上海集优
SHANGHAI PRIME

上海集優機械股份有限公司
Shanghai Prime Machinery Company Limited

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 02345)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

SUMMARY

Revenue for FY2017 was RMB8,479 million, representing an increase of 11% as compared to FY2016.

Profit attributable to owners of the Company for FY2017 was RMB253 million, representing an increase of 25% as compared to FY2016.

Basic earnings per share for FY2017 were RMB17.96 cents, representing an increase of 25% as compared to FY2016. To enhance the Group's working capital and to retain resources for potential investment, the Board did not recommend the payment of a final dividend for FY2017.

Annual results announcement for the year ended 31 December 2017

The board of directors (the "**Board**") of Shanghai Prime Machinery Company Limited (the "**Company**") is pleased to announce the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 ("**FY2017**"), together with the comparative figures for the year ended 31 December 2016 ("**FY2016**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of Hong Kong Companies Ordinance. The Group's FY2017 annual results have been audited by Deloitte Touche Tohmatsu.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2017

	Notes	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	3	**8,478,895**	7,644,931
Cost of sales		**(6,793,966)**	(6,055,232)
Gross profit		**1,684,929**	1,589,699
Other income and other gains and losses	3	**114,364**	106,548
Selling and distribution expenses		**(399,869)**	(370,963)
Administrative expenses		**(638,161)**	(624,366)
Research and development expenditure		**(322,030)**	(292,824)
Other expenses		**(5,163)**	(12,977)
Finance costs		**(123,308)**	(123,505)
Share of profits of associates		**41,601**	29,601
Share of loss of a joint venture		**(813)**	(657)
PROFIT BEFORE TAX	6	**351,550**	300,556
Income tax expense	5	**(98,776)**	(97,407)
PROFIT FOR THE YEAR		**252,774**	203,149
Profit (loss) for the year attributable to			
Owners of the Company		**253,424**	203,401
Non-controlling interests		**(650)**	(252)
		252,774	203,149

	Notes	**Year ended 31/12/2017** ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**5,775**	(8,611)
Income tax relating to items that will not be reclassified		**(1,732)**	3,210
		4,043	(5,401)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**6,184**	(8,782)
Fair value adjustment on interest rate swap contracts designated as hedging instruments		**2,134**	983
Income tax relating to items that may be reclassified subsequently		**(533)**	(246)
		7,785	(8,045)
Other comprehensive income (expense) for the year, net of income tax		**11,828**	(13,446)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**264,602**	189,703
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**265,147**	189,902
Non-controlling interests		**(545)**	(199)
		264,602	189,703
EARNINGS PER SHARE	*8*		
Basic (RMB cents)		**17.96**	14.41
Diluted (RMB cents)		**17.89**	14.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	31/12/2017 RMB'000	31/12/2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,343,766**	2,342,764
Prepaid lease payments		**135,924**	139,387
Goodwill	9	**1,513,334**	1,418,815
Intangible assets		**32,400**	31,836
Interests in associates		**144,349**	174,472
Interest in a joint venture		**568**	1,311
Available-for-sale investments		**2,043**	872
Deferred tax assets		**124,717**	133,278
		4,297,101	4,242,735
CURRENT ASSETS			
Prepaid lease payments		**3,463**	3,463
Inventories		**1,742,302**	1,615,391
Amounts due from customers for contract work		**59,956**	56,037
Trade receivables	10	**1,264,452**	1,225,995
Bills receivable		**716,854**	584,035
Prepayments, deposits and other receivables		**298,050**	217,710
Restricted deposits		**76,039**	51,543
Bank balances and cash		**804,956**	1,123,293
		4,966,072	4,877,467
CURRENT LIABILITIES			
Trade payables	11	**1,569,335**	1,371,103
Bills payable		**363,961**	422,145
Other payables and accruals		**478,672**	416,525
Derivative financial instruments		**2,583**	4,717
Tax liabilities		**66,707**	64,473
Government grants		**16,751**	13,663
Company bond	12	**–**	499,043
Bank borrowings	13	**171,383**	171,322
Shareholder's loans	14	**203,900**	–
Obligations under finance leases		**6,854**	–
		2,880,146	2,962,991
NET CURRENT ASSETS		**2,085,926**	1,914,476
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,383,027**	6,157,211

	Notes	**31/12/2017** *RMB'000*	31/12/2016 *RMB'000*
NON-CURRENT LIABILITIES			
Bank borrowings	*13*	**679,417**	693,557
Shareholders' loans	*14*	**1,675,446**	1,681,059
Government grants		**245,900**	255,232
Deferred tax liabilities		**20,753**	25,031
Obligations under finance leases		**25,883**	–
Other long-term payables		**45,257**	26,510
Retirement benefit obligations		**127,346**	129,333
		2,820,002	2,810,722
NET ASSETS		**3,563,025**	3,346,489
CAPITAL AND RESERVES			
Share capital	*16*	**1,438,286**	1,438,286
Reserves		**2,079,473**	1,862,480
Total equity attributable to owners of the Company		**3,517,759**	3,300,766
Non-controlling interests		**45,266**	45,723
TOTAL EQUITY		**3,563,025**	3,346,489

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Shanghai Prime Machinery Company Limited (the Company, and together with its subsidiaries, collectively referred to as the "Group") is a joint stock limited liability company incorporated in the PRC on 30 September 2005. Following the completion of the transfer of the shareholding on 29 August 2017, the parent of the Company has been changed from Shanghai Electric (Group) Corporation ("SEG") to Shanghai Electric Group Company Limited ("SEC"), with the Company's ultimate parent continuing to be SEG, a state-owned enterprise established in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The principal activities of the Group are the design, manufacture and sale of turbine blades, bearings, fasteners, cutting tools and others, the provision of related technical services and investment holding.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvements to HKFRSs 2014–2016 Cycle*

Except as described below, application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior year and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014–2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. 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 principle and interest on the principle 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 cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principle and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 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.

- the new general hedge accounting requirements remain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 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 HKFRS 15, 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 obligations is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 would result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

3. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year, net of sales taxes and surcharges.

An analysis of the Group's revenue, other income and other gains and losses for the year is as follows:

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**8,188,528**	7,373,597
Rendering of services	**50,387**	51,137
Construction contracts	**239,980**	220,197
	8,478,895	7,644,931
Other Income		
Interest income from bank balances and deposits	**14,076**	10,555
Net rental income *(Note i)*	**1,507**	1,060
Government grants *(Note ii)*	**39,821**	27,059
Compensation income *(Note iii)*	**19,867**	20,870
Technology service income	**3,821**	9,683
Recovery freight and package	**1,404**	625
Commissions	**1,891**	2,439
Dividend income from available-for-sale investments	**214**	60
Others	**6,424**	6,664
	89,025	79,015
Other gains and losses		
Sales of spare parts, scrap materials and semi-finished goods	**110,427**	85,034
Less: costs related to sales of spare parts, scrap materials and semi-finished goods	**(68,939)**	(52,235)
	41,488	32,799
Gain on disposal of items of property, plant and equipment	**7,479**	4,247
Loss on disposal of items of property, plant and equipment	**(5,738)**	(5,401)
Impairment loss on trade and other receivables recognised	**(25,700)**	(24,181)
Impairment losses on trade and other receivables reversed	**21,769**	9,832
(Loss) gain on financial instruments *(Note iv)*	**(97,509)**	28,102
Foreign exchange gain	**108,436**	18,133
Foreign exchange loss	**(25,592)**	(36,520)
Gain on write-back of payables	**706**	522
	25,339	27,533
	114,364	106,548

Notes:

(i) Gross rental income is disclosed in note 6.

(ii) Government grants represent amount received from local governments by certain PRC entities of the Group. Government grants of approximately (a) RMB24,942,000 (2016: RMB12,793,000) represent incentives received in relation to the government's financial support for the Group's business development in the PRC, the conditions to which have been satisfied; and (b) RMB14,879,000 (2016: RMB14,266,000) represents subsidies for the acquisition of machinery amortised to profit or loss for the year.

(iii) Compensation income mainly includes compensation amounting to RMB14,782,000 received from insurance companies for losses incurred on certain items of property, plant and equipment (2016: Compensation income mainly included RMB19,224,000 received from an insurance company for the loss on fire damage to certain items of property, plant and equipment).

(iv) (Loss) gain on financial instruments represents the loss incurred on the settlement of a foreign currency forward contract amounting to RMB97,509,000 (2016: a gain of RMB28,102,000). Such foreign currency forward contract was used to hedge the foreign currency risk.

4. SEGMENT INFORMATION

For management purpose, the Group is organised into business units based on their products and services and has five reportable operating segments under HKFRS 8 as follows:

(i) the bearing segment is mainly engaged in the production and sale of bearings;

(ii) the turbine blade segment is mainly engaged in the production and sale of turbine blades;

(iii) the cutting tool segment is mainly engaged in the production and sale of cutting tools and processing services;

(iv) the fastener segment is mainly engaged in the production and sale of fasteners and related equipment and testing services;

(v) "Others" refers to the Group's investment in one of its associates, which is engaged in the production and sale of carbolic products.

For the purposes of monitoring segment performance and allocating resources between segments:

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

Segment liabilities exclude corporate and other unallocated head office liabilities as these liabilities are managed on a group basis.

Inter-segment sales are transacted at prevailing market prices.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2017

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue						
Sales to external customers	**758,015**	**963,952**	**571,202**	**6,185,726**	**–**	**8,478,895**
Inter-segment sales	**–**	**–**	**2,337**	**–**	**–**	**2,337**
Sub-total	**758,015**	**963,952**	**573,539**	**6,185,726**	**–**	**8,481,232**
Eliminations						**(2,337)**
Group revenue						**8,478,895**
Segment profit	**16,789**	**67,731**	**68,866**	**307,096**	**–**	**460,482**
Interest and dividend income and unallocated gains						**44,457**
Corporate and other unallocated expenses						**(70,869)**
Finance costs						**(123,308)**
Share of profit (losses) of associates	**32,998**	**–**	**(424)**	**–**	**9,027**	**41,601**
Share of loss of a joint venture	**–**	**–**	**–**	**(813)**	**–**	**(813)**
Profit before tax						**351,550**

For the year ended 31 December 2016

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue						
Sales to external customers	762,471	958,326	495,287	5,428,847	–	7,644,931
Inter-segment sales	–	–	2,368	–	–	2,368
Sub-total	762,471	958,326	497,655	5,428,847	–	7,647,299
Eliminations						(2,368)
Group revenue						7,644,931
Segment profit	9,745	49,775	66,385	319,789	–	445,694
Interest and dividend income and unallocated gains						11,752
Corporate and other unallocated expenses						(62,329)
Finance costs						(123,505)
Share of profits (losses) of associates	20,346	–	(333)	–	9,588	29,601
Share of loss of a joint venture	–	–	–	(657)	–	(657)
Profit before tax						300,556

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of interest and dividend income and unallocated gains, which mainly include exchange gains, while corporate and other unallocated expenses mainly include administrative expenses of the head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments.

At 31 December 2017

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets						
Assets	**1,079,734**	**2,562,267**	**647,331**	**3,554,471**	**–**	**7,843,803**
Eliminations of inter-segment receivables	**(172,780)**	**(109,373)**	**(275,281)**	**(226,422)**	**(2,522,324)**	**(3,306,180)**
Total segment assets						**4,537,623**
Interests in associates	**66,481**	**–**	**16,098**	**–**	**61,770**	**144,349**
Interest in a joint venture	**–**	**–**	**–**	**568**	**–**	**568**
Goodwill	**25,012**	**–**	**–**	**1,488,322**	**–**	**1,513,334**
Corporate and other unallocated assets						**3,067,299**
Consolidated assets						**9,263,173**
Segment liabilities						
Liabilities	**355,316**	**1,477,726**	**144,943**	**4,298,197**	**–**	**6,276,182**
Eliminations of inter-segment payables	**(49,869)**	**(667,000)**	**(50,424)**	**(47,433)**	**(2,491,454)**	**(3,306,180)**
Total segment liabilities						**2,970,002**
Corporate and other unallocated liabilities						**2,730,146**
Consolidated liabilities						**5,700,148**

At 31 December 2016

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment assets						
Assets	1,125,719	2,615,616	620,243	2,973,203	–	7,334,781
Eliminations of inter-segment receivables	(129,560)	(9,391)	(228,696)	(128,313)	(2,176,998)	(2,672,958)
Total segment assets						4,661,823
Interests in associates	86,778	–	16,522	–	71,172	174,472
Interest in a joint venture	–	–	–	1,311	–	1,311
Goodwill	25,012	–	–	1,393,803	–	1,418,815
Corporate and other unallocated assets						2,863,780
Consolidated assets						9,120,202
Segment liabilities						
Liabilities	379,996	1,538,783	131,179	3,351,732	–	5,401,690
Eliminations of inter-segment payables	(36,596)	(644,068)	(52,800)	(14,959)	(1,924,535)	(2,672,958)
Total segment liabilities						2,728,732
Corporate and other unallocated liabilities						3,044,981
Consolidated liabilities						5,773,713

For the purposes of monitoring segment performance and allocating resources between segments:

- other than assets of the head office, the remaining assets are allocated to reportable and operating segments.

- other than company bonds, bank borrowings and shareholders' loans, the remaining liabilities are allocated to reportable and operating segments.

Other Segment information

For the year ended 31 December 2017

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Segment Subtotal *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets	9,993	27,647	10,277	194,100	242,017	6,046	248,063
Depreciation and amortisation	41,671	102,892	29,788	125,916	300,267	9,798	310,065
Impairment loss on trade and other receivables recognised (reversed) in profit or loss	5,674	(6,911)	541	4,781	4,085	(154)	3,931
(Gain) loss on disposal of property, plant and equipment	1,574	2,411	262	(5,988)	(1,741)	–	(1,741)
Allowance for (reversal of allowance for) inventories	18,721	3,059	(2,518)	(2,387)	16,875	–	16,875
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Income tax expense	3,083	5,049	9,493	81,151	98,776	–	98,776

For the year ended 31 December 2016

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Segment Subtotal *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets	3,289	41,327	14,184	164,410	223,210	5,452	228,662
Depreciation and amortisation	41,614	98,148	26,142	120,662	286,566	8,376	294,942
Impairment loss on trade and other receivables recognised (reversed) in profit or loss	(4,149)	17,815	547	(19)	14,194	155	14,349
(Gain) loss on disposal/ write-off of property, plant and equipment	262	4,069	(1,501)	8,576	11,406	–	11,406
Allowance for (reversal of allowance for) inventories	14,747	3,256	(8,288)	286	10,001	–	10,001
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Income tax expense	8,862	3,784	9,087	75,674	97,407	–	97,407

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets and excluded interest in a joint venture, interests in associates, available-for-sale investments and deferred tax assets.

	Revenue from external customers		**Non-current assets**	
	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *RMB'000*	**31/12/2017** ***RMB'000***	31/12/2016 *RMB'000*
The PRC	**2,428,313**	2,151,193	**1,628,767**	1,775,749
Outside the PRC	**6,050,582**	5,493,738	**2,396,657**	2,157,053
	8,478,895	7,644,931	**4,025,424**	3,932,802

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2017 and 2016.

5. INCOME TAX EXPENSE

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**26,447**	18,488
Other jurisdictions	**71,265**	65,968
	97,712	84,456
Under (over) provision in prior years:		
PRC EIT	**(3,385)**	(3,295)
Other jurisdictions	**1,122**	–
	(2,263)	(3,295)
Deferred tax:		
Current year	**3,327**	16,246
	3,327	16,246
	98,776	97,407

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate for the PRC subsidiaries is 25% for both years. Certain subsidiaries of the Group have obtained the "High Technology Enterprise" status for 3 years that entitles them to a concessionary tax rate of 15%, which will be subject to renewal for another 3 years according to the EIT Law.

Certain subsidiaries are located in Germany, France, United Kingdom, Netherlands, Spain, Belgium and other regions, for which corporate tax is calculated at the rates prevailing in the relevant jurisdictions.

No Hong Kong Profits Tax has been provided for as the Group's income neither arises in, nor is derived from, Hong Kong for both years.

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Cost of inventories recognised as expenses	**6,756,783**	6,015,542
Cost of services provided	**37,183**	39,690
Depreciation of property, plant and equipment	**295,521**	280,361
Release of prepaid lease payments (recognised in selling and distribution expenses, administrative expenses and cost of sales)	**3,463**	3,463
Amortisation of intangible assets (recognised in selling and distribution expenses, administrative expenses and cost of sales)	**11,081**	11,118
Total depreciation and amortisation	**310,065**	294,942
Capitalised in inventories	**(38,723)**	(38,624)
	271,342	256,318
Allowance for inventories	**50,081**	32,188
Reversal of allowance for inventories (recognised in cost of sales)	**(33,206)**	(22,187)
Impairment loss on trade receivables	**19,637**	11,709
Reversals of allowance on trade receivables	**(7,063)**	(9,832)
Impairment loss on other receivables	**6,063**	12,472
Reversals of impairment loss on other receivables	**(14,706)**	–
Auditor's remuneration		
Audit services	**6,907**	5,425
Non-audit services	**447**	1,739
	7,354	7,164
Gross rental income	**8,638**	6,760
Less: direct operating expenses	**(7,131)**	(5,700)
	1,507	1,060
Operating leasing payments in respect of property, plant and equipment	**128,521**	115,080
Directors' emoluments *(note 18)*	**5,751**	5,351
Other staff costs	**1,462,169**	1,306,868
Retirement benefits for other staff	**74,329**	81,449
Total staff costs	**1,542,249**	1,393,668
Capitalised in inventories	**(167,582)**	(167,154)
	1,374,667	1,226,514

7. DIVIDENDS

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
Proposed 2017 Final — nil (2016: 2016 final RMB3.50 cents)	**–**	50,340

Subsequent to the end of this reporting period, no final dividend in respect of the year ended 31 December 2017 (2016: a final dividend in respect of the year ended 31 December 2016 of RMB3.50 cents) has been proposed by the directors of the Company.

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Profit for the year attributable to owners of the Company	**253,424**	203,401
Earnings for the purpose of basic and diluted earnings per share	**253,424**	203,401

	31/12/2017 *in '000*	31/12/2016 *in '000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,411,160**	1,411,160
Effect of dilutive potential ordinary shares in respect of shares awarded under the Incentive Scheme — unvested	**5,406**	5,406
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,416,566**	1,416,566

The weighted average number of ordinary shares for 2017 and 2016 shown above has been arrived at after deducting the 27,126,000 shares held by TC Capital Management Limited, the trustee of the Company's Incentive Scheme.

9. GOODWILL

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2016	1,378,452
Exchange adjustments	40,363
At 31 December 2016	1,418,815
Exchange adjustments	94,519
At 31 December 2017	1,513,334

Impairment testing on goodwill

Goodwill acquired through business combinations is allocated to the cash-generating units ("CGU") for impairment testing. The carrying amounts of goodwill allocated to these units are as follows:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Fastener — Nedfast Holding B.V. ("Nedfast")	**1,488,323**	1,393,804
Bearing — Shanghai United Bearing Company Limited ("United Bearing")	**8,818**	8,818
Bearing — Shanghai Tianhong	**16,193**	16,193
	1,513,334	1,418,815

During the year ended 31 December 2017 and 2016, the directors of the Group determined that there were no impairment of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Nedfast

The recoverable amount of Nedfast are determined based on value-in-use calculations. The key assumptions for the value-in-use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 10.5% (2016: 10.5%) per annum. The cash flows beyond the five-year period are extrapolated using a 1.0% (2016: 1.0%) growth rate per annum. This grow rate does not exceed the average long-term growth rate for the industry.

Cash flow projection during the budget period for the cash-generating unit is based on expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in any of these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

United Bearing

The recoverable amount of United Bearing is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 14.0% (2016: 14.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2016: 2.0%) growth rate per annum. This growth rate does not exceed the average long-term growth rate for the industry.

Cash flow projection during the budget period for the cash-generating unit is based on expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in any of these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

Shanghai Tianhong

The recoverable amount of Shanghai Tianhong is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13.0% (2016: 13.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2016: 2.0%) growth rate per annum. This growth rate does not exceed the average long-term growth rate for the industry.

Cash flow projection during the budget period for the cash-generating unit is based on expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in any of these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

10. TRADE RECEIVABLES

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Trade receivables	**1,329,920**	1,280,110
Less: allowance for doubtful debts	**(65,468)**	(54,115)
	1,264,452	1,225,995

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally for a period of one to six months. Given that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing and unsecured.

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Within 3 months	**831,061**	916,090
Over 3 months but within 6 months	**269,732**	216,734
Over 6 months but within 1 year	**119,126**	61,083
Over 1 year but within 2 years	**26,382**	11,685
Over 2 years	**18,151**	20,403
	1,264,452	1,225,995

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits for customers. Limits attributed to customers are reviewed periodically. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB970,722,000 (31 December 2016: RMB860,431,000) which are neither past due nor impaired. The management of the Group considers that the trade receivables which are neither past due nor impaired are of good quality given the continuous settlement from customers.

The following is an aged analysis of trade receivables based on the invoice date, which are past due as at the reporting date, but not impaired as the management considers that there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience and credit re-assessment of each individual customer. The Group does not hold any collateral over these balances.

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Within 3 months	**124,952**	84,459
Over 3 months but within 6 months	**5,119**	187,933
Over 6 months but within 1 year	**119,126**	61,083
Over 1 year but within 2 years	**26,382**	11,685
Over 2 years	**18,151**	20,404
	293,730	365,564

The movements in the allowance for doubtful debts are as follows:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
1 January	**54,115**	53,068
Impairment losses recognised on receivables	**19,637**	11,709
Amount written off as uncollectible	**(2,160)**	(1,221)
Impairment losses reversed	**(7,063)**	(9,832)
Exchange differences	**939**	391
31 December	**65,468**	54,115

As at 31 December 2017, included in the balance of allowance for doubtful debts are individually impaired trade receivables in full with an aggregate balance of RMB2,001,000 (31 December 2016: RMB1,033,000). By reference to the historical experience and credit re-assessment of these receivables, it is considered that these receivables may not be recoverable. The Group does not hold any collateral over these balances.

As at 31 December 2017, there were no trade receivables (31 December 2016: RMB32,294,000) pledged to banks as security for bank borrowings.

The amounts due from SEG and its subsidiaries ("SEG Group") and the amounts due from associates included in the above can be analysed as follows:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Due from SEG Group	**95,170**	111,891
Due from associates	**–**	6
	95,170	111,897

The Group's balances with related parties are unsecured, interest-free and on similar credit terms to those offered to the major customers of the Group.

11. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Within 3 months	**1,381,590**	1,131,852
Over 3 months but within 6 months	**126,202**	107,697
Over 6 months but within 1 year	**37,914**	40,487
Over 1 year but within 2 years	**20,279**	82,834
Over 2 years	**3,350**	8,233
	1,569,335	1,371,103

The credit period for purchases of goods is generally 60 to 90 days and certain suppliers are allowed a longer credit period on a case-by-case basis.

The amounts due to SEG Group included in the above can be analysed as follows:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Due to SEG Group	**442**	3,368

12. COMPANY BOND

On 31 August 2012, the Company issued a five-year company bond (the "Bond") in the principal amount of RMB500,000,000, with an option granted to the bondholders to redeem wholly or partly at 100% of the principal amount exercisable for one time on the third anniversary since the date of issue. No bondholders exercised the redemption option, which therefore lapsed on 31 August 2015. The Bond carries interest at a fixed rate of 5.08% per annum for the first three years, with an option granted to the Company to change the interest rate for one time on the third anniversary since the date of issue. The Company announced that the interest rate would be fixed at 5.08% per annum till the end of the maturity date on 31 August 2017. Interest is payable annually on 31 August. The Bond is unsecured and guaranteed by SEG.

The Bond was reclassified as current liabilities on 31 August 2016 and fully repaid as at 31 December 2017.

13. BANK BORROWINGS

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Bank borrowings	**850,800**	864,879

The bank borrowings were guaranteed and secured by:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Secured and guaranteed	**2,100**	–
Unguaranteed and secured by equity interest of subsidiaries	**753,397**	763,145
Unguaranteed and secured by property of subsidiaries	**52,435**	–
Unguaranteed and secured by accounts receivables	**–**	25,000
	807,932	788,145
Unsecured and unguaranteed	**42,868**	76,734
	850,800	864,879
Less: Amounts shown under current liabilities	**(171,383)**	(171,322)
Amounts shown under non-current liabilities	**679,417**	693,557

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
The carrying amounts of the above borrowings are repayable:		
Within one year	**171,383**	171,322
More than one year but not exceeding two years	**75,446**	104,416
More than two years but not exceeding five years	**565,995**	589,141
More than five years	**37,976**	–
	850,800	864,879

The exposure of the Group's borrowings to variability of interest rates and the contractual maturity dates are as follows:

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Fixed-rate borrowings repayable*:		
— expiring within one year	**25,119**	66,934
— expiring beyond one year	**52,284**	–
Variable-rate borrowings repayable*:		
— expiring within one year	**146,264**	104,388
— expiring beyond one year	**627,133**	693,557

* The amounts due are based on scheduled repayment dates set out in the relevant loan agreements, which contain no demand clause.

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

	Fixed-rate borrowings	**Variable-rate borrowings**
31 December 2017	2.70% to 5.44%	3 months Euro Interbank Offered Rate ("EURIBOR") plus 1.35% to 2.00%, and interest rate released by the People's Bank of China ("PBOC") deducted by 5 basis points ("bps")
31 December 2016	4.13% to 5.44%	3 months EURIBOR plus 1.60% to 2.25%, base interest rate released by China Construction Bank minus 10%, China Interbank Offered Rate ("CHIBOR") minus 16.75 bps and interest rate released by the PBOC deducted by 5 bps

14. SHAREHOLDERS' LOAN

The shareholders' loans are unsecured, bear interest at 2.0% to 3.915% (31 December 2016: 2.0% to 3.3%) per annum, and denominated in Renminbi ("RMB"), US Dollars ("USD") and Euro ("EUR"), of which RMB3,900,000 (31 December 2016: nil) is due on 23 July 2018, RMB200,000,000 (31 December 2016: nil) is due on 30 November 2018, RMB895,216,000 (31 December 2016: RMB950,369,000) is due on 11 August 2019 and RMB780,230,000 (31 December 2016: RMB730,690,000) is due on 4 May 2020. Interest has been paid to lenders on time.

15. INCENTIVE SCHEME

On 17 January 2014, an incentive scheme (the "Incentive Scheme") was adopted by the Company. The Incentive Scheme shall be valid and effective for a period of 5 years commencing from the adoption date.

Pursuant to the Incentive Scheme, incentives will be awarded to the eligible participants in the form of (i) cash instalments; and (ii) the awarded shares. The Board shall entrust qualified agent(s) to act as trustee(s) under the Incentive Scheme, pursuant to which the shares will be purchased by the trustee(s) from the market out of cash contributed by the Group and to be held in trust for eligible participants.

The Incentive Scheme shall be subject to the administration of the Board or its delegated authorities, and the trustee, TC Capital Management Limited, an independent third-party in accordance with the rules governing the operation of the Incentive Scheme and the trust deed. The Board may make cash contributions to the trust as it may determine from time to time.

The total number of all shares to be purchased under the Incentive Scheme must not exceed 10% of the issued shares of the Company as at the adoption date unless the Board decides otherwise. The maximum number of shares which may be awarded to the eligible participants under the Incentive Scheme shall not exceed 10% of the issued shares as at the adoption date.

The scope of eligible participants for the Incentive Scheme shall include directors (including without limitation any executive and non-executive directors), senior management and other key employees of the Group who, in the opinion of the Board, contribute directly to the overall business performance and sustainable development of the Group.

The list of eligible participants and the number of shares to be granted shall be determined by the Board. All eligible participants must be employees of the group, who have entered into labour contracts with the Company or its subsidiaries and branches, during the appraisal period of the Incentive Scheme.

On 16 December 2016, a resolution was passed to adjust the form of incentive from cash instalments and awarded shares to cash instalments only.

Shares Award

During 2015 and up to 16 December 2016, the Group purchased a total of 27,126,000 shares of the Company for the Incentive Scheme at an weighted average price of HKD1.42 per share. As at 31 December 2017, there were 21,720,000 (31 December 2016: 21,720,000) unawarded shares with a total value of HKD30,842,000 (31 December 2016: HKD30,842,000) held by the trustee.

Details of movements of shares of the Company awarded to directors of the Company and employees of the Group during the year are as follows:

	Number of shares ***'000***
Outstanding at 1 January 2017	**5,406**
Awarded during the year	**–**
Vested during the year	**–**
Outstanding at 31 December 2017	**5,406**

On 30 June 2015, a total of 5,406,000 shares of the Company were awarded to the directors of the Company and employees of the Group at nil consideration. 30%, 30% and 40% of the awarded shares would be vested after the third, fourth and fifth anniversary of the date of grant if they remain in office as employees of the Group at that date. The total fair value of the awarded shares determined at the date of grant was equivalent to RMB8,612,000, which was determined by reference to the closing share price on that date. An amount of RMB2,186,000 (2016: RMB2,186,000) in respect of the awarded shares under the Incentive Scheme was recognised as an expense and included in the staff cost for the year ended 31 December 2017.

Any dividends declared in respect of the awarded shares held by the trustee during the vesting period belongs to the participants and will be given to them after the vesting period. However, the participants do not have any voting right in respect of the awarded shares during the vesting period.

Cash Instalments

On 30 June 2015, a total of cash instalments of RMB8,326,000 was approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 50% of the cash would be payable during the year of grant, while the remaining 30% and 20% of the cash instalments would be payable after the first and second anniversary of the date of grant if they remain in office as employees of the Group at that date. An amount of RMB507,000 (2016: RMB1,504,000) in respect of cash instalments under the Incentive Scheme was recognised as an expense and included in the staff cost for the year ended 31 December 2017.

On 16 December 2016, a total of cash instalments of RMB11,520,000 was approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 60% of the cash would be payable during the year of grant, while the remaining 20% and 20% of the cash instalments would be payable after the first and second anniversary of the date of grant if they remain in office as employees of the Group at that date. An amount of RMB1,920,000 (2016: RMB8,832,000) in respect of cash instalment under the Incentive Scheme was recognised as an expense and included in the staff cost for the year ended 31 December 2017.

On 30 June 2017, a total of cash instalments of RMB7,460,000 was approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 60% of the cash would be payable during the year of grant, while the remaining 20% and 20% of the cash instalments would be payable after the first and second anniversary of the date of grant if they remain in office as employees of the Group at that date. An amount of RMB5,719,000 in respect of cash instalment under the Incentive Scheme was recognised as an expense and included in the staff cost for the year ended 31 December 2017.

On 16 March 2018, a total of cash instalments of RMB15,120,000 was approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 60% of the cash would be payable during the year of grant, while the remaining 20% and 20% of the cash would be payable after the first and second anniversary of the date of grant if they remain in office as employees of the Group at that date.

16. SHARE CAPITAL

	31/12/2017		31/12/2016	
	Number of share	**Amount**	Number of share	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Registered, issued and fully paid:				
Domestic ordinary shares of RMB1.00 each, currently not listed — State-owned ordinary shares	**678,576**	**678,576**	678,576	678,576
H ordinary shares of RMB1.00 each	**759,710**	**759,710**	759,710	759,710
	1,438,286	**1,438,286**	1,438,286	1,438,286

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction except for those held by the trustee under the Incentive Scheme.

As at 31 December 2017, 27,126,000 (31 December 2016: 27,126,000) shares of the Company were held in custody by the trustee for the Incentive Scheme, out of which 5,406,000 shares (31 December 2016: 5,406,000 shares) were granted to but have not yet become vested in the participants. Further details are set out in note 15.

There was no repurchase of shares of the Company during the year ended 31 December 2017 and the year ended 31 December 2016.

17. CAPITAL COMMITMENTS

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Capital commitments contracted but not provided for in the consolidated financial statements in respect of:		
— Plant and machinery	**39,912**	36,943
— Land and buildings	**–**	5,224
	39,912	42,167

18. RELATED PARTY DISCLOSURES

The Company is a subsidiary of SEC, which is a H-share and A-share listed entity. The ultimate holding parent is SEG, which is a state-owned enterprise subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly or indirectly controls a significant number of entities through government authorities and other state-owned entities.

(a) Related party transactions

Other than as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

Related party	**Nature of transaction**	**Year ended 31/12/2017** ***RMB'000***	Year ended 31/12/2016 *RMB'000*
SEG Group and its associate excluding SEC and its subsidiaries	Sales of goods *(Note i)*	**3,245**	3,893
	Comprehensive services charges incurred	**–**	208
	Rental expense *(Note ii)*	**19,283**	22,769
	Interest expense	**46,526**	44,959
	Purchase of materials *(Note i)*	**–**	81
	Dividend distribution	**23,750**	23,417
	Rendering of comprehensive services	**–**	18,868
SEC and its subsidiaries	Comprehensive services charges incurred	**12**	218
	Sales of goods *(Note i)*	**274,977**	351,688
	Rental expenses *(Note ii)*	**4,604**	2,338
	Interest expense	**2,460**	–
	Rendering of comprehensive services	**1,511**	–
	Finance lease	**30,000**	–

Notes:

i. The sales and purchases of goods and services were conducted in accordance with mutually agreed terms with reference to market conditions.

ii. The rental fees were based on mutually agreed terms with reference to market rates.

(b) Related party balances

Other related party balances including trade receivables, bills receivable, trade payables, other payables and accruals.

(c) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases of materials, property, plant and equipment, receiving of services, sales of goods, rendering of services and making deposits and borrowings with state-owned entities, other than the SEG Group, in the normal course of business at terms comparable to those with other non-state-owned entities.

(d) Compensation of key management personnel

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

	Year ended 31/12/2017	Year ended 31/12/2016
	RMB'000	*RMB'000*
Fees	**624**	555
Short-term employee benefits	**4,921**	4,586
Retirement benefit	**206**	210
	5,751	5,351

The remuneration of directors and key executives is determined by the remuneration committee having regard to performance of individuals and market trends.

The related party transactions with SEG Group also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

BUSINESS REVIEW

During FY2017, the Group generated revenue of RMB8,479 million (FY2016: RMB7,645 million), which was 11% higher than that of FY2016 and a record high since the establishment of the Company in 2005. The Group's fastener business and cutting tool business have recorded strong growth in sales owing to increased market demand and satisfactory sales and marketing strategies during FY2017. The Group's overall gross profit margin was under pressure mainly due to higher raw material costs as well as unfavourable foreign currency fluctuations during FY2017. Nonetheless, the reduced margin has been largely compensated by savings in the Group's operating expenses on improved efficiency. Profit attributable to owners of the Company for FY2017 increased by 25% to RMB253 million (FY2016: RMB203 million).

Basic earnings per share ("**EPS**") of the Company for FY2017 amounted to RMB17.96 cents (FY2016: RMB14.41 cents). To enhance the Group's working capital and to retain resources for potential investment, the Board did not recommend the payment of a final dividend for FY2017 (FY2016: RMB3.5 cents).

RESULTS OF PRINCIPAL BUSINESS

Set out below are the revenue, gross profit and gross profit margin in terms of business nature:

	Revenue		**Gross Profit**		**Gross Profit Margin**	
Business	**2017**	2016	**2017**	2016	**2017**	2016
			(RMB million)			
Fastener business	**6,186**	5,429	**1,148**	1,064	**19%**	20%
Percentage of total	**73%**	71%	**68%**	67%		
Turbine blade business	**964**	958	**214**	229	**22%**	24%
Percentage of total	**11%**	13%	**13%**	14%		
Bearing business	**758**	763	**167**	151	**22%**	20%
Percentage of total	**9%**	10%	**10%**	10%		
Cuting tool business	**571**	495	**156**	146	**27%**	29%
Percentage of total	**7%**	6%	**9%**	9%		

FASTENER BUSINESS

The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the energy industry, the aerospace industry and for general industrial applications. In addition, the Group also offers customers premium and one-stop services, ranging from testing, logistics and warehousing to ERP and electronic procurement via a proprietary B2B online platform. The Group is a leading global fastener partner for world-renowned automobile manufacturers and our diversified customer portfolio includes Volkswagen, BMW, Renault, Audi, Daimler, General Motors and SAIC Motor. In August 2017, the Group completed the acquisition of CP Tech GmbH ("**CP Tech**"), a high-tech engineering company for the automotive and motorsport industry, which has enabled the Group to develop functionality knowledge and technical know-how relating to future vehicle concepts including electric and driverless vehicles, and to strengthen the Group's business relationship with its automotive customers. During FY2017, the Company was named by the Ministry of Industry and Information Technology ("**MIIT**") of the PRC as a "model champion manufacturing enterprise" (製造業單項冠軍示範企業) in recognition of the Group's outstanding product — high-tensile strength fasteners.

Revenue of fastener business amounted to RMB6,186 million (FY2016: RMB5,429 million), representing an increase of 14% as compared with FY2016. Of this, revenue generated from automotive products, representing 83% of the segment's total revenue, increased by 11% as compared with FY2016 to RMB5,104 million (FY2016: RMB4,586 million), underpinned by the continued growth of passenger and commercial car production in the European Union countries and the appreciation of Euro. Revenue generated from products for general industrial applications and testing services grew 29% as compared with FY2016 to RMB1,071 million (FY2016: RMB829 million), mainly attributable to re-stocking demand from customers in view of rising raw material prices as well as significant increase in export sales. Included in this segment was CP Tech's maiden contribution of RMB55 million revenue to the Group in FY2017, representing mainly sales of high-performance automotive components. The segment's average gross profit margin was reduced to 19% (FY2016: 20%) mainly because of rising raw material costs, increased outsourcing spending as well as the depreciation of USD that adversely affected the margin of the Group's export sales of fasteners.

TURBINE BLADE BUSINESS

By virtue of its advanced process technologies and professional management, the Group is a world-renowned supplier of power components for the energy industry and the aviation industry, and has a leading position in the relevant markets in China. The Group primarily supplies gas turbine blades, steamed turbine blades and forged products for the energy industry, and turbine blades and forged products for the aviation industry. In particular, the Group is a leading supplier of large-scale thermal power steam turbine blades in China, enjoying a significant share in the relevant market therein. The Group's customer portfolio includes well-known energy equipment companies such as Shanghai Electric, Dongfang Electric, Alstom, General Electric and Siemens. It also includes well-known aeronautical engine manufacturers such as Aviation Industry Corporation of China, GE Aviation as well as Rolls-Royce. During FY2017, the Group won the "Best New Supplier Award" from Rolls-Royce. The Group's wholly-owned subsidiary, Wuxi Turbine Blade Co., Ltd., was also named by MIIT of the PRC as a "model champion manufacturing enterprise" (製造業單項冠軍示範企業) in recognition of its outstanding product — steam turbine blades.

Revenue of the turbine blade business amounted to RMB964 million for FY2017 (FY2016: RMB958 million), which was generally stable comparing with that for FY2016. Of which, revenue generated from energy products decreased slightly as compared with FY2016 to RMB788 million (FY2016: RMB799 million) given sluggish overseas demand, partly offset by the growth in domestic demand due to facility upgrades in China. Revenue generated from aviation products increased to RMB177 million (FY2016: RMB160 million), representing an increase of 11% as compared with FY2016, thanks to the higher sales to domestic customers on improved demand and to overseas customers as a result of scaled production for some customers and the sale of forged products for the C919 aircraft engine. In FY2017, the segment's average gross profit margin declined to 22% (FY2016: 24%) mainly due to the change of the product mix.

BEARING BUSINESS

The Group supplies a diversified portfolio of bearing products ranging from precision micro bearings to standard bearings and specialized bearings for various industries such as aerospace, automobile, cargo railway, energy as well as for general industrial applications. In addition to this, the Group also provides repair and maintenance services relating to bearings used in the cargo railway industry. The Group has a diversified customer portfolio for this segment and enjoys significant shares in the relevant markets such as aerospace and cargo railway in China.

Revenue of the bearing business, amounting to RMB758 million for FY2017 (FY2016: RMB763 million), remained stable as compared with FY2016. Of which, revenue generated from cargo railway products and services amounted to RMB288 million (FY2016: RMB241 million), representing an increase of 20% as compared with FY2016, mainly due to the increase in both customer demand and our market share. Revenue generated from automotive products increased by 4% as compared with FY2016 to RMB284 million (FY2016: RMB273 million), mainly as a result of the increase in export sales. Revenue generated from aerospace products decreased slightly to RMB78 million (FY2016: RMB81 million) as certain customers reduced their inventory during FY2017. Revenue generated from products for wind power energy decreased by 81% to RMB15 million (FY2016: RMB77 million) as compared with FY2016 due to the weakened market competitiveness of products. In FY2017, the segment's average gross profit margin was 22% (FY2016: 20%), mainly due to the change of the product mix.

CUTTING TOOL BUSINESS

The Group is one of the leading suppliers of cutting tools with a sizeable production capacity, industry-leading sales and distribution network and a comprehensive product portfolio in China. The Group principally supplies a variety of cutting tool products for general industrial applications.

Revenue of the cutting tool business increased by 15% as compared with FY2016 to RMB571 million (FY2016: RMB495 million), mainly driven by re-stocking demand from customers in view of rising raw material prices which has led to an upward adjustment to product selling prices initiated by major cutting tool manufacturers in China in the first half of 2017. Meanwhile, the Group's market share further increased amid the aforementioned price adjustment trend. The segment's average gross profit margin was reduced to 27% (FY2016: 29%), mainly due to higher sales discounts and promotional costs for the purpose of capturing more market share in China.

REVIEW OF FINANCIAL POSITION

Selling and Distribution Expenses

The Group's selling and distribution expenses are mainly comprised of staff costs, transportation expenses, advertising and promotion expenses, travel expenses and packaging expenses. Selling and distribution expenses for FY2017 increased 8% year-on-year to RMB400 million (FY2016: RMB371 million), mainly due to higher staff costs and transportation expenses.

Administrative Expenses

The Group's administrative expenses are mainly comprised of staff costs, professional fees, travel expenses, office expenses, rental expenses and depreciation and amortization. Administrative expenses for FY2017 increased 2% year-on-year to RMB638 million (FY2016: RMB624 million), mainly due to the increase in staff costs, professional fees and depreciation, partially offset by the reduction of certain other expenses.

Research Expenditure

The Group's research expenditure for FY2017 increased 10% year-on-year to RMB322 million (FY2016: RMB293 million), mainly due to the increase in investments arising from more research projects undertaken by the Group.

Finance Costs

The Group's finance costs for FY2017 amounted to RMB123 million (FY2016: RMB124 million), flat from that of FY2016. Interest expenses in general decreased as the Group's bank and other borrowings decreased during FY2017 mainly as a result of the redemption of the RMB500 million company bonds on 31 August 2017. However, this was largely offset by higher factoring costs and the appreciation of Euro.

Share of Profits of Associates

The Group's share of profits of associates for FY2017 amounted to RMB42 million (FY2016: RMB30 million), representing a year-on-year increase of 40%. The increase in the share of profits of associates was mainly due to the higher net profits of Shanghai General Bearing Company Limited, one of the Group's associates, in FY2017.

Income Tax Expense

The Group's income tax expense amounted to RMB99 million in FY2017 compared with RMB97 million in FY2016, representing a year-on-year increase of 2%. The increase in the income tax expense was mainly due to the Group's profit growth, while being partially offset by the recognition of a deferred tax asset by one of the Group's subsidiary as it turned profitable.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was RMB253 million in FY 2017 (FY2016: RMB203 million), representing a year-on-year increase of 25%. Basic EPS was RMB17.96 cents (FY2016: RMB14.41 cents).

Cash Flow

As at 31 December 2017, the Group's cash and bank balances were RMB881 million (31 December 2016: RMB1,175 million), of which RMB76 million (31 December 2016: RMB52 million) were restricted deposits, representing an increase of 46% in restricted deposits over FY2017. During FY2017, the Group had a net cash inflow from operating activities of RMB597 million (FY2016: net inflow of RMB587 million), a net cash outflow from investing activities of RMB234 million (FY2016: net outflow of RMB161 million), and a net cash outflow from financing activities of RMB629 million (FY2016: net outflow of RMB255 million).

Assets and Liabilities

As at 31 December 2017, the Group had total assets of RMB9,263 million (31 December 2016: RMB9,120 million), representing an increase of RMB143 million over FY2017. Total current assets amounted to RMB4,966 million (31 December 2016: RMB4,877 million), accounting for 54% of total assets, representing an increase of RMB89 million over FY2017. Total non-current assets were RMB4,297 million (31 December 2016: RMB4,243 million), accounting for 46% of total assets, representing an increase of RMB54 million over FY2017.

As at 31 December 2017, the total liabilities of the Group were RMB5,700 million (31 December 2016: RMB5,774 million). Total current liabilities amounted to RMB2,880 million (31 December 2016: RMB2,963 million), accounting for 51% of total liabilities. Total non-current liabilities amounted to RMB2,820 million (31 December 2016: RMB2,811 million), accounting for 49% of total liabilities.

Details of the shareholder's loans of the Group are set out in note 14 to the consolidated financial statements as included in this announcement.

As at 31 December 2017, the net current assets of the Group were RMB2,086 million (31 December 2016: RMB1,914 million), representing an increase of RMB172 million or 9% over FY2017. As at 31 December 2017, the current ratio was 172% (31 December 2016: 165%).

Sources of Funding and Indebtedness

As at 31 December 2017, the Group had bank and other borrowings with an aggregate amount of RMB2,730 million (31 December 2016: RMB3,045 million), representing a decrease of RMB315 million or 10% over FY2017. Borrowings repayable by the Group within one year were RMB375 million (31 December 2016: RMB670 million), representing a decrease of RMB295 million over FY2017, whereas borrowings repayable after one year were RMB2,355 million (31 December 2016: RMB2,375 million). The Group repaid the loans due on schedule during FY2017.

As at 31 December 2017, bank and other borrowings of the Group were interest-bearing at fixed rates ranging from 2.70% to 5.44% (31 December 2016: 4.13% to 5.44%) per annum, or at floating rates ranging from 3-month EURIBOR plus 1.35% to 2.00%, to interest rate released by the People's Bank of China deducted by 5 bps (31 December 2016: 3-month EURIBOR plus 1.60% to 2.25%, base interest rate released by China Construction Bank minus 10%, China Interbank Offered Rate minus 16.75 bps to interest rate released by the People's Bank of China deducted by 5 bps) per annum.

Details of the Group's bank and other borrowings are set out in notes 13 and 14 to the consolidated financial statements as included in this announcement.

Gearing Ratio

As at 31 December 2017, the gearing ratio of the Group, defined as the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 78% (31 December 2016: 92%). The Group's shareholder's loans represent 33% (31 December 2016: 29%) of total liabilities. As at the date of this announcement, the Group has not formulated any financial plan and fund-raising activities for the provision of capital commitments and repayment of outstanding debts.

Restricted Deposits

As at 31 December 2017, bank deposits of RMB76 million (31 December 2016: RMB52 million) of the Group were restricted deposits.

Pledges of Assets

As at 31 December 2017, in addition to restricted deposits, the Group had other pledged assets of RMB273 million (31 December 2016: RMB209 million). Moreover, the equities held by certain subsidiaries of the Group were pledged assets.

Capital Expenditure

The total capital expenditure of the Group for FY2017 was approximately RMB214 million (FY2016: RMB229 million), which was principally invested in the upgrading of production technologies and equipment, and the enhancement of production capacity.

Risks Faced by the Company

Risk of Intense Competition

Despite certain achievements amongst intensifying market competition, the Group still faces intense competition in all the markets where it operates. Under certain situations, competition puts downward pressure on the price of certain products of the Group. The Group's market position depends on the ability to estimate and manage various competition factors, including the introduction of new or improved products and services, pricing strategies of competitors and changing customer preferences. If, among others, the Group fails to maintain competitive prices of similar products or services or provide distinctive products or services, it may lose its customers to competitors. Intensified competition may cause reduction in price, gross profit margin and market share of the Company.

Unforeseeable Difficulties the Group May Encounter When Exploring New Markets

The Group has formulated and implemented internationalization strategies. In order to further satisfy customers' needs, the Group will continue to expand businesses in respect of geographical locations, customers, services and other aspects. In particular, the Group will develop overseas markets for certain businesses and products, while its overseas subsidiaries will actively develop domestic markets. As domestic and overseas customers may have different requirements for products and services of the Group, the Group may have to purchase different equipment or establish additional production lines to explore new markets. Exploring new markets involves a number of risks, including the risks arising from uncertainty of international trading policies and the risks that the Group may encounter as a newcomer in such markets.

Risk of Exchange Rate Fluctuation

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and Euro. The Group uses foreign currency forward contracts to hedge against the risk when it is foreseen to be significant. The management has closely monitored foreign exchange exposures and will undertake necessary measures to mitigate the foreign exchange risk.

Significant Events

The principal place of business in Hong Kong of the Company has been changed to Room 901–903, Tower Two, Lippo Centre, 89 Queensway, Hong Kong since 18 February 2017.

On 17 March 2017, an inside information announcement was released by the Company, which included information related to the Company as set out in Report on the Issuance of Shares for the Acquisition of Assets, Complementary Private Placement and Connected Transaction (Draft) (Revised) (《發行股份購買資產並募集配套資金暨關聯交易報告書》) prepared by the independent financial advisor of Shanghai Electric and published by it on the website of the Shanghai Stock Exchange, website of the Stock Exchange and its company website. For details, please see Inside Information Announcement in Relation to the Progress of the Contemplation of Material Matters published by the Company on 17 March 2017.

On 5 May 2017, an inside information announcement was released by the Company, which included information related to the Company as set out in Announcement on Responses to the Inquiry Letter from Shanghai Stock Exchange in relation to the Disclosure in the Report on the Issuance of Shares to Shanghai Electric Group Company Limited for the Acquisition of Assets, Complementary Private Placement and Connected Transaction (Draft) (《關於上海證券交易所《關於對上海電氣集團股份有限公司發行股份購買資產並募集配套資金暨關聯交易報告書(草案)信息披露的問詢函》的回覆公告》) published by Shanghai Electric Company on the website of the Shanghai Stock Exchange, website of the Stock Exchange and its company website. For details, please see Inside Information Announcement in Relation to the Progress of the Contemplation of Material Matters published by the Company on 5 May 2017.

On 11 June 2017, an inside information announcement was released by the Company, which included information related to the Company as set out in the Response from Shanghai Electric Group Company Limited in relation to the Notice of the First Feedback on Administrative Permit Review by China Securities Regulatory Commission (No. 170861) (《上海電氣集團股份有限公司關於《中國證監會行政許可項目審查一次回饋意見通知書》(170861號)之回覆》) published by Shanghai Electric Company on the website of the Shanghai Stock Exchange, website of the Stock Exchange and its company website. For details, please see Inside Information Announcement in Relation to the Progress of the Contemplation of Material Matters published by the Company on 11 June 2017.

On 23 June 2017, an inside information announcement was released by the Company, in which the Company announced that the Board approved the resolutions regarding the potential investment of EUR5.3 million into CP Tech by Nedschroef Altena GmbH, an indirect wholly owned subsidiary of the Company, involving the acquisition of a 90% equity interest in CP Tech and the provision of a shareholder loan to CP Tech, and the acquisition was completed in August 2017. For details, please see Inside Information Announcement in relation to the Potential Investment published by the Company on 23 June 2017.

On 23 June 2017, the 2016 annual general meeting of the Company was held, and the members of the fifth session of the Board include: (i) Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie and Mr. Chen Hui, all of them have been re-elected and appointed as executive directors of the Company; (ii) Mr. Dong Yeshun who has been re-elected and appointed as a non-executive director of the Company; and (iii) Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang, all of them have been re-elected and appointed as independent non-executive directors of the Company. The term of office of the fifth session of the Board commenced on 23 June 2017 for a term of three years.

On 23 June 2017, (i) Ms. Wei Li, a member of the fourth session of the Supervisory Committee, did not offer herself for re-election at the AGM and retired as a supervisor at the AGM as she wishes to put more effort in developing her own career. The fifth session of the Supervisory Committee, where (ii) Mr. Xu Jianguo (non-employee representative Supervisor), Mr. Si Wenpi (non-employee representative Supervisor) and Mr. Yu Yun (employee representative Supervisor) have been appointed as the supervisors of the Company at the AGM; and (iii) Mr. Xu Jianguo has also been appointed as the chairman of the Supervisory Committee. The term of office of the fifth session of the Supervisory Committee commenced on 23 June 2017 for a term of three years.

On 23 June 2017, Mr. Zhou Zhiyan was elected by the Board of the Company as the chairman of the fifth session of the Board of the Company. Mr. Zhou Zhiyan was also re-appointed as the chief executive officer of the Company.

On 23 June 2017, the Board of the Company announced that (i) Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Dong Yeshun have been appointed as members of the fifth session of the audit committee; (ii) Mr. Chan Oi Fat has been appointed as the chairman of the fifth session of the audit committee; (iii) Mr. Ng Kwong, Alexander has been appointed as the secretary of the fifth session of the audit committee; (iv) Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang have been appointed as members of the fifth session of the nomination committee; (v) Mr. Zhou Zhiyan has been appointed as the chairman of the fifth session of the nomination committee; (vi) Mr. Ng Kwong, Alexander has been appointed as the secretary of the fifth session of the nomination committee; (vii) Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Dong Yeshun have been appointed as members of the fifth session of the remuneration committee; (viii) Mr. Ling Hong has been appointed as the chairman of the fifth session of the remuneration committee; (ix) Mr. Ng Kwong, Alexander has been appointed as the secretary of the fifth session of the remuneration committee; (x) Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Zhang Jie, Mr. Chen Hui, Mr. Dong Yeshun and Mr. Sun Zechang have been appointed as members of the fifth session of the strategy committee; (xi) Mr. Zhou Zhiyan has been appointed as the chairman of the fifth session of the strategy committee; (xii) Mr. Ng Kwong, Alexander has been appointed as the secretary of the fifth session of the strategy committee; (xiii) Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Zhang Jie, Mr. Ling Hong and Mr. Chan Oi Fat have been appointed as members of the fifth session of the risk management committee; (xiv) Mr. Zhou Zhiyan has been appointed as the chairman of the fifth session of the risk management committee; and (xv) Mr. Ng Kwong, Alexander has been appointed as the secretary of the fifth session of the risk management committee. The terms of office of the chairmans and members of the abovementioned board committees commenced on 23 June 2017 and will end upon the expiration of term of the fifth session of the Board.

On 22 August 2017, the Company announced that it would repay the principal amount plus the interest for the last interest period of the 2012 company bond (first batch) issued by the Company on the Shanghai Stock Exchange on 31 August 2017, upon which the 2012 company bond would be delisted from the Shanghai Stock Exchange on 31 August 2017. For details, please see the overseas regulatory announcement published by the Company on 23 August 2017.

On 29 August 2017, SEG, the then direct controlling shareholder of the Company, completed the transfer of all the 678,576,184 domestic shares of the Company (representing approximately 47.18% of the total issued shares of the Company on the date of this announcement) held by it to SEC. After completion of the transfer, (a) SEC's interest in the voting rights of the shares of the Company constitutes approximately 47.18% of the total issued shares of the Company; (b) SEG's interest in the voting rights of the shares of the Company (including Shares held by Shanghai Electric Hong Kong Company Limited) has decreased from approximately 51.62% to approximately 4.44% of the total issued shares of the Company; and (c) SEC and SEG (including shares held by Shanghai Electric Hong Kong Company Limited) continue to have an aggregate interest of approximately 51.62% in the total issued shares of the Company. For details, please see the Completion of Change in Shareholding announcement published by the Company on 29 August 2017.

On 31 August 2017, the Company entered into the Property Lease Agreement with SEG and SEC for a term from the date of the Property Lease Agreement to 31 December 2017. Pursuant to the Property Lease Agreement, due to the acquisition by SEC of certain equity interests and land assets held by SEG by the issuance of shares for asset acquisition (please see the relevant announcements published by SEC for details), the lessor of the Relevant Properties will change from SEG (or its subsidiaries) to SEC (or its subsidiaries). For details, please see the Continuing Connected Transaction announcement published by the Company on 31 August 2017.

On 26 September 2017, the Board announced that on 26 September 2017 (after trading hours), the Company and SEG entered into the Amended Framework Agreements for a term commencing from 1 January 2018 and expiring on 31 December 2019 to amend the Relevant Framework Agreements. In addition, on the same day, the Company and Shanghai Electric Group Finance Company Limited ("**SE Finance**") entered into the Framework Financial Services Agreement for a term commencing from the date of its approval at the EGM of the Company and expiring on 31 December 2019. Pursuant to the Amended Framework Agreements and Framework Financial Services Agreement, the Company will conduct the following transactions with SEG Group (including SEC Group (other than the Group) on an on-going basis: (i) the sales and purchases of goods and services between the Group and SEG Group; (ii) the continued lease of certain properties from SEG Group as offices and production sites to facilitate the Group's operational needs; and (iii) the acceptance of deposit services and comprehensive banking services provided by SE Finance. For details, please see the continuing connected transactions announcement published by the Company on 26 September 2017.

On 30 October 2017, the Board approved the proposed guarantees to be provided by the Company and certain subsidiary of the Company in favour of other subsidiaries of the Company in the maximum amount of RMB485 million to be effective until 31 March 2019, except the proposed guarantees to be approved by the shareholders of SEC. For details, please see the inside information announcement published by the Company on 30 October 2017.

At the extraordinary general meeting held on 8 December 2017, the Amended Framework Sales Agreement and Amended Framework Purchase Agreement dated 26 September 2017 between the Company and SEG were approved by the shareholders of the Company, and the transactions contemplated under both agreement were approved, confirmed and ratified by the shareholders of the Company.

On 26 December 2017, the Board announced that on 25 December 2017, Nedschroef Fastener (Kunshan) Co., Ltd. ("**Nedschroef Kunshan**"), an indirect wholly owned subsidiary of the Company, entered into the Finance Lease Agreement with Shanghai Electric Group Leasing Co., Ltd. ("**SEG Leasing**"), pursuant to which, SEG Leasing agrees to purchase the Leased Assets from Nedschroef Kunshan at the consideration of RMB30,000,000.00, and lease back the Leased Assets to Nedschroef Kunshan for a total amount of RMB33,561,019.10 over the term of 36 months. For details, please see the connected transactions announcement published by the Company on 25 December 2017.

On 27 February 2018, the Board announced that it has considered and approved a proposal to enter into the Equity Transfer Agreement with SEG for the disposal of 100% equity interests in Shanghai Electric Bearing Co., Ltd. to SEG for a total consideration of RMB58,848,620.03. For details, please see the connected transaction announcement published by the Company on 27 February 2018.

Save as disclosed above, the Group did not have any other significant discloseable events during FY2017 and up to the date of this announcement.

EMPLOYEES

As at 31 December 2017, the Group had 4,575 (31 December 2016: 4,455) employees. The Group has implemented all statutory pension schemes required by local governments and incentive programs to motivate staff as well as a series of training programs to facilitate the self-development of staff.

In FY2017, the total salary of the employees of the Group was RMB1,214 million (FY2016: RMB1,103 million), and the total social security cost was RMB328 million (FY2016: RMB291 million).

The Company does not have material reliance on minority employees.

INCENTIVE SCHEME

As of 31 December 2017, in accordance with the adjusted incentive scheme approved by the resolution passed at the extraordinary general meeting of the Company held on 16 December 2016, the Company made a distribution to eligible participants based on the amounts of profits distributable and actually available for distribution from the operating results of the Group for FY2016.

Based on the operating results for FY2017, a total amount of RMB15 million can be used for the adjusted incentive scheme of the Group, and RMB15 million can be actually distributed. The Company will make distribution and adjustment (if necessary) in accordance with the adjusted incentive scheme.

FUTURE PROSPECTS

Focus on principal business activities to drive our financial performance

The Group will continue to leverage on its client base from railway transportation, automotive, and big plane sectors at group level and strong capabilities of its headquarters, for the sharing of the its client base among its subsidiaries. Meanwhile, the Group will, in addition to driving sales of Nedschroef products in domestic market, accelerate its pace of overseas expansion by increasing the sales of the Group's products in European markets, in an effort to enhance the financial performance of the Group.

Solidify our competitive strengths through acquisitions and mergers

Expanding its business through fund raising has always been a significant part of the Group's strategy, and the Group will, in line with its strategic plans, actively look for potential acquisition and merger opportunities to drive the upgrade of our business chain, the synergies among our business lines and the overall profitability of the Group.

Boost our vitality through reform

Under the background of state-owned enterprise reform, the Group will focus on driving innovation, synergies and the effectiveness of management of its business lines, to boost our competitiveness. The Group will be dedicated to the further development of its business and optimizing its corporate governance, as well as the business model innovation.

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is fundamental to the success of the Company. The Company has accordingly adopted various measures to ensure a high quality Board, effective internal control, strict compliance with relevant laws and regulations and operation transparency.

The Board believes that the Company has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities on the HK Stock Exchange (the "**Listing Rules**") from 1 January 2017 to 31 December 2017, with deviation from provision A.2.1 set out below.

Pursuant to provision A.2.1 of the CG Code, roles of the chairman and the president should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and the president should be clearly established and set out in writing. The chairman of the Board is responsible for ensuring that the directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The chairman is also responsible for initiating a culture of open forum and facilitating directors (especially non-executive directors) to make contribution to the Board. At present, Mr. Zhou Zhiyan is the chairman and president of the Company. The Company has explained the obligation and responsibilities of the chairman to Mr. Zhou, and Mr. Zhou has acknowledged that he understood the obligation and responsibilities of various positions of a listed company. The Company will continue to seek for suitable candidate in order to separate the roles of the chairman and the president in full compliance with the CG Code.

The Board will develop and review the Company's policies and practices on corporate governance; review and monitor the training and continuous professional development of directors and senior management; review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; and review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report, in accordance with the requirements set out in provision D.3.1 of the CG Code.

For FY2017, the Company was in compliance with relevant laws and regulations which are material to the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted and implemented the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), as the code of conduct for directors' and supervisors' securities transactions of the Group. All directors and supervisors of the Company confirmed that they have complied with the Model Code throughout FY2017.

Remuneration Committee

With written terms of reference as suggested under the CG Code, the remuneration committee of the Company is mainly responsible for making recommendations to the Board in relation to the remuneration policy and structure for directors, supervisors and senior management of the Company, evaluating the performance of executive directors and approving the terms of service contracts of executive directors and ensuring no directors or other associates participating in determination of their own remuneration. Pursuant to the Articles of Association of the Company, the remuneration package must be approved by the general meeting of shareholders.

As at the date of this announcement, the remuneration committee currently consists of three members, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Dong Yeshun. Mr. Ling Hong has been appointed as the chairman of the remuneration committee. Mr. Ling Hong and Mr. Chan Oi Fat were elected as the independent non-executive directors of the Company and Mr. Dong Yeshun was elected as the non-executive director of the Company at the annual general meeting held on 23 June 2017. All of them were appointed by the Board as members of the remuneration committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

The remuneration committee reviewed and approved the proposal adopted from the 2016 Incentive Scheme, submitted the 2017 remuneration proposal for directors and supervisors to the shareholders' general meeting for approval and ratified the proposal regarding the remuneration paid to directors and supervisors for 2016. The remuneration of directors and senior management is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other domestic and overseas companies and prevailing market conditions.

Audit Committee

The major responsibility of the audit committee of the Company is to oversee the relationship with the external auditors, to review the Group's unaudited interim and audited annual financial statements, to monitor the compliance with statutory requirements and to review the scope, extent and effectiveness of the Group's internal control function.

As at the date of this announcement, the audit committee comprises three members, namely Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Dong Yeshun. Mr. Chan Oi Fat has been appointed as the chairman of the audit committee. Mr. Ling Hong and Mr. Chan Oi Fat were elected as the independent non-executive directors of the Company and Mr. Dong Yeshun was elected as the non-executive director of the Company at the annual general meeting held on 23 June 2017. All of them were appointed by the Board as members of the audit committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

In FY2017, the audit committee reviewed and approved the proposal regarding the appointment of auditors of the Company for FY2017 and the interim financial report of 2017. The committee reviewed the material connected transactions of the Company and held two meetings and discussed with external auditors regarding the legitimacy of the applied accounting principles and practices and reviewed findings regarding internal control discovered during the engagement. The annual results for FY2017 have been reviewed by the audit committee.

Nomination Committee

The key responsibility of the nomination committee of the Company is to provide advice and recommendations in relation to the selection, qualifications, standards and procedures of the proposed directors, senior managements and key operation officers of the Company.

As at the date of this announcement, the nomination committee comprises five members, namely Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Sun Zechang. All the members of the nomination committee were re-elected as directors of the Company at the annual general meeting held on 23 June 2017, and were appointed by the Board as members of the nomination committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

In FY2017, the nomination committee has reviewed the size, diversity and composition of the Board, evaluated the independence of independent non-executive directors, and approved the proposal regarding the nomination of Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie, Mr. Chen Hui, Mr. Dong Yeshun, Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang as candidates for the fifth session of the Board of the Company.

Strategy Committee

As a specialized unit formed by the Board, the strategy committee of the Company is mainly responsible for conducting research and advising on the long term development plans and major investment decisions of the Company.

As at the date of this announcement, the strategy committee comprises six members, namely Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Zhang Jie, Mr. Chen Hui, Mr. Dong Yeshun and Mr. Sun Zechang. Mr. Zhou Zhiyan has been appointed as the chairman of the strategy committee. All the members of the strategy committee were re-elected as directors of the Company at the annual general meeting held on 23 June 2017, and were appointed by the Board as members of the strategy committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

In FY2017, the strategy committee has reviewed the strategic development plan of CP Tech.

Risk Management Committee

The risk management committee, established on 18 March 2016 as resolved by the Board, is a specialized unit established by the Board mainly responsible for the risk management of the Company.

As at the date of this announcement, the risk management committee comprises five members, namely Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Zhang Jie, Mr. Ling Hong and Mr. Chan Oi Fat. Mr. Zhou Zhiyan has been appointed as the chairman of the risk management committee. All the members of the risk management committee were re-elected as directors of the Company at the annual general meeting held on 23 June 2017, and were appointed by the Board as members of the risk management committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

The risk management committee has reviewed the effectiveness of the risk management system of the Company, and evaluated the risk conditions of the Company and its ability to control risks in FY2017.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company's audit committee has reviewed the accounting principles and practices adopted by the Group and the annual consolidated financial statements and results announcement for FY2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during FY2017.

DIVIDENDS

To enhance the Group's working capital and to retain resources for potential investment, the Board did not recommend the payment of a final dividend in respect of FY2017.

CLOSURE OF BOOKS

For the purpose of determining who is entitled to attend the annual general meeting of the Company to be held on Friday, 8 June 2018, the Company's register of members will be closed from Wednesday, 9 May 2018 to Friday, 8 June 2018 (both dates inclusive), during which no transfer of shares will be registered. In order to be eligible to attend and vote at the aforesaid annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged at the Company's H Share Registrar, Tricor Investor Services Limited at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Tuesday, 8 May 2018.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

In accordance with the requirements under the Listing Rules, this announcement is posted on the Company's website (http://www.pmcsh.com) and the website of the HK Stock Exchange (http://www.hkexnews.hk) respectively. 2017 annual report containing all information about the Company set out in this preliminary announcement of results for the year ended 31 December 2017 will be posted on the Company's website and the website of the HK Stock Exchange and despatched to the shareholders of the Company on or before 30 April 2018.

DIRECTORS

As at the date of this announcement, the Board consists of Executive Directors, namely Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie and Mr. Chen Hui; Non-executive Director, namely Mr. Dong Yeshun; and Independent Non-executive Directors, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.

By order of the Board
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman

Shanghai, the PRC
16 March 2018