to US dollars, Sterling pounds, Euros, and Singapore dollars and the Company is mainly exposed to US dollars and Singapore dollars.

The Group has investments in foreign subsidiaries and associate, whose net assets are exposed to currency translation risk.

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Foreign currency sensitivity

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies (excluding the effect of hedging with forward currencies derivatives in Note 25). The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where they gave rise to an impact on the Group's profit or loss and/or equity.

For the years ended December 31, 2015 and 2016, a positive number below indicates an increase in profit before tax where RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit before tax for the year.

	2016 RMB'million	2015 RMB'million
<u>Group</u>		
<u>US dollars</u>		
- if RMB weakens against US dollars	(284)	(216)
- if RMB strengthens against US dollars	284	216
<u>Sterling pounds</u>		
- if RMB weakens against Sterling pounds	2	4
- if RMB strengthens against Sterling pounds	(2)	(4)
<u>Euros</u>		
- if RMB weakens against Euros	3	9
- if RMB strengthens against Euros	(3)	(9)
<u>Singapore dollars</u>		
- if RMB weakens against Singapore dollars	(25)	(23)
- if RMB strengthens against Singapore dollars	25	23

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The impact on the Group's profit or loss due to strengthening or weakening of Japanese yen, Canadian dollars and Hong Kong dollars is not material for the financial years ended December 31, 2016 and 2015.

	2016	2015
	RMB'million	RMB'million
<u>Company</u>		
<u>US dollars</u>		
- if RMB weakens against US dollars	(60)	(66)
- if RMB strengthens against US dollars	60	66
<u>Singapore dollars</u>		
- if RMB weakens against Singapore dollars	(25)	(24)
- if RMB strengthens against Singapore dollars	25	24

(iii) Liquidity risk management

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In doing so, the management monitors the utilisation of bank borrowings and compliance with loan covenants.

The Group finances its capital intensive operations by short-term and long-term borrowings and shareholders' equity. Its current liabilities as at December 31, 2016 and 2015 includes short-term bank borrowings which management believes could be renewed on an annual basis.

Management is of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements that is for at least the next 12 months from the end of the reporting period. Hence, the financial statements have been prepared on a going concern basis.

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Liquidity and interest risk tables

Non-derivative financial liabilities

The following tables detail the Group's and Company's remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which is not included in the carrying amount of the financial liability on the statement of financial position.

	Weighted average effective interest rate	On demand or within 1 year	Within 2-5 years	After 5 years	Adjustment	Total
	%	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
<u>Group</u>						
<u>2016</u>						
Trade and other payables	-	5,885	2	1	-	5,888
Amounts due to related companies/parties	-	220	-	-	-	220
Variable interest rates borrowings	4.2	3,700	2,210	567	(419)	6,058
Fixed interest rates borrowings	5.0	456	478	-	(51)	883
Senior secured notes	7.8	268	3,488	-	(295)	3,461
Unsecured notes	6.9	507	-	-	(26)	481
		11,036	6,178	568	(791)	16,991

2015

Trade and other payables	-	4,754	2	1	-	4,757
Amounts due to related companies/parties	-	149	-	-	-	149
Variable interest rates borrowings	5.0	3,020	2,408	82	(287)	5,223
Fixed interest rates borrowings	6.3	901	287	-	(44)	1,144
Senior secured notes	7.8	142	3,624	-	(546)	3,220
Unsecured notes	6.9	31	481	-	(56)	456
		8,997	6,802	83	(933)	14,949

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Company	Weighted average effective interest rate %	On demand or within 1 year RMB'million	Within 2-5 years RMB'million	After 5 years RMB'million	Adjustment RMB'million	Total RMB'million
<u>2016</u>						
Other payables	-	23	-	-	-	23
Amounts due to subsidiaries	-	1,909	-	-	-	1,909
Variable interest rates borrowings	4.1	1,266	1,239	-	(131)	2,374
Unsecured notes	6.9	507	-	-	(26)	481
		<u>3,705</u>	<u>1,239</u>	<u>-</u>	<u>(157)</u>	<u>4,787</u>
<u>2015</u>						
Other payables	-	18	-	-	-	18
Amounts due to subsidiaries	-	2,323	-	-	-	2,323
Variable interest rates borrowings	4.7	497	524	-	(51)	970
Unsecured notes	6.9	31	481	-	(56)	456
		<u>2,869</u>	<u>1,005</u>	<u>-</u>	<u>(107)</u>	<u>3,767</u>

Derivative financial instruments

One of the Group's subsidiaries entered into foreign exchange forward contracts to manage its exposure to foreign exchange rate risks. Further details of derivative financial instruments are disclosed in Note 25.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

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	On demand or within 1 year RMB'million	Within 2 to 5 years RMB'million	After 5 years RMB'million
<u>Group</u>			
<u>2016</u>			
Net settled:			
Non-deliverable foreign exchange forward contracts	1	-	-
<u>2015</u>			
Net settled:			
Non-deliverable foreign exchange forward contracts	(8)	-	-

(d) Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

Management considers that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their corresponding fair values.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined.

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Financial assets/ financial liabilities	Fair value as at (RMB'million)				Fair value hierarchy	Valuation technique(s) and key input(s)
	2016		2015			
	Assets	Liabilities	Assets	Liabilities		
Derivative financial instruments (Note 25)						
Forward foreign exchange contracts not designated in hedge accounting relationships	1	-	-	8	Level 2	Discounted cash flows. Future cash flows are determined by the value of different parameters reflecting the market condition at that time, as well as the remaining terms and tenor of the contracts. This value is not determined solely by reference to the prevailing spot rate and strike rate, but also by reference to other factors such as but not limited to expected forward rate, volatility, interest rate, credit risk, valuation model and other market data which the company's banker believes to be appropriate at time of calculation.
Available for sale investment (Note 19)						
Quoted equity shares	3		2	-	Level 1	Quoted bid prices in an active market
Unquoted investment funds	-		4	-	Level 2	Net asset value ^(a)
Unquoted equity funds	206		197	-	Level 2	Net asset value ^(a)
Unquoted equity funds	9		10	-	Level 3	Net asset value ^(a)

^(a) The Group has determined that the reported net asset value represents fair value at the end of the reporting period.

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(e) Capital management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes amounts due to related companies/parties and borrowings, as disclosed in Notes 7 and 21 respectively and equity attributable to owner of the Company, comprising share capital and reserves.

Management reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the issue of new shares, new debts or the redemption of existing debts.

The Group's overall strategy remains unchanged from 2015.

5 HOLDING COMPANY AND RELATED COMPANIES TRANSACTIONS

The Company is a subsidiary of GT Asia Pacific Holdings Pte. Ltd ("GT Asia"), a company incorporated in Singapore. The ultimate holding company is GITI Holdings Ltd., a company incorporated in the British Virgin Islands.

Some of the transactions and arrangements are between members of the Group and the effects of these on the bases determined between the parties are reflected in these financial statements.

The amounts due from subsidiaries are expected to be recovered within 12 months from the end of each reporting period and are shown as current assets in the statement of financial position. The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

During the year, the Group entered into the following significant transactions with related companies:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
<i>Immediate holding company</i>		
Interest income on promissory note receivable	44	35
Payment for consultancy services	(4)	(4)
<i>Subsidiaries of immediate holding company</i>		
Purchase of raw materials	(25)	(25)
Purchase of supplies	(4)	(4)
Purchase of others	(1)	(1)

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NOTES TO FINANCIAL STATEMENTS December 31, 2016

6 OTHER RELATED PARTY TRANSACTIONS

Some of the transactions and arrangements are with related parties and the effect of these on the basis determined between the parties is reflected in these financial statements. The balances are unsecured, interest-free and repayable on demand unless otherwise stated.

During the year, the Group entered into the following significant transactions with related parties:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
<i>Companies with common ultimate shareholder</i>		
Sales of goods	63	73
Sales of property, plant and equipment	67	-
Sales of spare parts	1	-
Purchase of raw materials	(22)	(34)
Purchase of goods	(28)	-
Purchase of spare parts	-	(1)
Purchase of property, plant and equipment	(43)	(46)
Payment for lease of factory premises and equipment	(2)	(2)
Payment for consultancy and other services	(4)	(4)
Placement of deposit for purchase of investment	(21)	-
Disposal of available-for-sale investment	196	-
Dividend income from available-for-sale investment	8	-
Payment of other expenses	(2)	(1)
<i>Company with a common director of a subsidiary</i>		
Purchase of raw materials	(222)	(211)
<i>Company in which director of subsidiary has control</i>		
Payment for other services	-	(2)
Service fee income	-	1
Short-term bank deposit interest income from a related party	1	-
<i>Company in which key management of subsidiary has control</i>		
Sale of raw materials	16	15
<i>Subsidiary of an associate</i>		
Interest income	19	18
Purchase of raw materials	(230)	(454)

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Compensation of directors and key management personnel

The remuneration of directors and other members of key management was as follows:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Short-term benefits	144	134

7 AMOUNTS DUE FROM (TO) IMMEDIATE HOLDING COMPANY AND RELATED COMPANIES/PARTIES

(a) Amounts due from immediate holding company

	<u>Group and Company</u>	
	2016	2015
	RMB'million	RMB'million
<i>Immediate holding company</i>		
Senior promissory note	788	694
Non-trade	397	395
	1,185	1,089

The senior promissory note of US\$113 million (2015 : US\$107 million), equivalent to approximately RMB788 million (2015 : RMB694 million) bears interest at LIBOR plus 5.6% (2015 : 5.35%) per annum and payable in a single payment on October 3, 2019 (2015 : September 30, 2017).

The non-trade balance represents advances to the immediate holding company and is unsecured, non-interest bearing and repayable on demand. Accordingly, it is shown as current asset.

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(b) Amounts due from related companies/parties

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
<u>Current</u>		
<i>Subsidiaries of immediate holding company</i>		
Non-trade	124	123
<i>Companies with common ultimate shareholder</i>		
Trade	42	19
Non-trade	57	51
<i>Company with a common director of a subsidiary</i>		
Trade	105	91
<i>Company in which key management of subsidiary has control</i>		
Trade	3	3
Non-trade	2	1
<i>Subsidiaries of an associate</i>		
Non-trade	128	101
	<u>461</u>	<u>389</u>

The credit period for trade-related balances is 30 to 75 days (2015 : 60 to 75 days) and will be settled/received under normal credit terms.

The non-trade receivables represent advances and deposits paid for the purchase of machinery and equipment, and for the proposed purchase of a property. They are unsecured, non-interest bearing and repayable on demand.

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
<u>Non-current</u>		
<i>Company with common ultimate shareholder</i>		
Non-trade	343	343
<i>A subsidiary of an associate</i>		
Non-trade	334	305
	<u>677</u>	<u>648</u>

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The non-trade receivables due from company with common ultimate shareholder represent deposits paid for purchase of machinery and equipment and are unsecured and non-interest bearing. Management does not expect the machinery and equipment to be delivered within 12 months from the end of the reporting period. Accordingly, the amounts were classified as non-current assets at the end of the reporting period.

The non-trade receivables due from a subsidiary of an associate are unsecured and bear interest at 6% per annum.

The following is an aged analysis of trade receivables due from related companies/parties which are past due but not impaired at the end of the reporting period:

	Group	
	2016	2015
	RMB'million	RMB'million
0 to 90 days	1	1
91 to 180 days	1	-

(c) Amounts due to related companies/parties

	Group	
	2016	2015
	RMB'million	RMB'million
<i>Subsidiaries of immediate holding company</i>		
Trade	21	21
<i>Companies with common ultimate shareholder</i>		
Trade	70	-
Non-trade	9	12
<i>Companies with a common director of subsidiaries</i>		
Trade	11	-
<i>Subsidiary of an associate</i>		
Trade	106	115
Non-trade	3	1
	<u>220</u>	<u>149</u>

Trade payables principally comprise amounts outstanding for trade purchases. The credit period taken for trade purchases is 7 to 120 days (2015 : 30 to 60 days).

The non-trade payables represent outstanding amounts for machinery and equipment acquired by the Group.

The amounts due to related companies/parties are unsecured, non-interest bearing and repayable on demand.

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8 BANK BALANCES AND CASH

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Cash on hand	2	2	-	-
Cash at bank	1,424	1,221	6	4
Total	1,426	1,223	6	4

Bank balances and cash of the Group and the Company comprise cash and short-term bank deposits with an original maturity of three months or less. In 2016, the Group has cash and short-term bank deposits amounting to RMB12 million and RMB115 million respectively being placed with a related party bank (Note 6). The bank balances carry variable interest rates ranging from 0.01% to 5.38% (2015 : 0.01% to 5.37%) per annum.

9 RESTRICTED BANK DEPOSITS

The restricted bank deposits include deposits pledged to banks to secure bills and notes payables, short-term borrowings granted to the Group, and deposits restricted for the aggregate interest and principal payables for a period of 3 to 6 months of long term borrowings, and are therefore classified as current assets.

The Group's and the Company's restricted bank deposits carry fixed interest on prevailing market rates ranging 0.50% to 8.00% (2015 : 0.75% to 8.75%) per annum. The restricted bank deposits will be released upon the repayment of the relevant bills, notes payable, short-term borrowings and long-term borrowings.

10 TRADE AND OTHER RECEIVABLES

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Trade receivables (Note a)	3,567	3,197	-	-
Allowance for doubtful debt (Note a)	(28)	(15)	-	-
	3,539	3,182	-	-
Notes receivables (Note b)	354	328	-	-
Deposits for purchase of raw materials	124	82	-	-
Value-added tax receivable	85	136	-	-
Other receivables due from outside parties (Note c)	325	256	-	-
Allowance for doubtful debt (Note c)	(77)	(82)	-	-
	248	174	-	-
Prepayments	175	215	5	4
Total	4,525	4,117	5	4

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- (a) Before accepting any new customers, the Group has assessed the potential customer's credit quality and defined credit limits by customer. Limits attributed to customers are reviewed once a year.

The credit period extended to the Group's trade customers is from 4 to 180 days (2015 : 5 to 160 days). Trade receivables at the end of the reporting period mainly comprise amounts receivable from the sales of tires. No interest is charged on the trade receivables. The Group does not hold any collateral over these balances.

As at the end of the reporting period, certain trade receivable balances due from third parties are factored to a bank for cash on non-recourse basis amounting to RMB58 million (2015 : RMB52 million). As the Group has transferred substantially all the risks and rewards of ownership of those trade receivables, the Group derecognised such receivables. Expenses incurred representing the discount granted and fees paid to the bank on the factored receivables were recognised in profit or loss for the year.

Trade receivables amounting to RMB218 million (2015 : RMB304 million) were pledged to banks to secure banking facilities (Note 21) granted to the Group as at the end of the reporting period.

Included in the Group's trade receivable balance are receivables with a carrying amount of RMB607 million (2015 : RMB477 million) which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period.

Aging of trade receivables that are past due but not impaired

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Age:		
0 to 90 days	414	359
91 to 180 days	139	74
181 to 365 days	42	25
1 to 2 years	10	10
Over 2 years	2	9
	<u>607</u>	<u>477</u>

Movement in the allowance for doubtful debts in respect of trade receivables

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Balance at beginning of the year	15	7
Arising from acquisition of subsidiary (Note 33)	-	3
Increase in allowance recognised in profit or loss	13	6
Written off during the year	—*	(1)
Balance at end of the year	<u>28</u>	<u>15</u>

* Amount is less than RMB1 million.

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In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes that no further allowance is required in excess of the allowance for doubtful debts.

- (b) Notes receivables at the end of the reporting period are interest-free, unsecured and not past due.
- (c) Other receivables, after allowance for doubtful debts, comprise the following:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Staff advances	10	12
Deposit for supplies	8	7
Amounts due from third party customers	186	108
Others (Note)	44	47
	<u>248</u>	<u>174</u>

Note: Others mainly represent deposits for utilities (2015 : office rental and government grants receivable).

Amounts due from third party customers are unsecured, due on demand from the end of the reporting period, and bear interest of 2% to 6% (2015 : 2% to 6%). Other receivables at the end of the reporting period are interest free, unsecured and not past due.

The amounts stated above are determined after deducting an allowance which has been made for estimated irrecoverable amounts on other receivables from third parties.

Movement in the allowance for doubtful debts in respect of other receivables

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Balance at beginning of the year	82	82
Decrease in allowance recognised in profit or loss	(5)	-
Balance at end of the year	<u>77</u>	<u>82</u>

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

11 PREPAID LEASE PAYMENTS

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Non-current assets	1,166	1,088
Current assets	49	44
	<u>1,215</u>	<u>1,132</u>

The Group's prepaid lease payments relate to land use rights which are amortised on a straight-line basis over the lease terms from 13 to 67 years for usage by the Group.

The amortisation expense has been included in the line items "cost of sales", "selling and distribution expenses" and "administrative expenses" in profit or loss.

As at December 31, 2016, the Group has pledged land use rights having carrying values of approximately RMB151 million (2015 : RMB52 million), to secure banking facilities (Note 21) granted to the Group.

12 INVENTORIES

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Finished goods	2,234	2,094
Work in process	277	266
Raw materials	1,467	1,115
	<u>3,978</u>	<u>3,475</u>

The cost of inventories recognised as an expense includes RMB26 million (2015 : RMB7 million) in respect of write-downs of inventory to net realisable value, and has been reduced by RMB12 million (2015 : RMB8 million) in respect of the reversal of such write-downs. Previous write-downs have been reversed as a result of increased sales prices in certain markets.

As at the end of the reporting period, finished goods amounting to RMB547 million (2015 : RMB1,188 million) were pledged to banks to secure bank facilities (Note 21) granted to the Group.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
December 31, 2016
13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and equipment	Furniture, fittings and equipment	Motor vehicles	Construction in progress	Total
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million
Group						
Cost:						
At January 1, 2015	3,430	14,789	456	235	673	19,583
Additions	9	407	36	22	1,162	1,636
Arising from acquisition of a subsidiary (Note 33)	11	185	17	14	62	289
Transfer	36	488	2	1	(620)	(93)
Write-off/Disposals	(1)	(96)	(13)	(19)	(11)	(140)
Currency alignment	(8)	(182)	(2)	(2)	(11)	(205)
At December 31, 2015	3,477	15,591	496	251	1,255	21,070
Additions	49	153	27	18	1,962	2,209
Transfer	456	493	4	2	(955)	-
Reclassified as held for sale (Note 26)	(2)	-	-	-	-	(2)
Reclassified as prepaid lease payments (Note 11)	-	-	-	-	(5)	(5)
Write-off/Disposals	(4)	(315)	(6)	(18)	-	(343)
Currency alignment	68	475	18	9	83	653
At December 31, 2016	4,044	16,397	539	262	2,340	23,582
Accumulated depreciation:						
At January 1, 2015	1,443	9,560	308	157	-	11,468
Depreciation for the year	112	794	45	26	-	977
Arising from acquisition of a subsidiary (Note 33)	6	153	10	6	-	175
Transfer	-	(93)	-	-	-	(93)
Eliminated on disposal	(1)	(80)	(9)	(17)	-	(107)
Currency alignment	(8)	(96)	(1)	(1)	-	(106)
At December 31, 2015	1,552	10,238	353	171	-	12,314
Depreciation for the year	123	830	48	29	-	1,030
Reclassified as held for sale (Note 26)	(1)	-	-	-	-	(1)
Eliminated on disposal	(2)	(232)	(6)	(16)	-	(256)
Currency alignment	23	272	12	6	-	313
At December 31, 2016	1,695	11,108	407	190	-	13,400
Accumulated impairment:						
At January 1, 2015	4	64	-	-	4	72
Impairment loss recognised for the year	-	9	1	1	-	11
Eliminated on disposal	-	(5)	(1)	(1)	-	(7)
At December 31, 2015	4	68	-	-	4	76
Impairment loss recognised for the year	-	11	-	-	-	11
Eliminated on disposal	-	(13)	-	-	-	(13)
At December 31, 2016	4	66	-	-	4	74
Carrying amount:						
At December 31, 2016	2,345	5,223	132	72	2,336	10,108
At December 31, 2015	1,921	5,285	143	80	1,251	8,680

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

During the year, certain subsidiaries carried out major maintenance on their existing plant and equipment. Accordingly, the assets previously classified as plant and equipment were reclassified to construction-in-progress.

	Buildings on leasehold land	Furniture, fittings and equipment	Total
	RMB'million	RMB'million	RMB'million
<u>Company</u>			
Cost:			
At January 1, 2015	6	9	15
Additions	-	1	1
At December 31, 2015 and December 31, 2016	6	10	16
Accumulated depreciation:			
At January 1, 2015	4	8	12
Depreciation for the year	- *	1	1
At December 31, 2015	4	9	13
Depreciation for the year	- *	- *	- *
At December 31, 2016	4	9	13
Carrying amount:			
At December 31, 2016	2	1	3
At December 31, 2015	2	1	3

* Amount is less than RMB1 million.

During the year, management conducted a review of the Group's manufacturing assets and performed an assessment on the utilisation of relevant assets. Accordingly, impairment losses of RMB11 million (2015 : RMB11 million) have been recognised for the year ended December 31, 2016. In 2016, the relevant assets are fully impaired based on fair value less cost to sell. In 2015, the recoverable amounts of the relevant assets were determined on the basis of their value in use which was measured using a discount rate of 10%.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

Certain leasehold land and buildings, and plant and equipment of the Group are mortgaged to banks to secure banking facilities (Note 21) granted to the Group as follows:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
<u>Carrying amount</u>		
Leasehold land and buildings	914	364
Plant and equipment	1,509	400
	<u>2,423</u>	<u>764</u>

In 2016, loan arrangement costs capitalised as property, plant and equipment amounted to approximately RMB2 million (Note 21). In 2015, interest capitalised as property, plant and equipment amounted to approximately RMB4 million (Note 29).

14 INVESTMENT PROPERTIES

	<u>Group</u>
	RMB'million
Cost:	
At January 1, 2015	18
Currency alignment	1
At December 31, 2015	<u>19</u>
Additions	80
Currency alignment	1
At December 31, 2016	<u>100</u>
Accumulated depreciation:	
At January 1, 2015	- *
Depreciation for the year	2
At December 31, 2015	<u>2</u>
Depreciation for the year	5
At December 31, 2016	<u>7</u>
Carrying amount:	
At December 31, 2016	<u>93</u>
At December 31, 2015	<u>17</u>

* Amount is less than RMB1 million.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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Details of the Group's investment properties and information about their fair value as at December 31, 2016 and 2015 are as follows:

	Fair value as at December 31, 2016 RMB'million	Fair value as at December 31, 2015 RMB'million
Commercial building located in Jakarta, Indonesia	20	17
Commercial building located in Hong Kong, Special Administrative Region of the People's Republic of China	75	-

The fair value of the properties are categorised into Level 3 of the fair value hierarchy and was determined on the basis of valuations using the Cost Approach carried out at the end of the reporting period by independent valuers having an appropriate recognised professional qualification and recent experience in the location and categories of the properties being valued.

15 GOODWILL

	Group RMB'million
Cost:	
At January 1, 2015, December 31, 2015 and December 31, 2016	14
Accumulated impairment:	
At January 1, 2015	12
Charged to profit or loss	2
At December 31, 2015 and December 31, 2016	14
Carrying amount:	
At December 31, 2015 and December 31, 2016	- *

* Amount is less than RMB1 million.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

16 INTANGIBLE ASSETS

	Development cost RMB'million	Software RMB'million	Trademarks RMB'million	Order backlog RMB'million	Total RMB'million
<u>Group</u>					
Cost:					
At January 1, 2015	8	57	22	-	87
Transfer	(10)	10	-	-	-
Additions	5	3	1	-	9
Arising from acquisition of a subsidiary (Note 33)	-	-	-	12	12
At December 31, 2015	3	70	23	12	108
Transfer	(5)	5	-	-	-
Additions	7	3	1	-	11
At December 31, 2016	5	78	24	12	119
Accumulated amortisation:					
At January 1, 2015	-	10	18	-	28
Amortisation for the year	-	7	1	12	20
At December 31, 2015	-	17	19	12	48
Amortisation for the year	-	8	1	-	9
At December 31, 2016	-	25	20	12	57
Carrying amount:					
At December 31, 2016	5	53	4	-	62
At December 31, 2015	3	53	4	-	60

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

	Trademarks RMB'million
<u>Company</u>	
Cost:	
At January 1, 2015	14
Additions	1
At December 31, 2015	15
Additions	1
At December 31, 2016	16
Accumulated amortisation:	
At January 1, 2015	10
Amortisation for the year	1
At December 31, 2015	11
Amortisation for the year	1
At December 31, 2016	12
Carrying amount:	
At December 31, 2016	4
At December 31, 2015	4

Software is amortised over its estimated useful life of 3 to 10 years.

Trademarks are amortised over their estimated useful lives ranging from 7 to 10 years.

The amortisation expenses have been included in the line item 'administrative expenses' in profit or loss.

17 INVESTMENTS IN SUBSIDIARIES

	<u>Company</u>	
	2016	2015
	RMB'million	RMB'million
Unlisted investment, at cost	3,893	3,413

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Details of the subsidiaries of the Company at December 31 are as follows:

Name of subsidiary	Date of incorporation/ establishment	Country of incorporation (or establishment) and operation	Issued and fully paid share/ registered capital	Attributable equity interest		Principal activity
				held by the Company		
				2016 %	2015 %	
Denham Pte. Ltd. (b)	March 20, 1997	Republic of Singapore	SGD172,000,000	100	100	Investment holding and provision of services (2015 : Investment holding)
Giti Tire Global Enterprise Pte. Ltd. (b)	August 15, 2005	Republic of Singapore	SGD2,000,000	100	100	Investment holding
Giti Tire Global Trading Pte. Ltd. (b)	October 11, 2002	Republic of Singapore	SGD2,000,000	100	100	Marketing and trading of tire products and provision of services (2015 : Marketing and trading of tire products)
Primwell-Inoac Pte. Ltd. (b)	May 24, 1994	Republic of Singapore	SGD21,000,000	100	100	Investment holding
Giti Tire Technical Centre Pte. Ltd. (b)	October 5, 2006	Republic of Singapore	SGD2,505,000	100	100	Research and experimental development in engineering
Morningleaf Pte. Ltd. (b)	May 19, 1993	Republic of Singapore	SGD6,000,000	100	100	Property holding and management
Giti Auto Parts Pte. Ltd. (b)	April 19, 2016	Republic of Singapore	SGD1,750,000	100	100	Investment holding
3S Engineering Shanghai Co., Ltd. (a) 上海精和模具有限公司	October 18, 2002	People's Republic of China ("PRC")	USD3,000,000	100	100	Manufacturing of tire moulds and related products
Anhui Prime Cord Fabrics Co., Ltd. (a) 安徽佳元工业纤维有限公司	June 20, 1995	PRC	USD29,800,000	100	100	Design and production of synthetic fabrics

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

Name of subsidiary	Date of incorporation/ establishment	Country of incorporation (or establishment) and operation	Issued and fully paid share/ registered capital	Attributable equity interest		Principal activity
				held by the Company		
				2016	2015	
				%	%	
Anhui Giti Tire Retreading Co., Ltd. (a) (g) 安徽佳通轮胎翻新有限公司	June 20, 1995	PRC	USD10,528,100	100	100	Manufacture of motorcycle tires and industrial tires and plastic products
Giti Greatwall Tire (Yinchuan) Co., Ltd. (a) (h) 银川佳通长城轮胎有限公司	December 26, 2002	PRC	RMB246,500,000	100	100	Manufacture of tire products
Giti Radial Tire (Anhui) Co., Ltd. (a) 安徽佳通乘用车子午线轮胎有限公司	February 6, 2007	PRC	USD30,000,000	100	100	Manufacture of tire products
Giti Radial Tire (Mudanjiang) Co., Ltd. (a) 牡丹江佳通子午胎有限公司	December 28, 2001	PRC	RMB150,000,000	100	100	Manufacture of tire products
Giti Steel Cord (Anhui) Co., Ltd. (a) 安徽佳通钢帘线有限公司	October 24, 2007	PRC	USD12,000,000	100	100	Design and production of steel cord
Giti Steel Cord (Hubei) Co., Ltd. (a) 湖北佳通钢帘线有限公司	April 20, 2004	PRC	RMB135,000,000	100	100	Design and production of steel cord
Giti Tire (Anhui) Co., Ltd. (a) 安徽佳通轮胎有限公司	November 6, 1993	PRC	USD137,000,000	100	100	Manufacture of tire products
Giti Tire (China) Investment Co., Ltd. (a) 佳通轮胎（中国）投资有限公司	June 23, 2003	PRC	USD371,800,000 (2015 : USD202,020,000)	100	100	Investment holding and distribution
Giti Tire (Chongqing) Co., Ltd. (a) 重庆佳通轮胎有限公司	August 28, 2002	PRC	USD16,800,000	100	100	Manufacture of tire products
Giti Tire Corporation (a) (d) 佳通轮胎股份有限公司	June 8, 1993	PRC	RMB340,000,000	44.4	44.4	Investment holding

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

Name of subsidiary	Date of incorporation/ establishment	Country of Incorporation (or establishment) and operation	Issued and fully paid share/ registered capital	Attributable equity interest		Principal activity
				held by the Company		
				2016 %	2015 %	
Giti Tire (Fujian) Co., Ltd. (a) (g) 福建佳通轮胎有限公司	February 28, 1995	PRC	USD106,700,000	71.7	71.7	Manufacture of tire products
Giti Tire (Hualin) Co., Ltd. (a) 桦林佳通轮胎有限公司	January 16, 2004	PRC	USD51,640,000	100	100	Manufacture of tire products
Hefei Jia Lin Garden Project Co., Ltd. (a) 合肥佳林景观工程有限公司	December 6, 2002	PRC	RMB1,500,000	100	100	Provision of gardening and related services
Giti Tire (Yinchuan) Co., Ltd. (i) 银川佳通轮胎有限公司	December 16, 2002	PRC	RMB346,500,000	100	100	Manufacture of tire products
Speedwork (Shanghai) Co., Ltd. (a) 上海驾捷乐商贸有限公司	August 20, 2012	PRC	RMB20,000,000	100	100	Provision of auto-care and maintenance services, including tires and rim replacement
Shanghai Giti Culture Transmission Co., Ltd. (c) 上海佳通文化传播有限公司	June 16, 2014	PRC	RMB1,000,000	80	80	Consulting service
Speedwork Industrial (Shanghai) Co., Ltd (c) 驾捷乐实业(上海)有限公司	August 5, 2015	PRC	RMB10,000,000	100	100	Provision of auto care and maintenance services, including tires and rim replacement
Taiwan Giti Tire R&D Ltd 台灣佳通輪胎研發有限公司 (c)	October 6, 2014	Republic of China	TWD1,050,000	100	100	Testing activities relating to tires and sales and distribution of tires
Giti Tire R&D Centre (Europe) GmbH (c)	November 5, 2014	Germany	EUR25,000	100	100	Research and development relating to tires

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

Name of subsidiary	Date of incorporation/ establishment	Country of Incorporation (or establishment) and operation	Issued and fully paid share/ registered capital	Attributable equity interest		Principal activity
				held by the Company		
				2016 %	2015 %	
Giti Property (USA) Ltd. (a)	March 17, 2009	United States of America	USD150,000	100	100	Property holding
Giti Tire (USA) Ltd. (a)	July 6, 2005	United States of America	USD500,000	100	100	Marketing and trading of tire products
Giti Tire (Europe) B.V. (c)	December 28, 2005	Netherlands	EUR18,000	100	100	Provision of marketing administrative services
Giti Tire (Canada) Ltd. (a)	April 13, 2007	Canada	CAD150,000	100	100	Marketing and trading of tire products
Giti Tire (UK) Ltd. (a)	January 22, 2009	United Kingdom	GBP10,000	100	100	Marketing and trading of tire products
Giti Tire Deutschland GmbH (a)	August 17, 2009	Germany	EUR100,000	100	100	Marketing and trading of tire products
Giti Do Brasil Importacao Comercio E Distribuicao De Pneus Ltda (a)	August 5, 2013	Brazil	BRL367,365	100	100	Marketing and distribution of tire products and provision of marketing administrative support services
PT. Gajah Tunggal Tbk (a) (e)	August 24, 1951	Indonesia	IDR1,793,900 million	49.5	49.5	Manufacture of goods, made of rubber, primarily tires and tubes for vehicles, goods or equipment
PT. KMI Wire and Cable Tbk (a) (f)	January 19, 1972	Indonesia	IDR655,123 million (2015 : IDR656,197 million)	49.83	48.83	Manufacture aluminum, copper cables, wires and all its components, spare parts, related accessories and equipment
Giti Tire Holdings (UK) Limited (a)	May 8, 2014	United Kingdom	USD170,919,276 (2015 : USD35,259,478)	100	100	Investment holding

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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<u>Name of subsidiary</u>	<u>Date of incorporation/ establishment</u>	<u>Country of incorporation (or establishment) and operation</u>	<u>Issued and fully paid share/ registered capital</u>	<u>Attributable equity interest held by the Company</u>		<u>Principal activity</u>
				<u>2016</u>	<u>2015</u>	
				%	%	
Giti Tire Holdings (USA) Limited (c)	May 7, 2014	United States of America	USD170,900,000 (2015 : USD35,600,00)	100	100	Investment holding
Giti Tire Manufacturing (USA) Ltd (a)	May 7, 2014	United States of America	USD160,000,000 (2015 : USD35,500,000)	100	100	Manufacture of tire products
Giti Tire R&D Center (North America) Inc. (a)	November 26, 2013	United States of America	USD950,000	100	100	Research and development relating to tires
Giti Tire (Malaysia) Sdn. Bhd. (a)	June 25, 2015	Malaysia	MYR500,000	100	100	Marketing and distribution of of tire products
Giti Tire (France) (a)	January 15, 2015	France	EUR10,000	100	100	Marketing and distribution of tire products
Giti Property (HK) Limited (a)	November 12, 2015	Hong Kong Special Administrative Region of the PRC	HKD90,000,000 (2015 : HKD1)	100	100	Investment and trading
Proline Wheels TEC GmbH (a)	April 29, 2016	Germany	EUR25,000	95	-	Development, production and sales of tires, wheels and wheel rim

(a) Audited by overseas practices of Deloitte & Touche Tohmatsu Limited.

(b) Audited by Deloitte & Touche LLP, Singapore.

(c) Management accounts used for consolidation purposes as immaterial.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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- (d) Listed on the Shanghai Stock Exchange.

Giti Tire Corporation is listed on the Shanghai Stock Exchange. Although the Group has only 44.4% (2015 : 44.4%) equity interest in Giti Tire Corporation, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of Giti Tire Corporation on the basis of the Group's absolute size of shareholding and the relative size of and dispersion of the shareholdings owned by other shareholders. The remaining 55.6% (2015 : 55.6%) of the ordinary shares in Giti Tire Corporation are owned by numerous other shareholders.

- (e) Listed on the Jakarta Stock Exchange.

PT. Gajah Tunggal Tbk is listed on the Jakarta Stock Exchange. Although the Group has only 49.5% (2015 : 49.5%) equity interest in PT. Gajah Tunggal Tbk, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of PT. Gajah Tunggal Tbk on the basis of the Group's absolute size of holding in PT. Gajah Tunggal Tbk and the relative size of and dispersion of the shareholdings owned by other shareholders. The remaining 50.5% (2015 : 50.5%) of the ordinary shares of PT. Gajah Tunggal Tbk are owned by numerous other shareholders.

- (f) Listed on the Jakarta Stock Exchange.

PT. KMI Wire and Cable Tbk is listed on the Jakarta Stock Exchange. Although the Group has only 49.83% (2015 : 48.83%) ownership in PT. KMI Wire and Cable Tbk, the directors concluded that the Group has a sufficiently dominant voting interest to direct the relevant activities of PT. KMI Wire and Cable Tbk on the basis of the Group's absolute size of holding in PT. KMI Wire and Cable Tbk and the relative size of and dispersion of the shareholdings owned by other shareholders. The remaining 50.17% (2015 : 51.17%) of the ordinary shares of PT. KMI Wire and Cable Tbk are owned by numerous other shareholders.

As at December 31, 2015, the Group had control over PT. KMI Wire and Cable Tbk, with increase in the ownership interest and voting rights from 18.97% to 48.83%. Accordingly, the investment is being reclassified from available-for-sale investment (Note 19) to investment in subsidiary (Note 33).

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The following schedule shows the effects of changes in the Group's ownership interest in PT. KMI Wire and Cable Tbk that did not result in change of control, on the equity attributable to owners of the Company:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Amounts paid on changes in ownership interest in subsidiary	4	-
Non-controlling interest acquired	(4)	-
Difference recognised in equity reserve	-*	-

- (g) During the financial year ended December 31, 2016, the Company transferred its shareholdings in these companies to its subsidiaries. As the transaction took place within the Group with no change in effective control, there are no impact to the consolidated statement of financial statements of the Group.
- (h) On January 26, 2017, the Company entered into an agreement with a subsidiary, Giti Tire (China) Investment Co., Ltd., for the disposal of its 100% shareholdings in its subsidiary, Giti Greatwall (Yinchuan) Co., Ltd. The consideration for the disposal is RMB35 million. Accordingly, the investment in subsidiary is classified as held for sale in the statement of financial position of the Company (Note 26).
- (i) On January 26, 2017, the Company entered into an agreement with a subsidiary, Giti Tire (China) Investment Co., Ltd., for the disposal of its 100% shareholdings in its subsidiary, Giti (Yinchuan) Co., Ltd. The consideration for the disposal is RMB74 million. Accordingly, the investment in subsidiary is classified as held for sale in the statement of financial position of the Company (Note 26).
- (j) On April 12, 2017, the Group entered into an agreement to acquire the remaining 5% shareholdings from its minority shareholder, subsequently increasing its ownership interest and voting rights from 95% to 100%. The consideration for the acquisition is RMB0.4 million.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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Information about the composition of the Group at the end of the financial year is as follow:

<u>Principal activity</u>	<u>Number of wholly-owned subsidiaries</u>	
	2016	2015
Design and production of synthetic fabrics	1	1
Design and production of steel cord	2	2
Investment and trading of properties	1	1
Investment holding	5	5
Investment holding and distribution	1	1
Investment holding and provision of services	1	-
Manufacture of tire products, tire moulds and related products	10	10
Marketing and distribution, and trading and sales liaising of tire products	8	9
Marketing and trading of tire products, and provision of services	1	-
Property holding	1	1
Property holding and management	1	1
Provision of gardening and related services	1	1
Provision of auto-care and maintenance services, including tires and rim replacement	2	2
Research and experimental development in engineering	1	1
Research and development of tire products	3	3
	<u>39</u>	<u>38</u>

<u>Principal activity</u>	<u>Number of partially-owned subsidiaries</u>	
	2016	2015
Manufacture of tire products	1	1
Manufacture of tire and rubber products	1	1
Manufacture of wire rods, power cables and telecom cables	1	1
Investment holding	1	1
Development, production and sales of tires, wheels and wheel rims	1	-
Consulting service	1	1
	<u>6</u>	<u>5</u>

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

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The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Country of incorporation (or establishment) and operation	Proportion of ownership interests and voting rights held by non-controlling interests		(Loss) Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016	2015	2016	2015
		%	%	RMB'million	RMB'million	RMB'million	RMB'million
Giti Tire Corporation	PRC	55.6	55.6	(9)	(5)	201	282
Giti Tire (Fujian) Co., Ltd	PRC	28.3	28.3	92	118	431	446
PT. Gajah Tunggal Tbk	Indonesia	50.5	50.5	130	(102)	1,332	1,127
PT KMI Wire and Cable Tbk	Indonesia	50.2	51.2	87	10	276	185
				300	21	2,240	2,040

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	Giti Tire Corporation		Giti Tire (Fujian) Co., Ltd		PT. Gajah Tunggal Tbk		PT. KMI Wire and Cable Tbk	
	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Current assets	192	339	1,272	1,592	3,925	3,147	632	452
Non-current assets	490	490	1,076	1,147	5,324	4,765	198	148
Current liabilities	11	10	677	1,062	2,243	1,748	185	159
Non-current liabilities	-	-	150	105	4,391	3,955	99	88
Net assets	671	819	1,521	1,572	2,615	2,209	546	353

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	<u>Giti Tire Corporation</u>		<u>Giti Tire (Fujian) Co., Ltd</u>		<u>PT. Gajah Tunggal Tbk</u>		<u>PT. KMI Wire and Cable Tbk</u>	
	2016	2015	2016	2015	2016	2015	2016	2015
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million
Revenue	-	-	2,995	3,147	6,778	6,080	1,402	395
Profit (Loss) for the year	175	342	322	418	257	(203)	173	19
Other comprehensive income for the year	-	-	-	-	(9)	(69)	(6)	24
Total comprehensive income for the year	175	342	322	418	248	(272)	167	43
Dividends paid to non-controlling interests	180	108	-	-	-	9	7	-
Net cash (outflow) inflow from operating activities	(13)	(10)	693	643	642	373	190	(10)
Net cash inflow (outflow) from investing activities	212	280	(69)	(37)	(531)	(659)	(77)	(7)
Net cash (outflow) inflow from financing activities	(324)	(246)	(644)	(619)	(45)	119	(47)	(52)
Effect of foreign exchange rate changes	-	-	(3)	-	22	(2)	4	-
Net cash (outflow) inflow	(125)	24	(23)	(13)	88	(169)	70	(69)

18 INTEREST IN AN ASSOCIATE

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
At beginning of year	233	260
Share in net loss	(41)	(42)
Share in other comprehensive income of associate	(9)	27
Foreign currency exchange differences	19	(12)
At end of year	202	233

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Details of the Group's associate at December 31 are as follows:

<u>Name of associate</u>	<u>Country of incorporation and operation</u>	<u>Proportion of ownership interest and voting power held</u>		<u>Principal activity</u>
		<u>2016</u> %	<u>2015</u> %	
PT Polychem Indonesia Tbk ^{(1) (2)}	Indonesia	25.6	25.6	Manufacture polyester products, engineering plastic and resin, ethylene glycol and petrochemical

- (1) The shares of PT Polychem Indonesia Tbk are listed on the Jakarta Stock Exchange, Indonesia.
(2) Audited by overseas practice of Deloitte Touche Tohmatsu Limited.

The summarised financial information in respect of the Group's associate prepared in accordance with FRSs is set out below:

	<u>Group</u>	
	<u>2016</u> RMB'million	<u>2015</u> RMB'million
Revenue	1,853	1,962
Loss for the year	(160)	(165)
Other comprehensive (loss) income for the year	(35)	104
Total assets	1,728	1,888
Total liabilities	(939)	(980)
Net assets	789	908

Reconciliation of the above summarised financial information to the carrying amount of the interest in PT Polychem Indonesia Tbk recognised in the consolidated financial statements:

	<u>2016</u> RMB' million	<u>2015</u> RMB' million
Net assets of the associate	789	908
Proportion of the Group's ownership interest in the associate	25.6%	25.6%
Carrying amount of the Group's interest in the associate	202	233

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS****December 31, 2016****19 AVAILABLE-FOR-SALE INVESTMENTS**

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
<u>Current</u>		
Unquoted investment funds, at fair value	201	169
<u>Non-current</u>		
Quoted equity shares, at fair value	3	2
Unquoted equity shares, at cost	-	100
Unquoted investment funds, at fair value	14	42
	17	144
	218	313

The investments above include investments in quoted equity shares that offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of investments in quoted equity shares are based on the quoted closing market rates on the last market day of the financial year.

The investments in quoted equity shares also include investments with fund managers which are in the form of bonds, funds and shares or other assets. The Group appointed Abacus Capital Cayman Limited, UBS AG and DFM Mckinley Investment Holding Ltd to manage the investments by agreeing terms and clauses on signed applications.

Investments with fund managers amounting to RMB201 million (2015 : RMB169 million) represent agreements with the respective fund managers that mature within 12 months from the end of the reporting period. Accordingly, they are classified as current assets at the end of the reporting period.

The investments in unquoted equity shares represent investment in an equity joint venture in the PRC that is engaged in the manufacturing of printed circuit boards of which the Group holds a 38.6% equity interest. Such investments were passive investments as the remaining 61.4% equity interest was entirely held by another shareholder who had a sufficiently dominant voting interest to direct the relevant activities of this entity. Accordingly, management considered that the Group has no significant influence over the financial and operating policy decision in this entity and hence the investments were accounted for as available-for-sale investments rather than as an associate. The investments were measured at cost less impairment at the end of each reporting period because management of the Company are of the opinion that their fair values cannot be measured reliably. On December 31, 2015, the Group entered into a sales and purchase agreement with a related party, Gultech International Pte Ltd, to dispose the entire 38.6% equity interest in this entity for RMB196 million. The disposal has been completed in 2016.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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20 TRADE AND OTHER PAYABLES

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Trade payables (Note a)	2,156	1,534	-	-
Notes payable	1,715	1,483	-	-
Other payables (Note b)	2,157	1,690	302	13
Accruals (Note c)	731	520	8	5
Payable for employee welfare	1	1	-	-
Deposits received	69	83	-	-
Dividend payable to non-controlling interest	6	8	-	-
Total current trade and other payables	6,835	5,319	310	18
Add: Non-current other payables (Note d)	363	343	-	-
Total	7,198	5,662	310	18

(a) Trade payables principally comprise amounts outstanding for trade purchases. The credit period taken for trade purchases is 7 to 180 days (2015 : 7 to 180 days).

(b) Other payables comprise the following:

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Payables for acquisition of property, plant and equipment	263	162	-	-
Payables for purchase of intangible assets	2	1	-	-
Salaries and staff welfare payable	402	352	14	13
Sales commission payable	413	442	-	-
Value-added tax payable	106	67	-	-
Withholding tax payable	320	19	287	-
Deposits	480	471	-	-
Deferred government grants	4	7	-	-
Other tax payable	103	99	1	-
Others	64	70	-	-
	2,157	1,690	302	13

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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(c) Accruals comprise the following:

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Accrued transportation costs	227	151	-	-
Accrued warranty provision	40	33	-	-
Accrued interest expenses	113	110	-	-
Accrued expense on product recall	101	-	-	-
Accrued repair and			-	-
maintenance expenses	12	14	-	-
Accrued promotion and			-	-
advertising expenses	98	93	-	-
Accrued utilities expenses	74	69	-	-
Accrued rental expenses	11	10	-	-
Accrued operating expenses (Note)	55	40	8	5
	<u>731</u>	<u>520</u>	<u>8</u>	<u>5</u>

Note: Accrued operating expenses mainly represent accruals for expenses relating consultancy and audit fee.

(d) Non-current other payables

The non-current other payables relate to deferred government grants and rent abatement. The deferred government grants relate to grant towards the cost of construction of its conservation of resources and environmental protection equipment, the cost of the transmission line at the Group's factory and cost of setting up a plant. These government grants, which are related to depreciable assets, are presented as deferred government grants on receipt and will be released to profit or loss over the useful lives of the assets. Accordingly, the amounts are classified as non-current liabilities at the end of the reporting period.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

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21 BORROWINGS

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
Bank borrowings:				
Secured	3,643	2,424	2,374	970
Unsecured	3,298	3,943	-	-
Bonds and notes payable:				
Secured	3,461	3,220	-	-
Unsecured	481	456	481	456
	10,883	10,043	2,855	1,426
Less: Amounts due for settlement within 12 months (shown under current liabilities)	(4,422)	(4,347)	(1,665)	(970)
Amounts due for settlement after 12 months	6,461	5,696	1,190	456

Movement in the unamortised loan arrangement costs (included in net carrying amount of bank borrowings above) as follows:

	<u>Group</u>		<u>Company</u>	
	2016	2015	2016	2015
	RMB'million	RMB'million	RMB'million	RMB'million
At beginning of the year	45	79	17	31
Additions during the year	196	5	77	-
Capitalisation during the year (Note 13)	(2)	-	-	-
Amortisation during the year (Note 29)	(70)	(38)	(44)	(15)
Foreign currency alignment	9	(1)	3	1
At end of the year	178	45	53	17

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The borrowings carrying fixed and variable interests are as follows:

	<u>2016</u>		<u>2015</u>	
	Carrying amount	Weighted average effective interest rate per annum	Carrying amount	Weighted average effective interest rate per annum
	RMB'million	%	RMB'million	%
Bank borrowings:				
<u>Group</u>				
Fixed-rate borrowings:				
Bank borrowings	883	5.0	1,144	6.3
Bonds payable	3,461	7.8	3,220	7.8
Unsecured notes	481	6.9	456	6.9
Variable-rate borrowings:				
Bank borrowings	6,058	4.2	5,223	5.0
	<u>10,883</u>		<u>10,043</u>	
<u>Company</u>				
Variable-rate borrowings	2,374	4.1	970	4.7
Unsecured notes	481	6.9	456	6.9
	<u>2,855</u>		<u>1,426</u>	

The bank loans are secured by:

- (1) Legal mortgage of prepaid lease payments (Note 11) and property, plant and equipment of the Group (Note 13);
- (2) Certain restricted bank deposits, in relation to certain short-term and long-term borrowings (Note 9);
- (3) Certain trade receivables and inventories, in relation to certain short-term and long-term borrowings (Note 10 and 12); and
- (4) Capital stock of certain subsidiaries (Note 17).

Further, the Group and the Company are subject to certain financial covenants and restrictive covenants under certain short-term and long-term borrowings. The restrictive covenants limit, subject to certain exceptions, the incurrence of additional indebtedness, payment of dividends, the making of certain investments or other specified restricted payments; issuance or sale of capital stock of certain subsidiaries, the creation of liens, the issuance of guarantees, asset sales and certain mergers and consolidations.

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22 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised and movements thereon:

	Accelerated accounting depreciation	Tax losses	Impairment loss on trade receivables	Impairment loss on inventories	Other payables and accruals	Undistributed profits of subsidiaries	Withholding tax on Unrealised profits	Order backlog	Total
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
At January 1, 2015	(42)	82	1	8	279	(110)	123	-	341
(Charge) Credit to profit or loss	(7)	5	1	10	(11)	(44)	(27)	3	(70)
Arising from acquisition of subsidiary (Note 33)	-	-	-	-	15	-	-	(3)	12
Charge to equity	-	-	-	-	(6)	-	-	-	(6)
Acquisition/Disposal	-	-	-	-	-	17	-	-	17
Exchange difference	3	-	-	-	(8)	-	-	-	(5)
At December 31, 2015	(46)	87	2	18	269	(137)	96	-	289
Credit (Charge) to profit or loss	11	(19)	3	5	50	(12)	13	-	51
Charge to equity	-	-	-	-	18	-	-	-	18
Exchange difference	(4)	-	-	1	17	-	-	-	14
At December 31, 2016	(39)	68	5	24	354	(149)	109	-	372

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

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Deferred tax assets	521	426
Deferred tax liabilities	(149)	(137)
	<u>372</u>	<u>289</u>

Subject to the agreement by the tax authorities, as at December 31, 2016 the Group has unused tax losses of RMB1,227 million (2015 : RMB1,033 million) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB273 million (2015 : RMB373 million) of such losses for the year ended December 31, 2016. No deferred tax asset has been recognised in respect of the remaining RMB954 million (2015 : RMB660 million) for the year ended December 31, 2016 due to the unpredictability of future profit streams. The unrecognised tax losses of RMB660 million and RMB954 million for the years ended December 31, 2015 and 2016 will expire in 2015 to 2019 and 2016 to 2020 respectively.

The unrecognised tax losses that expired for the year ended December 31, 2016 was RMB224 million (2015 : RMB8 million).

At December 31, 2016, the Group has deductible temporary differences of RMB692 million (2015 : RMB652 million). No deferred tax asset has been recognised in relation to the deductible temporary differences of RMB975 million (2015 : RMB1,032 million) as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, temporary differences are associated with undistributed earnings of an investment in an associate for which deferred tax liabilities have not been recognised. No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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23 RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

The employees of the Group are members of state-managed retirement benefits plans, operated by relevant governmental authorities in those countries. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The total amounts contributed by the Group to the schemes and charged to the profit or loss represent contributions payable to the schemes by the Group at rates specified in the rules of the scheme and amounted to RMB100 million and RMB94 million for the years ended December 31, 2016 and 2015 respectively.

Defined benefit plan

The Group operates a defined benefit pension plan for substantially all its permanent employees in the Republic of Indonesia. The benefits under such pension plan have been adjusted to cover minimum benefits under Labor Law No. 12/2003 in the Republic of Indonesia.

The defined benefit plan typically exposes the Group to actuarial risks such as: interest rate risk, longevity risk, and salary risk.

Interest rate risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to government bond yields. As such, an increase in the discount rate will decrease the plan's liability.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The actuarial valuation of the present value of the defined benefit obligation was carried out at December 31, 2016 and 2015 by two independent actuaries, PT Milliman Indonesia and PT Dayamandiri Dharmakonsilindo. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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The principal assumptions used for the purpose of the actuarial valuations were as follows:

	<u>Valuation at</u>	
	2016	2015
Discount rate per annum	8% - 8.25%	9.0%
Salary increment rate per annum	9.5% - 10%	9.5% - 10%
Normal retirement age	55 to 56 years/age	55 years/age
Mortality rate	100% TMI ¹ 3	100% TMI ¹ 3
Disability rate	10% TMI ¹ 3	10% TMI ¹ 3

¹ Indonesian Mortality table ("TMI").

Amounts charged (credit) to comprehensive income in respect of these defined benefit plans are as follows:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Current service cost	53	47
Past service cost	(18)	-
Recognition of actuarial loss	1	-
Interest cost	64	47
Components of defined benefit costs recognised in profit or loss	100	94
Effect of obligation in actuarial assumption	4	12
Actuarial loss (gain)	92	(2)
Components of defined benefit costs recognised in other comprehensive income	96	10
Income tax benefit relating to components of defined benefit costs recognised in other comprehensive income	-	2
	96	12

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Movements in the present value of defined benefit obligation are as follows:

	Group	
	2016	2015
	RMB'million	RMB'million
Opening defined benefit obligation	711	613
Arising from acquisition of subsidiary (Note 33)	-	54
Current service cost	53	47
Past service cost	(18)	-
Interest cost	64	47
Benefit payments	(35)	(37)
Effect of obligation in actuarial assumption	4	12
Post-employment benefit transferred	(1)	1
Actuarial gain (loss)	92	(2)
Currency alignment	76	(24)
Closing defined benefit obligation	946	711

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB76 million (2015 : RMB112 million)/increase by RMB64 million (2015 : RMB111 million).
- If the expected salary growth increases (decreases) by 1%, the defined benefit obligation would increase by RMB87 million (2015 : RMB131 million)/decrease by RMB74 million (2015 : RMB113 million).
- If the life expectancy increases (decreases) by one year for both men and women, the defined benefit obligation would increase by RMB Nil (2015 : RMB1 million)/decrease by RMB Nil (2015 : RMB1 million).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior year.

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24 SHARE CAPITAL

	<u>Group and Company</u>			
	2016	2015	2016	2015
	Number of ordinary shares		RMB'million	RMB'million
	'million	'million		
Issued and paid up:				
At beginning and end of the year	2,400	2,400	1,758	1,758

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividends as and when declared by the company.

25 DERIVATIVE FINANCIAL INSTRUMENTS

	<u>Group</u>			
	<u>2016</u>		<u>2015</u>	
	Assets	Liabilities	Assets	Liabilities
	RMB'million	RMB'million	RMB'million	RMB'million
Forward foreign exchange contracts	1	-	-	8

At the end of the reporting period, the total notional amount of outstanding forward foreign exchange contracts to which the Group is committed are as follows:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Forward foreign exchange contracts	18	21

Changes in the fair value of the derivative financial instruments amounting to RMB9 million (2015 : RMB20 million) have been charged to profit or loss in the year.

The following table details the forward foreign currency contracts outstanding as at the end of the reporting period:

<u>Outstanding contracts</u>	<u>Average exchange rate</u>		<u>Foreign currency</u>		<u>Contract value</u>		<u>Fair value</u>	
	2016	2015	2016	2015	2016	2015	2016	2015
			FC\$'million		RMB'million		RMB'million	
Sell Euro	7.3	7.1	2	3	18	21	1	(8)

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26 ASSETS CLASSIFIED AS HELD FOR SALE

Group

On November 28, 2016, management resolved to dispose of one of the Group's property, plant and equipment. Negotiations with an interested party have subsequently taken place and deposit of RMB300,000 was received (Note 10). The property, which is expected to be sold within twelve months, have been classified as asset held for sale and is presented separately in the consolidated statement of financial position.

The proceeds of disposal are expected to exceed the net carrying amount of the investment property and, accordingly, no impairment losses have been recognised on the asset classified as held for sale.

Subsequently to the financial year end, the investment property was sold for RMB8 million.

Company

During the year, the Company committed a plan to dispose all of its shareholdings in its subsidiaries, Giti Greatwall (Yinchuan) Co., Ltd and Giti Tire (Yinchuan) Co., Ltd. The assets and liabilities attributable to the subsidiaries, which are expected to be sold within twelve months, have been classified as asset held for sale and are presented separately in the statement of financial position.

The proceeds of disposal are expected to be less than the net carrying amount of the investment in subsidiaries and, accordingly, impairment loss of RMB136 million has been recognised on the asset classified as held for sale.

Subsequently to the financial year end, Giti Greatwall (Yinchuan) Co., Ltd and Giti Tire (Yinchuan) Co., Ltd are sold for RMB35 million and RMB74 million respectively.

The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

	Giti Greatwall (Yinchuan) Co., Ltd.	Giti Tire (Yinchuan) Co., Ltd.	Total
	2016	2016	2016
	RMB'million	RMB'million	RMB'million
Cash and bank balances	27	29	56
Trade and other receivables	54	193	247
Inventories	61	194	255
Prepaid lease payments	12	11	23
Property, plant and equipment	90	566	656
Total assets classified as held for sale	244	993	1,237
Other payables, and total for liabilities associated with assets classified as held for sale	(315)	(912)	(1,227)
Net assets of disposal group	(71)	81	10

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As the transaction took place within the Group with no change in effective control, there is no impact to the consolidated statement of financial statements of the Group.

27 REVENUE

	Group	
	2016	2015
	RMB'million	RMB'million
Sales of tires and related products	20,104	19,467

28 OTHER INCOME

	Group	
	2016	2015
	RMB'million	RMB'million
Sales of scrap and materials	69	67
Government grants (i)	58	38
Interest income	91	74
Reversal of unclaimed payables	-	7
Net fair value gain (loss) on forward foreign exchange contracts (Note 25)	9	(20)
Investment income from available-for-sale investments (Note 19)	2	6
Dividend income from equity investments	8	145
Gain on disposal of property, plant and equipment	7	4
Foreign exchange loss	(42)	(349)
Gain (Loss) from disposal of available-for-sale investments	103	(36)
Gain from bargain purchase of investment in a subsidiary (Note 33)	-	79
Loss on product recall (ii)	(110)	-
Others	24	18
	219	33

(i) Income from government grants comprises:

Incentive subsidies	54	36
Investment subsidies	4	2
Amounts included in other income	58	38
Value-added tax refund related to depreciable assets	3	3
Total government grants recognised in profit or loss	61	41

- (ii) On September 22, 2016, a subsidiary of the Group reported to the National Highway Traffic Safety Administration in the United States of America regarding voluntary recall of particular tire products during the period from April 2014 to September 2016. Upon recall of the products, the Group recorded a loss on product recall in profit or loss amounted to RMB110 million as of December 31, 2016.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS **December 31, 2016**

29 FINANCE COSTS

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Finance costs on:		
Borrowings	684	658
Discounted bills	37	48
Amortisation of capitalised loan arrangement costs	70	38
Other finance costs	118	86
Total borrowing costs	909	830
Less: Finance costs capitalised	-	(4)
	<u>909</u>	<u>826</u>

In 2015, borrowing costs capitalised arose on the general borrowing pool and were calculated by applying a capitalisation rate of 4.8% per annum to the expenditure on qualifying assets.

30 INCOME TAX EXPENSE

The tax expense comprises:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Current tax:		
Current year	391	214
Overprovision in prior years	(10)	(21)
Withholding tax	304	18
	<u>685</u>	<u>211</u>
Deferred tax (Note 22)	(51)	52
	<u>634</u>	<u>263</u>

Taxation is calculated at the rates prevailing in the relevant jurisdictions.

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The Group which has subsidiaries that are tax resident in the PRC, is subject to the PRC dividend withholding tax for the non PRC resident immediate holding company registered in Singapore when and if undistributed earnings are declared to be paid as dividends commencing on January 1, 2008 to the extent those dividends are paid out of profits that arose on or after January 1, 2008. The withholding tax would be charged at a reduced rate of 5% according to the tax treaty concluded between the PRC and Singapore provided that the immediate holding company meets the Singapore tax resident and beneficiary ownership test. Accordingly, deferred tax liabilities for undistributed earnings of RMB149 million (2015 : RMB137 million) have been recognised at the end of the reporting period.

The tax expense can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Profit before tax	798	340
Tax at the PRC domestic income tax rate of 25% (2015 : 25%)	200	85
Tax effect of income not taxable for tax purposes	(9)	(41)
Tax effect of expenses not deductible for tax purposes	150	93
Tax effect of share of results of an associate	8	11
Effect of tax concessions/concessionary rate/tax exemption granted to PRC subsidiaries	(9)	(6)
Over provision in prior years	(10)	(21)
Tax effect of tax losses not recognised	17	3
Tax effect of deductible temporary differences not recognised	79	50
Recognition of deductible temporary differences previously not recognised	(12)	13
Effects of different tax rate of subsidiaries operating in other jurisdictions	(57)	(14)
Effect of overseas withholding tax	304	18
Withholding tax on undistributed profits of subsidiaries	(12)	44
(Utilisation) Recognition of tax losses not previously recognised	(16)	35
Others	1	(7)
Tax expense for the year	634	263

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

31 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	<u>Group</u>	
	2016	2015
	RMB'million	RMB'million
Amortisation of intangible assets*	9	20
Amortisation of goodwill*	-	2
Depreciation of property, plant and equipment	1,082	1,013
Depreciation of investment properties	5	2
Impairment loss recognised on property, plant and equipment*	11	11
Impairment loss recognised on trade receivables*	13	6
Impairment loss reversed on other receivables	(5)	-
Impairment loss recognised (reversed) on inventories*	14	(1)
Net foreign exchange loss	42	349
Release of prepaid lease payments to profit or loss	46	43
Research and development costs	370	324
Net fair value (gain) loss on forward foreign exchange contracts (Note 25)	(9)	20
Gain from bargain purchase of investment in subsidiary (Note 33)	-	(79)
(Gain) Loss from disposal of available-for-sale investments	(103)	36
Gain on disposal of property, plant and equipment	(7)	(4)
Employee compensation and benefits, including directors' remuneration:		
Salaries, wages and other benefits	2,868	3,086
Retirement benefits scheme contributions	297	285
Total staff costs	3,165	3,371

* Amortisation/Impairment loss is included in administrative expenses.

32 BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

The Group operates and manages its business as a single operating segment in the manufacturing and sales of tire and related products. The management reviews the consolidated results prepared based on FRS when making decisions about allocating resources and assessing the performance of the Group.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

Information about sales of principal products

The Group's sales of principal products are as follows:

	Group	
	2016 RMB'million	2015 RMB'million
Trucks and buses radial tires	4,906	5,030
Passenger cars radial tires	9,842	10,473
Bias tires	1,959	1,838
Motorcycles radial tires	1,675	1,434
Others	1,722	692
	<u>20,104</u>	<u>19,467</u>

Geographical information

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	<u>Revenue from external customers</u>		<u>Non-current assets</u>	
	2016 RMB'million	2015 RMB'million	2016 RMB'million	2015 RMB'million
People's Republic of China	7,711	7,350	5,568	6,055
United States of America	3,147	4,026	2,050	539
Indonesia	5,363	3,878	5,518	4,912
Europe	1,589	1,597	13	13
Others	2,294	2,616	820	725
	<u>20,104</u>	<u>19,467</u>	<u>13,969</u>	<u>12,244</u>

Others include mainly Asia (excluding PRC), Middle East and other regions.

Information about major customers

There are no revenues from transactions with a single external customer amounting to 10 per cent or more of the Group's revenue for the years ended December 31, 2015 and 2016.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES**NOTES TO FINANCIAL STATEMENTS****December 31, 2016****33 ACQUISITION OF SUBSIDIARY**

On September 30, 2015, the Group obtained control in PT. KMI Wire and Cable Tbk by owning 48.83% of equity interest for an estimated cumulative consideration of US\$18.8 million (equivalent to RMB117 million), of which RMB58 million was paid in prior year. This transaction has been accounted for by the acquisition method of accounting.

Acquisition-related costs have been recognised as an expense in prior year.

The fair value of the identifiable assets acquired and liabilities assumed and the cash flow effect on the acquisition are as follows:

	2015 RMB'million
Current assets	
Cash and cash equivalents	6
Restricted cash	16
Trade and other receivables	214
Inventories	210
Total current assets	<u>446</u>
Non-current assets	
Property, plant and equipment	114
Other non-current assets	4
Intangible assets	12
Deferred tax assets	15
Total non-current assets	<u>145</u>
Current liabilities	
Trade and other payables	(113)
Borrowings	(75)
Income tax payable	(1)
Total current liabilities	<u>(189)</u>
Non-current liability	
Borrowings	(26)
Post-employment benefits	(54)
Deferred tax liability	(3)
Total non-current liabilities	<u>(83)</u>
	2015 RMB'million
Consideration paid for 11.82% (Note a)	19
Fair value of non-controlling interests of 51.17%	163
Fair value of previously held interests of 37.01%	58
Identifiable net assets acquired	<u>(319)</u>
Negative goodwill arising on acquisition	<u>(79)</u>

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

- (a) The amount relates to the final consideration paid for the acquisition that resulted in the Group increasing its equity interests from to 37.01% to 48.83%.

Net cash outflow on acquisition of subsidiary

	<u>2015</u> RMB'million
Consideration paid in cash	58
Less: Cash and cash equivalent balances acquired	<u>(6)</u>
	<u>52</u>

The negative goodwill arising on the acquisition of RMB79 million is included in other income of the Group. The gain on acquisition arises due to the fair value of the identifiable net assets being higher than the market share prices traded on the Jakarta Stock Exchange on the date of acquisition.

Impact of acquisition on the results of the group

Had the above business combination been effected on January 1, 2015, the revenue of the Group for the year ended December 31, 2015 would have been RMB20,319 million, and the profit for the year ended December 31, 2015 would have been RMB118 million. The management of the Group considers these numbers to represent an approximate measure of the performance of the consolidated Group basis and to provide a reference point for comparison in future periods.

34 CAPITAL COMMITMENTS

	<u>Group</u>
	<u>2016</u> <u>2015</u>
	RMB'million RMB'million
Capital expenditure in respect of acquisition of property, plant and equipment and construction in progress contracted for but not provided in the financial statements	<u>995</u> <u>1,874</u>

The Company has no capital commitments at the end of each reporting period.

GITI TIRE PTE. LTD. AND ITS SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS December 31, 2016

35 OPERATING LEASES

The Group as lessee

	<u>Group</u>	
	2016 RMB'million	2015 RMB'million
Minimum lease payments paid under operating leases in the year in respect of office premises	99	97

At the end of the reporting period, the Group has commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<u>Group</u>	
	2016 RMB'million	2015 RMB'million
Within one year	71	80
In the second to fifth years inclusive	154	161
Over five years	15	19
	240	260

Operating lease payments represent rental payables by the Group for certain properties. Leases are negotiated and rentals are fixed for terms from 1 to 10 years.

The Company has no commitments under operating leases at the end of the reporting period.

36 EVENT OCCURRING AFTER THE REPORTING PERIOD

As at December 31, 2016, the Group has placed a deposit for purchase of investment property with a related party. The investment property is the main asset owned by the wholly-owned subsidiary of the related party. The agreement also provides the Group with an option to acquire the subsidiary.

Subsequently after the financial year, the Group exercised the option to acquire the subsidiary with a purchase consideration of RMB33 million.