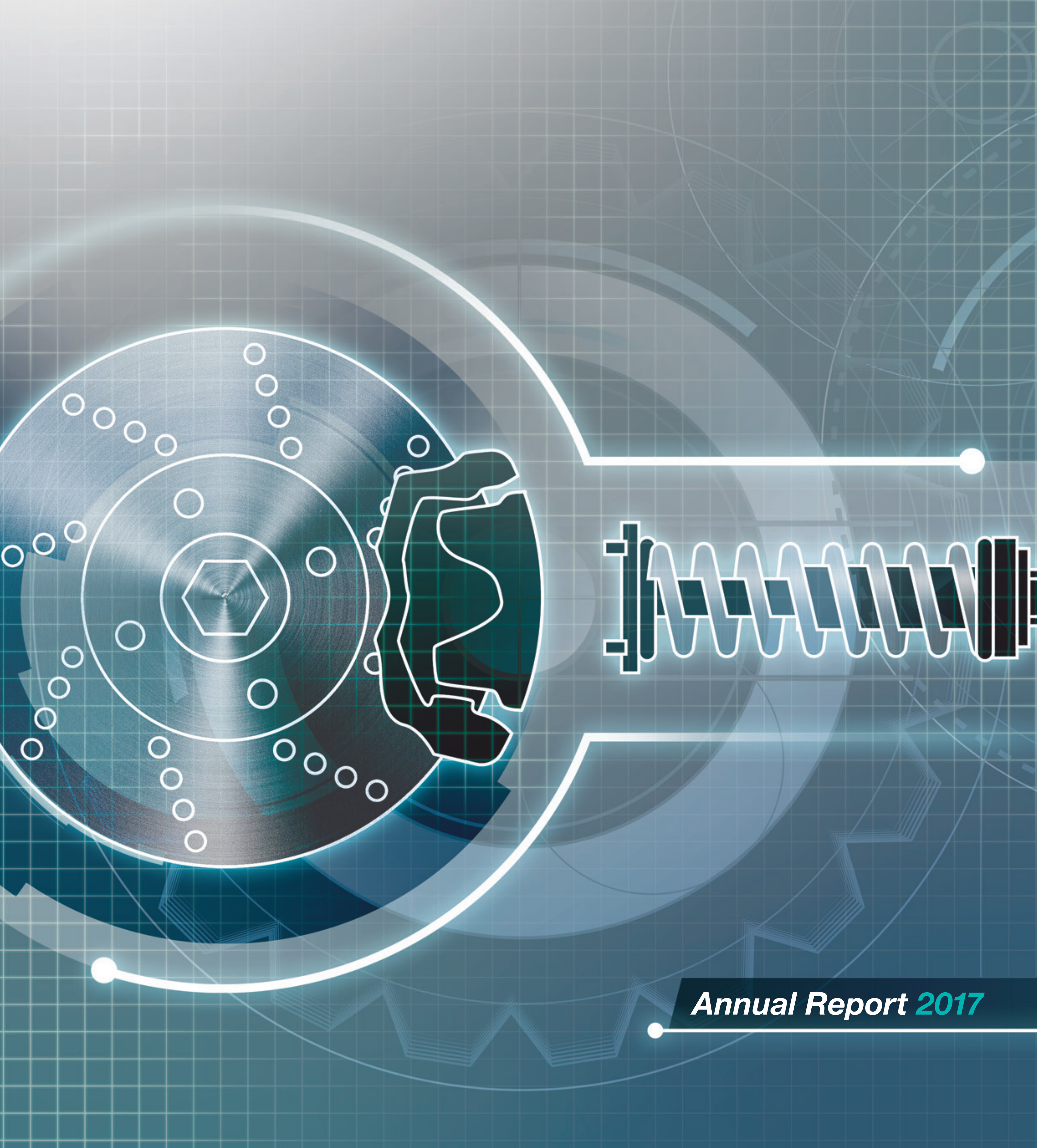
京西重工國際有限公司
BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

Stock Code : 2339



Annual Report 2017

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jiang Yunan *(Chairman)*
Chen Zhouping *(Managing Director)*
Li Shaofeng *(Executive Director)*
Thomas P Gold *(Executive Director)*
Zhang Yaochun *(Non-executive Director)*
Tam King Ching, Kenny
(Independent Non-executive Director)
Leung Kai Cheung
(Independent Non-executive Director)
Yip Kin Man, Raymond
(Independent Non-executive Director)

EXECUTIVE COMMITTEE

Jiang Yunan *(Chairman)*
Chen Zhouping
Li Shaofeng
Thomas P Gold

AUDIT COMMITTEE

Tam King Ching, Kenny *(Chairman)*
Leung Kai Cheung
Yip Kin Man, Raymond

NOMINATION COMMITTEE

Jiang Yunan *(Chairman)*
Zhang Yaochun
Tam King Ching, Kenny
Leung Kai Cheung
Yip Kin Man, Raymond

REMUNERATION COMMITTEE

Leung Kai Cheung *(Chairman)*
Jiang Yunan
Tam King Ching, Kenny
Yip Kin Man, Raymond

COMPANY SECRETARY

Cheng Man Ching

AUDITOR

Ernst & Young

SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY 1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1005-06, 10th Floor
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

STOCK CODE

2339

WEBSITE

www.bwi-intl.com.hk

DIRECTORS' BIOGRAPHIES

Mr. Jiang Yunan, aged 56, engineer and senior economist. He holds a master's degree in business administration from Tsinghua University and a master's degree in applied accounting and finance from Hong Kong Baptist University. Mr. Jiang was appointed an Executive Director and the Managing Director of the Company in July 2014 and was appointed as the Chairman of the board of directors of the Company (the "Board") in June 2016. He ceased to act as the Managing Director of the Company from September 2016. Mr. Jiang is also the chairman of the Executive Committee and the Nomination Committee as well as a member of the Remuneration Committee of the Company. He joined Shougang Group Co., Ltd. (formerly known as Shougang Corporation) ("Shougang Group") in 1992 and thereafter held various senior positions in the group companies of Shougang Group and Shougang Concord International Enterprises Company Limited ("Shougang International"), a Hong Kong listed company and an associate (within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of Shougang Group. Mr. Jiang was appointed a director of BeijingWest Industries Co., Ltd.（北京京西重工有限公司）("BWI"), a subsidiary of Shougang Group, in June 2014 and currently is the chairman and president of BWI. Each of Shougang Group and BWI is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Jiang has extensive experiences in management.

A service agreement was entered into between Mr. Jiang and the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Jiang is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. Mr. Jiang declined any salary from the Group voluntarily since the date of his appointment as a Director of the Company.

Mr. Chen Zhouping, aged 52, graduated from the School of Economics and Management, Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed as an Executive Director and the Managing Director of the Company in September 2016 and is a member of the Executive Committee of the Company. He joined Shougang Group in 1988 and held various senior positions in the group companies of Shougang Group. Mr. Chen was appointed as a director of BWI, a subsidiary of Shougang Group, in June 2017. Each of Shougang Group and BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen was a director of Shougang International from November 2002 to September 2014 and a director of Shougang Fushan Resources Group Limited ("Shougang Resources") from January 2009 to September 2014. Both Shougang International and Shougang Resources are Hong Kong listed companies. Mr. Chen was also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, from January 2009 to April 2014. He has extensive experience in steel industry, engineering design, human resources and management.

A service agreement was entered into between Mr. Chen and the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Chen is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2017 and 2018, Mr. Chen's monthly salary is HK$172,800. Such salary was determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Li Shaofeng, aged 51, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director of the Company in January 2014 and is a member of the Executive Committee of the Company. He joined Shougang Group, a substantial shareholder of the Company within the meaning of Part XV of the SFO, in 1989, and he held many senior positions in the group companies of Shougang Group. Mr. Li is the vice chairman of Shougang International and the managing director of Shougang Resources. He is also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Li was the chairman of Shougang Concord Century Holdings Limited ("Shougang Century") from March 2000 to January 2018, the chairman of each of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Global Digital Creations Holdings Limited ("GDC") from May 2010 to June 2017 and a director of China Dynamics (Holdings) Limited ("China Dynamics") from October 2007 to November 2015. All of Shougang Century, Shougang Grand, GDC and China Dynamics are Hong Kong listed companies. Mr. Li has extensive experience in management of, and investments in, listed companies and capital operation.

A service agreement was entered into between Mr. Li and the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Li is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. Mr. Li declined any salary from the Group voluntarily since the date of his appointment as a Director of the Company.

DIRECTORS' BIOGRAPHIES

Mr. Thomas P Gold, aged 59, graduated with Bachelor's degree in Mechanical Engineering from General Motors Institute (currently known as Kettering University), United States in 1981. Mr. Gold was appointed as an Executive Director of the Company in September 2016 and is a member of the Executive Committee of the Company. Since 1981, Mr. Gold has worked in the automotive components business with General Motors, Delphi Corporation and BWI respectively. BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO. During the period from 1981 to 1990, Mr. Gold was product development engineer and supervisor in anti-vibration devices department of General Motors. From 1990 to 1992, Mr. Gold was manufacturing general supervisor in brake components department of General Motors. From 1992 to 1998, Mr. Gold served as manufacturing engineering manager and later became manufacturing operations manager in anti-vibration devices department of General Motors. From 1998 to 2008, Mr. Gold served as global product line executive in Delphi Energy and Chassis Systems, and he was responsible for multiple product lines within the chassis business unit including electronic suspensions, anti-vibration devices, chassis components, and Liteflex springs. From 2009 to 2012, Mr. Gold served as global purchasing director in BWI, and he was responsible for the direct and indirect material procurement of global business in six manufacturing facilities and three major technology centers. From 2012 to 2015, Mr. Gold served as assistant president and doubled as global purchasing director in BWI. Mr. Gold currently is vice president of operations in BWI.

A service agreement was entered into between Mr. Gold and the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Gold is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. Mr. Gold declined any salary from the Group voluntarily since the date of his appointment as a Director of the Company.

Mr. Zhang Yaochun, aged 60, holds a bachelor degree in law by correspondence from the Party School of the Central Committee of the Communist Party of China. Mr. Zhang was appointed a Non-executive Director of the Company in January 2014 and is a member of the Nomination Committee of the Company. He is the deputy chairman of BWI, a substantial shareholder of the Company within the meaning of Part XV of the SFO, and the chairman of its labor union. Mr. Zhang has been involved in the cement business of the Fangshan district of Beijing since 1979, and he was the chairman and the general manager of Beijing City Fangshan District General Company.

An engagement letter was entered into with Mr. Zhang for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. Mr. Zhang declined any director's fee from the Group voluntarily since the date of his appointment as a Director of the Company.

DIRECTORS' BIOGRAPHIES

Mr. Tam King Ching, Kenny, aged 68, holds a bachelor's degree in commerce from Concordia University, Canada. Mr. Tam was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Audit Committee as well as a member of each of the Nomination Committee and the Remuneration Committee of the Company. He is a practising Certified Public Accountant in Hong Kong. Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada (formerly named as the Institute of Chartered Accountants of Ontario, Canada). He is serving as a member of each of the Restructuring and Insolvency Faculty Executive Committee and the Insolvency SD Vetting Committee in the Hong Kong Institute of Certified Public Accountants. Mr. Tam is a Past President of The Society of Chinese Accountants and Auditors. He also serves as an independent non-executive director of certain listed companies on the main board of The Stock Exchange of Hong Kong Limited, namely, Shougang Grand, CCT Fortis Holdings Limited, CCT Land Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited, West China Cement Limited and Wisdom Education International Holdings Company Limited.

An engagement letter was entered into with Mr. Tam for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Tam is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Tam is HK$240,000 for a full year. Such director's fee was determined with reference to Mr. Tam's experience and duties as well as the then prevailing market conditions.

Mr. Leung Kai Cheung, aged 72, graduated from The Chinese University of Hong Kong with a bachelor degree in business. Mr. Leung was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Remuneration Committee as well as a member of each of the Audit Committee and the Nomination Committee of the Company. He is also an independent non-executive director of each of Shougang International, CWT International Limited (formerly known as HNA Holding Group Co. Limited) and Hong Kong International Construction Investment Management Group Co., Limited. Mr. Leung had been a senior executive of Citibank, N.A., the general manager of Barclays Bank PLC in charge of Kowloon and New Territories districts and was the chairman of Star International Enterprises Limited. He has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

An engagement letter was entered into with Mr. Leung for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Leung is HK$240,000 for a full year. Such director's fee was determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

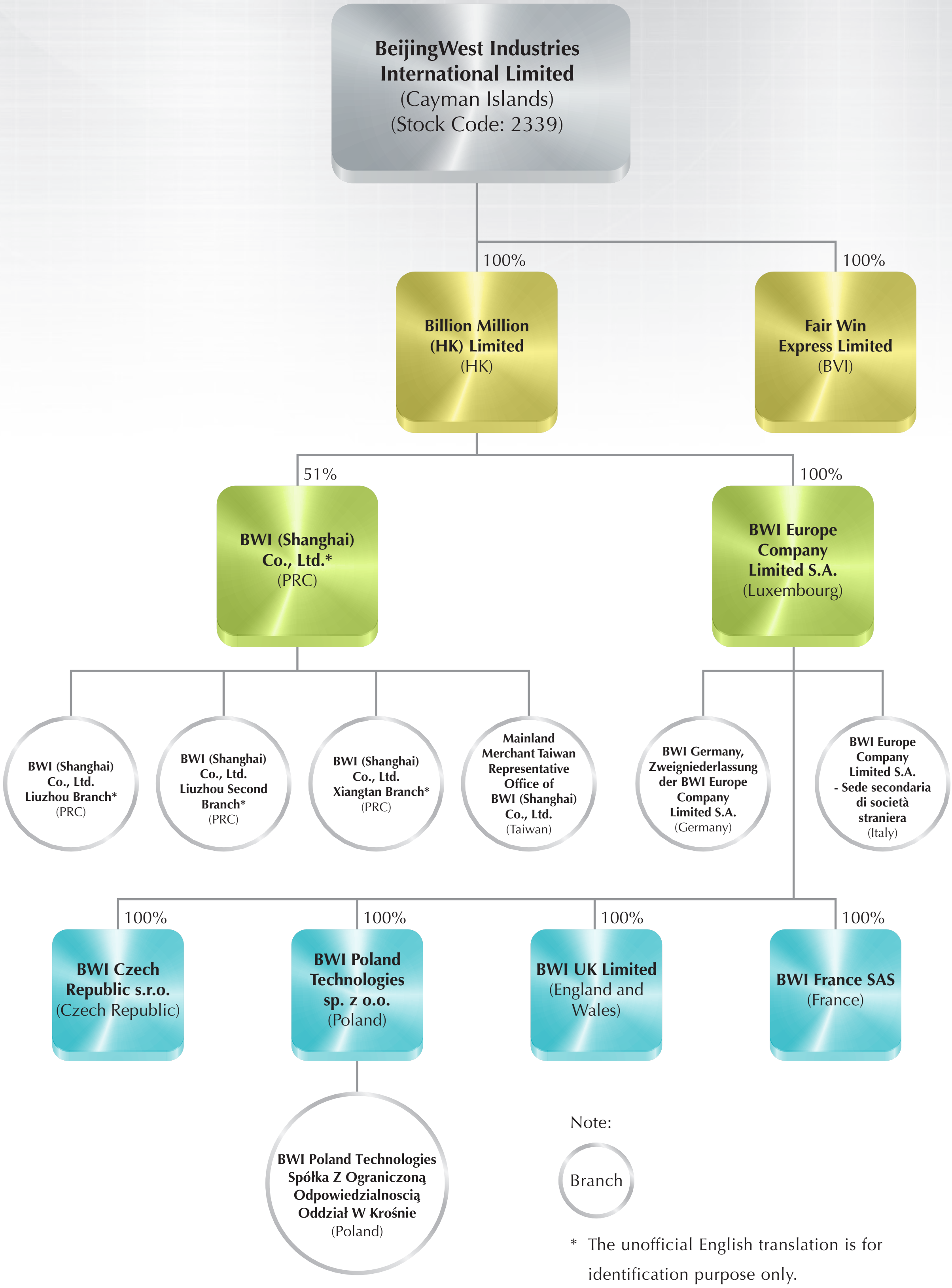
DIRECTORS' BIOGRAPHIES

Mr. Yip Kin Man, Raymond, aged 71, holds a bachelor's degree in arts with honours from the University of Hong Kong. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2014 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of each of Shougang Grand and Shougang Century. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC. He has extensive experience in legal profession.

An engagement letter was entered into with Mr. Yip for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Yip is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2017 and 2018, the director's fee of Mr. Yip is HK$240,000 for a full year. Such director's fee was determined with reference to Mr. Yip's experience and duties as well as the then prevailing market conditions.

GROUP STRUCTURE

As at 31 December 2017



* The unofficial English translation is for identification purpose only.

CHAIRMAN'S STATEMENT

On behalf of the board of directors of BeijingWest Industries International Limited (the "Company"), I am pleased to present the annual report and the financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 (the "Review Year").

FINANCIAL PERFORMANCE

During the Review Year, although the existing businesses of the Company maintained relatively stable, the businesses newly put into operation and newly acquired had poor performance, resulting in a drop in revenue of a certain degree and loss, mainly attributable to the following reasons: in 2017, the automobile consumption market in the PRC was less robust than expected with obvious differentiation in respect of the performance of automobile manufacturers in the market. Certain major customers of the plant of the Group in Shanghai postponed or reduced their purchase due to the poor sales performance of certain automobile models, resulting in material adverse impact on the Company's results. Meanwhile, the Group's new plant in Czech Republic commenced mass production in the second quarter of 2017; however, it has not achieved breakeven, which also generated negative effects on the Company's results. During the Review Year, the Company recorded revenue of HK$3,903.65 million, down by 10.36% as compared to 2016; and loss of up to HK$31.51 million.

In addition, despite the Group continuously endeavoured to reduce production costs and enhance production benefits, the gross profit and gross profit margin saw a decline to HK$747.22 million and 19.14%, respectively, as a result of price rise of raw materials and other factors.

However, the Group kept a stable financial position. As at 31 December 2017, the Group maintained cash and bank balances of HK$652.77 million and a normal gearing ratio (measured as total borrowings over total assets) of 20.12%.

OUTLOOK

Looking forward to 2018, there are obvious signs of stabilization of global economy and the global automobile industry is expected to maintain stable growth. The positive macro economic situation will offer a good external environment for the Group's steady development. The Group expects that the demands of the Group's products in Europe are expected to continue a stable trend. With the commencement of production of the new plant in Czech Republic in the second quarter of 2017, the new plant will gradually alleviate the adverse impact on the Company's performance.

CHAIRMAN'S STATEMENT

In the Chinese market, the Group will make further efforts to improve the operating conditions of the plant in Shanghai and take effective measures to optimize the customer mix and enhance products' competitiveness, striving to realize positive growth as early as possible.

All the time, in order to ensure sustainable development, the Group has paid special attention to the investment in research and development. In addition to technical enhancement of existing products, the Group also values and has spent a lot of manpower and resources on the research and development of new products and technologies. The Group will continue to keep a close eye on the market and customer demands and be market-driven to win the market and attain the goal of long-term success with innovative technologies and products.

To keep creating better returns to shareholders, the Company will also earnestly evaluate the Group's operation and business structure and properly conduct business optimization to improve the synergistic effects and growth potential of businesses. Moreover, the Group will also embrace a prudent attitude and keep on seeking for potential acquisition opportunities both in China and abroad to win a larger market share and better profitability through extensive development.

Overall, I am not satisfied with the business performance in the Review Year. However, I am convinced that the Group is able to restore positive business development and create long-term value for shareholders by virtue of collective efforts.

INVESTOR RELATIONS AND COMMUNICATION

The Group has been committed to continuously maintaining and enhancing its transparency. Latest developments and financial reports of the Group are available to investors through the Company's website, or by directly contacting the Group's Investor Relations Department. The Company also has cemented effective communications and good relationships with fund managers and analysts through meetings, conference calls, road shows, etc.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to all our Directors, management team and all staff for their efforts in contributing to the Group. I would also like to thank all our shareholders, customers and business partners for their trust and support throughout all these years, and my sincere appreciation goes to you for your unremitting support for the Group as well.

Jiang Yunan
Chairman

20 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

The Group involves in the manufacture and sale of automotive parts and components and the trading of automotive parts and components. The core products of the Group are suspension products and brake products.

Suspension products

The Group's automotive suspension products are mainly utilized on premium passenger vehicles, which are manufactured by our plants in Europe. There are two major plants in Poland and the United Kingdom ("UK"), which manufacture and assemble suspension products for their customers. The total capacity in terms of number of dampers produced approximate to 11.5 million units. A new plant in the Czech Republic has also commenced production in the second quarter of year 2017, in which the total designed capacity in terms of number of dampers produced approximate to 4 million units. However, the new plant would not make any profit contribution to the Group before the plant reaches the optimal production status. By all means, the Group will try to expedite the process of reaching the designed capacity of the new plant so as to generate profit contribution as soon as possible.

The Group developed and maintained strong relationships with its customers, who are mainly well-known European automobile manufacturers, therefore the Group well understood the technical requirements of our customers and had the expertise on the manufacturing process for premium passenger vehicles.

The Group purchases raw materials and components mainly from the suppliers in Europe, which are selected based on certain factors, including the history of relationship with the Group, quality and price of the products, delivery time, and after-sales services. The Group maintains stable relationships with its major suppliers and does not rely on any single supplier for any type of raw materials and components.

Brake products

The brake products of the Group have broad applications in both sedans and full-size sport utility vehicles. The Group is one of the leading suppliers in the People's Republic of China ("PRC") of automobile brake components and systems. Our customers include some of the world's largest automobile manufacturers with operations in the PRC as well as domestic automobile manufacturers. The Group has established its leadership status through its long-term presence in the PRC.

Regarding the brake operations, the Group procures raw materials, various electronic and mechanical components from various suppliers who strictly deliver within agreed lead time after the orders have been placed. The raw materials and components procured would be carefully inspected before acceptance. Raw materials and key components would be processed by cutting, hardening, grinding, chroming, baking, refining and inspecting before being assembled into final products. To ensure the quality of the products, we have a professional quality control team to monitor the whole process.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The revenue of the Group's core business sectors for the years ended 31 December 2017 and 2016 are summarized as below:

	For the year ended 31 December 2017 (HK$ million)	For the year ended 31 December 2016 (HK$ million)	Change (%)
Manufacture and sales of automotive controlled and passive suspension products	**2,778.20**	2,638.96	5.28%
Manufacture and sales of brake products in PRC	**948.86**	1,575.20	(39.76%)
Provision of technical services – suspension products	**148.71**	119.17	24.79%
Provision of technical services – brake products	**27.88**	21.35	30.59%
Total	**3,903.65**	4,354.68	(10.36%)

For the year ended 31 December 2017, the Group recorded revenue of HK$2,778.20 million in manufacture and sales of automotive controlled and passive suspension products (year ended 31 December 2016: HK$2,638.96 million), which increased when comparing to the year ended 31 December 2016 mainly because some models of suspension products at Luton plant boosted up the revenue and the new plant in the Czech Republic commenced its production and recorded revenue in the second quarter of year 2017.

For the year ended 31 December 2017, the Group recorded revenue of HK$948.86 million in manufacture and sales of brake products in the PRC (year ended 31 December 2016: HK$1,575.20 million), down by HK$626.34 million or 39.76% as a result of keen competition in the PRC market. The decrease in revenue was mainly due to certain major domestic vehicle manufacturers postponed or reduced their procurements of the products from our Shanghai plant due to unsatisfactory sales volume of certain of their automobile models.

For the year ended 31 December 2017, the Group also recorded HK$148.71 million in provision of technical services in suspension products (year ended 31 December 2016: HK$119.17 million) and HK$27.88 million in provision of technical services in brake products (year ended 31 December 2016: HK$21.35 million).

Gross profit and gross profit margin

	For the year ended 31 December 2017		For the year ended 31 December 2016		Change	
	Gross profit (HK$ million)	Gross profit margin (%)	Gross profit (HK$ million)	Gross profit margin (%)	Gross profit (HK$ million)	Gross profit margin (%)
Manufacture and sales of automotive controlled and passive suspension products, and provision of technical services in related products	**636.79**	**21.76**	664.52	24.09	(27.73)	(2.33)
Manufacture and sales of brake products in PRC, and provision of technical services in related products	**110.43**	**11.31**	262.09	16.42	(151.66)	(5.11)
Total	**747.22**	**19.14**	926.61	21.28	(179.39)	(2.14)

For the year ended 31 December 2017, the gross profit and gross profit margin for the suspension products sector were HK$636.79 million and 21.76% respectively (year ended 31 December 2016: HK$664.52 million and 24.09% respectively). Both the gross profit and gross profit margin have been decreased, which were mainly attributed to the change in products mix and the increase in raw materials price such as steel. In addition, the overall gross profit margin was dragged down by our new plant in the Czech Republic during its commencement stage. However, the Group expects the plant in the Czech Republic will be able to achieve a rational profit margin in the coming future when the production volume ramps up and the utilization of raw materials and production efficiency improve due to economy of scale.

For the year ended 31 December 2017, the gross profit and gross profit margin for the brake products sector were HK$110.43 million and 11.31% respectively (year ended 31 December 2016: HK$262.09 million and 16.42% respectively). Both the gross profit and gross profit margin decreased because certain major domestic vehicle manufacturers postponed or reduced their procurements of the products from our Shanghai plant. A negative impact was observed on the gross profit margin as transactions with these customers were of higher gross profit margin.

Other income

Other income of the Group for the year ended 31 December 2017 decreased by 23.28% to HK$75.73 million (year ended 31 December 2016: HK$98.71 million), which was mainly due to unfavourable exchange rate movements and resulted in a foreign exchange loss of HK$24.12 million which was included in other operating expenses. While for the year ended 31 December 2016, there was a foreign exchange gain of HK$16.44 million of which was included in other income.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2017 decreased by 18.38% to HK$49.20 million (year ended 31 December 2016: HK$60.28 million) mainly due to decrease in warranty provision. Selling and distribution expenses mainly consisted of delivery expenses, salary and welfare for sales personnel and warranty expenses.

Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2017 decreased by 11.30% to HK$236.29 million (year ended 31 December 2016: HK$266.38 million) mainly due to decrease in management service fee. Administrative expenses mainly consisted of salaries for administrative staff and management service fee charged by related companies.

Research and development expenses

Research and development expenses of the Group for the year ended 31 December 2017 slightly decreased by 0.73% to HK$490.59 million (year ended 31 December 2016: HK$494.20 million) mainly due to tighten cost monitoring implemented during the year. Research and development expenses mainly consisted of salaries for technical staff and service fee charged by related companies.

Finance costs

Finance costs of the Group for the year ended 31 December 2017 increased slightly by 0.73% to HK$13.72 million (year ended 31 December 2016: HK$13.62 million) attributed to increase in short term bank borrowings during the year. Finance costs represented interest on bank loans obtained by subsidiaries in Europe and the PRC.

(Loss)/Profit for the year attributable to equity owners of the Company

For the year ended 31 December 2017, loss for the year attributable to equity owners of the Company approximately to HK$8.57 million (year ended 31 December 2016: profit for year attributable to equity owners of the Company approximately to HK$107.91 million). The turnaround from profit to loss was mainly attributed to the decrease in revenue and gross profit during the year.

Liquidity and Financial Resources

Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials, capital spending, research and development and other operating expenses. The working capital and other capital requirements were satisfied principally by cash generated from internal operations, and moderate level of bank loans as well.

The Group was operating in a net cash inflow position for the year ended 31 December 2017. As at 31 December 2017, the Group maintained cash and bank balances of HK$652.77 million (as at 31 December 2016: HK$517.67 million).

Indebtedness

As at 31 December 2017, the Group had bank borrowings of HK$566.66 million, in which HK$114.99 million obtained by subsidiaries in Europe were denominated in Euro ("EUR") with an interest of 1 Month EURIBOR plus 2.20 % per annum, United States Dollar ("US$") with an interest of 1 Month LIBOR plus 2.20% per annum and Polish Zloty ("PLN") with an interest of 1 Month WIBOR plus 2.20% per annum; and the remaining bank borrowings of HK$451.67 million were denominated in Renminbi ("RMB") with an interest of 3.92% to 4.35% per annum and EUR with an interest of 1 Month EURIBOR plus 1.20% per annum.

As at 31 December 2016, the Group had bank borrowings of HK$208.48 million, in which HK$18.64 million obtained by a subsidiary in Europe were denominated in EUR and US$ with an interest of 1 Month LIBOR plus 2.20% per annum; and the remaining bank borrowings of HK$189.84 million were denominated in RMB with an interest of 4.13% to 4.35% per annum.

The Group's gearing ratio (measured as total bank borrowings over total assets) as at 31 December 2017 was 20.12% (as at 31 December 2016: 8.49%). The Company would keep monitoring the financial and liquidity position of the Group closely, and make appropriate financing strategy for the Group in accordance with the change of the financial market from time to time.

Pledge of Assets

As at 31 December 2017 and 2016, there were no assets being pledged.

Foreign Exchange Exposure

The Group's transactions are mainly denominated in EUR and the local currencies of our operations, which include PLN, Great Britain Pound Sterling ("GBP"), Czech Koruna ("CZK") and RMB. Some transactions would also be denominated in US$. The Group will closely monitor the foreign exchange market and take appropriate and effective measures from time to time to reduce any negative impact from exchange-rate risk to the furthest extent.

Capital and other commitments

Save as disclosed in note 32 in the notes to financial statements, the Group and the Company had no other commitments as at 31 December 2017 and 2016.

Contingent Liabilities

As at 31 December 2017, the Group and the Company did not have any significant contingent liabilities.

OTHER INFORMATION

Environmental, Health and Safety

The Group is dedicated to protecting the health of people, natural resources and the global environment, and has adopted the hazardous material control programs and chemical material assessment procedures. The Group has obtained all necessary permits under applicable environmental protection laws for its production facilities.

The Group strictly complies with the laws and regulations that exert great influence on the Group such as various environmental protection law of the PRC relating to emissions to land, air and water and waste production from its production facilities. Various hazardous material control programs and chemical material assessment procedures have also been adopted to meet the applicable legal requirements.

The Group also emphasizes the health and safety of its employees and is committed to providing a safe and healthy working environment for the benefits of its staff. In order to reduce the contact with occupational hazard factors of employees, the Group provides training of occupational health and safety and prevention and control of occupational disease for all relevant employees. The Group also adopted human resources policies, which provide the health and safety initiatives such as: (i) identifying and communicating health and safety initiatives; (ii) monitoring trends in statistics for occupational injuries or illnesses; (iii) complying with health and safety regulations; and (iv) promoting incident reduction through investigation, assessments, corrective actions and proactive intervention. The Group has also complied with applicable social, health and work safety laws and regulations in all material aspects.

The Group also emphasizes continuous learning and hopes employees can grow together with the Group. Diversified training and development opportunities are provided for all employees to help them reach their full potential.

Review and Prospects

During the year under review, the Group involved in the manufacture and sale of automotive parts and components and trading of automotive parts and components in Europe and the PRC.

The Group relies on passenger vehicle manufacturers as customers or potential customers of its products. Its financial performance largely depends on the continuing growth of the automotive industry in Europe and the PRC. Overall market demand for cars may be affected by factors such as regional economic conditions, fuel price and end customers' expectations on future economic situation. These factors are beyond the Group's control, and may affect the annual production of automobiles by passenger vehicle manufacturers, which possibly in turn affect the sales and profitability of the Group's products.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will keep moving forward and aim to maintain a solid and healthy growth and development. Despite the continued pricing pressure from customers and the increase in commodity prices, the Group is capable of maintaining its gross profit margin at a reasonable level. While the global automotive industry is still expected to maintain stable growth, the Group is confident that with new business awarded from previous years, it will be able to maintain a steady growth, and with the commencement of production of these new sales orders, the situation will be improved in the near future.

The Group has accumulated extensive technical knowledge and developed a high degree of technical expertise with a consistent focus on research and development. We believe that our technical expertise, the long-term relationship with different vehicle manufacturers, as well as the well-understanding of the requirements of the vehicle manufacturers will enable us to capture more market opportunities and develop products that meet the technical requirements of the vehicle manufacturers. It would be a strong support for the Group's long-term development.

The Group believes that the continuing investment on research and development as well as engineering activities is vitally significant for the Group to maintain and improve its leadership position in the industry. It would contribute greatly to the improvement of the Group's competitiveness over other competitors. Meanwhile, it keeps evolving in the automotive industry, with more changes from the customers. To keep pace with our customers, the Group will endeavor to collaborate closely with the vehicle manufacturers and develop innovative solutions to better serve our customers.

With a view to improve long-term profitability and shareholders' value, the Company will also seriously evaluate and review the business of the Group, and optimize the business structure of the Group by acquisition or restructuring of operations appropriately. In addition, the Group will continue to seek potential acquisition opportunities in both the PRC and abroad to strengthen its revenue base and improve its profitability.

Employees and Remuneration Policy

As at 31 December 2017, the Group had approximately 1,500 full-time employees, of which 650 were working in the Company's subsidiary in the PRC and 850 were working in the Company and Company's subsidiaries in Europe (as at 31 December 2016: 850 full-time employees working in the PRC, 760 full-time employees working in the Company and Company's subsidiaries in Europe). During the year ended 31 December 2017, the total employees' cost was HK$616.46 million (year ended 31 December 2016: HK$588.69 million). Remuneration packages of the employees are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by the management with reference to market conditions and individual performance. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group has defined benefit pension plans covering substantially all of its qualified employees in Poland, France and Germany. The Group has also adopted a mandatory provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong, as well as retirement benefits plans under respective laws and regulations in the PRC.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2017.

BOARD OF DIRECTORS

Composition

The Board currently comprises a total of eight Directors, being four Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report. In addition, an updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

The Board is characterised by significant diversity and has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

The Directors give sufficient time and attention to the affairs of the Company and its subsidiaries (the "Group"). All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

Save for those as disclosed in the section headed "Directors' Biographies" as set out on page 3 to page 7 of this annual report, the Board members have no other financial, business, family or other material/relevant relationships with each other.

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a sufficient independent element on the Board, which can effectively exercise independent judgement.

BOARD OF DIRECTORS (continued)

Composition (continued)

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company's performance and monitoring performance reporting.

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

Board diversity

The Company adopted a board diversity policy (the "Board Diversity Policy") on 27 January 2014 which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board Diversity Policy is posted on the website of the Company.

BOARD OF DIRECTORS (continued)

Role and function of the Board and the management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the articles of association of the Company (the "Articles").

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting. Draft agenda of each regular Board meeting will be sent to all Directors for review before the agenda is issued and all Directors may request for inclusion of other matters in the agenda. The Chairman will take into account the matters proposed by the Directors and where appropriate, approve the inclusion of such matters in the agenda of the Board meeting. Generally, at least 14-day notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to, upon reasonable request, provide separate independent professional advice to Directors to assist them in performing their duties to the Company.

The Company Secretary is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that Board meeting.

BOARD OF DIRECTORS (continued)

Board meetings (continued)

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

Attendance records

During the financial year ended 31 December 2017, the Directors have made active contribution to the affairs of the Group and five physical Board meetings were held to consider, amongst other things, various projects contemplated by the Group and to review and approve the interim results and final results of the Group.

Details of the Directors' attendances in 2017 are as follows:

	Number of meeting(s) attended/ eligible to attend
Executive Directors	
Jiang Yunan *(Chairman)*	4/5
Chen Zhouping	5/5
Li Shaofeng	2/5
Thomas P Gold*	2/5
Qi Jing *(resigned with effect from 1 October 2017)*	1/3
Non-executive Director	
Zhang Yaochun	5/5
Independent Non-executive Directors	
Tam King Ching, Kenny	5/5
Leung Kai Cheung	5/5
Yip Kin Man, Raymond	5/5

* *Due to other business engagements, Thomas P Gold appointed a proxy to attend the Board meeting held in August 2017, albeit the attendance of the proxy was not counted in his attendance record.*

BOARD OF DIRECTORS (continued)

Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointment and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will give adequate consideration to the Board Diversity Policy and review the profiles of the candidates and make recommendations to the Board on the appointment, re-appointment and nomination of Directors.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the first general meeting of the Company after his/her appointment or, in the case of an addition to the existing Board, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director is subject to retirement by rotation at least once every three years.

All Directors (including all Non-executive Directors) have entered into service agreements or letters of engagement with the Company for a term of not more than three years.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents not less than one-third of the Board.

The Company has received from each of its Independent Non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Any re-election of an independent non-executive director who has served the board for more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

BOARD OF DIRECTORS (continued)

Insurance for directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors and the Company is responsible for arranging and funding suitable training for the Directors.

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2017, a summary of which is as follows:

	Continuous professional development	
Directors	**Type** *(Note I)*	**Subject** *(Note II)*
Jiang Yunan	B	4
Chen Zhouping	A	3
	B	4
Li Shaofeng	B	4
Qi Jing	B	4
Thomas P Gold	A	3
	B	4
Zhang Yaochun	B	4
Tam King Ching, Kenny	A	1, 2, 3
	B	4
Leung Kai Cheung	A	3
	B	4
Yip Kin Man, Raymond	A	1
	B	4

Note I:

A: Attending seminars, conferences, forums, in-house briefings or in-house training

B: Reading newspapers, journals and updates

Note II:

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Management

4: Businesses relating to the Company

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Jiang Yunan is the Chairman and Mr. Chen Zhouping serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

The responsibilities of the Chairman include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;

- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;

- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;

- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;

- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and

- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

During the year, the Chairman met with the Non-executive Directors (including Independent Non-executive Directors) without the presence of the Executive Directors.

BOARD COMMITTEES

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

BOARD COMMITTEES (continued)

Executive Committee

An Executive Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

BOARD COMMITTEES (continued)

Executive Committee (continued)

During the year, twelve physical meetings of the Executive Committee were held. Amongst those meetings, one meeting was held for the purpose of performing the corporate governance duties and the attendances of the members of the Executive Committee at that meeting are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Jiang Yunan *(chairman of the committee)*	1/1
Chen Zhouping	1/1
Li Shaofeng	1/1
Thomas P Gold	1/1
Qi Jing *(resigned with effect from 1 October 2017)*	1/1

The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year included, amongst other things, the following:

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2016.

Audit Committee

An Audit Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Audit Committee include, amongst other things:

- overseeing the relationship with the Company's auditor;

- reviewing the interim and annual financial statements;

- reviewing the Company's financial reporting system, risk management and internal control systems; and

- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

BOARD COMMITTEES (continued)

Audit Committee (continued)

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary. It is given access to and assistance from the employees and reasonable resources to perform its duties properly.

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprises all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, two physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Tam King Ching, Kenny *(chairman of the committee)*	2/2
Leung Kai Cheung	2/2
Yip Kin Man, Raymond	2/2

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the year ended 31 December 2016;
- reviewing the interim results of the Group for the six months ended 30 June 2017; and
- reviewing the reports on the risk management and internal control systems of the Group prepared by an independent advisory firm.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

BOARD COMMITTEES (continued)

Nomination Committee

A Nomination Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- assessing the independence of Independent Non-executive Directors; and
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will give adequate consideration to the Board Diversity Policy and take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

BOARD COMMITTEES (continued)

Nomination Committee (continued)

During the year, two physical meetings of the Nomination Committee were held and the attendances of the members of the Nomination Committee are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Jiang Yunan *(chairman of the committee)*	2/2
Zhang Yaochun	2/2
Tam King Ching, Kenny	2/2
Leung Kai Cheung	2/2
Yip Kin Man, Raymond	2/2

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- assessing the independence of the Independent Non-executive Directors;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting; and
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board.

Remuneration Committee

A Remuneration Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;
- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee may consult the Chairman of the Board and/or the Managing Director of the Company about their remuneration proposals for other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

During the year, one physical meeting of the Remuneration Committee was held and the attendances of the members of the Remuneration Committee are as follows:

Committee members	Number of meeting(s) attended/ eligible to attend
Leung Kai Cheung *(chairman of the committee)*	1/1
Jiang Yunan	1/1
Tam King Ching, Kenny	1/1
Yip Kin Man, Raymond	1/1

The major work performed by the Remuneration Committee during the year included, amongst other things, the following:

- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2018;
- considering the bonuses of the Executive Directors of the Company for the year 2017; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2018.

Details of remuneration paid to Directors and senior management for the year are set out in note 9 to financial statements.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Managing Director of the Company on corporate governance and the implementation of the CG Code. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The Company Secretary reports to the Chairman and the Managing Director. All Directors also have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations, are followed. The selection, appointment and dismissal of the Company Secretary is subject to the Board approval.

Ms. Cheng Man Ching ("Ms. Cheng") resigned as the Company Secretary of the Company with effect from 21 March 2018. Mr. Cheng Chun Shing was appointed as the Company Secretary of the Company with effect from the same date.

Ms. Cheng has confirmed that she has taken no less than 15 hours of relevant professional training during the year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledged that it is the Board's responsibility to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems.

During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by maintaining appropriate and effective risk management and internal control systems. The management is responsible for the design, implementation and monitoring of such systems, while the Board, with the assistance of the Audit Committee, oversees the management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risks associated with its businesses and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that may affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Management System (continued)

Based on the risk assessments conducted in 2017, the details of significant risks and the relevant risk responses are highlighted as follow:

Risk Categories	Risk Title	Risk Descriptions	Risk Responses
Operational risk	Staff turnover	Inability to retain experienced sales personnel may affect the daily sales operation and also satisfaction of customers.	Several measures have been taken by the Group to mitigate the risk. First, the Group applies one-time incentive scheme for outstanding performance employees. Second, sales department of the Group organizes regular meetings with all sales personnel. Third, human resources department of the Group is closely monitoring and conducting regular analysis on employee turnover rate.
Operational risk	Staff remuneration and incentive	Ineffective motivation strategies to reflect sales personnel's performance may result in low morale and may cause pressure in achieving sales targets.	The Group decides to raise the job satisfaction by delegating more responsibilities and authorities to whom with outstanding performance. This could raise the job satisfaction by ranking higher in the hierarchy amongst the teammates. To raise the staff morale, one-time incentive scheme has been adopted for rewarding employees who have performed well. Besides, better motivation and remuneration package will also be considered.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Management System (continued)

Risk Categories	Risk Title	Risk Descriptions	Risk Responses
Strategic risk	Market competition	Keen competition and enlarged market share from other rivals in the international markets may lead to great challenge and pressure on sale performance. A lack of effective marketing strategy and cost control may weaken the competitiveness of the Group in the market.	Aiming at enhancing the Group's competitiveness, the Group is focusing on improving its product quality and effective communication with customers in order to provide better customer services.
Strategic risk	Economic uncertainties	Uncertainties in the global market economy and political instability may result in a drop of Group's revenue.	Before the final decision of the time table for BREXIT has been made, the Group will keep closely monitoring the process of BREXIT. Also, the Group is establishing a business plan for BREXIT. The business plan may focus on cost control and exploration of more new business in order to increase the source of revenue.

The management has established risk management framework to identify risks, set risk aptitudes and develop risk responses plans. The management will review the framework regularly to ascertain the effectiveness of the risk management process. The management will also actively identify, report and discuss the risk responses based on the dynamic economic environment and uncertainties. In addition, the management will also establish mechanisms to identify environmental changes and analyze the related risks and opportunities.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control Systems

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee assists the Board to discharge its responsibilities of ensuring and maintaining appropriate and effective internal control functions by continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss of the Group.

The internal control systems of the Group are embedded within the business processes so that they function as an integral part of the overall operations of the Group. The systems comprise a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

The Company has in place internal control systems which are compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The main components of the framework are shown as follows:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- Control Activities: Policies and procedures to help ensure that the management directives to mitigate risks to the achievement of objectives are carried out.

- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- Monitoring: Ongoing and separate evaluations to ascertain whether each component of the internal control systems is present and functioning.

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has reviewed, with the assistance of the Audit Committee, the Group's risk management and internal control systems and is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal control systems of the Group. Also, based on the internal control reviews conducted in 2017, no significant control deficiency was identified.

Internal Audit

The Group has an Internal Audit ("IA") function, which is consisted of professional staff with relevant expertise (such as Certified Public Accountant). The IA personnel are independent of the Group's daily operation and carry out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

According to the established plan, review of the risk management and internal control systems is conducted annually and the results are reported to the Audit Committee and the Board.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the review made by the IA personnel and the Audit Committee, concluded that the risk management and internal control systems of the Group were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. In respect of accounting, internal audit and financial reporting functions of the Company, the Board also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

INSIDE INFORMATION DISCLOSURE POLICY

The Company adopted an inside information disclosure policy (the "Inside Information Disclosure Policy") on 21 December 2015 which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy covers the following:

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;

- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and

- identifying who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders of the Company.

In addition, the Company has communicated to all relevant staff regarding the implementation of the Inside Information Disclosure Policy.

The Board considers that the Company's existing measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their disclosure obligations in respect of inside information.

The Inside Information Disclosure Policy is posted on the website of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2017.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's auditor, Ernst & Young, is set out as follows:

Services rendered	*HK$'000*
Audit services	2,945
Non-statutory audit services:	
Interim review	985
	3,930

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the annual and interim reports and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Ernst & Young, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 75 to 82 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

On 27 January 2014, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.bwi-intl.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

The auditor of the Company, Ernst & Young, attended the annual general meeting of the Company held on 26 May 2017 (the "2017 AGM"). Details of the Directors' attendances at the 2017 AGM are as follows:

Directors (as at the date of the 2017 AGM)	**Attendance at the 2017 AGM**
Executive Directors	
Jiang Yunan *(Chairman)*	✓
Chen Zhouping	✓
Li Shaofeng	✓
Qi Jing	✓
Thomas P Gold	×
Non-executive Director	
Zhang Yaochun	✓
Independent Non-executive Directors	
Tam King Ching, Kenny	✓
Leung Kai Cheung	✓
Yip Kin Man, Raymond	✓

COMMUNICATION WITH SHAREHOLDERS (continued)

During the year, all notice(s) of general meeting(s) despatched by the Company to its shareholders for meeting(s) held were sent for annual general meeting at least 21 clear days and at least 20 clear business days before the meeting and for extraordinary general meeting (at which the passing of a special resolution was considered) at least 21 clear days and at least 10 clear business days before the meeting, and for all other extraordinary general meeting(s) at least 14 clear days and at least 10 clear business days before the meeting(s). Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors, and all resolutions put to the vote of a general meeting were taken by way of a poll. At the general meetings, the chairman of the meetings explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

SHAREHOLDERS' RIGHTS

Convene an extraordinary general meeting and put forward proposals at shareholders' meetings

There are no provisions under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands allowing shareholders to propose new resolutions at general meetings.

However, pursuant to the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist himself may do so in the same manner, and all reasonable expenses incurred by the requisitionist as a result of the failure of the Board shall be reimbursed to the requisitionist by the Company.

Shareholders' enquiries

Specific enquiries or suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our principal office in Hong Kong or by email to our Company. In addition, shareholders can contact Tricor Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

BeijingWest Industries International Limited (the "Company") and its subsidiaries (the "Group" or "We") are pleased to present their environmental, social and governance ("ESG") report. The ESG report summarizes the efforts and achievements made by the Group in corporate social responsibility and sustainable development. As for the information of corporate governance, please refer to the Corporate Governance Report on pages 19 to 41 of this annual report.

1.1 Scope of the Report

The ESG report covers the business segment of the Group, namely, manufacturing and sales of auto parts. The ESG report presents our sustainability approach and performance in environmental and social aspects of our business for the reporting period from 1 January to 31 December 2017 (the "Year"). We keep on focusing on the operation of the production facilities in Poland and the United Kingdom (the "UK"), and the technical center in Poland. Starting from the Year, our new production facility in Shanghai of the People's Republic of China ("PRC") is included in the ESG Report. The Group continues to strengthen information collection in order to enhance the performance in environmental realm and to disclose relative information of sustainable development.

1.2 Reporting Guideline

The ESG report was prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

1.3 Stakeholder Engagement

We have engaged our staff from different divisions of the Group to help us recognize our sustainability performance. The diligently collected and carefully analyzed data underscores not only the Group's sustainable initiatives for the Year, but also the Group's short-term and long-term sustainability strategies. The Group will increase the involvement of stakeholders via constructive conversation with a view to charting a course for long term prosperity.

1.4 Contact

If you have any questions or feedback about the ESG report, please feel free to contact us at:

Address: Rooms 1005-1006, 10/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong

Tel: (852) 2625 8699

Fax: (852) 2528 2581

Email: info@bwi-intl.com.hk

2. ABOUT THE GROUP

During the Year, the Group was principally involved in the manufacture and sale of automotive parts and components, trading of automotive parts and components and provision of technical services. The core products of the Group are suspension products and brake products.

The Group's automotive suspension products are mainly for premium passenger vehicles, which are manufactured by our plants in Europe. Through developing and maintaining strong relationships with its major customers, the Group well understood the technical requirements of our customers and has an expertise in the manufacturing process for premium passenger vehicles.

The brake products of the Group have broad applications in both sedans and full-size sport utility vehicles. The Group is one of the leading suppliers of automobile brake components and systems in the PRC. Our customers include some of the world's largest automobile manufacturers with operations in the PRC as well as domestic automobile manufacturers. The Group has established its leadership status through its long-term engagement in the PRC.

Being a responsible enterprise with businesses in different countries, the Group and our employees are subject to the laws and regulations of different countries and organizations.

3. EXCELLENCE IN OUR ENVIRONMENT

3.1 Environmental Principles

The role as a responsible corporate citizen is largely defined by the Group's commitment to protecting natural resources and the global environment. The daily operation of our employees is governed by our environmental principles. To ensure sustained growth and prosperity of the Group while engaging in environmental protection, we keep on reducing solid waste and air pollution, conserving resources and recycling materials by harnessing technologies.

Our commitment goes beyond compliance with the laws and encompasses the integration of sound environmental practices in our business decisions. Necessary permits were obtained under applicable environmental protection laws in operation for the production facilities in Poland, the UK and Shanghai, including environmental permits in the areas of air emissions, water discharge and waste disposal, etc.

3. EXCELLENCE IN OUR ENVIRONMENT (continued)

3.1 Environmental Principles (continued)

Aiming at indicating risk factors in business operation, the environmental management system has been implemented. Identification and determination of environmental aspects, which are conducted by site environmental specialists, are undergone according to the system. Our environmental management systems of the production facilities in Poland and the UK are certified by ISO14001:2004 Environmental Management System, while the environmental management system of the production facility in Shanghai is certified by ISO14001:2015 Environmental Management System.

In the Year, we have taken measures to raise environmental awareness of employees. For instance, trainings related to the environment were held for employees in production facilities in Poland, the UK and Shanghai and the technical center in Poland, in order to broaden their environmental knowledge. Also, we continue to conduct regular assessment on the impact of our production facilities and products on the environment and the communities, in an effort to achieve the goal of continuous improvement.

3.2 Minimizing Emissions

Emissions of our business are mainly from the manufacturing process and are monitored in a regular basis. In order to minimize the emissions from our activities and to protect the health of our employees, the Group carried out various actions during the Year as below:

– Air purification system was installed at the main production hall of the production facility in Poland, so as to remove the contaminants from the air.

– The phosphate and paint processes have been removed in production facility in the UK to reduce water pollutants.

– Some of the hazardous chemicals, including paint, thinner, phosphatizing and passivating liquid, are not used in production facility in Shanghai to reduce air pollutants.

3. EXCELLENCE IN OUR ENVIRONMENT (continued)

3.2 Minimizing Emissions (continued)

The emissions from production facilities in Poland and Shanghai are emitted within the emission limit of relevant standards, except for a water pollutant, Zinc, recorded in the production facility in Poland. The exceeded emission of Zinc was found in one of the regular checks, which was slightly higher (i.e. 0.1 mg/L) than the standard. We believed that it was a one-time incident and had appointed qualified company to review and monitor the treatment process. After this single incident, we did not notify other exceptional case and the treatment process is now under constant control. In addition, there is no air pollutant or water pollutant emitted from the Technical Centre in Poland. The table below represents the emissions of the production facilities in Poland, the UK and Shanghai in the Year.

Location	Name of Pollutant	Emission Amount	Emission Limit of the Standard
Production Facility in Poland	Air Pollutants: (Relevant Standard: Integrated Pollution Prevention and Control Permit)		
	Aliphatic hydrocarbons	~0.04 kg/h	0.14 kg/h
	Aromatic hydrocarbons	~0.001 kg/h	0.0926 kg/h
	Chromium	0.001 kg/h ~ 0.002 kg/h	0.100 kg/h
	Nitrogen Oxides (NOx)	~0.008 kg/h	0.078 kg/h
	Particulates (PM)	0.001 kg/h ~ 0.002 kg/h	0.100 kg/h
	Water Pollutants: (Relevant Standard: Water permit OS-II.7322.23.2017.DR)		
	Chromium	0.01 mg/L ~ 0.20 mg/L	0.25 mg/L
	Copper	0.01 mg/L ~ 0.03 mg/L	0.25 mg/L
	Nickel	<0.02 mg/L	0.25 mg/L
	Zinc	0.3 mg/L ~ 1.1 mg/L	1.0 mg/L
Production Facility in the UK	Water Pollutants: (Relevant Standard: Thames Water Permit to Discharge for site)		
	Nitrogen Oxides (NOx)[1]	~0.43 mg/L	30 mg/L

[1] The data was from January 2017 to May 2017 as the phosphate and paint processes in production facility in the UK were completely removed in May 2017.

3. EXCELLENCE IN OUR ENVIRONMENT (continued)

3.2 Minimizing Emissions (continued)

Location	Name of Pollutant	Emission Amount	Emission Limit of the Standard
Production Facility in Shanghai	Air Pollutants: (Relevant Standard: DB31/933-2015 Integrated emission standards of air pollutants)		
	Non-methane Hydrocarbon	0.002 kg/h	3.0 kg/h
		0.67 mg/m^3	70 mg/m^3
	Water Pollutants: (Relevant Standard: DB31/445-2009 Discharge Standard For Municipal Sewerage System)		
	pH Value	8.8	6 ~ 9
	Total Suspended Solids (TSS)	8 mg/L	400 mg/L
	Ammonia Nitrogen	20.1 mg/L	40 mg/L
	Biochemical Oxygen Demand (BOD)	15.8 mg/L	300 mg/L
	Chemical Oxygen Demand (COD)	156 mg/L	500 mg/L
	Anionic surfactants (LAS)	0.8 mg/L	15 mg/L
	Animal & Vegetable Oil	1.7 mg/L	100 mg/L

As for the emissions from vehicles in the Year, production facilities in Poland and the UK, and the technical center in Poland emitted 1,014kg nitrogen oxides, 7kg sulphur dioxide and 7kg particulate matter in total, while there is no vehicles under the name of production facility in Shanghai.

3.3 Reducing Water Consumption

Driven by our dedication to reduce water consumption during the manufacturing process of our business operation, we took several measures to achieve the target. For instance, water consumption was reduced by the removal of the phosphate and paint processes in production facility in the UK. We also applied water-saving initiatives to the painting line and chromium line in our production facility in Poland. Daily water consumption used for chemical processes is regularly monitored. The installation of automatic valve and electromagnetic valve also help reduce the water use. The estimated water savings is amounted to around 4,000m^3 per year.

In the Year, the total water consumption from production facilities in Poland, the UK and Shanghai, and the technical center in Poland was 119,818m^3, with each production machine consumed 178m^3 in average.

3. EXCELLENCE IN OUR ENVIRONMENT (continued)

3.4 Reducing Energy Consumption

Energy-saving initiatives include switching off all working machinery and other electrical devices, as well as the power supply after the entire manufacturing process. For example, the new office of our production facility in the UK featured LED lighting and energy efficient heating, thereby improving the electricity efficiency. In addition, various measures were carried out in the production facility in Poland in the Year, such as changing the work system from 7-day work week to 5-day work week, modernizing the lighting and heating at the plant through installation of LED lighting, elimination of electric heaters and optimization of heating control system, and reducing electricity consumption on chrome plating lines by the limitation on voltage.

In the Year, the total energy consumption from production facilities in Poland, the UK and Shanghai, and the technical center in Poland was 65,365MWh, including 9,363MWh consumed by using non-renewable fuel and 56,002MWh consumed by purchased electricity and heating, with each production machine consuming 97 MWh in average.

3.5 Sorting of Waste

The Group has established several waste management procedures on sites, complying with corporate standards and local legal requirements. We have clear process in handling the waste, from the generation of waste to waste transfer to contractor.

Waste sorting system that is applicable to paper, glass, plastic and metal, etc. is implemented in the production area. Waste is collected and stored in labeled segregation containers, while mixed storage of hazardous waste and non-hazardous waste or hazardous waste of different types is strictly forbidden. Thus, the containers with hazardous waste and non-hazardous waste are collected in separate storage shelter. After the collection of waste, we cooperate with the authorized waste contractor to collect the waste. The waste is always recycled to the greatest extent, while non-recyclable waste such as municipal waste is disposed of by external company by way of landfill or incineration.

In the Year, hazardous waste produced by production facilities in Poland and Shanghai, and the technical center in Poland was amounted to 407 tonnes in total, with 0.67 tonnes hazardous waste generated by each of their production machines in average, while that produced by production facility in the UK was amounted to 128m^3, with 2m^3 hazardous waste generated by each of its production machine. Besides, the non-hazardous waste from production facilities in Poland, the UK and Shanghai, and the technical center in Poland was amounted to 7,126 tonnes in total, with each production machine generating 11 tonnes of non-hazardous waste.

3. EXCELLENCE IN OUR ENVIRONMENT (continued)

3.5 Sorting of Waste (continued)

To achieve our goal of recycling the waste to the greatest extent, over 90% of non-hazardous waste, including paper or, carton, plastic, wood and metal, is recycled by production facilities in Poland, the UK and Shanghai, and the technical center in Poland. By recycling reusable waste, waste disposal is reduced.

3.6 Minimizing the Use of Natural Resources

Our endeavour to preserve our environment can be embodied by the actions we take to reduce waste and pollutants, conserve resources and recycle materials, and further reduce the greenhouse gas emissions.

The Group has taken measures to utilize the use of materials to the greatest extent. For example, in our production facility in Poland, instead of individual packaging, collective packaging is used to reduce the usage of packaging material. In the Year, packaging materials used by production facilities in Poland, the UK and Shanghai, and the technical center in Poland included 910 tonnes of paper or carton, 290 tonnes of plastic, 692 tonnes of wood and 108 tonnes of metal and the average amount of packaging material used was 3 tonnes per production machine. Also, the Group adopts measures to reduce paper use. In our technical center in Poland, electronic system is implemented for engineering works, so as to reduce the amount of paper printed.

As a responsible enterprise, the Group understands the importance of contributing to the greenhouse gas emissions reduction. For example, our employees are encouraged to take economy class for unavoidable business trip, in order to lower the carbon emission from the flight taken. In the Year, the total greenhouse gas emissions from production facilities in Poland, the UK and Shanghai, and the technical center in Poland was 39,405 tonnes CO_2e, with average emissions from each production machine being 59 tonnes CO_2e.

In the future, the Group will continue to use natural resources rationally through monitoring the consumption of resource and taking actions if the limit is exceeded, and further reduce the greenhouse gas emissions.

4. EXCELLENCE IN OUR WORKPLACE

4.1 Employment and Welfare

Employees are regarded as the most valuable asset to the Group and the foundation of our development. We continue to comply with national and local labour laws and regulations relating to employment, rights and welfare of employees and health and safety.

We believe that the key to success lies in talent attraction and retention. We commenced internal and external hiring process for relevant vacancy under the principle of fairness. Our employees enjoy equal treatment in the establishment and termination of employment, conditions of employment, promotion and access to training in order to raise professional qualifications, regardless of sex, age, disability, race, religion, nationality and mode of employment, etc. To ensure no child is recruited, the dates of birth of all employees are checked during the recruitment process. As for the departing employees, exit interviews are conducted to understand the reasons of departure, so that the Group can further improve its business operations. We also provide a clear career path for every employee. Our merit-based promotion aims to promote outstanding employees to a higher level with regard to our evaluation on employees' performance and level description.

The working hours are set in accordance to the labour laws and our internal regulations to ensure sufficient rest is provided to employees. Employees work within the agreed time frame so that forced labour does not exist in the Group. Annual leaves are given to employees based on the relevant local laws and regulations and their length of service. In order to attract, motivate and retain our talented employees, the Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to our employees. Remuneration packages of the employees are reviewed annually by management with reference to market conditions and individual performance.

Diversity in experiences, background, ethnicity, lifestyles, cultural orientation and beliefs injects vitality to the Group. Reasonable accommodations are offered to disabled employees. The Group keeps on promoting antidiscrimination, fairness and justice. If any employee encounters the situation of discrimination or workplace bullying, he/she can submit an anonymous complaint to the Group via an external telephone line. We will not tolerate behavior that is inconsistent with the mechanism and will take appropriate action to prevent such behavior.

4. EXCELLENCE IN OUR WORKPLACE (continued)

4.1 Employment and Welfare (continued)

Moreover, the Group places emphasis on employees' work-life balance. Thus, we encourage employees to join our leisure events. For instance, the technical center in Poland has organized picnic and Christmas celebration for employees and their families. To promote a healthy lifestyle, technical center in Poland has organized medical consultations, practices on managing the stress and sport activities, including bike competitions and volleyball match, during its "Wellness Week".

4.2 Health and Safety

The Group is dedicated to protecting the health and safety of each employee. We believe that occupational injuries and illnesses are preventable. The safety rules and policies at each location of the Group must be followed, and our employees should comply with all health and safety laws and regulations. We promote the awareness of safety risks to our employees as they go about the jobs, and managers are responsible for supporting safe work practices. For example, our production facility in Poland has been certificated to the Occupational Health and Safety Management System (OHSAS18001:2007) standard.

To ensure safe performance of work, our employees are allowed to work after undergoing and passing the initial, periodic and checkup medical examination. For the staff working at manufacturing lines, we provide them with protective clothing and work clothing, as well as personal protective equipment and measures for maintaining personal hygiene. Works with higher risk shall be performed by at least two people to ensure safety. In order to prevent occupational diseases, prophylactic or sanatorium treatment may be arranged for employees working in harmful workplaces. In case of an accident, we established a clear guideline to our employees for handling the emergencies. During the Year, the management of the production facility in Poland held "Safety Observation Tours" each second week and the corrective actions plans were monitored by the health and safety specialists.

To maintain a safe and healthy workplace, the Group conducts regular safety training for employees in the areas of rules and principles of occupational health and safety and fire safety regulations, such as general instruction of basic health and safety regulations, as well as safe operation of workshop, etc. Trainings carried out by health and safety specialist enhance understanding of employees in the basic health and safety regulations, our internal health and safety policies, as well as the first aid issues.

4. EXCELLENCE IN OUR WORKPLACE (continued)

4.2 Health and Safety (continued)

Moreover, in order to safeguard the health of our employees, the Group has adopted the hazardous material control program and chemical material assessment procedures for them to follow. For example, hazardous and chemical substances must be marked properly, placed in original containers and stored in a designated place, according to the instructions provided by the Group, so as to prevent the leakage of hazardous and chemical substances. Also, measurements of indoor air quality are carried out periodically, e.g. by dust, oil mist in areas where such risks might emerge. To create a clean and safe workplace, equipment and tools are kept in order, while materials, products and wastes are placed in specific areas and containers. Also, air clean collectors have been installed in production facility in Poland in the Year to reduce noise and improve the working conditions.

4.3 Development and Training

The tenet of the Group is to create an intellectually stimulating environment which encourages employees to harness their talents and skills in the pursuit of high quality work. In order to enrich the professional technical skills and the knowledge of our employees, the Group continues to provide various trainings. New employees are required to participate in the orientation training, which is essential for understanding their duties, practice of a given position and their fundamental rights. Professional trainings are also tailored to the needs of different positions.

For example, during the Year, employees in production facilities in Poland and Shanghai and technical center in Poland participated in various trainings, such as personal skill development courses, cross functional training courses and trainings related to technical knowledge, which are designed to equip employees with necessary knowledge and skills. Professional trainings were also provided to employees of production facility in the UK. Examinations are required for verifying the knowledge and skills acquired during the training, subject to the types of courses.

5. EXCELLENCE IN OUR BUSINESS

5.1 Promoting Integrity

To maintain our reputation of operation integrity, concrete effort has been made to educate our employees to avoid acts and relationships that violates or conflicts with their duties or the interest of the Group. Employees are also required to sign the declaration of acknowledgement. Through our consistent effort in promoting open communication, employees are strongly encouraged to immediately disclose any possible conflict of interest, suspected misconduct and misbehaviour committed by individuals on behalf of the Group.

If our employees do have concern on legal or business conduct issues, they may seek assistance from their supervisors or any functional experts, such as the legal staff. We are always dedicated to promoting integrity through our business practices.

5.2 Respecting Intellectual Property

The Group continually pursues the aim of maintaining our supreme prestige in the manufacturing industry. We respect and protect the intellectual property, such as company patents, trademarks, copyrights, and trade secrets. We will take measures to protect new works of authorship, technological advances or unique solutions to business problems, if there is any suspicion of infringement of company patent, trademark, copyright or trade secret. It is our ongoing effort to protect our own confidential information, as well as respecting the proprietary and confidential information of others.

6. EXCELLENCE IN THE MARKETPLACE

6.1 Product Quality

We strive to communicate with our customers on any potential issues at every steps of the product launch, from product design to provision of service. Moreover, with our customer-oriented operation and enthusiastic attitude, we aim to enhance customer satisfaction through advanced method and achieving perfection at each step. For consistent improvement of service quality, designated procedures for complaint handling are also implemented to timely address and prevent potential issue. In the Year, our production facility in Poland was awarded as best plant in 2017 Supplier Awards issued by PSA Group.

As for providing high-quality products to our customers, the Group has also set up a comprehensive quality management system for the purpose of implementing and supervising the operating procedures, thereby assuring the quality of products. Our production facilities in Poland, the UK and Shanghai are certified to the ISO/TS16949:2009 Quality Management System standard, and our technical center in Poland holds the certification of ISO9001:2015 Quality Management System.

6. EXCELLENCE IN THE MARKETPLACE (continued)

6.1 Product Quality (continued)

Various quality checks are carried out throughout the production process. For example, to assure the quality of our products, the Group handles raw materials properly with the following actions:

– Upon the arrival of the deliveries, the initial verification is performed. If the raw materials fail to meet the verification requirements, they will be rejected and returned to the carrier.

– After passing the preliminary approval, the materials are labeled with unique tracking number for the traceability and stored in closed area in warehouse with restricted access.

– The materials are stored according to manufacturers' instructions on storage condition and shelf life.

– The condition of the material stored is assessed periodically to ensure no damaged or deteriorated material is used.

Procedures for handling unsatisfied goods are set up. To ensure the product quality, all unsatisfied raw materials, finished goods and products are stored separately and not allowed to undergo the next production step without permission.

6.2 Fair Treatment of Suppliers

Suppliers of the Group are valued partners in the success of our business. As a responsible corporate citizen, the Group is committed to protecting human health, natural resources, and the environment. We encourage and promote responsible environmental management to the suppliers and encourage them to achieve environmental certification. Also, we do not purchase goods produced with forced labor.

Suppliers are selected on the basis of quality, and after-sales services with respect to the raw materials and components, so as to ensure the quality of the raw materials will not affect the quality of our products. To reduce the carbon footprint, we also choose suppliers that are able to deliver materials with short delivery time and delivery distance, so as to lower the carbon emissions from transportation. Suppliers' performance is monitored through their delivered product quality, delivery schedule performance and special status customer notifications related to quality or delivery issues. We will maintain stable and fair relationships with our major suppliers and avoid relying on any single supplier for any given type of raw materials and components.

6. EXCELLENCE IN THE MARKETPLACE (continued)

6.3 Data Protection and Security

In order to secure the privacies of both our clients and the Group, employees are not allowed to disclose any confidential information to the company's competitors or other institutions, or use our computers to browse, download or transmit illegal materials. Removal of any materials or items from the premises without written permission is also prohibited. At the end of a workday, documents of confidential nature are not allowed to be left on desks or in other generally accessible places. Such documents shall be placed in drawers or special locked file cabinets.

7. EXCELLENCE IN SOCIETY AND OUR COMMUNITIES

It is our endeavour to implement a global philanthropy scheme that benefits the society and community during our pursuit of business growth.

As a corporate citizen, our effort on community relations seeks to ensure the presence of brand image in our local communities in such a way that the Group is viewed as a "neighbor of choice". Contributions are tailored to local needs and priorities as well. Voluntary team is also founded to encourage our employees to devote their personal time and harness their skills to work for the social well-being.

Our goal is helping our youth to unearth the greatest possible potential through creating education opportunities and supporting mechanism, with an emphasis on technology education. In the Year, our production facility in Poland cooperated with local high schools and universities that providing trainings to the students to gain experience in our industry. Our primary focus also resides on programmes which are in alignment with our business vision and orientation, including ability to measure effectiveness, innovative approach, customer-driven, and global programs that encourage international reach and involvement. Consideration is also given to requests which will bring foreseeable benefits to the Group and the local communities.

During the Year, we have supported the participation of our employees in the technical center in Poland to the charitable activities by donating money. The activities included Kraków Business Run, Złombol Charity Rally, and Szlachetna Paczka ("Noble Box"). Our employees of the technical center in Poland participated in Kraków Business Run to support the foundation of taking care of disabled people after limb amputations. Also, money was donated to the charity rally, Złombol, which participants gathered money for orphanages by selling advertising space on their cars produced or designed in People's Republic of Poland era and traveled to the destination for the current year. In the Noble Box event, boxes were prepared for the families in need with fundraising taken in the technical center in Poland, in order to provide aid to families struggling with poverty, diseases and misery.

Besides the participation of employees in the technical center in Poland to the charitable activities, our production facility in the UK made donations to Stoke Mandeville Hospital by sale of old phones and to Red Nose Day by cake sale, so as to help people in need.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the financial statements on pages 83 to 173 of this annual report.

The Board of Directors of the Company does not recommend the payment of any final dividend in respect of the year (2016: HK2 cents).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 9 to 10 and pages 11 to 18 of this annual report respectively.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out on page 174 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2017 are set out in note 23 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

REPORT OF THE DIRECTORS

DONATION

No charitable donation was made by the Group during the year (2016: Nil).

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Jiang Yunan
Chen Zhouping
Li Shaofeng
Thomas P Gold
Zhang Yaochun
Tam King Ching, Kenny*
Leung Kai Cheung*
Yip Kin Man, Raymond*
Qi Jing *(resigned with effect from 1 October 2017)*

* *Independent Non-executive Directors*

In accordance with clause 84 of the Company's articles of association, Messrs. Tam King Ching, Kenny, Leung Kai Cheung and Yip Kin Man, Raymond will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets and profit of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

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

None of the Directors of the Company who held office at 31 December 2017 had any interests in the shares or underlying shares of the Company as at 31 December 2017 as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(b) Long positions in the shares and underlying shares of Shougang Concord Grand (Group) Limited ("Shougang Grand"), an associated corporation of the Company

The Directors of the Company who held office at 31 December 2017 had the following interests in the shares and/or underlying shares of Shougang Grand, an associated corporation (within the meaning of Part XV of the SFO) of the Company, as at 31 December 2017 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

		Number of shares/underlying shares in Shougang Grand			
Name of Director	Capacity in which interests were held	Interests in shares	Derivative interests*	Total interests	Interests as to % of the issued share capital of Shougang Grand as at 31.12.2017
Tam King Ching, Kenny	Beneficial owner	–	1,150,000	1,150,000	0.04%
Yip Kin Man, Raymond	Beneficial owner	–	1,150,000	1,150,000	0.04%

* *The interests are unlisted physically settled options.*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Save as disclosed above, as at 31 December 2017, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the year was the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Jiang Yunan	北京京西重工有限公司 (BeijingWest Industries Co., Ltd*) ("BWI")#	Sale of auto parts, machinery and equipment	Director
Chen Zhouping	BWI#	Sale of auto parts, machinery and equipment	Director
Zhang Yaochun	BWI#	Sale of auto parts, machinery and equipment	Director
Qi Jing^	BWI#	Sale of auto parts, machinery and equipment	Director

* *For identification purpose only*

\# *Such businesses may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.*

^ *Mr. Qi Jing resigned as a Director of the Company with effect from 1 October 2017.*

The Board of the Company is independent from the board of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of that entity.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the issued share capital of the Company as at 31.12.2017	*Notes*
Success Arrive Limited ("SAL")	Beneficial owner	146,247,815	25.46%	*1*
BWI Company Limited ("BWI HK")	Beneficial owner, interest of a controlled corporation	301,842,572	52.55%	*1*
BWI	Interests of controlled corporations	301,842,572	52.55%	*1*
北京房山國有資產經營有限責任公司 (Beijing Fangshan State-owned Assets Management Co. Ltd.*) ("Beijing Fangshan")	Interests of controlled corporations	301,842,572	52.55%	*1*
首鋼總公司 (Shougang Corporation*)	Interests of controlled corporations	301,842,572	52.55%	*1,2*

Notes:

* *For identification purpose only*

1. *SAL was a wholly-owned subsidiary of BWI HK which in turn was wholly owned by BWI. BWI was held as to 55.45% by Shougang Corporation and as to 44.55% by Beijing Fangshan. The interests held by SAL, BWI HK, BWI, Shougang Corporation and Beijing Fangshan were the same block of shares of the Company.*

2. *首鋼總公司 (Shougang Corporation) has changed its corporate name to 首鋼集團有限公司 (Shougang Group Co., Ltd.) with effect from 27 May 2017.*

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Save as disclosed above, as at 31 December 2017, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" below, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder (as defined under the Listing Rules) or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

SHARE OPTION SCHEME

On 6 June 2014, the shareholders of the Company adopted a share option scheme (the "Scheme").

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any of the entities in which any member of the Group holds any equity interest (the "Invested Entities"). The Scheme shall be valid and effective from 18 June 2014, being the date on which the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the Scheme, and ending on 6 June 2024, being the tenth anniversary of the date on which the Scheme was adopted by the shareholders of the Company (both dates inclusive).

Under the Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

SHARE OPTION SCHEME (continued)

No share option has been granted under the Scheme. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 25,189,232, representing approximately 4.39% of the shares of the Company in issue as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the number of shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

SHARE OPTION SCHEME (continued)

Share options to be granted under the Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the Scheme since its adoption. Accordingly, as at 31 December 2017, there was no share option outstanding under the Scheme.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

At the end of the reporting period, the Company did not have any reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 52.1% of the total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the largest customer included therein amounted to approximately 24.3%. Purchases from the Group's five largest suppliers accounted for approximately 22.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 7.7%. The controlling shareholder of the Company was BWI, which together with its subsidiaries, was the forth largest supplier of the Group. Save as disclosed above, none of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

I Continuing connected transactions in relation to BeijingWest Industries Co., Ltd.（北京京西重工有限公司）("BWI") and/or its associates

BWI is a controlling shareholder of the Company. Accordingly, the transactions under the agreements as set out in (a) to (d) below would constitute continuing connected transactions for the Company.

(a) Parts and Components Supply Agreement

The Parts and Components Supply Agreement (the "P&C Supply Agreement I") was entered into between the Company and BWI on 10 November 2016 for a term of three financial years ending on 31 December 2019.

Pursuant to the P&C Supply Agreement I, the Group would supply auto parts and components to BWI and/or its associates.

The prices for the transactions under the P&C Supply Agreement I would base on the cost plus approach at margins within the range or no less favourable to the margins of the other products of the Group supplied to independent third party customers for the prior financial year, and the pricing policies for continuing connected transactions of the Group.

The cap amounts of the transactions under the P&C Supply Agreement I for each of the three financial years ending 31 December 2019 are as follows:

For the financial year ended 31 December 2017	For the financial year ending 31 December 2018	For the financial year ending 31 December 2019
HKD25,300,000	HKD29,100,000	HKD33,500,000

The transactions under the P&C Supply Agreement I are a continuation of the already established purchasing and supplying business between BWI and/or its associates and the Group. The P&C Supply Agreement I was entered into to facilitate the continued supply of auto parts and components from the Group to BWI and/or its associates. Details of the P&C Supply Agreement I were disclosed in the announcement of the Company dated 10 November 2016.

CONTINUING CONNECTED TRANSACTIONS (continued)

I Continuing connected transactions in relation to BeijingWest Industries Co., Ltd.（北京京西重工有限公司）("BWI") and/or its associates (continued)

(b) Mutual Technical Services Agreement

The Mutual Technical Services Agreement was entered into between the Company and BWI on 10 November 2016 for a term of three financial years ending on 31 December 2019.

Pursuant to the Mutual Technical Services Agreement, BWI and/or its associates would provide technical services to the Group (the "BWI Services") and the Group would provide technical services to BWI and/or its associates (the "Company Services"). Such technical services comprise engineering services and manufacturing services.

The basis of determining the technical services fees for the transactions contemplated under the Mutual Technical Services Agreement would be: (1) cost plus 5% for engineering services; and (2) cost plus 1.5% for manufacturing services.

The cap amounts of the transactions under the Mutual Technical Services Agreement for each of the three financial years ending 31 December 2019 are as follows:

	For the financial year ended 31 December 2017	For the financial year ending 31 December 2018	For the financial year ending 31 December 2019
Cap amounts for the BWI Services	HKD236,600,000	HKD284,000,000	HKD340,800,000
Cap amounts for the Company Services	HKD120,000,000	HKD144,000,000	HKD172,800,000

The Mutual Technical Services Agreement was entered into to facilitate the continued provision of technical services between BWI and/or its associates and the Group. The arrangement for the mutual provision of technical services would allow both parties to save and pool their resources in providing a total solution to their customers. Details of the Mutual Technical Services Agreement were disclosed in the announcement of the Company dated 10 November 2016 and in the circular of the Company dated 28 November 2016. The Mutual Technical Services Agreement was approved and confirmed by the independent shareholders of the Company on 23 December 2016.

CONTINUING CONNECTED TRANSACTIONS (continued)

I Continuing connected transactions in relation to BeijingWest Industries Co., Ltd.（北京京西重工有限公司）("BWI") and/or its associates (continued)

(c) Patent License Agreement

The Patent License Agreement was entered into between BWI as licensor and the Company as licensee on 10 November 2016 for a term of three financial years ending on 31 December 2019.

Pursuant to the Patent License Agreement, BWI would procure its wholly owned subsidiaries which are the registered holders of certain patents (the "Patents") related to automobile controlled and passive suspension products to grant to the Group a non-exclusive and non-transferrable license to use the Patents in the Group's manufacturing operations.

The Company would pay an annual license fee representing 0.5% of the net sales of the licensed products of the Group, which would be the products manufactured by the Group using the Patents. The net sales would be the total invoiced amount of licensed products less any sales allowances, customer discounts, and refunds for licensed products that were damaged or returned.

The cap amounts of the license fees for the Patents under the Patent License Agreement for each of the three financial years ending 31 December 2019 are as follows:

For the financial year ended 31 December 2017	For the financial year ending 31 December 2018	For the financial year ending 31 December 2019
HKD17,500,000	HKD21,000,000	HKD25,200,000

The transactions under the Patent License Agreement are a continuation of the already established arrangement for the use of Patents between BWI and the Group. The entering into of the Patent License Agreement would enable the Group to continue to use the Patents which maintain and strengthen the competitive position of the Company in the automotive market. Details of the Patent License Agreement were disclosed in the announcement of the Company dated 10 November 2016.

CONTINUING CONNECTED TRANSACTIONS (continued)

I Continuing connected transactions in relation to BeijingWest Industries Co., Ltd.（北京京西重工有限公司）("BWI") and/or its associates (continued)

(d) Parts and Components Purchase Agreement

The Parts and Components Purchase Agreement (the "P&C Purchase Agreement I") was entered into between the Company and BWI on 30 November 2017 for a term of three financial years ending on 31 December 2019.

Pursuant to the P&C Purchase Agreement I, the Group would purchase auto parts and components from BWI and/or its associates.

The basis of determining the prices for the transactions under the P&C Purchase Agreement I would be in accordance with the following principles:

(i) by reference to the prevailing market prices of the same or substantially similar products, taking into account of the prices of the same or substantially similar products with comparable order quantities and quality offered by other suppliers; and on terms which are no less favourable to the Group than prevailing market practices; or

(ii) if (i) above is not applicable, by reference to the average price of similar products previously supplied or provided by a party, and on no less favourable terms comparable to those offered by the relevant party to independent third parties; and on normal commercial terms comparable to those received from independent third parties in respect of the same or substantially similar products with comparable quantities.

The cap amounts of the transactions under the P&C Purchase Agreement I for each of the three financial years ending 31 December 2019 are as follows:

For the financial year ended 31 December 2017	For the financial year ending 31 December 2018	For the financial year ending 31 December 2019
HKD10,000,000	HKD10,000,000	HKD10,000,000

The transactions under the P&C Purchase Agreement I are a continuation of the already established purchasing and supplying business between the Group and BWI and/or its associates. The P&C Purchase Agreement I was entered into to facilitate the continued purchase of auto parts and components by the Group from BWI and/or its associates. Details of the P&C Purchase Agreement I were disclosed in the announcement of the Company dated 30 November 2017.

II Continuing connected transactions in relation to BWI (Shanghai) Co., Ltd.（京西重工（上海）有限公司）(“BWI Shanghai”)

BWI Shanghai became a subsidiary of the Company upon Billion Million (HK) Limited, a wholly owned subsidiary of the Company, having completed acquisition and subscription of an aggregate of 51% shareholdings in BWI Shanghai on 29 December 2016 (the “Shanghai Project Completion Date”). As BWI is a controlling shareholder of the Company, the transactions under the agreements as set out in (a) to (d) below would constitute continuing connected transactions for the Company.

(a) Parts and Components Supply Agreement

The Parts and Components Supply Agreement (the “P&C Supply Agreement II”) was entered into between BWI North America Inc. (“BWI North America”), a wholly owned subsidiary of BWI, and BWI Shanghai on 15 April 2016 for a term commencing from the Shanghai Project Completion Date and ending on 31 December 2018.

Pursuant to the P&C Supply Agreement II, BWI Shanghai would sell auto parts and components and brake products to BWI North America.

The prices for the transactions under the P&C Supply Agreement II would base on the prevailing market prices and the pricing policies for continuing connected transactions of the Company.

The cap amounts of the transactions under the P&C Supply Agreement II for each of the three financial years ending 31 December 2018 are as follows:

For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ending 31 December 2018
RMB3,500,000	RMB4,000,000	RMB4,500,000

The transactions under the P&C Supply Agreement II are a continuation of the already established purchasing and supplying business between BWI North America and BWI Shanghai. Details of the P&C Supply Agreement II were disclosed in the announcement of the Company dated 15 April 2016.

CONTINUING CONNECTED TRANSACTIONS (continued)

II Continuing connected transactions in relation to BWI (Shanghai) Co., Ltd.（京西重工（上海）有限公司）("BWI Shanghai") (continued)

(b) Parts and Components Purchase Agreement

The Parts and Components Purchase Agreement (the "P&C Purchase Agreement II") was entered into between BWI and BWI Shanghai on 15 April 2016 for a term commencing from the Shanghai Project Completion Date and ending on 31 December 2018.

Pursuant to the P&C Purchase Agreement II, BWI Shanghai would purchase auto parts and components from BWI and/or its associates.

The prices for the transactions under the P&C Purchase Agreement II would base on the prevailing market prices and the pricing policies for continuing connected transactions of the Company.

The cap amounts of the transactions under the P&C Purchase Agreement II for each of the three financial years ending 31 December 2018 are as follows:

For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ending 31 December 2018
RMB7,000,000	RMB9,000,000	RMB12,000,000

The transactions under the P&C Purchase Agreement II are a continuation of the already established purchasing and supplying business between BWI Shanghai and BWI and/or its associates. Details of the P&C Purchase Agreement II were disclosed in the announcement of the Company dated 15 April 2016.

(c) Technology License Agreement

The Technology License Agreement was entered into between BWI as licensor and BWI Shanghai as licensee on 15 April 2016 for a term commencing from the Shanghai Project Completion Date and ending on 31 December 2018.

Pursuant to the Technology License Agreement, BWI would grant a non-exclusive license to BWI Shanghai for BWI Shanghai to use certain patents, copyrights and technical information for the manufacturing and testing of brake systems.

CONTINUING CONNECTED TRANSACTIONS (continued)

II Continuing connected transactions in relation to BWI (Shanghai) Co., Ltd.（京西重工（上海）有限公司）("BWI Shanghai") (continued)

(c) Technology License Agreement (continued)

The license fee under the Technology License Agreement had been originally fixed at 2% of the revenue of the products manufactured by BWI Shanghai using the licensed technology. Pursuant to a supplemental agreement entered into between the parties on 22 December 2017 (the "Supplemental Agreement"), the rate of license fee has been adjusted downward to 0.5% with effect from 1 January 2017. The license fee would be payable by BWI Shanghai to BWI on a quarterly basis.

The cap amounts of the transactions under the Technology License Agreement for each of the three financial years ending 31 December 2018 are as follows:

For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ending 31 December 2018
RMB30,000,000	RMB33,000,000	RMB36,300,000

The transactions under the Technology License Agreement are a continuation of the already established licensing arrangement between BWI and BWI Shanghai. Details of the Technology License Agreement and the Supplemental Agreement were disclosed in the announcements of the Company dated 15 April 2016 and 22 December 2017 respectively.

(d) Technology Development Agreement

The Technology Development Agreement was entered into between BWI North America and BWI Shanghai on 15 April 2016 for a term commencing from the Shanghai Project Completion Date and ending on 31 December 2018.

Pursuant to the Technology Development Agreement, BWI Shanghai would from time to time engage BWI North America to carry out product development work for its brake system for application in the vehicles of its customers.

The services fee under the Technology Development Agreement has been fixed by using the transactional net margin method which was determined by the parties after arm's length negotiations with reference to a study conducted by an independent third party consultant commissioned by the parties based on the Organization for Economic Co-operation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

CONTINUING CONNECTED TRANSACTIONS (continued)

II Continuing connected transactions in relation to BWI (Shanghai) Co., Ltd.（京西重工（上海）有限公司）(“BWI Shanghai”) (continued)

(d) Technology Development Agreement (continued)

The cap amounts of the transactions under the Technology Development Agreement for each of the three financial years ending 31 December 2018 are as follows:

For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ending 31 December 2018
RMB60,000,000	RMB66,000,000	RMB73,000,000

The transactions under the Technology Development Agreement are a continuation of the already established provisions of technology development services from BWI North America to BWI Shanghai. Details of the Technology Development Agreement were disclosed in the announcement of the Company dated 15 April 2016 and in the circular of the Company dated 1 June 2016. The Technology Development Agreement was approved and confirmed by the independent shareholders of the Company on 29 June 2016.

The continuing connected transactions as set out in I(a) to I(d) and II(a) to II(d) above which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions as set out in I(a) to I(d) and II(a) to II(d) above which took place during the year.

CONTINUING CONNECTED TRANSACTIONS (continued)

As far as the transactions took place during the year as set out in note 36(a) to the financial statements under the heading of "Related Party Disclosures" are concerned, save for (i) the provision of company secretarial services by Shougang Concord International Enterprises Company Limited and (ii) provision of management and technical services by Beijing Shougang Automation Information Technology Co., Ltd. which were connected transactions but were exempt from any disclosure and shareholders' approval requirements under the Listing Rules, the remaining transactions were continuing connected transactions which had been approved by the independent shareholders of the Company.

As regards the transactions took place during the year as set out in notes 36(b) and 36(c) to the financial statements under the heading of "Related Party Disclosures", the provision of loan to the Group by a holding company was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The provision of a letter of comfort by Shougang Group Co., Ltd. and dividend payable to a holding company did not constitute connected transactions of the Company under the Listing Rules. The remaining transactions were incidental to the continuing connected transactions which had been approved by the independent shareholders of the Company.

As far as the transactions took place during the year as set out in note 36(d) to the financial statements under the heading of "Related Party Disclosures" are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Company was connected transaction which was exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

NON-COMPETITION UNDERTAKING WITH CONTROLLING SHAREHOLDERS

On 5 August 2014, Billion Million (HK) Limited (the "Purchaser"), a wholly-owned subsidiary of the Company, the Company, BWI HK and BWI entered into an agreement (the "Agreement") pursuant to which BWI HK conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of BWI Europe Company Limited S.A. ("BWI Europe") (the "Acquisition"). BWI Europe and its subsidiaries are principally engaged in the design, research and development and manufacturing of suspension products for premium passenger vehicle manufacturers and the provision of engineering services for suspension products. Details of the Acquisition were disclosed in the announcement of the Company dated 5 August 2014 and in the circular of the Company dated 27 November 2014. The Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 19 December 2014. The Acquisition was completed on 23 December 2014.

NON-COMPETITION UNDERTAKING WITH CONTROLLING SHAREHOLDERS (continued)

As a condition precedent to the Acquisition, a deed of non-competition was entered into between the Company and Shougang Group Co., Ltd. (formerly known as Shougang Corporation), Beijing Fangshan, BWI, BWI HK and SAL (collectively, the "Controlling Shareholders"), on 11 December 2014 (the "Deed"), which became effective on the completion date of the Acquisition. Pursuant to the Deed, each of the Controlling Shareholders will not, and will procure any of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the businesses of the Group; and if any future business opportunities that may arise from their existing customers and insofar that they are unable to supply the necessary products to such customers, they will consent to the Group in supplying such products. Details of the Deed are set out in the circular of the Company dated 27 November 2014.

The Company has received annual written declaration from the Controlling Shareholders on their compliance with the undertakings under the Deed. Based on the declaration, the Independent Non-executive Directors of the Company considered that the Controlling Shareholders had complied with the terms set out in the Deed during the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 41 of this annual report.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2017 are set out in the Environmental, Social and Governance Report on pages 42 to 54 of this annual report.

AUDITOR

SHINEWING (HK) CPA Limited, the auditor of the Company for the year ended 31 March 2011, resigned on 19 August 2013. Thereafter, ZHONGHUI ANDA CPA Limited ("ANDA") was appointed as auditor of the Company on 28 August 2013. ANDA resigned on 30 January 2015 and Ernst & Young ("EY") has been appointed as auditor of the Company with effect from 30 January 2015 to fill the vacancy following the resignation of ANDA.

The accompanying consolidated financial statements have been audited by EY, who will retire at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting to re-appoint EY as auditor of the Company.

By Order of the Board
Chen Zhouping
Managing Director

Hong Kong, 20 March 2018

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TO THE SHAREHOLDERS OF BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of BeijingWest Industries International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 83 to 173, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

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

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories As of 31 December 2017, the Group's inventories were stated at HK$284,978,000, including raw materials, work in progress and finished goods, and were carried at the lower of cost and net realisable value. As disclosed in Note 17 to the financial statements, the net impairment of inventories was HK$4,212,000. The determination of net realisable value is highly dependent on management's estimation, such as assumptions of the expected sales prices and costs to be incurred until completion and sale. The assumptions adopted in the valuation are affected by expectations of future market or economic conditions. The Group's disclosures about the impairment of inventories are included in notes 4 and 17 to the consolidated financial statements.	Our audit procedures included assessing the methods and assumptions used to determine the provision, discussing with management about the slow moving, excess or obsolete items, and evaluating the estimated sales prices and manufacturing costs to be incurred, as well as selling expenses on a sample basis. We also assessed the adequacy of the disclosures.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade and bills receivables As of 31 December 2017, the carrying amount of trade and bills receivables was HK$951,779,000. The Group's policy is to assess at the end of each reporting period whether there is objective evidence that a financial asset is impaired. Impairment is recognised based on the evaluation result of collectability of trade and bills receivables. Significant estimation is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of the customers. The Group's disclosures about the impairment of trade and bills receivables are included in notes 4 and 18 to the consolidated financial statements.	Our audit procedures included but not limited to checking management of the Group's credit policy and accounting policy for impairment, assessing recoverability of trade and bills receivables by verifying the aging of trade and bills receivables, checking the creditworthiness and past collection history and subsequent settlement of selected customers and recalculating the impairment schedule. We also assessed the adequacy of the disclosures.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Tax consideration arising from loss of a subsidiary Resulting from certain major customers having postponed or reduced their procurements of the products, certain subsidiaries of the Group were suffering operating losses during the year of 2017. As of 31 December 2017, the Group recognised a deferred tax asset of HK$8,808,000 on the tax losses occurred, which is expected to be recovered within the applicable tax years. There is inherent uncertainty involved in forecasting future taxable profits performed by management, determined the extent to which deferred tax assets are or are not recognized. The assessment processes towards the forecasting future taxable profits were complex and judgmental and were based on assumptions that were affected by expected future market or economic conditions. The Group's disclosures in respect of the recoverability of the tax benefits and the recognition of these tax assets are included in notes 4, 11 and 26 to the consolidated financial statements.	Our audit procedures included evaluating management's assumptions, estimates and methodologies in relation to the likelihood of generating sufficient future taxable profits based on budgets, business cases, past experiences, and checking the supporting documents. We have also involved tax specialists to assist us in assessing the amount of available net operating losses to be carried forward and the correct application of local tax legislation. We also assessed the adequacy of the disclosures.

Key audit matter	How our audit addressed the key audit matter
Impairment consideration arising from loss of a subsidiary During the year of 2017, a subsidiary of the Group was suffering operating loss, and the rapid decline in the performance of this subsidiary showed an increased risk of impairment of its property plant and equipment. The determination of value in use for each cash-generating unit is highly dependent on estimates and assumptions, such as the estimated future cash flows, the long-term growth rate and discount rate. The Group's disclosures about the impairment of property, plant and equipment are included in notes 4 and 14 to the consolidated financial statements.	Our audit procedures included, among others, understanding the process of estimating the future cash flows, assessing the budget approved by management and cash flow projections in future years, evaluating management's main assumptions including the long-term growth rate and the discount rate, checking the pricing strategy of each product, examining the differences between cash flow projections and actual cash flows. Furthermore, we involved internal valuation experts to assist us in evaluating, among others, the long-term growth rate and the discount rate. We also assessed the adequacy of the disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tong Ka Yan Augustine.

Ernst & Young
Certified Public Accountants
Hong Kong

20 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	6	**3,903,650**	4,354,676
Cost of sales		**(3,156,431)**	(3,428,071)
Gross profit		**747,219**	926,605
Other income and gains, net	6	**75,726**	98,707
Selling and distribution expenses		**(49,201)**	(60,278)
Administrative expenses		**(236,289)**	(266,381)
Research and development expenses		**(490,587)**	(494,203)
Other operating expenses, net		**(27,366)**	(536)
Finance costs	8	**(13,719)**	(13,623)
PROFIT BEFORE TAX	7	**5,783**	190,291
Income tax expense	11	**(37,296)**	(44,895)
(LOSS)/PROFIT FOR THE YEAR		**(31,513)**	145,396
Attributable to:			
Owners of the Company		**(8,572)**	107,910
Non-controlling interests		**(22,941)**	37,486
		(31,513)	145,396
(LOSS)/PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents per share)	12	**(1.49)**	18.73

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
(LOSS)/PROFIT FOR THE YEAR	**(31,513)**	145,396
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**131,440**	(82,880)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Re-measurement loss on defined benefit plans	**(72)**	(4,818)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	**131,368**	(87,698)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**99,855**	57,698
Attributable to:		
Owners of the Company	**114,562**	31,759
Non-controlling interests	**(14,707)**	25,939
	99,855	57,698

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**680,029**	552,150
Prepaid land lease payments	15	**10,590**	9,556
Goodwill	16	**4,681**	4,437
Deferred tax assets	26	**48,007**	38,542
Contract performance deposits		**33,853**	8,971
Total non-current assets		**777,160**	613,656
CURRENT ASSETS			
Inventories	17	**284,978**	289,793
Trade and bills receivables	18	**951,779**	877,553
Prepayments, deposits and other receivables	19	**149,043**	155,582
Cash and cash equivalents	20	**652,768**	517,674
Total current assets		**2,038,568**	1,840,602
CURRENT LIABILITIES			
Trade payables	21	**725,060**	718,585
Other payables and accruals	22	**312,060**	442,948
Income tax payables		**40,407**	18,675
Bank borrowings	23	**566,664**	208,482
Defined benefit obligations	24	**2,894**	710
Provision	25	**44,411**	51,788
Total current liabilities		**1,691,496**	1,441,188
NET CURRENT ASSETS		**347,072**	399,414
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,124,232**	1,013,070

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	22	**13,903**	–
Defined benefit obligations	24	**86,506**	78,034
Deferred tax liabilities	26	**10,039**	9,681
Loan from a holding company	36(c)	**469**	408
Total non-current liabilities		**110,917**	88,123
NET ASSETS		**1,013,315**	924,947
EQUITY			
Equity attributable to owners of the Company			
Issued capital	27	**57,434**	57,434
Reserves	28	**834,838**	731,763
		892,272	789,197
Non-controlling interests	29	**121,043**	135,750
Total equity		**1,013,315**	924,947

Jiang Yunan
Director

Chen Zhouping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Attributable to owners of the Company									
		Issued capital HK$'000	Share premium account HK$'000	Merger reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		(note 27)	(note 28 (ii))	(note 28 (iii))							
At 1 January 2017		57,434	1,037,745	(772,332)	(16,527)	(211,315)	44,132	650,060	789,197	135,750	924,947
Loss for the year		–	–	–	–	–	–	(8,572)	(8,572)	(22,941)	(31,513)
Other comprehensive income for the year:											
Exchange differences related to foreign operations		–	–	–	–	123,206	–	–	123,206	8,234	131,440
Re-measurement loss on defined benefit plans		–	–	–	(72)	–	–	–	(72)	–	(72)
Total comprehensive income/(loss) for the year		–	–	–	(72)	123,206	–	(8,572)	114,562	(14,707)	99,855
Dividend declared		–	–	–	–	–	–	(11,487)	(11,487)	–	(11,487)
At 31 December 2017		57,434	1,037,745	(772,332)	(16,599)	(88,109)	44,132	630,001	892,272	121,043	1,013,315

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Attributable to owners of the Company									
		Issued capital HK$'000 (note 27)	Share premium account HK$'000 (note 28 (ii))	Merger reserve HK$'000 (note 28 (iii))	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2016		57,655	1,042,025	(673,745)	(11,709)	(139,982)	44,132	542,248	860,624	106,260	966,884
Profit for the year		–	–	–	–	–	–	107,910	107,910	37,486	145,396
Other comprehensive loss for the year:											
Exchange differences related to foreign operations		–	–	–	–	(71,333)	–	–	(71,333)	(11,547)	(82,880)
Re-measurement loss on defined benefit plans		–	–	–	(4,818)	–	–	–	(4,818)	–	(4,818)
Total comprehensive income/(loss) for the year		–	–	–	(4,818)	(71,333)	–	107,910	31,759	25,939	57,698
Acquisition of a subsidiary		–	–	(98,587)	–	–	–	(98)	(98,685)	40,491	(58,194)
Dividend declared to Beijing West Industries Co., Ltd ("BWI")		–	–	–	–	–	–	–	–	(36,940)	(36,940)
Repurchase of shares	27(a)	(221)	(4,280)	–	–	–	–	–	(4,501)	–	(4,501)
At 31 December 2016		57,434	1,037,745	(772,332)	(16,527)	(211,315)	44,132	650,060	789,197	135,750	924,947

* These reserve accounts comprise the consolidated reserves of HK$834,838,000 (31 December 2016: HK$731,763,000) in the consolidated statement of financial position as at 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**5,783**	190,291
Adjustments for:			
Finance costs		**13,719**	13,623
Interest income	6	**(2,934)**	(2,919)
Gain on disposal of items of property, plant and equipment	6	**(4,021)**	(3,524)
Depreciation	7	**107,817**	94,139
Amortisation of prepaid land lease payments	7	**311**	296
Impairment of items of property, plant and equipment	7	**1,779**	–
Reversal of impairment of trade and bills receivables	7	**(785)**	(1,390)
Provision against obsolete inventories	7	**4,212**	3,525
		125,881	294,041
Decrease in inventories		**1,981**	2,507
(Increase)/decrease in trade and bills receivables		**(74,588)**	49,378
Increase in prepayments, deposits and other receivables		**(43,695)**	(9,105)
(Increase)/decrease in amounts due from a fellow subsidiary		**(2,224)**	2,787
Decrease/(increase) in amounts due from holding companies		**27,576**	(3,877)
Increase/(decrease) in trade payables		**6,475**	(145,820)
Increase in other payables and accruals		**43,564**	32,609
(Decrease)/increase in amounts due to fellow subsidiaries		**(34,098)**	17,218
Decrease in defined benefit obligations		**(340)**	(1,398)
Decrease in amounts due to holding companies		**(83,678)**	(4,430)
(Decrease)/increase in warranty provision		**(6,591)**	5,489
Cash generated (used in)/from operations		**(39,737)**	239,399
Income tax paid		**(23,689)**	(37,029)
Net cash flows (used in)/from operating activities		**(63,426)**	202,370

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	**2017 HK$'000**	2016 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,934**	2,919
Purchases of items of property, plant and equipment		**(199,811)**	(212,768)
Proceeds from disposal of items of property, plant and equipment		**54,178**	16,520
Acquisition of subsidiaries		**–**	(158,119)
Net cash flows used in investing activities		**(142,699)**	(351,448)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**544,988**	207,360
Repayment of bank and other loans		**(210,545)**	(328,001)
Repurchase of shares	27	**–**	(4,501)
Dividend paid to shareholders		**(58,770)**	–
Interest paid		**(13,719)**	(13,623)
Net cash flows (used in)/from financing activities		**261,954**	(138,765)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**55,829**	(287,843)
Cash and cash equivalents at beginning of year		**517,674**	853,871
Effect of foreign exchange rate changes, net		**79,265**	(48,354)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**652,768**	517,674

1. CORPORATE AND GROUP INFORMATION

BeijingWest Industries International Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY 1-1111, Cayman Islands and the shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Company and its subsidiaries (collectively the "Group") were principally involved in the manufacture, sale and trading of automotive parts and components, and provision of technical services.

As at 31 December 2017 and the date of approval of these financial statements, the immediate holding company of the Company is BWI Company Limited ("BWI (HK)"), which is incorporated in Hong Kong with limited liability. In the opinion of the directors of the Company (the "Directors"), the ultimate holding company is Shougang Group Co., Ltd (formerly known as "Shougang Corporation"), which is a state-owned enterprise established in the People's Republic of China ("PRC") and is supervised by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

Information about subsidiaries

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

Name	Date, place of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BWI France S.A.S.	France 13 August 2009	EUR2,002,500	–	100	Provision of research and technical services
BWI UK Limited	United Kingdom 16 June 2009	GBP5,938,975	–	100	Manufacture and sale of automotive parts and components
BWI Poland Technologies sp.z.o.o	Poland 12 March 2009	PLN55,538,150	–	100	Manufacture and sale of automotive parts and components

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Date, place of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BWI Czech Republic s.r.o	Czech 20 May 2015	CZK140,000,000	–	100	Manufacture and sale of automotive parts and components
BWI (Shanghai) Co., Ltd. ("BWI Shanghai")	PRC 26 June 2009	RMB114,285,714	–	51	Manufacture and sale of automotive parts and components

During the year ended 31 December 2016, the Group acquired BWI Shanghai from BWI, the intermediate holding company of the Company. Further details of this acquisition are included in notes 30 and 36(b) to the financial statements.

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

2. BASIS OF PREPARATION

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

Pursuant to the agreement for the sale and purchase of shares of BWI Shanghai dated 15 April 2016 entered into between BWI and Billion Million (HK) Limited ("Billion Million", a wholly-owned subsidiary of the Company), Billion Million had completed the acquisition of 51% equity interest in BWI Shanghai (the "BWI Shanghai Acquisition") on 29 December 2016 at a consideration of HK$140,828,000, which was satisfied by cash payment.

In addition, BWI was entitled to the profit after taxes of BWI Shanghai for the period from 1 January 2016 to the last day of the calendar month immediately preceding the completion date of the BWI Shanghai Acquisition.

As Billion Million and BWI Shanghai were under common control of BWI since 23 January 2014, and BWI Shanghai was controlled by BWI both before and after the BWI Shanghai Acquisition, the BWI Shanghai Acquisition was regarded as a business combination under common control and accounted for using the merger accounting basis as if the BWI Shanghai Acquisition had been completed at the beginning of accounting periods as presented in these financial statements, or at the date when Billion Million and BWI Shanghai were under common control, whichever the later. As Billion Million is a wholly-owned subsidiary of the Company, accordingly, the consolidated financial statements of the Company are prepared as if the BWI Shanghai Acquisition had been completed on 23 January 2014, being the date which Billion Million and BWI Shanghai were under common control of BWI.

The consolidated financial statements have been prepared to present the assets and liabilities of the subsidiaries acquired pursuant to the BWI Shanghai Acquisition using the existing book values from the controlling shareholders' perspective.

2. BASIS OF PREPARATION (continued)

Basis of consolidation

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 33 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[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 No mandatory effective date yet determined but available for adoption

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Except for those are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

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

(a) Classification and measurement

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

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group has determined that, due to the unsecured nature of its trade and other receivables, the provision for impairment will increase with a corresponding related decrease in net deferred tax liabilities upon the initial adoption of HKFRS 9.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group's principal activities consist of the manufacture and sale of automotive parts and components, and provision of technical services. The expected impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

(a) Contract fulfilment costs

The Group incurs pre-production development costs for tooling, engineering and prototyping before volume production. Currently, those costs are expensed as incurred. The Group has assessed those costs and considers that pre-production development shall be capitalized since such costs are related to a specifically identifiable contract and they enhance or generate resources that will be used in satisfying the sale contract with expense expected to be recovered. Upon application of HKFRS 15, contract assets for those contract fulfillment costs will be recognized for uncompleted contracts and retained earnings will be increased accordingly.

(b) Sale of automotive parts and components with other service, such as tooling, engineering or prototyping

Currently, the Group entered into tooling, engineering or prototyping service contracts and sale of automotive parts and components contracts with customers, respectively. Revenue from tooling, engineering or prototyping services is recognised when services are completed. And revenue from sale of automotive parts and components is recognised when goods are delivered, title has passed and the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. The Group has assessed that the tooling, engineering or prototyping service contracts shall be combined with the sale of automotive parts and components contracts. Upon the adoption of HKFRS 15, revenue from tooling, engineering or prototyping services, together with revenue from sale of automotive parts and components will be recognised at a point in time when control of the relevant asset is transferred to the customer, generally on delivery of the goods.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the cost to fulfill a contract, and whether contracts are combined or not. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 31 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$203,737,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments under *Annual Improvements to HKFRSs 2015-2017 Cycle*

Annual Improvements to HKFRSs 2015-2017 Cycle, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- HKFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- HKAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- HKAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a holding, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company of the Group.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (or valuation) less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Buildings	3.33% – 5%
Machinery and equipment	9% – 20%
Computer equipment and others	18% – 33.33%
Motor vehicles	9% – 20%
Special tools	20%

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Assets carried at cost

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, and interest-bearing bank and other borrowings.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) from the rendering of services, on the percentage of completion basis;

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

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

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution plans

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local governments, the assets of which are held separately from those of the Group. This subsidiary is required to contribute 5% of its payroll costs to the central pension scheme. The employees of subsidiaries of the Group which operates in the United Kingdom and Czech are entitled to defined contribution pension benefits. Contributions are made by such subsidiaries based on certain percentages of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the relevant pension schemes. The employer contributions vest fully once made.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Defined benefit plans

The Group operates defined benefit pension plans which require contributions to be made to a separately administered fund for employees of the Group's subsidiaries which operate in Europe. The benefits are unfunded. The cost of providing benefits under the defined benefit plans are determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to re-measurement gains and losses on defined benefit plans through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plans (continued)

The Group recognises the following changes in the net defined benefit obligation under "administrative expenses" in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Termination benefits

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

Borrowing costs

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Group's Mainland China and certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements (continued)

Transfer of construction in progress to property, plant and equipment

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. Thereafter, depreciation is calculated on a straight-line basis to write off the cost of each item of such property, plant and equipment to its residual value over its estimated useful life. It requires management's judgement and estimation to determine when the project under construction is substantially ready for its intended use, i.e., when it is capable of commercial operation based on the overall assessment of trial operation results. Further details are set out in note 14 to the financial statements.

Estimation uncertainty

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

Useful lives and residual values of items of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. Further details are set out in note 14 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Management reassesses the estimation at the end of the reporting period. Further details are set out in note 14 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 26 to the financial statements.

Defined benefit plan

The Group has recognised the defined benefit pension plan as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rates of the benefits and other factors. The deviation from the actual result and the actuarial result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amounts of employee pension benefit obligations. Further details are set out in note 24 to the financial statements.

Impairment of trade and bills receivables

The policy for impairment of trade and bills receivables of the Group is based on the evaluation of collectability and the aging analysis of trade and bills receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at the end of the reporting period. Further details are set out in note 18 to the financial statements.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of the reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of the reporting period. Further details are set out in note 17 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for warranties

Provision for product warranties granted by the Group is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Further details are set out in note 25 to the financial statements.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are originated from a single operating segment, which is the manufacture and sale of automotive parts and components. Therefore, no analysis by operating segment is presented.

Products and services

Revenue from external customers

	2017 **HK$'000**	2016 HK$'000
Sale of goods	**3,727,058**	4,214,159
Technical services income	**176,592**	140,517
	3,903,650	4,354,676

Geographical information

(a) Revenue from external customers

	2017 **HK$'000**	2016 HK$'000
United Kingdom	**1,212,016**	1,158,808
Germany	**623,217**	631,768
United States	**257,945**	335,891
Mainland China	**988,139**	1,589,921
Other countries	**822,333**	638,288
	3,903,650	4,354,676

The revenue information above is based on the locations of the customers.

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2017 HK$'000	2016 HK$'000
Poland	**283,967**	180,330
United Kingdom	**74,050**	85,147
Mainland China	**218,143**	217,620
Other countries	**152,993**	92,017
	729,153	575,114

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about major customers

During the reporting period, the revenues which were generated from one (2016: two) of the Group's customers and were individually accounted for more than 10% of the Group's total revenue are as follows:

	2017 HK$'000	2016 HK$'000
Customer A	**870,838**	1,035,119
Customer B	**346,378**	873,408
	1,217,216	1,908,527

6. REVENUE, OTHER INCOME AND GAINS

Revenue represents: (1) the net invoiced value of goods sold, net of value-added tax and government surcharges and excludes sale taxes, and after allowance for returns and trade discounts; and (2) an appropriate proportion of contract revenue of technical and consultancy service contracts.

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

	2017	2016
	HK$'000	HK$'000
Revenue		
Sale of goods	**3,727,058**	4,214,159
Technical service income	**176,592**	140,517
	3,903,650	4,354,676
Other income		
Bank interest income	**2,934**	2,919
Profit from sale of scrap materials	**54,733**	50,371
Royalty income	**–**	15,168
Foreign exchange differences, net	**–**	16,442
Others	**5,998**	3,362
	63,665	88,262
Gains		
Gain on disposal of items of property, plant and equipment	**4,021**	3,524
Government grants	**8,040**	6,921
	12,061	10,445
Other income and gains, net	**75,726**	98,707

7. PROFIT BEFORE TAX

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

	Notes	2017 HK$'000	2016 HK$'000
Cost of inventories sold and services provided		**3,156,431**	3,428,071
Depreciation	14	**107,817**	94,139
Amortisation of prepaid land lease payments	15	**311**	296
Minimum lease payments under operating leases		**58,625**	36,300
Auditors' remuneration		**3,930**	2,752
Employee benefit expense (including directors' remuneration):			
Wages, salaries and benefits		**614,708**	584,505
Defined benefit obligation expenses	24	**1,753**	4,189
		616,461	588,694
Research and development costs		**490,587**	494,203
Less: Staff costs included in research and development costs		**(186,674)**	(165,535)
Research and development costs, net of staff costs		**303,913**	328,668
Gain on disposal of items of property, plant and equipment	6	**(4,021)**	(3,524)
Reversal of impairment of trade and bills receivables, net*	18	**(785)**	(1,390)
Impairment of items of property, plant and equipment	14	**1,779**	–
Provision against obsolete inventories**	17	**4,212**	3,525
Provision for warranties, net	25	**13,510**	31,506
Foreign exchange differences, net***		**24,119**	(16,442)

* The impairment amount of trade and bills receivables is included in "Administrative expenses" in the consolidated statement of profit or loss.

** The provision against obsolete inventories is included in "Cost of sales" in the consolidated statement of profit or loss.

*** Foreign exchange loss of approximately HK$24,119,000 is included in "other operating expenses" in the consolidated statement of profit or loss for the year ended 31 December 2017, and foreign exchange gain of approximately HK$16,442,000 was included in "other income and gains" in the consolidated statement of profit or loss for the year ended 31 December 2016.

8. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on bank loans and other loans wholly repayable within one year derived from:		
– bank loans	**13,719**	13,623
	13,719	13,623

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2017 HK$'000	2016 HK$'000
Fees	**720**	720
Other emoluments:		
Salaries, allowances and benefits in kind	**2,074**	1,927
Pension scheme contributions	**104**	10
	2,898	2,657

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

An analysis of the directors' remuneration, on a named basis, is as follows:

(a) Independent non-executive directors

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

	2017	2016
	HK$'000	HK$'000
Mr. Tam King Ching, Kenny	**240**	240
Mr. Leung Kai Cheung	**240**	240
Mr. Yip Kin Man, Raymond	**240**	240
	720	720

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

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Salaries, allowances and benefits in kind

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017			
Executive directors:			
Mr. Jiang Yunan	–	–	–
Mr. Chen Zhouping (chief executive)	2,074	104	2,178
Mr. Li Shaofeng	–	–	–
Mr. Qi Jing (resigned on 1 October 2017)	–	–	–
Mr. Thomas P Gold	–	–	–
	2,074	104	2,178
Non-executive director:			
Mr. Zhang Yaochun	–	–	–
	2,074	104	2,178

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Salaries, allowances and benefits in kind (continued)

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016			
Executive directors:			
Mr. Jiang Yunan	–	–	–
Mr. Chen Zhouping (chief executive) (appointed on 1 September 2016)	691	10	701
Mr. Li Shaofeng	–	–	–
Mr. Craig Allen Diem (resigned on 1 September 2016)	–	–	–
Mr. Bogdan Józef Such (resigned on 1 September 2016)	1,236	–	1,236
Mr. Qi Jing (appointed on 30 June 2016)	–	–	–
Mr. Thomas P Gold (appointed on 1 September 2016)	–	–	–
	1,927	10	1,937
Non-executive directors:			
Mr. Han Qing (resigned on 30 June 2016)	–	–	–
Mr. Zhang Yaochun	–	–	–
	1,927	10	1,937

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2017 (year ended 31 December 2016: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2016: none), details of the remuneration for the year of the remaining four (2016: all five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Salaries, allowances and benefits in kind	**5,765**	6,709
Performance related bonuses	**21**	54
	5,786	6,763

The remuneration of these non-director and non-chief executive highest paid employees fell within the following bands:

	Number of employees	
	2017	2016
HK$1,000,001 to HK$1,500,000	**3**	5
HK$1,500,001 to HK$2,000,000	**1**	–
	4	5

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2017 as the Group did not generate any assessable profits arising in Hong Kong during the year (year ended 31 December 2016: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The rates of tax prevailing in the countries in which the Group operates include:

	2017	2016
	(%)	(%)
Luxembourg	**27.08**	21.00
Poland	**19.00**	19.00
United Kingdom	**19.25**	20.00
France	**33.33**	33.33
Germany	**15.00**	31.90
Italy	**27.90**	31.40
Mainland China (note (i))	**15.00**	15.00
Czech	**19.00**	19.00

(i) In accordance with the relevant tax laws in the PRC, the subsidiary located in Mainland China is entitled to a preferential corporate income tax rate of 15% on its taxable income for the years ended 31 December 2017 and 2016.

	2017	2016
	HK$'000	HK$'000
Current – elsewhere	**45,421**	48,188
Deferred tax (note 26)	**(8,125)**	(3,293)
Total tax charge for the year	**37,296**	44,895

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory rate to the tax expense at the effective tax rate, and a reconciliation of the Hong Kong statutory tax rate to the effective tax rate, are as follows:

	2017		2016	
	HK$'000	**%**	HK$'000	%
Profit before tax	**5,783**		190,291	
Income tax charge at the Company's statutory tax rate of 16.5%	**954**	**16.5**	31,398	16.5
Effect of different income tax rates for foreign operations	**4,295**	**74.3**	4,309	2.3
Expenses not deductible for tax purposes	**9,251**	**160.0**	3,478	1.8
Tax losses not recognised as deferred tax assets	**14,560**	**251.8**	9,092	4.8
Adjustment for the current income tax of the previous period	**11,584**	**200.3**	–	–
Additional deduction of research and development expenses	**(4,113)**	**(71.1)**	(4,197)	(2.2)
Others	**765**	**13.2**	815	0.4
Tax charge at the effective rate	**37,296**	**644.9**	44,895	23.6

12. LOSS/PROFIT PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss/profit per share amount is based on the loss/profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 574,339,068 (2016: 576,084,169) in issue during the year.

The weighted average number of ordinary shares adopted in the calculation of the basic loss/profit per share amounts for the year has been adjusted retrospectively to reflect the impact of share consolidation completed on 16 November 2016. Further details of the share consolidation were set out in note 27(b).

No adjustment has been made to the loss/profit per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group did not have any potential ordinary shares in issue during the years ended 31 December 2017 and 2016.

13. DIVIDEND

	2017 HK$'000	2016 HK$'000
Proposed final dividend of nil (2016: HK$0.02 per share)	–	11,487

The board of directors of the Company decided, on 20 March 2018, not to propose any final dividend in respect of the year ended 31 December 2017 (2016: HK$0.02).

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Special tools HK$'000	Computer equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017							
At 31 December 2016 and at 1 January 2017:							
Cost	21,876	580,221	6,898	130,081	119,074	133,122	991,272
Accumulated depreciation and impairment	(9,461)	(262,114)	(4,679)	(77,811)	(85,057)	–	(439,122)
Net carrying amount	12,415	318,107	2,219	52,270	34,017	133,122	552,150
At 1 January 2017, net of accumulated depreciation and impairment	12,415	318,107	2,219	52,270	34,017	133,122	552,150
Additions	–	564	–	11,116	5,849	182,282	199,811
Depreciation provided during the year (note 7)	(2,015)	(68,164)	(736)	(24,900)	(12,002)	–	(107,817)
Disposals	(2)	(5,737)	–	(3,314)	(10,659)	(30,445)	(50,157)
Impairment (note 7)	–	(1,779)	–	–	–	–	(1,779)
Transfers	3,843	193,241	1,654	4,333	13,804	(216,875)	–
Exchange realignment	2,588	53,483	502	5,974	7,960	17,314	87,821
At 31 December 2017, net of accumulated depreciation and impairment	16,829	489,715	3,639	45,479	38,969	85,398	680,029
At 31 December 2017:							
Cost	30,384	853,127	9,414	164,644	135,619	85,398	1,278,586
Accumulated depreciation and impairment	(13,555)	(363,412)	(5,775)	(119,165)	(96,650)	–	(598,557)
Net carrying amount	16,829	489,715	3,639	45,479	38,969	85,398	680,029

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000 (restated)	Machinery and equipment HK$'000 (restated)	Motor vehicles HK$'000 (restated)	Special tools HK$'000 (restated)	Computer equipment and others HK$'000 (restated)	Construction in progress HK$'000 (restated)	Total HK$'000 (restated)
31 December 2016							
At 31 December 2015 and at 1 January 2016:							
Cost	19,052	551,820	5,910	128,394	110,797	66,975	882,948
Accumulated depreciation and impairment	(9,008)	(230,428)	(4,110)	(70,492)	(74,382)	–	(388,420)
Net carrying amount	10,044	321,392	1,800	57,902	36,415	66,975	494,528
At 1 January 2016, net of accumulated depreciation and impairment	10,044	321,392	1,800	57,902	36,415	66,975	494,528
Additions	–	622	898	373	7,624	203,247	212,764
Depreciation provided during the year (note 7)	(1,047)	(55,978)	(856)	(17,272)	(18,986)	–	(94,139)
Disposals	–	(1,837)	–	(9,160)	(1,999)	–	(12,996)
Transfers	4,163	81,219	491	24,210	12,199	(122,282)	–
Exchange realignment	(745)	(27,311)	(114)	(3,783)	(1,236)	(14,818)	(48,007)
At 31 December 2016, net of accumulated depreciation and impairment	12,415	318,107	2,219	52,270	34,017	133,122	552,150
At 31 December 2016:							
Cost	21,876	580,221	6,898	130,081	119,074	133,122	991,272
Accumulated depreciation and impairment	(9,461)	(262,114)	(4,679)	(77,811)	(85,057)	–	(439,122)
Net carrying amount	12,415	318,107	2,219	52,270	34,017	133,122	552,150

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of plant and machinery at 31 December 2017 amounted to nil (31 December 2016:Nil).

The fair value is determined on the sales comparison approach, which considers price recently paid for similar equipment with adjustments made to the indicated market prices to reflect condition and utility of the appraised equipment relative to the market.

15. PREPAID LAND LEASE PAYMENTS

	2017	2016
	HK$'000	HK$'000
Carrying amount at beginning of the year	**9,556**	10,859
Amortisation (note 7)	**(311)**	(296)
Exchange realignment	**1,345**	(1,007)
	10,590	9,556

The prepaid land lease payments are related to leasehold land situated in Poland which is held under a long term lease.

16. GOODWILL

	2017	2016
	HK$'000	HK$'000
Cost and net carrying amount at 1 January 2017	**4,437**	6,157
Exchange realignment	**244**	(1,720)
Cost and net carrying amount at 31 December 2017	**4,681**	4,437

Impairment testing of goodwill

Goodwill acquired through business combinations from the acquisition in 2009 has been allocated to the relevant cash-generating units ("CGU"), mainly representing by the product lines of automotive parts and components, and technical services for impairment testing. The recoverable amounts of the CGUs have been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rates applied to the cash flow projections as at 31 December 2017 ranged from 14.4% to 19.6% which are based on the weighted average cost of capital, and cash flows beyond the five-year period are extrapolated using a growth rate of 1%.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculation of the CGU of product lines of automotive parts and components at 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

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

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

17. INVENTORIES

	2017	2016
	HK$'000	HK$'000
Raw materials	**199,825**	178,293
Work in progress	**30,295**	28,795
Finished goods	**73,920**	96,177
	304,040	303,265
Provision for impairment	**(19,062)**	(13,472)
	284,978	289,793

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

	2017	2016
	HK$'000	HK$'000
At beginning of the year	**(13,472)**	(10,930)
Impairment losses recognised, net (note 7)	**(4,212)**	(3,525)
Exchange realignment	**(1,378)**	983
At end of the year	**(19,062)**	(13,472)

18. TRADE AND BILLS RECEIVABLES

	2017 HK$'000	2016 HK$'000
Trade and bills receivables	**961,847**	889,687
Impairment	**(10,068)**	(12,134)
Total	**951,779**	877,553

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months for the customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. They are stated net of provisions.

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

	2017 HK$'000	2016 HK$'000
Within 3 months	**934,053**	875,456
3 months to 1 year	**17,726**	1,532
Over 1 year	**–**	565
	951,779	877,553

18. TRADE AND BILLS RECEIVABLES (continued)

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

	2017	2016
	HK$'000	HK$'000
At beginning of the year	**(12,134)**	(14,538)
Impairment losses reversed (note 7)	**785**	1,390
Amount written off as uncollectible	**2,428**	–
Exchange realignment	**(1,147)**	1,014
At end of the year	**(10,068)**	(12,134)

Included in the provision for impairment of trade and bills receivables are provision for individually impaired trade receivables of HK$10,068,000 (2016: HK$12,134,000) with an aggregate carrying amount before provision of HK$351,393,000 (2016: HK$294,828,000). The individually impaired trade receivables relate to customers that were in unexpected financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2017	2016
	HK$'000	HK$'000
Neither past due nor impaired	**539,810**	594,859
Past due but not impaired:		
Less than 6 months past due	**–**	–
Over 6 months past due	**70,644**	–
	610,454	594,859

Trade and bills receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepayments	**23,516**	22,815
Deposits, other receivables and others	**60,460**	42,348
Due from a fellow subsidiary (note 36 (c) (i))	**23,312**	21,088
Due from holding companies (note 36 (c) (ii))	**41,755**	69,331
	149,043	155,582
Impairment	**–**	–
	149,043	155,582

None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS

	2017 HK$'000	2016 HK$'000
Cash and bank balances denominated in:		
Euro ("EUR")	**270,242**	294,868
Hong Kong Dollar	**25,271**	102,261
United States Dollar ("USD")	**248,789**	26,517
Great Pound Sterling ("GBP")	**11,558**	19,796
Polish Zloty ("PLN")	**2,110**	3,382
Czech Koruna ("CZK")	**1,473**	1,004
Renminbi ("RMB")	**92,921**	69,835
Singapore Dollar	**12**	11
Taiwan Dollar	**392**	–
	652,768	517,674

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. There was no restricted cash as at 31 December 2017 and 2016.

The carrying amount of the cash and cash equivalents approximates to their fair value.

21. TRADE PAYABLES

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

	2017 HK$'000	2016 HK$'000
Within 3 months	**686,184**	670,018
3 to 6 months	**15,217**	23,701
6 to 12 months	**5,498**	17,325
Over 12 months	**18,161**	7,541
	725,060	718,585

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days' terms.

22. OTHER PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Other payables and accurals	**105,555**	77,398
Other tax payables	**50,219**	42,552
Accrued salaries, wages and benefits	**42,105**	34,365
Due to fellow subsidiaries (note 36 (c)(iii))	**51,209**	85,307
Due to holding companies (note 36 (c)(iv))	**33,875**	117,553
Dividends payable to BWI	**43,000**	85,773
	325,963	442,948
Portion classified as current liabilities	**(312,060)**	(442,948)
Non-current portion	**13,903**	–

Other payables are unsecured, non-interest-bearing and repayable on demand.

23. BANK BORROWINGS

	Notes	2017 HK$'000	2016 HK$'000
Bank loans, unsecured	(b)	**566,664**	208,482
Analysed into, repayable:			
Within one year		**566,664**	208,482
Total bank borrowings	(a)	**566,664**	208,482
Portion classified as current liabilities		**(566,664)**	(208,482)
Non-current portion		**–**	–

23. BANK BORROWINGS (continued)

Notes:

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

	Notes	2017 HK$'000	2016 HK$'000
EUR	(i)	**328,299**	–
RMB	(ii)	**217,345**	189,838
PLN	(iii)	**20,933**	–
USD	(iv)	**87**	18,644
		566,664	208,482

(i) The bank loan denominated in EUR as at 31 December 2017 bore interest at rates of 1 month EURIBOR plus 1.20% per annum or 1 month EURIBOR plus 2.20% per annum (31 December 2016: Nil).

(ii) The bank loan denominated in RMB as at 31 December 2017 bore interest at rates ranging from 3.92% to 4.35% per annum (31 December 2016: 4.13% to 4.35% per annum).

(iii) The bank loan denominated in PLN as at 31 December 2017 bore interest at rates of 1 month WIBOR plus 2.20% per annum (31 December 2016: Nil).

(iv) The bank loan denominated in USD as at 31 December 2017 bore interest at rates of 1 month LIBOR plus 2.20% per annum (31 December 2016: 1 month LIBOR plus 2.20% per annum).

(b) Certain interest-bearing bank loans of the Group in an aggregate amount of HK$234,327,000 as at 31 December 2017 (31 December 2016: nil) were supported by a letter of comfort issued by Shougang Group Co., Ltd.

24. DEFINED BENEFIT OBLIGATIONS

The Group has defined benefit pension plans, covering substantially all of its qualified employees in Poland, France and Germany. The amounts of employee benefit obligations recognised in the statement of financial position represent the present values of the unfunded obligations.

The defined benefit obligations were determined based on actuarial valuations performed by Towers Watson Consulting Company Limited and FACTUM S.C., independent actuaries located in the PRC and Poland, respectively, using the projected unit credit method.

24. DEFINED BENEFIT OBLIGATIONS (continued)

The components of net benefit expenses in profit or loss and the amounts recognised in the statement of financial position are summarised as follows:

(a) The provisions for defined benefit obligations recognised in the consolidated statement of financial position are shown as follows:

	2017	2016
	HK$'000	HK$'000
Present value of unfunded obligations	**89,400**	78,744
Portion classified as current liabilities	**(2,894)**	(710)
Non-current portion	**86,506**	78,034

(b) The movements of the defined benefit obligations are as follows:

	2017	2016
	HK$'000	HK$'000
At beginning of the year	**78,744**	73,642
Current service costs	**(142)**	2,418
Interest cost on benefit obligations	**1,895**	1,771
Benefits paid during the year	**(2,093)**	(1,353)
Re-measurement (income)/losses recognised in other comprehensive income*	**(2,869)**	6,500
Exchange realignment	**13,865**	(4,234)
At end of the year	**89,400**	78,744

* Deferred tax assets of HK$2,941,000 (31 December 2016: HK$1,682,000) were recognised for the re-measurement losses (note 26). The re-measurement income after deferred tax amounted to HK$72,000 (31 December 2016: HK$4,818,000), which was recognised in other comprehensive income.

24. DEFINED BENEFIT OBLIGATIONS (continued)

(c) The net expenses recognised in the consolidated statement of profit or loss are analysed as follows:

	2017	2016
	HK$'000	HK$'000
Current service costs	**(142)**	2,418
Interest cost on benefit obligations	**1,895**	1,771
Net benefit expenses	**1,753**	4,189

(d) The principal actuarial assumptions used in valuing the provisions for defined benefit obligations at the end of the reporting period are as follows:

		2017	
	Germany	**Poland**	**France**
	%	**%**	**%**
Discount rate	**1.80/0.60/0.80**	**3.40**	**1.50**
Rate of salary increases	**3.00**	**3.50/4.00**	**2.30/2.50**
Rate of price inflation	**2.00**	**2.50**	**1.80/2.00**
Rate of social security increases	**2.25**	**N/A**	**N/A**
Pension increase rate	**2.00**	**N/A**	**N/A**

		2016	
	Germany	Poland	France
	%	%	%
Discount rate	2.30	2.70	2.00
Rate of salary increases	3.00	3.50/4.00	2.50
Rate of price inflation	2.00	2.50	2.00
Rate of social security increases	2.25	N/A	N/A
Pension increase rate	2.00	N/A	N/A

24. DEFINED BENEFIT OBLIGATIONS (continued)

(d) (continued)

The average duration of the provision for defined benefits at the end of the reporting period is as follows:

	2017		
	Germany	**Poland**	**France**
	Years	**Years**	**Years**
Average life expectancy			
Plan 1	**18**	**16**	**10**
Plan 2	**5**	**11**	**N/A**

	2016		
	Germany	Poland	France
	Years	Years	Years
Average life expectancy			
Plan 1	19	18	11
Plan 2	5	14	N/A

(e) The quantitative sensitivity analysis of the provisions for defined benefits as at the end of the reporting period is as follows:

	2017		2016	
	Increase in rate	**Decrease in provisions for defined benefits**	Increase in rate	Decrease in provisions for defined benefits
	%	**HK$'000**	%	HK$'000
Discount rate	**1**	**(7,904)**	1	(8,411)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the provisions for defined benefits as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

25. PROVISION

	2017 HK$'000	2016 HK$'000
Product warranties:		
At beginning of the year	**51,788**	46,299
Additional provision (note 7)	**13,510**	31,506
Amounts utilised during the year	**(20,101)**	(20,272)
Exchange realignment	**(786)**	(5,745)
At end of the year	**44,411**	51,788

The Group provides warranties of certain periods to its customers on certain products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

26. DEFERRED TAX

The components of deferred tax liabilities and assets and their movements during the year are as follows:

2017

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from business combination HK$'000	Total HK$'000
At 1 January 2017	**(2,025)**	**(7,656)**	**(9,681)**
Deferred tax charged/(credited) to profit or loss during the year (note 11)	**590**	**(550)**	**40**
Exchange realignment	**763**	**(1,161)**	**(398)**
At 31 December 2017	**(672)**	**(9,367)**	**(10,039)**

26. DEFERRED TAX (continued)

2017 (continued)

Deferred tax assets

	Warranty provision HK$'000	Defined benefit pension plans HK$'000	Accruals HK$'000	Deductible loss HK$'000	Total HK$'000
At 1 January 2017	11,123	11,122	16,297	–	38,542
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(1,031)	(859)	1,515	8,460	8,085
Deferred tax charged to other comprehensive income during the year	–	(2,941)	–	–	(2,941)
Exchange realignment	1,051	858	2,064	348	4,321
At 31 December 2017	11,143	8,180	19,876	8,808	48,007

2016

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from business combination HK$'000	Total HK$'000
At 1 January 2016	(2,910)	(7,633)	(10,543)
Deferred tax charged/(credited) to profit or loss during the year (note 11)	142	(547)	(405)
Exchange realignment	743	524	1,267
At 31 December 2016	(2,025)	(7,656)	(9,681)

26. DEFERRED TAX (continued)

2016 (continued)

Deferred tax assets

	Warranty provision HK$'000	Defined benefit pension plans HK$'000	Accruals HK$'000	Total HK$'000
At 1 January 2016	9,446	14,453	15,950	39,849
Deferred tax charged to profit or loss during the year (note 11)	2,039	–	1,659	3,698
Deferred tax charged to other comprehensive income during the year	–	1,682	–	1,682
Exchange realignment	(362)	(5,013)	(1,312)	(6,687)
At 31 December 2016	11,123	11,122	16,297	38,542

As at 31 December 2017, tax losses of the Group were HK$153,172,000 (31 December 2016: HK$64,930,000), which had not been recognised as deferred tax assets, as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

27. SHARE CAPITAL

	2017 HK$'000	2016 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each (2016: 2,000,000,000 ordinary shares of HK$0.10 each)	**200,000**	200,000
Issued and fully paid:		
574,339,068 ordinary shares of HK$0.10 each (2016: 574,339,068 ordinary shares of HK$0.10 each)	**57,434**	57,434

27. SHARE CAPITAL (continued)

A summary of the movements in the Company's issued share capital during the years ended 31 December 2017 and 2016 is as follows:

	Notes	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2016		5,765,510,688	57,655	1,042,025	1,099,680
Repurchase of shares	(a)	(22,120,000)	(221)	(4,280)	(4,501)
Consolidation of shares	(b)	(5,169,051,620)	–	–	–
At 31 December 2016 and 1 January 2017		574,339,068	57,434	1,037,745	1,095,179
At 31 December 2017		**574,339,068**	**57,434**	**1,037,745**	**1,095,179**

Notes:

(a) The Company repurchased a total of 22,120,000 ordinary shares during the year ended 31 December 2016. The total payment for the repurchase of the shares was approximately HK$4,501,000 (including the transaction costs approximately HK$34,000). Further details of the repurchase of the shares were set out in the Company's next day disclosure return dated 18 April 2016, 19 April 2016, 20 April 2016, 21 April 2016, 22 April 2016, and 11 November 2016.

(b) The Company consolidated every 10 issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company into 1 ordinary share of HK$0.10 each (the "Share Consolidation") during the year ended 31 December 2016. Further details of the Share Consolidation were set out in the Company's circular dated 28 October 2016.

28. RESERVES

(i) The amounts of the Group's reserves and the movements therein for the years ended 31 December 2017 and 2016 are presented in the consolidated statement of changes in equity.

(ii) Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(iii) The merger reserve represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company's new ordinary shares issued at the date of reorganisation, and the merger reserve arising from the completion of the acquisition of 100% equity interest in BWI Europe Company Limited S.A. on 23 December 2014 and BWI Shanghai Acquisition, as set out in the prospectus of the Company dated 29 September 2003, the circular of the Company dated 27 November 2014, and note 2 to the financial statements, respectively.

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

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

	2017	2016
Percentage of equity interest held by non-controlling interests:		
BWI Shanghai	**49%**	49%

	2017	2016
	HK$'000	HK$'000
Profit/(loss) for the year allocated to non-controlling interests:		
BWI Shanghai	**(22,941)**	37,486
Dividends paid to non-controlling interests:		
BWI Shanghai	**–**	–
Accumulated balances of non-controlling interests at the reporting date:		
BWI Shanghai	**121,043**	135,750

29. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

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

	2017	2016
	HK$'000	HK$'000
Revenue	**997,468**	1,600,613
Total expenses	**(1,044,286)**	(1,563,029)
(Loss)/profit for the year	**(46,818)**	37,584
Total comprehensive (loss)/income for the year	**(46,818)**	37,584
Current assets	**691,816**	821,288
Non-current assets	**244,250**	230,167
Current liabilities	**(702,655)**	(801,698)
Non-current liabilities	**(14,669)**	(1,003)
Net cash flows from operating activities	**13,095**	41,334
Net cash flows used in investing activities	**(33,924)**	(60,649)
Net cash flows used in financing activities	**(43,378)**	(7,115)
Net decrease in cash and cash equivalents	**(64,207)**	(26,430)

30. BUSINESS COMBINATION UNDER COMMON CONTROL

On 29 December 2016, the Group completed the acquisition of a 51% interest in BWI Shanghai from BWI, the intermediate holding company of the Company. BWI Shanghai was principally engaged in the manufacture and sale of automotive parts and components, and the provision of technical services in the PRC. Further details of the transaction are included in note 36(b) to the financial statements. The acquisition was made as part of the Group's strategy to expand its market share of industrial products in the PRC. The purchase consideration for the acquisition amounted HK$140,828,000 in the form of cash, with HK$58,119,000 paid to BWI and HK$82,709,000 paid to BWI Shanghai as additional capital injection.

The Group has elected to measure the non-controlling interest in BWI Shanghai at the non-controlling shareholder's proportionate share of BWI Shanghai's identifiable net assets.

30. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

As detailed in note 2 to the financial statements, the BWI Shanghai Acquisition was regarded as a business combination under common control and accounted for using the merger basis. The consolidated financial statements are prepared as if the BWI Shanghai Acquisition had completed on 23 January 2014, being the date BWI obtained control over the Company.

The carrying amounts of the assets and liabilities of BWI Shanghai as at the date of acquisition were as follows:

	Carrying amounts recognised HK$'000
Property, plant and equipment	214,786
Other intangible assets	2,834
Deferred tax assets	12,547
Inventories	124,843
Trade and bills receivables	524,656
Prepayments, deposits and other receivables	16,851
Cash and cash equivalents	154,938
Trade payables	(369,022)
Other payables and accruals	(126,915)
Income tax payables	(3,468)
Bank borrowings	(189,838)
Dividend payable	(92,708)
Provision	(19,747)
Deferred tax liabilities	(1,003)
Net carrying amounts recognised at acquisition	248,754
Non-controlling interests	(135,750)
Satisfied by:	
Cash	140,828
Merger reserve attributable to the acquisition of BWI Shanghai	(27,824)

30. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

The Group incurred transaction costs of HK$1,631,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

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

	HK$'000
Cash consideration	140,828
Eliminated capital injection	(82,709)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	58,119

The consolidated financial statements were prepared as if the above business combinations had taken place on 23 January 2014. Since the BWI Shanghai Acquisition, BWI Shanghai contributed HK$1,600,613,000 to the Group's turnover and HK$37,584,000 to the consolidated profit for the year ended 31 December 2016.

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its property, plant and equipment under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years (2016: one to five years).

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

	2017 **HK$'000**	2016 HK$'000
Within one year	**26,358**	12,997
In the second to fifth years, inclusive	**87,334**	3,826
After five years	**90,045**	–
	203,737	16,823

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2017	2016
	HK$'000	HK$'000
Contracted, but not provided for:		
Plant and machinery	**88,210**	81,753

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank borrowings	**Loan from a holding company**
	HK$'000	HK$'000
At 1 January 2017	208,482	408
Changes from financing cash flows	334,443	–
Exchange realignment	23,739	61
At 31 December 2017	566,664	469

34. CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group did not have any significant contingent liabilities.

35. LITIGATIONS

We were involved in a litigation against the Group in December 2010, and the Directors are of view that it shall not have any material adverse effect on the Group and no provision was made in respect thereof in the Group's consolidated financial statements for the year ended 31 December 2017.

36. RELATED PARTY DISCLOSURES

The related companies with which the Group had transactions and/or balances were as follows:

Name of the related companies	Relationship with the Group
Shougang Group Co., Ltd.	the ultimate holding company
BWI	the intermediate holding company
BWI (HK)	the immediate holding company
BWI North America Inc.	a fellow subsidiary
BWI Indiana Inc.	a fellow subsidiary
BWI Company Limited S.A.	a fellow subsidiary
Beijing Shougang Automation Information Technology Co., Ltd. ("Shougang Automation")	a fellow subsidiary
Shougang Concord International Enterprises Company Limited ("Shougang Concord International")	an associate of the ultimate holding company

36. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties

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

	2017 HK$'000	2016 HK$'000
Sales of goods to:		
BWI North America Inc.	**13,387**	19,031
BWI	**1,487**	2,088
BWI (HK)	**507**	1,012
BWI Indiana Inc.	**10**	–
	15,391	22,131
Technical services provided to:		
BWI North America Inc.	**85,387**	104,736
BWI	**26,324**	–
BWI Indiana Inc.	**8,373**	–
BWI (HK)	**583**	280
	120,667	105,016
Royalty provided to:		
BWI	**–**	15,168

36. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties (continued)

	2017 HK$'000	2016 HK$'000
Purchases of goods from:		
BWI	**4,071**	4,239
BWI North America Inc.	**499**	252
	4,570	4,491
Management and technical services provided by:		
BWI North America Inc.	**229,609**	284,678
BWI	**16,791**	19,565
Shougang Automation	**6,085**	6,427
	252,485	310,670
Royalty provided by:		
BWI	**9,666**	29,064
Company secretary service fee paid to:		
Shougang Concord International	**1,200**	1,200

In the opinion of the Directors, the above transactions arose from the ordinary course of the Group's business and were conducted in accordance with mutually agreed terms.

(b) Other transactions with related parties:

During the year ended 31 December 2017, Shougang Group Co., Ltd issued a letter of comfort to facilitate the Group to abtain interest-bearing bank loans in an aggregate amount of HK$234,327,000 (2016: nil).

During the year ended 31 December 2016, the Group acquired a 51% interest in BWI Shanghai from BWI, the intermediate holding company of the Company. The purchase consideration for the acquisition amounting to HK$140,828,000 was in the form of cash, with HK$58,119,000 paid to BWI, based on an internal valuation of the business performed by the Directors of the Company, and HK$82,709,000 paid to BWI Shanghai as additional capital injection. Further details of the transaction are included in note 30 to the financial statements.

36. RELATED PARTY DISCLOSURES (continued)

(c) Balances with related parties

	Notes	2017 HK$'000	2016 HK$'000
Amounts due from fellow subsidiaries	(i)		
BWI North America Inc.		**21,005**	21,088
BWI Company Limited S.A.		**2,076**	–
BWI Indiana Inc.		**231**	–
		23,312	21,088
Amounts due from holding companies	(ii)		
BWI		**41,755**	66,766
BWI (HK)		**–**	2,565
		41,755	69,331
Amounts due to fellow subsidiaries	(iii)		
BWI North America Inc.		**49,302**	83,227
Shougang Automation		**1,907**	2,080
		51,209	85,307
Amounts due to holding companies	(iv)		
BWI (HK)		**–**	86,331
BWI		**33,875**	31,222
		33,875	117,553
Long term loan due to a holding company:	(v)		
BWI (HK)		**469**	408
Dividend payable due to a holding company:			
BWI		**43,000**	85,773

36. RELATED PARTY DISCLOSURES (continued)

(c) Balances with related parties (continued)

Notes:

(i) The amounts due from fellow subsidiaries included in the Group's current assets, are unsecured, interest-free and repayable within one year.

(ii) The amounts due from holding companies included in the Group's current assets, are unsecured, interest-free and repayable within one year.

(iii) The amounts due to fellow subsidiaries included in the Group's current liabilities, are unsecured, interest-free and repayable within one year.

(iv) The amounts due to a holding company included in the Group's current liabilities, are unsecured, interest-free and repayable within one year.

(v) The long term loan due to a holding company included in the Group's non-current liabilities is unsecured, and bears interest at a rate of 4.758% per annum.

The related party transactions disclosed in note (a) above also constitute connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(d) Compensation of non-director and non-chief executive key management personnel of the Group

	2017 **HK$'000**	2016 HK$'000
Salaries, allowances and benefits in kind	**5,765**	6,709
Performance related bonuses	**21**	54
	5,786	6,763

Further details of directors' emoluments are included in note 9 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at 31 December 2017 and 2016 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade and bills receivables	**951,779**	877,553	**951,779**	877,553
Financial assets included in prepayments, deposits and other receivables	**22,178**	14,518	**22,178**	14,518
Due from a fellow subsidiary	**23,312**	21,088	**23,312**	21,088
Due from holding companies	**41,755**	69,331	**41,755**	69,331
Cash and cash equivalents	**652,768**	517,674	**652,768**	517,674
	1,691,792	1,500,164	**1,691,792**	1,500,164
Financial liabilities				
Trade payables	**(725,060)**	(718,585)	**(725,060)**	(718,585)
Financial liabilities included in other payables and accruals	**(47,877)**	(35,128)	**(47,877)**	(35,128)
Due to fellow subsidiaries	**(51,209)**	(85,307)	**(51,209)**	(85,307)
Due to holding companies	**(33,875)**	(117,553)	**(33,875)**	(117,553)
Dividends payable to BWI	**(43,000)**	(85,773)	**(43,000)**	(85,773)
Bank borrowings	**(566,664)**	(208,482)	**(566,664)**	(208,482)
Long term loan from a holding company	**(469)**	(408)	**(469)**	(408)
	(1,468,154)	(1,251,236)	**(1,468,154)**	(1,251,236)
	223,638	248,928	**223,638**	248,928

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the senior management twice a year for financial reporting purposes.

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

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

Management has assessed that the fair values of the above short term financial instruments approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the long term financial instruments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk as at 31 December 2017 and 2016 was assessed to be insignificant.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings and cash and bank balances. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are recognised below.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from transactions in currencies other than the units' functional currency. The Group does not enter into any hedging transactions in order to reduce the Group's exposure to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR, RMB, USD, GBP and PLN exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). In the opinion of the Directors, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group's equity, the relative sensitivity is not disclosed.

	Increase/ (decrease) in foreign exchange rate	**Increase/(decrease) in profit before tax**	
		2017	2016
		HK$'000	HK$'000
If HK$ strengthens against EUR	10%	**(6,663)**	(38,967)
If HK$ weakens against EUR	(10%)	**6,663**	38,967
If HK$ strengthens against RMB	10%	**18,443**	23,704
If HK$ weakens against RMB	(10%)	**(18,443)**	(23,704)
If HK$ strengthens against USD	10%	**(28,467)**	4,968
If HK$ weakens against USD	(10%)	**28,467**	(4,968)
If HK$ strengthens against GBP	10%	**10,456**	3,606
If HK$ weakens against GBP	(10%)	**(10,456)**	(3,606)
If HK$ strengthens against PLN	10%	**12,543**	12,258
If HK$ weakens against PLN	(10%)	**(12,543)**	(12,258)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from customers. Concentrations of credit risk are managed by analysis by customer.

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

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at the end of reporting period based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

	Within 1 year HK$'000	1 to 3 years HK$'000	Over 3 years HK$'000	Total HK$'000
31 December 2017				
Trade payables	725,060	–	–	725,060
Financial liabilities included in other payables and accruals	47,877	–	–	47,877
Due to fellow subsidiaries	51,209	–	–	51,209
Due to holding companies	33,875	–	–	33,875
Dividends payable to BWI	43,000	–	–	43,000
Bank borrowings	566,664	–	–	566,664
Interest payments on financial liabilities	3,742	–	–	3,742
Long term loan from a holding company	–	–	469	469
	1,471,427	–	469	1,471,896

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	Within 1 year HK$'000	1 to 3 years HK$'000	Over 3 years HK$'000	Total HK$'000
31 December 2016				
Trade payables	718,585	–	–	718,585
Financial liabilities included in other payables and accruals	35,128	–	–	35,128
Due to fellow subsidiaries	85,307	–	–	85,307
Due to holding companies	117,553	–	–	117,553
Dividends payable to BWI	85,773	–	–	85,773
Bank borrowings	208,482	–	–	208,482
Interest payments on financial liabilities	2,798	–	–	2,798
Long term loan from a holding company	-	-	408	408
	1,253,626	-	408	1,254,034

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new ordinary shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the year ended 31 December 2017.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of trade payables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries, amounts due to holding companies, dividends payable to BWI, a long-term loan from a holding company, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	2017	2016
	HK$'000	HK$'000
Trade payables	**725,060**	718,585
Financial liabilities included in other payables and accruals	**47,877**	35,128
Due to fellow subsidiaries	**51,209**	85,307
Due to holding companies	**33,875**	117,553
Dividends payable to BWI	**43,000**	85,773
Long term loan from a holding company	**469**	408
Bank borrowings	**566,664**	208,482
Less: Cash and cash equivalents	**(652,768)**	(517,674)
Net debt	**815,386**	733,562
Equity	**1,013,315**	924,947
Net debt and equity	**1,828,701**	1,658,509
Gearing ratio	**44.59%**	44.23%

40. EVENTS AFTER THE REPORTING PERIOD

There is no material event after 31 December 2017.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 HK$'000	2016 HK$'000
Non-current assets:		
Interests in subsidiaries	586,154	586,154
Total non-current assets	586,154	586,154
Current assets:		
Prepayments, deposits and other receivables	145	32,202
Due from subsidiaries	527,522	527,377
Cash and cash equivalents	23,884	9,365
Total current assets	551,551	568,944
TOTAL ASSETS	1,137,705	1,155,098
Current liabilities:		
Other payables and accruals	1,008	1,640
Total current liabilities	1,008	1,640
Net current assets	550,543	567,304
NET ASSETS	1,136,697	1,153,458
EQUITY		
Equity attributable to owners of the Company		
Share capital	57,434	57,434
Reserves (note)	1,079,263	1,096,024
Total equity	1,136,697	1,153,458

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

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

	Note	Share premium HK$'000	Capital reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2017		1,037,745	44,132	14,147	1,096,024
Loss for the year and total comprehensive loss for the year		–	–	(5,274)	(5,274)
Final dividend	13	–	–	(11,487)	(11,487)
At 31 December 2017		1,037,745	44,132	(2,614)	1,079,263

	Note	Share premium HK$'000	Capital reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2016		1,042,025	44,132	(6,254)	1,079,903
Profit for the year and total comprehensive income for the year		–	–	20,401	20,401
Repurchase of shares	27(a)	(4,280)	–	–	(4,280)
At 31 December 2016		1,037,745	44,132	14,147	1,096,024

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2018.

FINANCIAL SUMMARY

	For the year ended 31 December			
	2017	2016	2015	2014*
	HK$'000	HK$'000	HK$'000	HK$'000
			(restated)	(restated)
RESULTS				
Revenue	**3,903,650**	4,354,676	4,774,239	5,214,442
Profit before tax	**5,783**	190,291	203,612	429,198
Income tax expense	**(37,296)**	(44,895)	(34,297)	(46,987)
(Loss)/profit for the year	**(31,513)**	145,396	169,315	382,211
(Loss)/profit for the year attributable to:				
Owners of the Company	**(8,572)**	107,910	134,067	344,461
Non-controlling interests	**(22,941)**	37,486	35,248	37,750
	(31,513)	145,396	169,315	382,211

	As at 31 December			
	2017	2016	2015	2014*
	HK$'000	HK$'000	HK$'000	HK$'000
			(restated)	(restated)
ASSETS AND LIABILITIES				
Total assets	**2,815,728**	2,454,258	2,779,311	2,592,049
Total liabilities	**(1,802,413)**	(1,529,311)	(1,812,427)	(2,156,168)
Net assets	**1,013,315**	924,947	966,884	435,881
Equity attributable to owners of the Company	**892,272**	789,197	860,624	298,118
Non-controlling interests	**121,043**	135,750	106,260	137,763
Total equity	**1,013,315**	924,947	966,884	435,881

* The financial summary was presented since BWI obtained control over the Company on 23 January 2014.