上海集优
SHANGHAI PRIME

SHANGHAI PRIME MACHINERY COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability) **(Stock Code: 02345)**

Annual Report 2017

Contents

Corporate Information

EXECUTIVE DIRECTORS
Zhou Zhiyan
(Chairman and President)
Mao Yizhong
Xiao Yuman
Zhang Jie
Chen Hui

NON-EXECUTIVE DIRECTOR
Dong Yeshun

INDEPENDENT NON-EXECUTIVE DIRECTOR
Ling Hong
Chan Oi Fat
Sun Zechang

SUPERVISORS
Xu Jianguo (Chairman)
Si Wenpei
(appointed on 23 June 2017)
Yu Yun
Wei Li (resigned on 23 June 2017)

COMPANY SECRETARY
Ng Kwong, Alexander (CPA)

AUDIT COMMITTEE
Chan Oi Fat (Chairman)
Ling Hong
Dong Yeshun

REMUNERATION COMMITTEE
Ling Hong (Chairman)
Chan Oi Fat
Dong Yeshun

STRATEGY COMMITTEE
Zhou Zhiyan (Chairman)
Mao Yizhong
Zhang Jie
Chen Hui
Dong Yeshun
Sun Zechang

NOMINATION COMMITTEE
Zhou Zhiyan (Chairman)
Xiao Yuman
Ling Hong
Chan Oi Fat
Sun Zechang

RISK MANAGEMENT COMMITTEE
Zhou Zhiyan (Chairman)
Xiao Yuman
Zhang Jie
Ling Hong
Chan Oi Fat

AUTHORISED REPRESENTATIVES
Zhou Zhiyan
Xiao Yuman

ALTERNATIVE AUTHORISED REPRESENTATIVES
Chan Oi Fat
Ng Kwong, Alexander

INTERNATIONAL AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISERS
As to Hong Kong, New York
U.S. Federal Law
Clifford Chance LLP
As to PRC Law
Jun He Law Offices

H-SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

INVESTOR AND MEDIA RELATIONS CONSULTANT
iPR Ogilvy Ltd.

STATUTORY CHINESE NAME
上海集優機械股份有限公司

STATUTORY ENGLISH NAME
Shanghai Prime Machinery
Company Limited

REGISTERED ADDRESS
Room 1501, Jidian Edifice
600 Heng Feng Road, Shanghai
The People's Republic of China
Postal Code: 200070

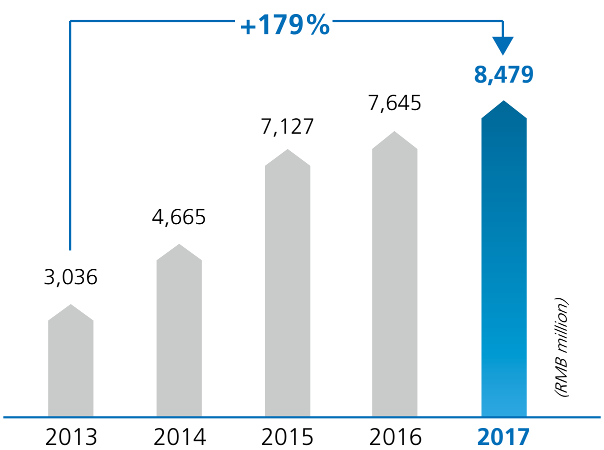
PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 901-903, Tower Two,
Lippo Centre
89 Queensway, Hong Kong

CORPORATE HEADQUARTERS
2747 Songhuajiang Road,
Hongkou District, Shanghai
The People's Republic of China
Postal Code: 200437

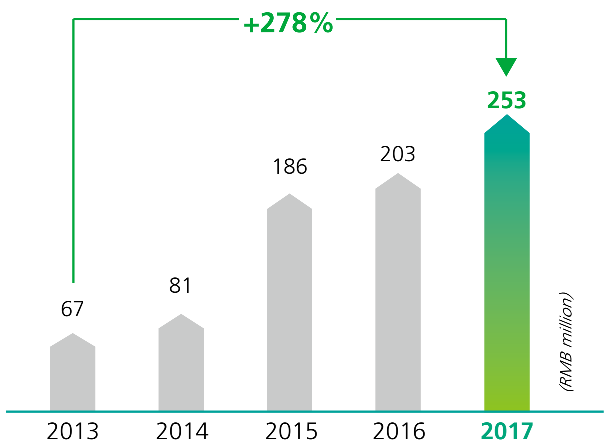
Stock Exchange on which H shares are listed:
The Stock Exchange of
Hong Kong Limited
Abbreviation of H shares:
Shanghai Prime
H share stock code: 02345
Website: www.pmcsh.com
Email: pmcservice@pmcsh.com
Telephone: +86 (21) 6472 9900
Fax: +86 (21) 6472 9889

RMB (Million)	2013	2014	2015	2016	**2017**
Revenue and Profit					
Revenue from continuing operations	3,036	4,665	7,127	7,645	**8,479**
Profit before tax from continuing operations	84	116	288	300	**352**
Income tax expense	(24)	(20)	(97)	(97)	**(99)**
Profit (loss) for the year from discontinued operations	9	(15)	(4)	–	**–**
Profit for the year attributable to					
— Owners of the Company	67	81	186	203	**253**
— Non-controlling interests	2	0	1	0	**0**
	69	81	187	203	**253**
Dividends — proposed final	17	20	46	50	**–**
Earnings per share					
— Basic (RMB cents)	4.66	5.60	13.13	14.41	**17.96**
— Diluted (RMB cents)	N/A	N/A	13.10	14.36	**17.89**
Assets and Liabilities					
Non-current assets	2,387	4,603	4,268	4,243	**4,297**
Current assets	3,357	4,582	4,556	4,877	**4,966**
Current liabilities	1,692	2,929	2,387	2,963	**2,880**
Net current assets	1,665	1,653	2,169	1,914	**2,086**
Total assets less current liabilities	4,052	6,256	6,437	6,157	**6,383**
Non-current liabilities	795	3,008	3,239	2,811	**2,820**
Net assets	3,257	3,248	3,198	3,346	**3,563**
Total equity attributable to owners of the Company	3,221	3,142	3,155	3,301	**3,518**
Non-controlling interests	36	106	43	45	**45**

REVENUE



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY



Performance Highlights

PERFORMANCE HIGHLIGHTS

For the year ended 31 December 2017 ("FY2017"), the revenue of Shanghai Prime Machinery Company Limited (the "Company"), together with its subsidiaries (the "Group"), grew 11% to RMB8,479 million — a record high since the establishment of the Company in 2005 — from RMB7,645 million for the year ended 31 December 2016 ("FY2016"), driven primarily by strong growth in sales of the Group's fastener business and cutting tool business owing to increased market demand and satisfactory sales and marketing strategies during FY2017. Profit attributable to owners of the Company increased by 25% to RMB253 million in FY2017 (FY2016: RMB203 million).

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

Revenue of the fastener business amounted to RMB6,186 million for FY2017 (FY2016: RMB5,429 million), representing an increase of 14% as compared with FY2016, and accounted for 73% (FY2016: 71%) of the Company's total revenue. In FY2017, the average gross profit margin of the fastener business of the Company was 19%, representing a decrease of 1 percentage point from FY2016.

The revenue of the turbine blade business in FY2017 was RMB964 million (FY2016: RMB958 million), which was generally stable comparing with that for FY2016, and accounted for 11% (FY2016: 13%) of the Group's total revenue. In FY2017, the average gross profit margin of the turbine blade business was 22%, representing a decrease of 2 percentage points from FY2016.

The revenue of the bearing business in FY2017 was RMB758 million (FY2016: RMB763 million), which remained stable as compared with FY2016, and accounted for 9% (FY2016: 10%) of the Group's total revenue. In FY2017, the average gross profit margin of the bearing business was 22%, representing an increase of 2 percentage points from FY2016.

The revenue of the cutting tool business in FY2017 was RMB571 million (FY2016: RMB495 million), representing an increase of 15% as compared with FY2016, and accounted for 7% (FY2016: 6%) of the Group's total revenue. In FY2017, the average gross profit margin of the cutting tool business was 27%, representing a decrease of 2 percentage points from FY2016.

Corporate Structure

The Group has presence in 27 cities across 14 countries. Products and services are sold in 70 countries and regions worldwide.

HEADQUARTERS
Shanghai Prime Machinery Company Limited

Wuxi Turbine Blade Co., Ltd.	100%

Shanghai Tian An Bearing Compang Limited	100%
Shanghai Zhenhua Bearing Factory Company Limited	100%
Shanghai United Bearing Company Limited	90%
Shanghai Electric Bearing Company Limited	100%
Shanghai Tianhong Miniature Bearing Co., Ltd.	70%
Shanghai General Bearing Company Limited	40%
Shanghai Prime Biaowu High Tensile Company Limited	100%
Shanghai Biaowu High Tensile Company Limited	100%
Shanghai High Strength Bolt Factory Company Limited	100%
Shanghai Fastener and Welding Material Technology Research Centre Company Limited	100%
Shanghai Tool Works Company Limited	100%
Morgan Advanced Materials Technology (Shanghai) Company Limited	30%

Chairman's Statement

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 ("FY2017") which have been audited by Deloitte Touche Tohmatsu.

BUSINESS REVIEW

In FY2017, the PRC economy recovered, with a GDP growth rate of 6.9%. under the background of supply-side structural reform, the prices of commodities including energies and raw materials saw a significant increase; meanwhile, the demand for advanced manufacturing was driven by the continued eliminating of backward production facilities. On the other hand, the world economy witnessed a moderate recovery, and the PRC recorded a 10.8% growth in its export. The Group, seizing on the opportunities arising from the demand recovery, delivered a satisfactory financial performance in FY2017.

The revenue of the Group for FY2017 amounted to RMB8,479 million, representing an increase of 11% as compared to RMB7,645 million for the year ended 31 December 2016 ("FY2016"). The profit attributable to the owners of the Company for FY2017 amounted to RMB253 million, representing an increase of 25% as compared with FY2016, which marked a record high since the establishment of the Company. The Group managed to maintain high levels of gross profit margin and operating cash flows despite intensifying competition in the market, which was mainly attributable to its continued effort in cost reduction and efficiency improvement. The board of the Company does not recommend the payment of a final dividend for FY2017, in order for the Group to accumulate resources for its future development.

Strategic Review

The Group recorded steady growth in its business in Europe by overcoming the dual pressure arising from the rising prices of raw materials and the request of clients to lower price

During FY2017, despite the fact that the economic recovery in Eurozone gave rise to the rising prices of raw materials in manufacturing sector, Nedschroef, through efforts in enlarging sale scale, enhancing internal production efficiency and reducing costs, enabled itself to record continued steady growth in overall operating results and realized an annual sale revenue of EUR670 million, representing a year-on-year increase of 6.9%.

The Group recorded steady growth in domestic business by capturing the market opportunities brought about by supply-side structural reform

During FY2017, for the domestic business, the Group seized the opportunities and actively responded to the challenges arising from the supply-side structural reform, and adjusted its marketing strategy and production mode in a timely manner by optimizing its product portfolio and market structure to satisfy the new needs emerging in the market, which laid a solid foundation for the steady growth of the domestic business.

Our business advantages were further highlighted under background of overall recovery in export

The export business has always been one of the Group's strengths. As the Group proactively explored the international market, leveraged the advantages from the long-term collaborative relationships with its major direct-sale clients and the overseas fastener distribution network, and actively promoted cross-sale, growth was achieved in the exports of overseas aviation, fasteners and bearings.

Synergies driven by acquisition of new business and anti-dumping reassessment

In FY2017, the Group acquired 90% interests in CP Tech GmbH ("CP Tech", which has extensive experience in global design, development and manufacuring of automotive and race car) through Nedschroef. The acquisition not only will facilitate transformation of Nedschroef from a dedicated producer of automotive fasteners to a high-end engineering company providing tailor-made automotive development planning, but also provide resources for the Group's future expansion into new energy car and pilotless car sectors.

Ministry of Commerce made a decision on 19 September 2017 that the anti-dumping tax rate for the fasteners imported from Nedschroef be reduced to 5.5% from 26%, which not only reduced the tax payable by Nedschroef, but also enhance the price competitiveness of Nedschroef products, thus is beneficial to the import of the products.

FUTURE PROSPECTS

2018 is expected to be a year of positive domestic and global economic factors and uncertainties, and given the circumstances, the Group will continue to be open minded to new ideas, promote reform, and explore more acquisition opportunities while improving our product management, in order to further expand our business; boost the competitive vitality of the Group through mixed ownership reform; and continue to optimize our product mix, customer base and market structure by utilizing the listing status of the Company, to drive the development of our business.

Focus on principal business activities to drive our financial performance

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

Solidify our competitive strengths through acquisitions and mergers

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

Boost its vitality through reform

Under the background of state-owned enterprise reform, the Group will continue to actively proceed with the mixed ownership reform both at subsidiary and group level: at subsidiary level, bring in strategic investors with strong resources in the industry to drive its business development, and help develop a more market-oriented management system; and at group level, look for appropriate opportunities to bring in strategic investors, to expand into new business, build innovative business mode and new industry norm on the basis of an optimized governance structure.

Improve efficiency through enhanced management

The Group will take the following five steps to improve the effectiveness of management at subsidiary level: (i) promote its strategy to expand into high-end market through outstanding management; (ii) incentivize its staff and inspire teamwork spirit by optimizing its staff performance assessment system; (iii) solidify its core competitiveness by making the most of its strengths; (iv) inspire service consciousness of its employees through enhanced management to gain more customers and their orders and facilitate its business development; and (v) improve synergies among business segments to create more value.

Streamline our business through relocation and outsourcing

The Group will streamline some of its business segments by relocating the manufacturing of low-end non-core products to lower-cost regions domestic or abroad by means of investment or outsourcing, to lower its operating cost and improve its operating efficiency.

I would like to extend my sincere gratitude to all shareholders for their consistent trust and long-term support, and to the Board, supervisory committee, senior management and employees of the Group for their hard work. In 2018, the Group will stick to its healthy growth strategy, and continue to drive its internationalization, enhance our innovation capability and proactively develop new products and expand into new markets to enhance the investment value of the Company, create return to the shareholders and make contribution to the society.

Thanks!

Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman
Shanghai, the PRC
16 March 2018

Key Events of the Group in the Financial Year 2017

- The revenue of the Group for FY2017 recorded a new high since the establishment of the Company in 2005.

- The Company was awarded the "1 May" medal by Shanghai Workers' General Union.

- The Company was named by the Ministry of Industry and Information Technology ("**MIIT**") of the PRC as a "model champion manufacturing enterprise" (製造業單項冠軍示範企業) in recognition of the Group's outstanding product — high-tensile strength fasteners.

- The Group won the "Best New Supplier Award" from Rolls-Royce. The Group's wholly-owned subsidiary, Wuxi Turbine Blade Co., Ltd., was also named by MIIT of the PRC as a "model champion manufacturing enterprise" (製造業單項冠軍示範企業) in recognition of its outstanding product — steam turbine blades.

- After more than a year of application and communication by the Company and Nedschroef, Ministry of Commerce made a decision on 19 September 2017 that the anti-dumping tax rate for the imported fasteners be reduced to 5.5% from 26%.

- Shanghai Tian An Bearing Company Limited set up the first "Academician Workshop" and "Craftsman Workshop" in the industry.

- Shanghai High Strength Bolt Factory Company Limited was awarded the super-long range Sutong GIL pipetrack project with the highest voltage, largest capacity and most advanced technology and the bolt project of the 380m high towers (the highest and heaviest power transmission tower in the world) of 500KV Networking Power Transmission and Transformation Program in Zhoushan, Zhejiang.

- Shanghai Tool Works Company Limited received the order of hard alloy and numerically controlled cutting tools from Shanghai Aircraft Manufacturing Co., Ltd. This was the first time the high-end products of the Company was used in the big plane, an emerging strategic sector. Shanghai Tool Works Company Limited received the "2017 national technology second-class award" in recognition of its outstanding achievement in the design, manufacture and application of high-performance cutting tools.

- Nedschroef completed the acquisition of CP Tech in August 2017.

Management Discussion and Analysis

BUSINESS REVIEW

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

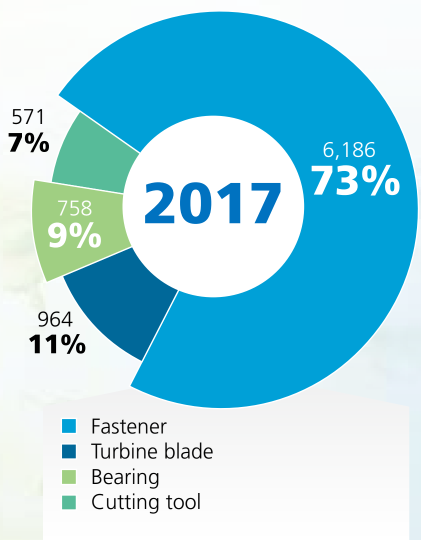
Basic earnings per share ("EPS") of the Company for FY2017 amounted to RMB17.96 cents (FY2016: RMB14.41 cents). To enhance the Group's working capital and to retain resources for potential investment, the Board did not recommend the payment of a final dividend for FY2017 (FY2016: RMB3.5 cents).

RESULTS OF PRINCIPAL BUSINESS

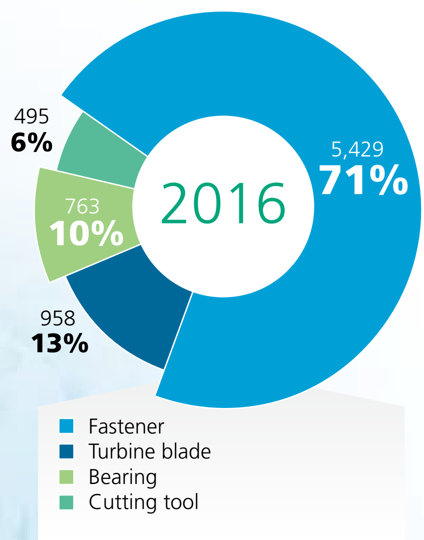
Set out below are the revenue, gross profit and gross profit margin in terms of business nature:

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

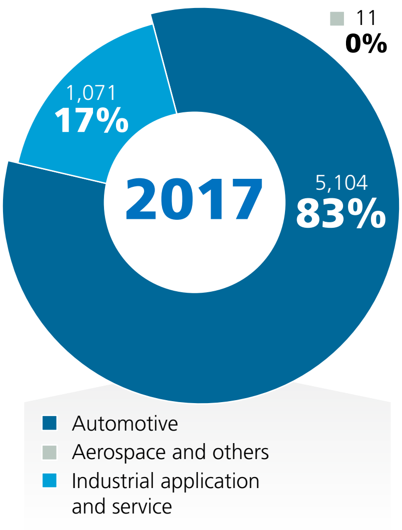
Revenue in 2017 (RMB million)

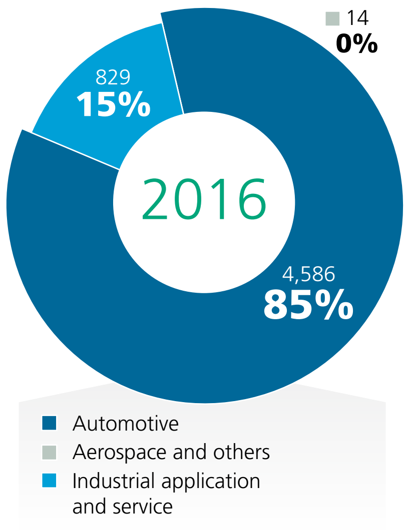


Revenue in 2016 (RMB million)



FASTENER BUSINESS

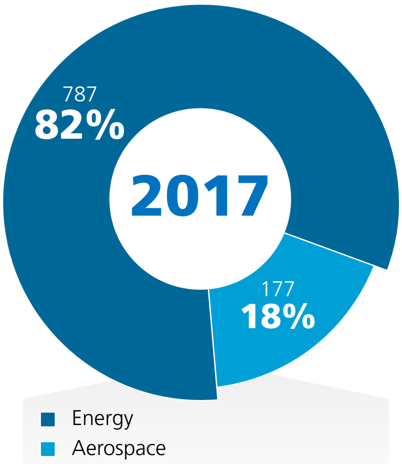


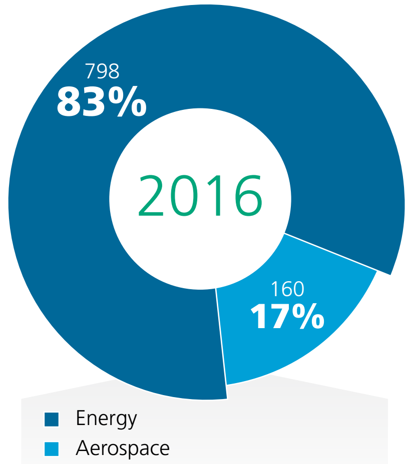


The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the energy industry, the aerospace industry and for general industrial applications. In addition, the Group also offers customers premium and one-stop services, ranging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

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

TURBINE BLADE BUSINESS

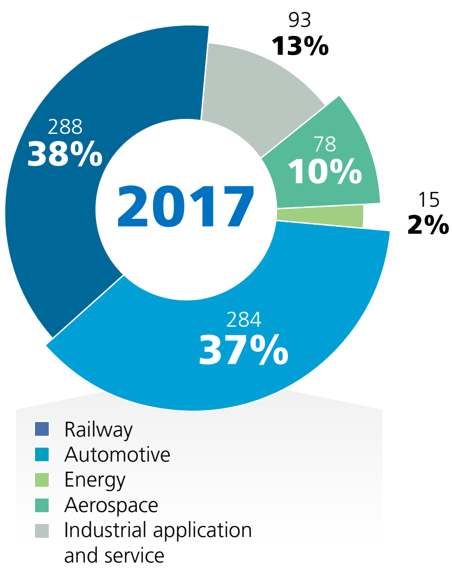


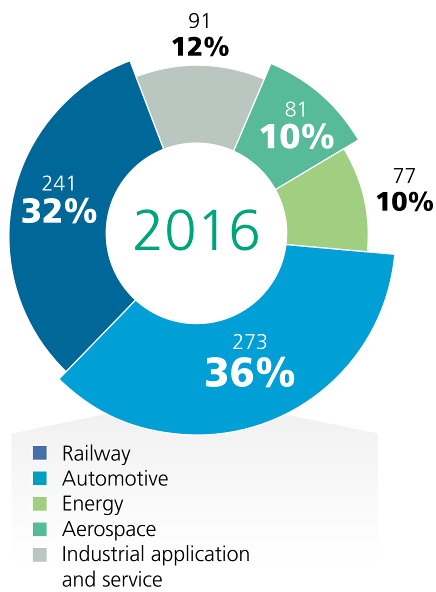


By virtue of its advanced process technologies and professional management, the Group is a world-renowned supplier of power components for the energy industry and the aviation industry, and has a leading position in the relevant markets in China. The Group primarily supplies gas turbine blades, steam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

Revenue of the turbine blade business amounted to RMB964 million for FY2017 (FY2016: RMB958 million), which was generally stable comparing with that for FY2016. Of which, revenue generated from energy products decreased slightly as compared with FY2016 to RMB787 million (FY2016: RMB798 million) given sluggish overseas demand, partly offset by the growth in domestic demand due to facility upgrades in China. Revenue generated from aviation products increased to RMB177 million (FY2016: RMB160 million), representing an increase of 11% as compared with FY2016, thanks to the higher sales to domestic customers on improved demand and to overseas customers as a result of scaled production for some customers and the sale of forged products for the C919 aircraft engine. In FY2017, the segment's average gross profit margin declined to 22% (FY2016: 24%) mainly due to the change of the product mix.

BEARING BUSINESS





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

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

CUTTING TOOL BUSINESS

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

Revenue of the cutting tool business increased by 15% as compared with FY2016 to RMB571 million (FY2016: RMB495 million), mainly driven by re-stocking demand from customers in view of rising raw material prices which has led to an upward adjustment to product selling prices initiated by major cutting tool manufacturers in China in the first half of 2017. Meanwhile, the Group's market share further increased amid the aforementioned price adjustment trend. The segment's average gross profit margin for FY2017 was reduced to 27% (FY2016: 29%), mainly due to higher sales discounts and promotional costs for the purpose of capturing more market share in China.

REVIEW OF FINANCIAL POSITION

Selling and Distribution Expenses

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

Administrative Expenses

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

Research Expenditure

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

Finance Costs

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

Share of Profits of Associates

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

Income Tax Expense

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

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was RMB253 million in FY2017 (FY2016: RMB203 million), representing a year-on-year increase of 25%. Basic EPS was RMB17.96 cents (FY2016: RMB14.41 cents).

Cash Flow

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

Assets and Liabilities

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

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

Details of the shareholder's loan of the Company are set out on page 154 of this annual report.

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

Sources of Funding and Indebtedness

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

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

Gearing Ratio

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

Restricted Deposits

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

Pledges of Assets

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

Capital Expenditure

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

Risks Faced by the Company

Risk of Intense Competition

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

Unforeseeable Difficulties the Group May Encounter When Exploring New Markets

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

Risk of Exchange Rate Fluctuation

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

Significant Events

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EMPLOYEES

As at 31 December 2017, the Group had 4,575 (FY2016: 4,455) employees. The Group has implemented all statutory pension schemes required by local governments and incentive programs to motivate staff as well as a series of training programs to facilitate the self-development of staff.

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

The Company does not have material reliance on minority employees.

INCENTIVE SCHEME

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

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

FUTURE PROSPECTS

Focus on principal business activities to drive our financial performance

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

Solidify our competitive strengths through acquisitions and mergers

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

Boost our vitality through reform

Under the background of state-owned enterprise reform, the Group will continue to actively proceed with the mixed ownership reform both at subsidiary and group level: at subsidiary level, bring in strategic investors with strong resources in the industry to drive its business development, and help develop a more market-oriented management system; and at group level, look for appropriate opportunities to bring in strategic investors, to expand into new business, build innovative business mode and new industry norm on the basis of an optimized governance structure.

Improve efficiency through enhanced management

The Group will take the following five steps to improve the effectiveness of management at subsidiary level: (i) promote its strategy to expand into high-end market through outstanding management; (ii) incentivize its staff and inspire teamwork spirit by optimizing its staff performance assessment system; (iii) solidify its core competitiveness by making the most of its strengths; (iv) inspire service consciousness of its employees through enhanced management to gain more customers and their orders and facilitate its business development; and (v) improve synergies among business segments to create more value.

Streamline our business through relocation and outsourcing

The Group will streamline some of its business segments by relocating the manufacturing of low-end non-core products to lower-cost regions domestic or abroad by means of investment or outsourcing, to lower its operating cost and improve its operating efficiency.

Biographical Details of Directors, Supervisors and Senior Management

The following table sets forth certain information concerning our directors, supervisors and senior management of the Company. There are no family relationships between any director, supervisor or senior management of the Company.

Name	Age	Position
Zhou Zhiyan	54	Chairman and president
Mao Yizhong	55	Executive director
Xiao Yuman	45	Executive director
Zhang Jie	41	Executive director
Chen Hui	49	Executive director and vice president
Dong Yeshun	56	Non-executive director
Ling Hong	57	Independent non-executive director
Chan Oi Fat	39	Independent non-executive director
Sun Zechang	64	Independent non-executive director
Xu Jianguo	53	Chairman of the supervisory committee
Si Wenpei (appointed on 23 June 2017)	54	Supervisor
Yu Yun	49	Supervisor
Wei Li (resigned on 23 June 2017)	46	Supervisor
Zhu Jun	49	Vice president
Ng Kwong, Alexander	39	Chief financial officer and company secretary

DIRECTORS

Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is a chairman and president of the Company. Mr. Zhou joined the Company in 2005. From 2005 to 2007, he served as the chairman and executive director of the Company. He has served as the vice chairman, executive director and president of the Company since 2013. Mr. Zhou joined SEG in August 1983. He served as chief financial officer for the business department of SEG, deputy chief accountant of SEG, president of Shanghai Electric Industrial Corporation, head of investment management department, investment director and chief financial officer of Shanghai Electric Assets Management Company Limited, executive deputy head of overseas business department and head of financial budget department of SEG. Mr. Zhou graduated from the School of Accounting of Shanghai Industry and Commerce Institute in 1988 majoring in finance and accounting and obtained a MBA degree from Shanghai Jiao Tong University in 1992. He is a senior accountant.

Mr. Xiao Yuman

Mr. Xiao Yuman is an executive director, the secretary of Party Committee, the secretary of Disciplinary Committee and the leader of Trade Union of the Company. Mr. Xiao joined SEG in 1995, and worked at Shanghai No. 1 Nut Factory (上海螺帽一廠), Shanghai Shang Biao (Group) Co., Ltd., SEG and SEC. He served as the deputy director of the General Office and deputy director, executive deputy director, director of the Research Office of SEG and office manager of SEC. Mr. Xiao obtained a Master's degree in Business Administration from Antai College of Economics & Management, Shanghai Jiao Tong University in 2007. He is also an engineer and a senior economist.

Mr. Zhang Jie

Mr. Zhang Jie is an executive director of the Company, vice president of financial group of SEC, an executive director and president of Shanghai Electric Hongkong Company Limited, executive director of Shanghai Electric Group Finance Company Limited. Mr. Zhang Jie joined SEG in 2011 and served as the deputy general manager of the finance and budgeting department of SEG. Mr. Zhang obtained a Bachelor's degree in Economics and a Master's degree in Western Economics from Peking University in 1999 and 2002 respectively and a Ph.D. degree in Finance from School of Business at the University of Wisconsin-Madison in 2007.

Mr. Mao Yizhong

Mr. Mao Yizhong is an executive director of the Company as well as the head of industry investment department of SEC and the director of Shanghai Highly (Group) Co., Ltd. (上海海立（集團）股份有限公司) (listed on Shanghai

Stock Exchange, stock code: 600619, 900910 (B share)). Mr. Mao has over thirty years of experience in the electric industry. Mr. Mao joined SEG in 1984. Mr. Mao served as a designer and the deputy head of the design division of Shanghai Electric Motor Factory (上海電機廠), the head of the commerce department of Shanghai Turbine Generator Co., Ltd. (上海汽輪發電機有限公司), the deputy manager of the power station business department and head of the technical procurement department of SEG, the president of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司), general manager of the procurement department of Shanghai Electric Power Generation Group (上海電氣電站集團), the head of the procurement department of Shanghai Electric Power Generation Engineering Company (上海電氣電站工程公司), the general manager and deputy secretary of CPC Party Committee of the generator factory of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司), vice president of Shanghai Electric Power Generation Group (上海電氣電站集團), and a director of SEC — IHI Power Generation Environment Protection Engineering Co., Ltd. (上海電氣石川島電站環保工程有限公司). He graduated from Nanjing Institute of Technology with a bachelor's degree in engineering majoring in electric technology in 1984. He is a senior engineer of professorial level.

Mr. Chen Hui

Mr. Chen Hui is an executive director and vice president of the Company. Mr. Chen has joined the Company since 2005 and has served as the vice president, secretary to the Board and executive director of the Company. He joined SEG in July 1987 and served as director of Shanghai Zhenhua Bearing Factory (上海振華軸承總廠). Mr. Chen was also president of Shanghai Electric Bearings Company Limited. Mr. Chen graduated from Shanghai University with a degree in mechanical automation in 1996. He obtained an EMBA degree from Shanghai Jiao Tong University in 2014. He is an engineer, a senior economic engineer and vice chairman of China Bearing Industry Association (中國軸承工業協會).

Mr. Dong Yeshun

Mr. Dong Yeshun is a non-executive director of the Company. Mr. Dong currently acts as an independent director of AXA SPDB Investment Managers Co., Ltd. (浦銀安盛基金管理有限公司), the chairman of IMS Automotive Electronic System Co. Ltd. (上海艾銘思汽車電子系統有限公司), an independent director of Shanghai Xintonglian Packing Co., Ltd. (上海新通聯包裝股份有限公司) (listed on Shanghai Stock Exchange, stock code: 603022) and the co-founder of Shanghai Volcanic Stone Investment Management Co., Ltd. (上海火山石投資管理有限公司). Mr. Dong served as a partner of IDG Capital, the general manager of Shanghai Shenya Seal Components Co., Ltd. (上海申雅密封件系統有限公司), the general manager of United Automobile Electronic Systems Co., Ltd. (聯合汽車電子有限公司), the deputy general manager of Shanghai United Investment Co., Ltd. (上海聯和投資有限公司), the chairman and chief executive officer of Shanghai Hongli Semiconductor Manufacturing Co., Ltd. (上海宏力半導體製造有限公司), the chairman of Shanghai Lianchuang Investment Fund Management Corporation (上海聯創投資基金管理公司), the chairman of MSN China (MSN (中國)) and the chairman of Nantong Nanya Lianke Pharmaceutical Co., Ltd. (南通南亞聯科藥業有限公司) and the secretary of CPC Party Committee of Yanfeng Weishitong Automotive Trim Systems Co., Ltd. (延鋒偉世通汽車飾件系統有限公司). He obtained a bachelor' s degree from Shanghai Institute of Mechanics in 1988 and an EMBA degree from China Europe International Business School in 2001. He is a senior engineer.

Mr. Ling Hong

Mr. Ling Hong is an independent non-executive director of the Company as well as the head, professor and tutor of doctoral students of information management and information system department of the faculty of management in Fudan University, honourable guest professor of the Faculty of Business and Economics in the University of Hong Kong, an executive member of the council of China Information Economics Society (CIES) and a council member of the China Association for Information Systems, ISWorld (CNAIS). He has been appointed as an independent non-executive director of the Company since 2010. Mr. Ling is currently a tutor at the faculty of management in Fudan University since 1984. From August 2001 to December 2001, he was a visiting scholar at the MIT Sloan School of Management in the United States. From August 1998 to February 1999, he was an associate researcher of information systems at the City University of Hong Kong. Mr. Ling obtained a bachelor degree in computer science and engineering from Tsinghua University in Beijing in 1984 and a doctoral degree in management science from Fudan University in Shanghai in 2000.

Mr. Chan Oi Fat

Mr. Chan Oi Fat is an independent non-executive director of the Company as well as the chief financial officer of Ta Yang Group Holdings Limited (Stock code: 1991) listed on the Main Board of the Stock Exchange in Hong Kong. He has been appointed as an independent non-executive director of the Company since 2014. Mr. Chan has held position in Deloitte Touche Tohmatsu for over eight years. He graduated from The City University of Hong Kong with a bachelor in accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has extensive experience in professional accounting, auditing and corporate financial services.

Mr. Sun Zechang

Mr. Sun Zechang is an independent non-executive director of the Company as well as the chief professor of automotive electronics and the head of the institute of automotive electronics of Tongji University, the doctoral tutor for the automotive engineering of Tongji University, the chair professor for automotive electronics and the chair professor for new energy automobile of the Sino-Germany School of Tongji University, the vice chairman of the Automotive Electronics Committee of Society of Automotive Engineering of China. Mr. Sun has over twenty years of experience in the automobile engineering industry. He served as a professor of the automotive engineering department, the head of the automotive teaching and research section, the deputy head of the new energy automobile engineering center and the vice dean of the School of Automobile of Tongji University. He graduated from Harbin Institute of Technology in 1976, and obtained a master's degree in engineering majoring in industrial automation from Harbin Institute of Technology in 1981 and a doctor's degree in engineering majoring in control theory and control engineering from Tongji University in 1999.

SUPERVISORS

Mr. Xu Jianguo

Mr. Xu Jianguo is the chairman of the supervisory committee of the Company as well as the head of the financial budget department of SEG, the director of Shanghai Electric Group Finance Co., Ltd., the chairman of the supervisory committee of Shanghai Highly (Group) Co., Ltd. (上海海立(集團)股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600619, 900910 (B share)), the director of Haitong Securities Co., Ltd. (listed on Shanghai Stock Exchange and Hong Kong Stock Exchange, stock code: 600837 and 6837HK) and the director of Orient Securities Co., Ltd. (listed on Shanghai Stock Exchange and Hong Kong Stock Exchange, stock code: 600958 and 3958HK). He joined SEG in 1984 and served as the deputy head of the financial budget department of SEG, the director of the Company, the director of Shanghai Highly (Group) Co., Ltd., the deputy head of the assets and finance department of Shanghai Electric Assets Management Company Limited, the assistant to the financial manager of the first management department of Shanghai Electric Assets Management Company Limited and the chief financial officer of Shanghai Li Da Heavy Industrial Manufacturing Limited. He also worked for Shanghai Cable Works and the assets and finance department of Shanghai Electric Assets Management Company Limited. Mr. Xu graduated from the Correspondence Institute of the Party School of C.C. in 2004 and obtained his EMPACC degree from The Chinese University of Hong Kong in 2013. He is a senior accountant.

Mr. Si Wenpei

Mr. Si Wenpei is a supervisor of the Company, and has been the head of the assets and finance department of SEC since October 2017. Since July 1986, Mr. Si had served at the SEG and/or its subsidiaries in various positions, including the secretary to the board and chief accountant of Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) from May 2005 to May 2012, the secretary to the board and finance director of Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) from May 2012 to August 2016, and the deputy head of the assets and finance department of SEC from August 2016 to October 2017. Mr. Si graduated from the Communist Party of China Party School Correspondence College (中共中央黨校函授學院) in December 1997 with an undergraduate degree in economics and management by correspondence. Mr. Si subsequently obtained an executive master's degree in business administration from the China Europe International Business School in April 2006. He is an accountant.

Mr. Yu Yun

Mr. Yu Yun is a supervisor of the Company as well as the deputy secretary of Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union of Shanghai Tian An Bearing Company Limited. He has been appointed as a supervisor of the Company since 2012. From 1986 to 2001, he worked as deputy head of the training division, deputy secretary of the Youth League and vice chairman of the labour union of Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as director of the GM office, vice chairman of the labour union and manager of the human resources department of Shanghai Huatong Switch Co., Ltd. He has been deputy secretary of Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union of Shanghai Tian An Bearing Company Limited since 2005. Mr. Yu obtained a master degree in Business Administration from Asia International Open University (Macau) in 2007. He is a political affair officer.

SENIOR MANAGEMENT

Mr. Zhu Jun

Mr. Zhu Jun is the vice president of the Company, the general manager of the fastener department of the Company, and the general manager and deputy secretary of the party committee of Shanghai Biaowu High Tensile Fasteners Company Limited (上海標五高強度緊固件有限公司). Mr. Zhu joined the Company in 2006 and served as the assistant to the general manager and deputy general manager of the export department, and executive deputy general manager of the fastener department of the Company, and executive deputy general manager of Shanghai Biaowu High Tensile Fasteners Company Limited (上海標五高強度緊固件有限公司). Mr. Zhu graduated from Shanghai University of Engineering Science with a bachelor's degree in engineering. He obtained an EMBA degree from the Shanghai National Accounting Institute and Arizona State University in the United States in July 2014.

Mr. Ng Kwong, Alexander

Mr. Ng Kwong, Alexander is the chief financial officer and company secretary of the Company. Prior to joining the Company in 2016, Mr. Ng was the senior vice-president of both the finance and the corporate finance departments of Genting Hong Kong Limited (Stock Code:00678), and held various positions in different financial institutions in Hong Kong including Lazard and Nomura. Mr. Ng began his career as a staff accountant of Ernst & Young (currently known as EY) and has extensive experience in accounting, investment, financial management and corporate finance. Mr. Ng graduated from the Hong Kong University of Science and Technology with a master's degree of Science in Financial Analysis and from The Chinese University of Hong Kong with a bachelor's degree of Business Administration. He is a Certified Public Accountant and member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE CODE

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

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

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

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

For the year ended 31 December 2017 ("FY2017"), the Company were in compliance with relevant laws and regulations which are material to the Company.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company confirms that there was no amendment to the Articles of Association of the Company during FY2017.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

THE BOARD

The Board is responsible for formulating the overall development strategy of the Group, monitoring its financial performance and overseeing the business of the management. The Board aims at maximizing shareholders' interests in the process of discharging its duties and responsibilities. When determining the Group's business objectives and development direction, the Board takes into account the latest economic and market situations. Daily operations and management of the Group are entrusted to the management team. The division of power and responsibilities between the Board and the management is in strict compliance with the Articles of Association of the Company. Other duties of the Board include deciding on the Group's investment scheme, preparing the Group's profit distribution and loss recovery proposals, formulating the Group's capital operation proposals, implementing resolutions approved at shareholders' meeting and managing corporate governance.

As at the date of this annual report, the Board consists of nine directors, including five executive directors, one non-executive director and three independent non-executive directors. There is no financial, business, family or other relationship between the members of the Board.

The three independent non-executive directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors are independent in accordance with the definition of the term "independence" set out in Rule 3.13 of the Listing Rules. As at the date of this annual report, the members of the Board were listed as below:

Executive directors:
Mr. Zhou Zhiyan (Chairman and president)
Mr. Mao Yizhong
Mr. Xiao Yuman
Mr. Zhang Jie
Mr. Chen Hui

Non-executive director:
Mr. Dong Yeshun

Independent non-executive directors:
Mr. Ling Hong
Mr. Chan Oi Fat
Mr. Sun Zechang

Four board meeting were held whereby nine polls were taken for the review of matters, and two general meetings (including the annual general meeting and the extraordinary general meeting) were held in FY2017. Attendance of each director is summarized as follows:

Directors	Number of Meeting		Actual Attendance		Attendance Rate	
	Board	General Meeting	Board	General Meeting	Board	General Meeting
Mr. Zhou Zhiyan	4	2	4	2	100%	100%
Mr. Mao Yizhong	4	2	2	0	50%	0
Mr. Xiao Yuman	4	2	4	2	100%	100%
Mr. Zhang Jie	4	2	4	2	100%	100%
Mr. Chen Hui	4	2	4	2	100%	100%
Mr. Dong Yeshun	4	2	4	2	100%	100%
Mr. Ling Hong#	4	2	4	2	100%	100%
Mr. Chan Oi Fat#	4	2	4	2	100%	100%
Mr. Sun Zechang#	4	2	3	1	75%	50%

Independent non-executive director.

Each Board member is offered to submit resolution proposals before the regular Board meeting. The regular Board meeting notification shall be sent out to all the directors at least 14 days before the regular meeting, which gives them sufficient time to review the resolution proposals. Draft and final versions of minutes of the Board meetings shall be sent to all the directors in a timely manner for their review and records respectively after the meeting is held.

Each Board member has the right to inspect minutes of the Board meetings, to consult the company secretary on regulatory and compliance matters and to seek external professional advice when necessary. Besides, to enable timely understanding by each Board member of the daily operations of the Company, the Company shall provide monthly the relevant information to each Board member, which shall include the development of the major investments of the Company, change of major shareholdings of the Company, monthly financial data of the Company and other information that is necessary for the directors to perform their responsibilities. The company secretary continuously advises all directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

TRAINING OF THE DIRECTORS

The directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Companies Ordinance/Act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills. From time to time, the directors are provided with written training materials to develop and refresh their professional skills.

According to the records maintained by the Company, the current directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the revised code provisions on continuous professional development during FY2017:

Director	Reading Materials	Briefings
Mr. Zhou Zhiyan	✔	✔
Mr. Mao Yizhong	✔	
Mr. Xiao Yuman	✔	✔
Mr. Zhang Jie	✔	✔
Mr. Chen Hui	✔	✔
Mr. Dong Yeshun	✔	✔
Mr. Ling Hong	✔	✔
Mr. Chan Oi Fat	✔	✔
Mr. Sun Zechang	✔	✔

INSURANCE OF THE DIRECTORS

During FY2017, the Company has arranged sufficient and proper insurances for the directors to well perform their responsibilities and risk aversion.

CHAIRMAN AND PRESIDENT

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

TENURE OF THE FIFTH SESSION OF THE BOARD OF DIRECTORS AND SUPERVISORS

The term of office of the fifth session of the board of Directors and Supervisors commenced on 23 June 2017 for a term of 3 years.

TENURE OF NON-EXECUTIVE DIRECTORS

The current non-executive director of the Company was appointed with tenure of three years and can be re-elected and re-appointed with tenure not exceeding three years.

COMMITTEES UNDER THE BOARD

Remuneration Committee

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

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

The remuneration committee held one meeting in FY2017 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong (Chairman)	1	1
Mr. Chan Oi Fat	1	1
Mr. Dong Yeshun	1	1

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

The remuneration of the senior management of the Company in FY2017 is set out on page 178 of this annual report.

Audit Committee

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

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

The audit committee held two meetings in FY2017 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Chan Oi Fat (Chairman)	2	2
Mr. Ling Hong	2	2
Mr. Dong Yeshun	2	2

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

Nomination Committee

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

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

The nomination committee held one meeting in FY2017 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Xiao Yuman	1	1
Mr. Ling Hong	1	1
Mr. Chan Oi Fat	1	1
Mr. Sun Zechang	1	1

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

Strategy Committee

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

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

The strategy committee held one meeting in FY2017 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Mao Yizhong	1	0
Mr. Zhang Jie	1	1
Mr. Chen Hui	1	1
Mr. Dong Yeshun	1	1
Mr. Sun Zechang	1	1

In FY2017, the strategy committee has reviewed the report of information on and future development strategic plan of CP Tech.

Risk Management Committee

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

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

The risk management committee held one meeting in FY2017 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Xiao Yuman	1	1
Mr. Zhang Jie	1	1
Mr. Ling Hong	1	1
Mr. Chan Oi Fat	1	1

The risk management committee has reviewed the effectiveness of the risk management system of the Company, and evaluated the risk conditions of the Company and its ability to control risks in FY2017. Details are set out on page 35 to 37 of this report.

BOARD DIVERSITY POLICY

Purpose

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

Measurable Objectives

Selection of candidates for Directors of the Company will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender and age) will be disclosed in the annual report of the Company.

Monitoring and Reporting

The nomination committee of the Company will review annually the Board's composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy.

INDEPENDENT AUDITORS' REMUNERATION

During the Year, the remuneration payable to the external auditors of the Company, Deloitte Touche Tohmatsu and its affiliates, is summarized as follows:

Remuneration for services	Paid/payable amounts (In RMB million)
Audit services	6.91
Non-audit services	0.45

Non-audit services include (i) advisory services provided in connection with the preparation of the Company's Environmental, Social and Governance Report (for a fee of RMB0.27 million); and (ii) the issuance of a comfort letter in respect of the statement as to the sufficiency of working capital included in the circular on continuing connected transactions and major transaction published by the Company on 23 October 2017 (for a fee of RMB0.18 million).

DIRECTORS' REPORTING RESPONSIBILITIES

The directors of the Company acknowledge their responsibilities for the preparation of accounts for each financial year which gives a true and fair view of the state of affairs of the Group and of the operating results and cash flows for that year. In preparing these accounts in FY2017, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable and prepared the accounts on a going concern basis. The directors are responsible for keeping proper accounting records with reasonable accuracy at any time.

AUDITORS' REPORTING RESPONSIBILITIES

The responsibilities of the auditors are set out on pages 75 and 76.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has established risk management and internal control system in accordance with paragraph C.2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules, and admitted to continuously monitor and review of its operation. The system is designed to manage rather than eliminate the risk of failing to accomplish business objectives and to promote effective and efficient operations, ensure the reliability of financial reports and their compliance with applicable laws and regulations and safeguard the assets of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

In accordance with the code provision C.2.2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules, in order to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's risk management and internal audit functions, the Company has established an optimized risk management and internal control system consisting of the Board, audit committee, risk management committee, management, internal control and securities department and all departments of the Company. In respect of risk management and internal control, all departments of the Company are the first line of defence, the internal control and securities department and management are the second line of defence and the audit committee and risk management committee under the Board are the third line of defence. The Board is ultimately responsible for the development of a sound risk management and internal control system of the Company and the effective implementation of risk management, and is the highest decision-making authority for risk management and internal control of the Company.

PROGRESS OF RISK MANAGEMENT AND INTERNAL CONTROL

The Company has reviewed the effectiveness of risk management and internal control systems from time to time (at least once a year). Based on the five internal control indicators including internal environment, risk assessment, control activities, information and communication as well as internal supervision, the Company has conducted assessment on financial, operation and compliance monitoring and other key aspects.

Risk management is an integral part of the management system of the Company. While setting up clear goal and basic principles of risk management, the Company has also clarified the division of risk management responsibilities and reporting procedures, risk management methodology, and major duties and work agenda of risk management.

In FY 2017, based on the overall business objectives, the Company scrutinized and identified potential risks to its corporate structure and business operation by executing basic risk management procedures in all operation stages. A specific risk pool and framework of the Company was established to gain substantial information on its overall risk characteristics, providing a solid foundation for risk management and internal control.

The risk management departments of the Company conducted in-depth analysis and assessment on the identified risks based on their possibility and influence, so as to determine the risk levels and identify the significant risk faced by the Company. Moreover, the Risk Assessment Results (《風險評估結果》) was issued for the review of the management, the risk assessment committee and the Board.

In respect of the identification, assessment, management procedures and business processes that are exposed to material risks, management departments have formulated all-inclusive control measures in FY2017, such as management and internal control on key work flows including the preparation and disclosure of financial reports and processing and announcement of inside information. Regular internal control measures were established through specific procedures to prevent risks in key segments and reduce the impacts of risks.

In terms of the disclosure of inside information, the Company has established standardized control procedures to collect, organize, validate, review and disclose information. The Company will ensure that the information is kept confidential before it is fully disclosed to the public. For information that is difficult to keep confidential, the Company will disclose it in a timely manner to protect the benefit of investors and stakeholders.

The internal control and securities department organized and conducted supervision and evaluation on the risk management. In particular, it continuously monitored and identified material risks and changes in risks during the operation of each risk management department, carried out supervision and assessment on the fulfilment of relevant regulations of each department and their results in relation to risk management, and made suggestions to effectively implement their risk management.

Based on the results of risk management and internal control in FY2017, no material failure or weakness was found in respect of risk monitoring. The management procedures of financial reports and information disclosure of the Company is in strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Board considers that the risk management and internal control of the Company is in effective operation according to its assessment.

RIGHTS OF SHAREHOLDERS

According to the Articles of Association of the Company, the procedures for convening an extraordinary general meeting upon request made by shareholders, making inquiries to the Board and rendering advice on the general meetings by the shareholders are as below:

(1) Convening an extraordinary general meeting upon request made by Shareholders

The procedures for convening an extraordinary general meeting or a meeting for a class of shares, upon request made by shareholders, are as below:

(i) Two or more shareholders holding together 10% or more of the number of shares with voting rights on the proposed meeting may sign one or more written requests in the same format and content and deliver to the Board for calling on an extraordinary general meeting or a meeting for a class of shares, stating the subjects of the meeting. The Board shall call on an extraordinary general meeting or a meeting for a class of shares as soon as possible after receiving the aforementioned written requests. The said number of shareholding shall be calculated as at the date when written requests are submitted by the shareholders.

(ii) In the case that notice for calling on a meeting is not issued within thirty days by the Board after receiving of the aforementioned written requests, shareholders who submit the requests may call a meeting by themselves within four months after receiving the aforementioned written requests by the Board. The calling procedures shall be, wherever possible, the same as the procedures adopted by the Board for calling meeting.

(2) Procedures for making inquiries to the Board by the Shareholders

Upon requesting for inspection of the aforesaid information or asking for collection of data, shareholders shall provide to the Company with written documents certifying the class as well as the number of the shares of the Company they hold. And the Company shall offer information and data as requested when their identity as shareholders is verified. The Internal Control and Securities Department of the Company can be reached via telephone Tel: +86 (21) 6472 9900.

(3) Procedures for rendering advice on the general meetings

On the annual general meeting convened by the Company, shareholders which hold 5% or more of the total number of shares with voting rights are entitled to propose new resolutions to the Company by writing. Such issues from the proposal within the scope of the duties for the general meeting shall be placed on the agenda for the meeting.

CORPORATE SOCIAL RESPONSIBILITY

The Group attaches great importance to the performance of, and commitment to, corporate social responsibilities. Details are set out in the Environmental, Social and Governance Report from page 42 of this report.

INFORMATION DISCLOSURE AND INVESTOR RELATIONSHIP

The Company has committed to keeping the transparency of the Group on a high level and has been maintaining regular communication with investors and shareholders through different channels since the listing of the Company.

Through the Company's website (http://www.pmcsh.com), investors can obtain the latest news regarding the Company's development, announcements and press releases.

An investor relationship team has been established to handle the phone inquiry from investors as well as the meeting with and the factory visit of the investors. It has also organized and attended annual investment conferences and road shows abroad of various financial institutions. During the Year, the involvement of the senior management allows investors to have a better understanding of the Group's strategy and development plans.

In the future, the Group will strive to provide better services for the investment community by enhancing current investor relation activities.

By order of the Board
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman
Shanghai, the PRC
16 March 2018

SHARE CAPITAL STRUCTURE

	Number of shares	Approximate percentage of issued share capital (%)
Domestic Shares	678,576,184	47.18
H Shares	759,710,000	52.82
Total	1,438,286,184	100

DISCLOSURE OF INTERESTS

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

Save as disclosed in the section headed "Directors', supervisors' and chief executives' interests and short positions in shares, underlying shares and debentures", as at 31 December 2017, to the best information/knowledge of the Company, the following persons had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Hong Kong Securities and Futures Ordinance ("SFO"):

Name of substantial shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	63,882,000	(2)	Interest of controlled corporation	Long position	8.41	4.44
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	63,882,000	(2)	Interest of controlled corporation	Long position	8.41	4.44
Shanghai Electric Group Hongkong Company Limited	H	63,882,000	(2)	Beneficial owner	Long position	8.41	4.44

Notes:

(1) As disclosed under the announcements dated 14 November 2016 and 29 August 2017 in relation to the change in shareholding of the Company, Shanghai Electric Group Company Limited ("Shanghai Electric Company") held interest in the 678,576,184 domestic shares in which Shanghai Electric (Group) Corporation ("SEG") and State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government were deemed to be interested in by virtue of SFO because:

— Shanghai Electric Company is 60.89% owned by SEG; and

— SEG is 100% owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(2) Shanghai Electric Group Hongkong Company Limited ("Shanghai Electric HK") held interest in the 63,882,000 H shares in which SEC and State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government were deemed to be interested in by virtue of SFO because:

— Shanghai Electric HK is 100% owned by SEG; and

— SEG is 100% owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2017 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors', supervisors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2017, the interests or short positions of directors, supervisors or chief executive of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) which were required, pursuant to Section 352 of the SFO, to be registered in the register required to be kept by the Company; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Name of director	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
Zhou Zhiyan	H	392,000	(1)	Beneficial owner	Long position	0.05	0.00
Chen Hui	H	219,500	(1)	Beneficial owner	Long position	0.03	0.00

Note:

(1) Shares were awarded pursuant to the incentive scheme of the Company as adopted on 17 January 2014.

Save as disclosed above, as at 31 December 2017, none of the directors, supervisors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

This annual report (in both English and Chinese versions) has been posted on the Company's website at http://www. pmcsh.com. Shareholders who have chosen to rely on copies of the Company's corporate communication (including but not limited to annual report and summary financial report (where applicable), interim report, summary interim report (where applicable)), posted on the Company's website in lieu of the printed copies thereof may request the printed copy of the annual report. Shareholders who have chosen to receive the corporate communication using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the annual report posted on the Company's website will promptly upon request be sent the annual report in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's Corporate Communication by notice in writing to the H Share Registrar and Transfer Office, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Principles of reporting

This Environmental, Social and Governance Report (the "ESG Report") is prepared in accordance with the Environmental, Social, and Governance Reporting Guide ("ESG Reporting Guide") published in December 2015 by the Hong Kong Stock Exchange.

Reporting period

From January 1, 2017 to December 31, 2017 ("FY2017").

Reporting scope

The scope of the ESG Report covers the majority of the business activities of Shanghai Prime Machinery Company Limited taking into account a series of factors including sales, business types, amounts of profit and assets. The following entities are included within the reporting scope:

Domestic entities: Wuxi Turbine Blade Co., Ltd., Shanghai Biao Wu High Tensile Fasteners Co., Ltd., Shanghai Tool Works Co., Ltd., Shanghai United Bearing Co., Ltd., Shanghai Zhenhua Bearing Works Co., Ltd., Shanghai Tian An Bearing Co., Ltd., Shanghai Tianhong Miniature Bearing Co., Ltd.. The sales revenue from these in-scope entities covers more than 90% of the total sales of the Company in China.

Overseas entities: Koninklijke Nedschroef Holding B.V., the only overseas group company of Shanghai Prime Machinery Company Limited and four of its most influential and important subsidiaries (Center of Competence Helmond, Center of Competence Altena, Center of Competence Plettenberg and Center of Competence Fraulautern & Berlin).

For the convenience of presentation and reading, "Shanghai Prime Machinery Company Limited" is referred to as "PMC", "the Company" or "we"; and Koninklijke Nedschroef Holding B.V. and other four subsidiaries are referred to as "Nedschroef" in this ESG Report.

Data sources

The ESG Report authentically reflects the ESG activities carried out by the Company in 2017. The report adopts the information and data in the official documents and statistics reports of the Company and its subsidiaries. The data has not been audited by the Company's independent auditors.

Disclosures

The ESG Report discloses information which is in compliance with the materiality principle for the preparation of ESG report in the ESG Reporting Guide to ensure the content disclosed can both reflect the strategic priorities of the Company and the concerns of key stakeholders (shareholders, customers, employees, suppliers and partners, etc.).

COMMUNICATION WITH STAKEHOLDERS

The Company identifies shareholders and investors, government, customers, suppliers and partners, environment, employees and community as its key stakeholders in considering the features of its own business and operation. We fully consider the expectations of all stakeholders and keep both formal and informal contact with them.

STAKEHOLDERS	EXPECTATIONS AND REQUIREMENTS	COMMUNICATION AND RESPONSE
SHAREHOLDERS AND INVESTORS	• Corporate governance • Maintenance and increment of asset value • Enterprise risk management	• Good corporate governance • Enhance corporate value • Improve the information disclosure mechanism
GOVERNMENT	• Legitimate business • Support national economic policies • Make contribution to society	• Fulfil tax obligation and honest operation • Fair competition to promote the healthy development of industries • Government field inspection
CUSTOMERS	• Guarantee product quality • Customer service • Customer privacy	• Improvement of quality management system • Enhancement of service quality • Customer satisfaction survey
SUPPLIERS AND PARTNERS	• Benefits from cooperation • Cooperative stability • Quality assurance and risk control	• Operation with good faith and fair procurement • Establishment of partnership mechanism • Creation of responsible supply chain
ENVIRONMENT	• Resources management • Ecological environment protection • Waste discharge management.	• Energy conservation and emission reduction • Promotion of recycling • Environmental monitoring
EMPLOYEES	• Equal employment • Career development planning • Assurance on employees' health and safety	• Protection of employees' legal rights • Occupational trainings and seminars • Improvement of working conditions and organization of employee activities
COMMUNITY	• Investment in community • Charity • Industry technology development	• Participation in community building • Active coordination in charitable activities • Cooperation in technology development

MARKET RESPONSIBILITY

We always adhere to the concept of win-win cooperation, establishing a collaborative mechanism with customers and suppliers for mutual growth, mutual trust and mutual benefits, to formulate a strong competitive advantage in the industry. We not only focus on product quality, but also pay attention to technical input and research & development. We have expanded the market with technology, and has now become a leading manufacturer and service provider in the field of machinery component industry.

In FY2017, we were not aware of any cases that the products sold or shipped have to be recalled for safety and health reasons.

Product responsibility

Our major products include fasteners, turbine blades, bearings, and cutting tools. Our belief in conducting business is "to produce the best quality product and deliver the most outstanding services".

Quality assurance

With the certification of ISO9001 on Quality Management System, we implement a full set of product safety management system covering incoming materials, production, packing and delivery. We conduct quality management self-check on "product quality, service quality, the implementation of standards and field management" every year and organize internal quality audit, to guarantee product quality in each step of the production. Because of the excellent quality management system. During FY2017, the Company was named by Ministry of Industry and Information Technology ("MIIT") of the PRC as a "model champion manufacturing enterprise" in recognition of the Group's outstanding product, high-tensile strength fastener.

Due to the excellent product quality and leading technology, we successfully won several major domestic projects in FY2017, such as supplying alloy CNC tools for China-made large aircraft and providing bolts for the 380 meters high tower of 500-kilovolt transmission and transformation project in Zhoushan, which is the tallest and heaviest transmission tower in the world.

Our products are also highly appreciated by customers in overseas markets. Our subsidiary, Wuxi Turbine Blade Co., Ltd., won the Best New Supplier Award of 2017 from Rolls-Royce. It is the first Chinese supplier to receive this award in FY2017.

Client services

We not only provide customers with high quality products, but also efficient and effective services, and uphold the concept of "taking quality and clients as priorities" to improve customer satisfaction to the utmost. We formulated and strictly implemented the "Customer Service and Feedback Management Measures", "Product After-sales Service Management Regulations", "Service Management Procedures" and other regulations to articulate the complaint handling process and the responsibilities of each department to better handle and respond to customers' complaints.

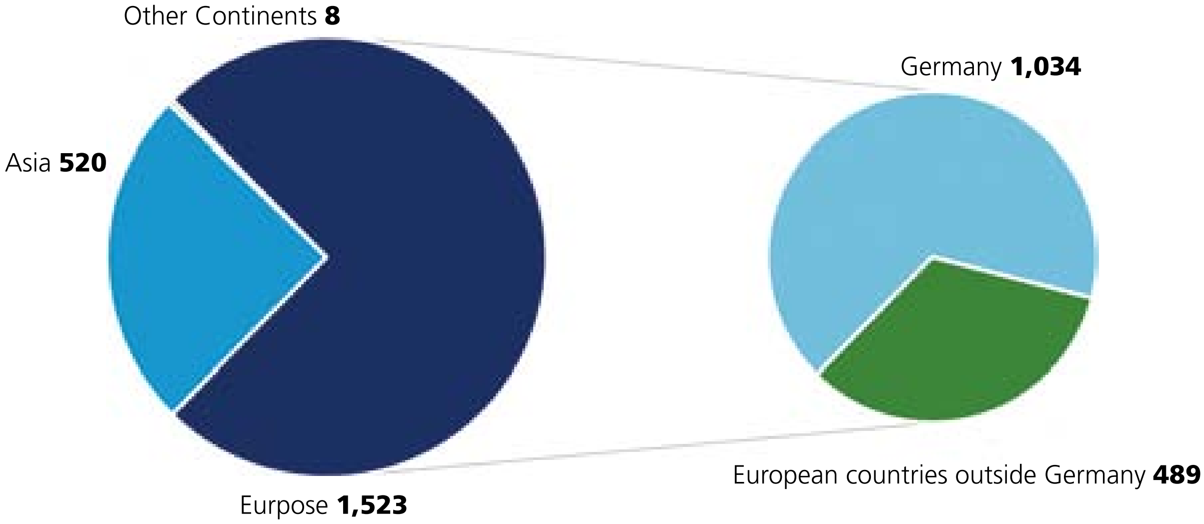
In addition, we set access restriction for sales personnel to obtain clients' documents according to their responsibilities to protect clients' privacy.

Supplier management

While responding to the "Going Global" strategy and building globalized procurement and sales network, we have prioritized the hiring of outstanding local suppliers, which will not only significantly reduce procurement costs, transportation costs and transportation energy consumption, but also actively promote local economic development and create new jobs.

We have 497 domestic suppliers, mainly scattered in Eastern China. We have 1,554 overseas suppliers, mainly located in Germany.

Supplier Distribution



Through the establishment of Supplier Management Guidance, Procurement Management Guidance and so on, we apply strict and impartial supplier qualification procedures, qualification review and annual review so as to urge suppliers to guarantee product quality and safety. For better quality control, we assist suppliers to improve the quality control system based on our own experience, encourage suppliers to acquire ISO90001 certification on Quality Assurance System. We also conduct field quality spot-check on suppliers' products from time to time to further guarantee the quality of products purchased.

We focus on managing the supplier's environmental and social risks, and ask our suppliers to sign the "Supplier's Honesty and Integrity Agreement", overseeing suppliers' strict compliance with laws and regulations on environmental protection in China and submitting commitments and assurances that their products comply with EU environmental requirements.

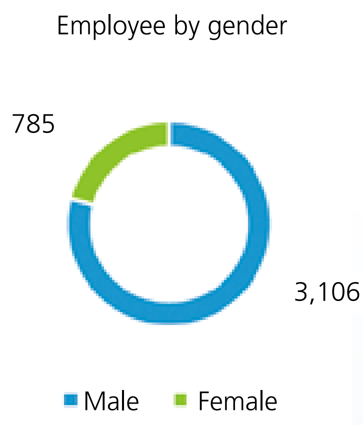
Anti-corruption

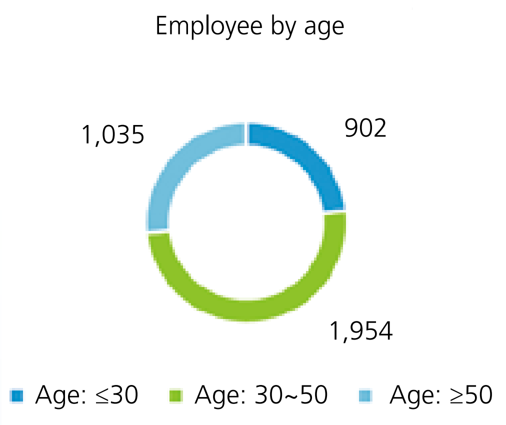
2017 is our year of reform. While we are constantly exploring the market, transforming and upgrading, we always uphold morality and integrity. To create a healthy operating environment for solid development, the Company established an anti-corruption mechanism based on the guidelines of taking "education as the foundation, system as the priority, supervision as the key, and accountability as the approach" and formulated a programmatic document called "Regulations on the Construction of Party Conduct and Clean Government ". As of December 31, 2017, we neither detected any corruption, bribery, blackmail, fraud or money laundering behaviors in the Company, nor involved in any lawsuits related to the aforementioned behaviors.

EMPLOYEE RESPONSIBILITY

As staff is our most valuable resource, we provide equal employment opportunities for talented people and build an inclusive and diversified corporate culture. We establish an open, transparent and performance based salary system to bring out the best of our employees. We pay attention to the employees' training and provide systematic training and development plan for the purpose of developing talents, guiding employees and companies to grow together. In addition, we create a cozy working atmosphere and a healthy and safe working environment, help our employees relieve stress and to protect their physical and mental health.

In FY2017, the total number of domestic employees is 3,891, and the employee's turnover ratio is 4.6%.



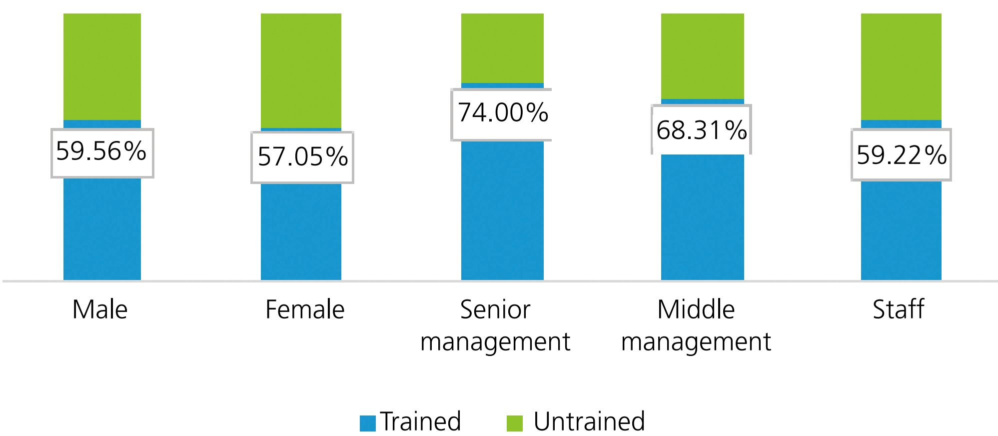


Talent development

In order to better nurture and motivate employees, we treat all employees equally and devote sufficient resources to establishing a staff training system, providing training programs for special talents and providing staff with a broader career development platform. We have carried out targeted training, covering all aspects of marketing, quality, research and development, professional skills, safety, management, etc.

The average training hours for each employee are 17.2 hours and the total training hours are 40,290 hours in FY2017.

Percentage of training employees classified by gender and type



Equal employment

We support equal employment and prohibit any form of employment discrimination, strictly abiding by the human rights and laws about labour employment. By recruiting employees with different backgrounds, we bring diversified thinking and values to the Company and strengthen the vitality of the Company and its employees. We have strictly prohibited child labour and any form of harassment, physical punishment, psychological oppression, language assault, coercion. We respect the rights of all employees to freely join in associations or labour unions. We have not involved in child labour, forced labour and discrimination cases in FY2017.

We firmly protect the rights of our female employees meaning that they have the same rights as compared to our male employees. A certain proportion of our female employees are required to participate in staff business learning, on-the-job trainings and taking temporary posts for practice. We set up the Female Employees Committee of Labour Union according to laws, which participates in the deliberation and development of regulations to protect and maximize the legal rights and interests of the female employees.

Salary and welfare

We establish a relatively complete compensation incentive system based on the employees' capabilities, performance and merits so as to create an attractive career development path for them. In compliance with the national social security policies, we pay various social insurances including pension scheme, social medical insurance, unemployment insurance, work-related injury insurance (domestic companies) and maternity insurance, as well as housing fund in full on time. We also buy commercial insurances for our employees to improve their abilities to overcome the unexpected difficulties. Nedschroef also follows its local labour and compensation policies to offer competitive compensation for the employees.

Fostering Craftsmanship

In order to carry forward the "Craftsmanship spirit", train highly skilled personnel and enhance the comprehensive competitiveness of the Company and its products, our subsidiary, Shanghai Tian An Bearing Co., Ltd., developed the Craftsmanship training program and established a craftsman's workshop in 2017. By solving the technical, quality and equipment problems appearing on the production site, the team will be trained to enhance the awareness and ability of Craftsmanship who insist on doing fine work and keeping improving. It is estimated that by the end of 2020, the total number of highly skilled workers of "Craftsmen" type will reach 5 to 6, and the total number of "Skilled masters" will be 8 to 10, bringing the proportion of highly skilled personnel above senior level to total skilled workers from the current 15% to 30%.

Development of apprenticeship culture

We respect the Chinese tradition of "bring in the new blood" while actively responding to the government's "going global" strategy. We acquired Nedschroef in 2014 and assimilated the well-developed German tradition of apprenticeship culture. We sign apprenticeship contracts with students who have completed their compulsory education over minimum age by legal requirements and cooperate with schools to cultivate our future talents. Apprentices spend two-thirds of their time in our production facilities to receive technical skill training, and the rest on learning at schools. We proactively undertake social responsibility and investment in skilled resources together with the government, and build our technical talent pool to lay the foundation of our development.

Safety

We attach great importance to employee safety. While constantly improving the employee safety management system, we also step up publicity and education on employees' safety awareness, and we have always been taking work safety as one of the most important KPI for evaluating the economic responsibility of the enterprise's operators. We have obtained Occupational Health and Safety Management System Certificate OHSAS18001. We had not involved in any fatal production accidents in FY2017.

Risk control mechanism

To protect the safety of employees, we set up graded risk control mechanism, improve our risk control level, and carry out safety enhancement programs.

We follow the Company's production technical process and operation activities, benchmark Control Measures of Shanghai Electric for Important Risk, make efforts to identify risks, and develop significant risk (Level I and II) control manual for work safety of the company. Based on different locations of operation activities combining with evaluation of risks of different levels, we develop an enterprise risk map, update the previous risk point sketch map, alarm call and emergency evacuation sketch map, and paste them on the notice boards for specific operations at appropriate locations to remind employees of the potential risks involved.

In addition, we classify the recorded accidents in the work flow based on the frequency of occurrence and results, investigate the reasons causing the damages, and put forward rectification measures to prevent the accidents from happening again.

In FY2017, based on the safety inspections and the reasonable suggestions of employees, we improved the equipment and the operating practices to reduce the risk of injury to employees during the operation. For example, we installed the protective cover in the tensile test device to avoid the tensile test specimen may rupture during testing and the debris may spatter to hurt the tester. Another example is that our subsidiary Shanghai Biao Wu High Tensile Fasteners Co., Ltd., installed chip in the helmet where the isolation doors to the construction site will only open when it detects that the equipment maintenance personnel have worn helmets. The device also stops by induction, giving greater protection to the Maintenance personnel.

In FY2017, the number of lost days due to work injury was 1,853 days and the average number of per person was 0.5 day. There was no work-related fatality.

Principles of incident handling

We strictly observe and adopt the Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents, the environmental protection rules and other relevant regulations of Shanghai Electric. When work safety related accidents occurred, we will investigate and resolve them based on the Four Principles of Resolution. During the reporting period, we have not received any administrative penalties, neither from domestic and overseas regulators, nor from administration departments of work safety due to any breaches of laws and regulations.

Four Principles of Resolution:

Resolution to investigating the cause of accident	Resolution to penalizing staff responsible for accidents	Resolution to educating everyone who is responsible for the accident	Resolution to developing feasible rectification measures

Health

Staff health is another important issue that we focus on. We strive to build a comfortable and healthy working and living environment to promote employees' physical and mental health.

Staff care

We establish staff canteen to provide our employees with balanced dietary nutrition, and continuously improve the canteen management from dining environment, service experience and employees' demands. In FY2017, we renovate some staff canteens to create a more hygienic and comfortable environment for the employees, and get favourable comments from employees.

During the summer, the Company's Labour Union and Safety and Environmental Protection Department pay visits to the production facilities to extend our regards and care to the employees who need to work in the high temperature environment.

Work-life balance

We also built gym rooms for the employees in the Headquarters and most of the entities of the Group organize sports activities such as table tennis and badminton competitions regularly to help employees improve health and relieve work stress.

In FY2017, we also organized fishing competitions. The abundant sports activities not only enhanced the relationships among employees, but also provided a platform for the employees with different hobbies to build friendship.

Assistance

We develop a system called "Helping the Difficult Ones and Conveying Warmth" to provide financial assistance to needy employees. Over the past two decades, we funded children of low-income employees for schooling and provided incentives to children of our employees that have been admitted into universities. We have also worked out a budget to provide immediate financial aids to employees who are in urgent need of money in the event of an accident.

In FY2017, we conducted home visits and paid condolences to employees or whose family members suffering from serious illness. We paid special visits to employees who suffer long illness and those who need to work in the Chinese New Year's Eve in the hope of giving them warmth.

ENVIRONMENTAL RESPONSIBILITY

We think highly of environmental protection and have invested heavily to improve clean production level. We have obtained the ISO14001 Environmental Management System and Nedschroef has obtained the ISO50001 Environmental Management System in 2015. We organize annual internal and external reviews so as to optimize the environment and energy systems, which standardize and systematize energy conservation and emission reduction. We were not involved in any heavily-polluting environment accident throughout FY2017.

Resource management

The main resources we consume in the Company's operation are electricity, gas, steel and plastic pipes. We developed Rules on Energy and Resources Management to manage and control the energy and resources consumed by the Company, which can improve resource utilization efficiency and reduce energy consumption.

Low-carbon production

The main energy consumed is electricity, of which 140,530 MWh was purchased, accounting for 49.7% of all energy sources. In our daily production, we focus on saving energy, minimizing greenhouse gas emissions and contributing to easing the pressure of global warming.

	Energy consumption in FY2017 (MWH)
Total	282,527
Electricity	140,530
Gas	141,997

	GHG emissions in FY2017 (tons)
Total	121,746
Scope I	30,757
Scope II	90,989

In FY2017, we implemented overall management and advancement of energy consumption. We set a target for the whole company and the main energy consumption departments, and performed follow-up monthly audit to review the progress. We requested the departments which failed to meet the target to conduct self-examination and remediation. Meanwhile, by enhancing promotion, we improved our staff's awareness of energy conservation. In FY2017, we took concrete measures to save energy and reduce emissions:

- Completed the LED replacement work

- Optimized the use of air-conditioning program

- Subsidiaries which were using air compressors replaced and upgraded their existing air compressors and used the waste heat generated to meet some of the winter heating needs.

- Reduced the use of non-renewable resources such as coal and diesel by using outside hot water and changing boilers.

Our main packaging materials are paper boxes, wooden boxes and plastic tubes. We actively encourage our clients to adopt renewable materials or use recyclable boxes for packing products, which can reduce the consumption of packaging materials.

In FY2017, in the PRC, we used a total of 3,892 tons of packaging materials, mainly for wooden boxes and cartons. We added 0.6 tons of recyclable plastic baskets.

Waste management

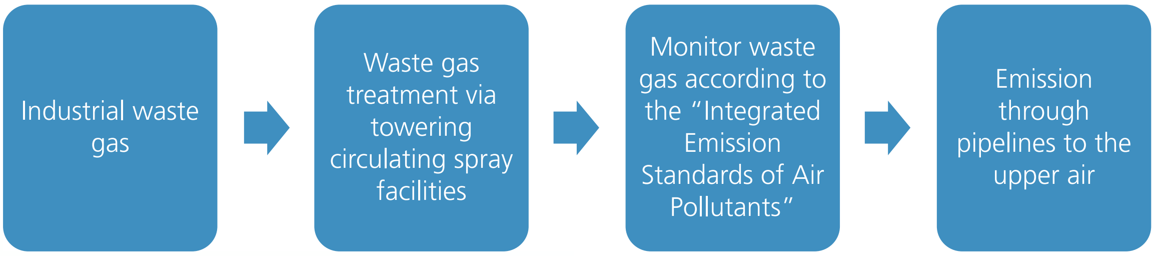
We identify the discharge of different pollutants, trace the sources, effectively monitor the discharge and manage in a timely manner. In addition, according to the actual situation, proper treatment and disposal methods are formulated to minimize the harm to the environment.

Waste gas

Most of the Company's waste gas is industrial waste gas, such as NO_x (nitrogen oxide), SO_x (sulphur oxide), PM (particulate matter).

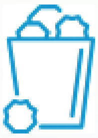
	Waste gas emissions in FY2017 (tons)
Total	87.3
NOx	38.7
SOx	6.2
PM	42.4

We strictly control the emissions of waste gas. We firstly apply towering circulating spray facilities to purify waste gas, and then dilute emissions to the upper air through pipelines.



Solid wastes

The hazardous wastes generated are mainly waste emulsion, waste oil and waste engine oil, while non-hazardous wastes are mainly domestic wastes, scrap iron and steel, residues generated from heat treatment salt bath and packing wastes.



	Solid wastes in FY2017 (tons)
hazardous wastes	2,809
non-hazardous wastes	4,972

To regulate the treatment process of wastes generated in production and operating activities, we issued the "Provisions on the Administration of Wastes". We also classified wastes according to the "National Hazardous Waste Inventory", and then made corresponding disposal guidelines according to different levels. For example, laboratory wastes are classified into general solid wastes and hazardous wastes. Hazard wastes, such as waste oil and waste emulsion, will be disposed of by qualified and professional third parties.

Water resource management

We have developed and strictly complied with water saving management system. Specifically, we have reduced water resource consumption through regular check on the waste of water resources, maintenance of water resources facilities and continuing education to enhance employees' awareness of water conservation. The water used is all from urban water supply system. The total demand of water from domestic and overseas operation is 2,277,351 cubic meters.

	Water consumption in FY2017 (cubic meter)
Municipal water	590,939
Recycling water	1,686,412

Industrial wastewater mainly comes from heat treatment cooling process. We reuse the water from the heat treatment cooling process in the production. Blackened and pickled wastewater produced in the heat treatment process is disposed by the qualified third party organizations after the salt slag is filtered by the wastewater treatment facilities. The wastewater is up to the discharge standards and will not exert strong impacts on rivers, lakes, groundwater and glaciers.

Sanitary wastewater, mainly from the offices, bathrooms and kitchens, does not contain any toxic or harmful discharged substances. Oily wastewater from canteens and kitchens is discharged into the municipal sewage pipe network after solid wastes are filtered by the washing cool strainers.

To effectively monitor the discharge of the industrial and sanitary wastewater, we entrust the environmental monitor stations to monitor the wastewater discharged by the Company in accordance with Integrated Wastewater Discharging Standard of the People's Republic of China every year.

SOCIAL RESPONSIBILITY

When pursuing development, we insist on contributing to society. As a leader in the industry, we hope to promote the overall technical development of the industry through cooperative research and development and technology sharing. At the same time, we establish connection with community, enthusiastically participate in public welfare activities and fully fulfill corporate social responsibilities.

Technology development

As a nationally well-known company engaged in the basic mechanical components manufacturing and services business, we have established an international quality control system, installed advanced testing equipment, built a professional quality control team, and seized leading technologies in several business areas:

Turbine Blade	Bearing	Cutting Tools	Fastener
• We are one of the biggest professional turbine blade manufactures in the world.	• We have become a national designated supplier of railway bearings and relevant maintenance services; a professional production base of precision miniature bearings for aviation or aerospace use, and a professional supplier of special automotive bearings.	• We are a leading Chinese company in manufacturing modernized large metal cutting tools.	• We are one of the largest exporters of fastener in China and have further expanded our presence in the global market by the acquisition of Nedschroef, one of the top-rated automotive producers in Europe.

We have undertaken many national scientific research projects, won several national and provincial (ministerial) awards for science and technology progression, and served as the supplier of many high-tech projects, so as to facilitate the development of high-end manufacturing industry. In addition, we have accumulated a wealth of technology resources in collaborating with the Institute of Metal Research of Chinese Academy of Science, Central Iron and Steel Research Institute and universities to jointly develop turbine blades and bearings. On the basis of valuing communication and collaboration within the industry, we actively participate in the formulation of industry standards, gladly share experience and achievements with industry peers, and aim to advance sound and vigorous development of technologies for the whole industry.

Noise management

Noise generated by the Company mainly comes from the power equipment including air conditioning units, air compressors, cooling towers and heat treatment equipment. In order to reduce noise, we installed noise shields and sound-absorbing walls surrounding the power equipment.

One of the Company's subsidiaries, Wuxi Turbine Co., Ltd. enhanced the equipment basis and reduced the equipment vibration by implementing upgraded industrial set-up in the construction of new factories and the integral relocation with a total additional investment of RMB 25,000,000

Nedschroef does not allow operation at night. Testing results show that noise at the boundary of the Company production plants meet the Level II of the Standard of Noise at the Boundary of Industrial Enterprises of People's Republic of China, posing minimum influence on surrounding neighborhood and ensuring the peaceful and quiet sleeping environment of community residents.

Community charity

We are enthusiastic for community services. We are committed to building a harmonious and friendly community relationship, taking social responsibilities with real actions and passing on positive energy.

Poverty relief

Since 2013, we have developed pairing support with Hui'an village, a poor village in Zhuang Xing Town of Feng Xian District, Shanghai, and accumulated donating RMB250,000. We visited Hui'an village many times, to understand villager's needs and to offer timely assistance. On Chinese New Year's Eve, financial aid was handed to ten needy households. In addition, we visited Party members with difficulties, retired cadres, and poor families suffering from major illnesses. We listen to their needs, provide practical support and solve problems which are urgent, tough and annoying.

Environmental governance

Without good surroundings, residents cannot live comfortably. In order to better serve the people, we focus on governing community environment, promoting environmental protection knowledge, and try to implement domestic waste classification management. To create clean river water environment for the neighborhood, our affiliated companies, Shanghai United Bearing Co., Ltd. and Shanghai Bearing Import & Export Co., Ltd., harnessed the bank of Hengjing River, which significantly improved the river water environment.

Safety concept propagation

We provide community residents with home circuit security check, community fire drill and other services. In FY2017, volunteers from our subsidiary, Shanghai Tool Works Co., Ltd., went to the home of the elderly living alone in Changbai street community, to check the safety usage of power lines and switch boards and to promote the summer electricity safety knowledge for the residents. With the principle of "safety first and prevention first", we timely eliminate the hidden dangers and contribute to building a harmonious community. In the second neighborhood committee, Changyi Road, Changbai Street, we also organized a fire drill, leading residents to learn how to use fire extinguishers correctly and carried out firefighting and anti-terrorist escape drills, enhancing residents' awareness and knowledge of fire safety.

Handy service for the public

We have provided a series of convenient services for communities, including small appliance repair and maintenance, haircutting, blood pressure measurement and health consultation. We also organized Party members to participate in community donations under the project of "Love Under the Blue Sky. The proactive and pertinent services have helped us gain the trust and recognition from the people and enhanced the harmonious atmosphere of local communities.

DATA OVERVIEW

Environmental, Social and Governance Data Overview in FY2017	
Emissions	
Greenhouse gas emissions in total (Scope 1&2) (in tons)	121,746
Direct greenhouse gas emissions in total (Scope 1)	30,757
Indirect greenhouse gas emissions in total (Scope 2)	90,989
The total amount of greenhouse gas emissions per million yuan of sales revenue (Tons/Million yuan)	14.36
Waste gas emissions in total (in tons)	87.3
NOx emissions in total	38.7
SOx emissions in total	6.2
PM emissions in total	42.4
Hazardous wastes produced in total (in tons)	2,809
Hazardous wastes produced per million yuan of sales revenue (Tons/Million yuan)	0.3
Non-hazardous wastes produced in total (in tons)	4,972
Non-hazardous wastes produced per million yuan of sales revenue (Tons/Million yuan)	0.6
Water resources consumption	
Water consumption in total (in cubic meters)	2,277,351
Municipal water	590,939
Recycled water	1,686,412
Water consumption per million yuan of sales revenue (in cubic meters/Million yuan)	269
Energy consumption	
Energy consumption in total (MWh)	282,527
Electricity	140,530
Gas	141,997
Energy consumption per million yuan of sales revenue (MWh/Million yuan)	33.3
Packaging materials	
Packaging materials in total (in tons)	3,892

Environmental, Social and Governance Data Overview in FY2017	
Employee	
Total workforce	3,891
By gender	
Female	785
Male	3,106
By age group	
Under 30	902
From 30 to 50	1,954
Over 50	1,035
Employee turnover ratio	4.6%
By gender	
Female	3.8%
Male	4.8%
By age group	
Under 30	9.4%
From 30 to 50	3.0%
Over 50	2.7%
Safety	
Number of work-related fatalities.	0
Number of lost days due to work injury	1,853
Average number of working days lost due to work injury	0.5
Development	
The percentage of trained employees	59.1%
By gender	
Female	57.1%
Male	59.6%
By employee type	
Senior management	74.0%
Middle management	68.3%
Staff	59.2%
The average training hours completed per employee	17.2
By gender	
Female	17.0
Male	18.8
By employee type	
Senior management	34.7
Middle management	20.8
Staff	16.2

APPENDIX I- ESG GUIDE CONTENT INDEX

Aspect	Disclosures	Page No./ Comments
A. Environment		
Aspect A1: Emissions		
General disclosure	Information: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	50
KPI A1.1	The types of emissions and respective emissions data	52
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	51
KPI A1.3	Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	52
KPI A1.4	Total non-hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	52
KPI A1.5	Description of measures to mitigate emissions and results achieved	52
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	52
Aspect A2: Use of resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	50
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility)	51
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	53
KPI A2.3	Description of energy use efficiency initiatives and results achieved	50
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	53
KPI A2.5	Total packing materials used for finished products (in tonnes) and, if applicable, with reference to per unit produced	51

Aspect	Disclosures	Page No./ Comments
Aspect A3: The environment and natural resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	51
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	51
B. Society		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	46
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	46
KPI B1.2	Employee turnover rate by gender, age group and geographical region	58
Aspect B2: Health and safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	50
KPI B2.1	Number and rate of work-related fatalities	58
KPI B2.2	Lost days due to work injury	58
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	50
Aspect B3: Development and training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	47
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	47
KPI B3.2	The average training hours completed per employee by gender and employee category	47

Aspect	Disclosures	Page No./ Comments
Aspect B4: Labor standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and foced labour	46
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor	46
KPI B4.2	Description of steps taken to eliminate such practices when discovered	46
Aspect B5: Supply chain management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	45
KPI B5.1	Number of suppliers by geographical region	45
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	45
Aspect B6: Product responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	44
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	44
KPI B6.2	Number of products and service related complaints received and how they are dealt with	Undisclosed
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	44
KPI B6.4	Description of quality assurance process and recall procedures	44
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	44

Aspect	Disclosures	Page No./ Comments
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	46
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	46
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	46
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	54
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	54
KPI B8.2	Resources contributed (e.g. money or time) to the focus area	54

The board (the "Board") of directors (the "Directors") of Shanghai Prime Machinery Company Limited (the "Company") hereby presents the report of the Directors and the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 ("FY2017").

PRINCIPAL ACTIVITIES

The principal activities of the Group are the design, manufacture and sale of turbine blades, bearings, fasteners, cutting tools and others, the provision of related technical services and investment holding. Details of the principal activities of the subsidiaries are set out in note 52 to the financial statements. During FY2017, there were no significant changes in the Group's principal activities.

BUSINESS REVIEW

Contents	Page(s) in this annual report
A fair review of the business of the Company	Pages 12 to 16
Description of major risks and uncertainties faced by the Company	Page 18
Details of major issues which happened upon conclusion of this fiscal year and had impact on the Company	Pages 18 to 21
The probable future business development of the Company	Pages 9 to 10 and 22
The environment-related policies and performance of the Company	Pages 42 to 62
The Company's compliance with relevant laws and regulations that have significant impact on it	Page 29
Details of important relationships of the Company and its employees, customers and suppliers	Pages 21 and 64

RESULTS AND DIVIDENDS

The Group's profit for FY2017 and the financial positions of the Company and the Group as at 31 December 2017 are set out on pages 79 to 80 of this annual report.

The Board did not recommend the payment of a final dividend of (2016: RMB3.50 cents) in respect of FY2017.

FINANCIAL SUMMARY

A summary of the published operating results, assets, liabilities and minority shareholders' interests of the Group for the last five financial years, as extracted from the audited financial statements is set out on page 3 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during FY2017 are set out in note 16 to the financial statements.

SHARE CAPITAL

There were no movements in either the authorised or issued share capital of the Company during FY2017, details of which are set out in note 41 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company Law of the People's Republic of China ("PRC") or the Articles of Association of the Company which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during FY2017 are set out in note 42 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB572 million. In addition, the Company's share premium account, in the amount of RMB693 million, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In FY2017, sales to the Group's five largest customers accounted for less than 30% of the total sales of the Group for FY2017. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases of the Group for FY2017.

The Group does not have material reliance on minority customers or suppliers.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) has any interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

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

The terms of office of Independent Non-executive Directors shall be three years. The Company has received annual independence statement from Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang. As at the date of this annual report, the Company believes that the above Independent Non-executive Directors are independent.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, supervisors (the "Supervisors") and senior management of the Company are set out on pages 24 to 28 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each Director of the Company entered into a service contract with the Company on the date of his respective appointment. According to the terms of the service contracts, each of the Directors agreed to act as a Director of the Company for a term of three years and to be subject to re-election upon the expiry of the term. These contracts are renewable in accordance with the Articles of Association of the Company and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and terminable by either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Apart from the foregoing, no Director has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' REMUNERATION

The Directors' and Supervisors' fees are determined and resolved by the remuneration committee of the Company subject to shareholders' approval at annual general meetings. Other emoluments are determined by the remuneration committee of the Company with reference to Directors' and Supervisors' duties, responsibilities and performance and the operating results of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No Director or Supervisor of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during FY2017.

PERMITTED INDEMNITY

The Company has arranged sufficient and proper insurance for the Directors to better perform their responsibilities and risk aversion pursuant to provision A.1.8 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules. Save for the above, during FY2017 and as at the date of this annual report, the Company has no other provision of permitted indemnity (as defined in Section 470 of the Companies Ordinance).

MANAGEMENT CONTRACTS

Save for the employment contracts, no other contracts relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during FY2017.

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

As at 31 December 2017, details of interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations registered by the Directors, Supervisors and chief executives of the Company are set out on pages 40 to 41 of this report.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during FY2017 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Group granted to any Director, Supervisor or their respective spouse or minor children, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and Supervisors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

During FY2017, the Company has entered into various contracts of significance with its ultimate holding company, Shanghai Electric (Group) Corporation ("SEG"), and its subsidiaries (collectively, the "SEG Group"). Further details of the transactions are set out in the section "Connected Transactions and Continuing Connected Transactions" below.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the persons who had interests of 5% or more in the share capital of the Company and were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were set out on pages 39 to 40 of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During FY2017, the Company and the Group had the following connected transactions and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing Connected Transactions

During FY2017, the Group and the connected parties entered into the following continuing connected transactions:

Framework Sales Agreement with SEG

The Company entered into a framework sales agreement dated 14 November 2016 with SEG, pursuant to which the Group has agreed to sell certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts to SEG and its associates, excluding the Group (collectively referred to as the "Parent Group"). Shanghai Electric Group Company Limited ("SEC") and its subsidiaries are collectively referred to as the "SEC Group". The framework sales agreement covers a period of three years from 1 January 2017 to 31 December 2019 and is renewable upon expiry. Either party may terminate the framework sales agreement, in part or in whole, by giving at least three months' notice.

The pricing basis of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the framework sales agreement shall be in the order of standards as follows:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price determined according to the actual or reasonable costs incurred plus a reasonable profit margin.

The proposed annual cap, representing the maximum aggregate sales amount, for 2017 was RMB41.0 million. The Group's total sales to the Parent Group for FY2017 amounted to RMB3.2 million.

An amended framework sales agreement dated 26 September 2017 was entered into between the Company and SEG to (i) change the purchaser as defined in the agreement to SEG and its associates (including SEC Group); (ii) increase the annual cap amounts for the two years ending 31 December 2019 under the agreement after taking into account the addition of the relevant transactions with SEC Group; and (iii) expand the types of equipment to be sold under the agreement. Other terms and conditions of the existing framework sales agreement with SEG remain unchanged.

Framework Sales Agreement with SEC

The Company entered into a framework sales agreement dated 14 November 2016 with SEC, pursuant to which the Group has agreed to sell certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts, to SEC and its associates. The framework sales agreement covered a period of three years from 1 January 2017 to 31 December 2019, and was terminated on 1 January 2018.

The pricing basis of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the framework sales agreement shall be in the order of standards as follows:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price determined according to the actual or reasonable costs incurred plus a reasonable profit margin.

The proposed annual cap, representing the maximum aggregate sales amount, for 2017 was RMB450.0 million. The Group's total sales to SEC and its associates for FY2017 amounted to RMB275.0 million.

Framework Purchase Agreement with SEG

The Company entered into a framework purchase agreement dated 14 November 2016 with SEG, pursuant to which the Group has agreed to purchase certain raw materials, spare parts, equipment, assets and other related or similar items, from the Parent Group. The framework purchase agreement covers a period of three years from 1 January 2017 to 31 December 2019 and is renewable upon expiry. Either party may terminate the framework purchase agreement, in part or in whole, by giving at least three months' notice.

The pricing basis of certain raw materials, spare parts, equipment, assets and other related or similar items under the framework purchase agreement shall be in the order of standards as follows:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price determined according to the actual or reasonable costs incurred plus a reasonable profit margin.

The proposed annual cap, representing the maximum aggregate purchase amount, for 2017 was RMB51.0 million. The Group's total purchases from the Parent Group for FY2017 amounted to RMB nil million.

An amended framework purchase agreement dated 26 September 2017 was entered into between the Company and SEG to (i) change the supplier as defined in the agreement to SEG and its associates (including SEC Group); and (ii) increase the annual cap amounts for the two years ending 31 December 2019 under the agreement after taking into account the addition of the relevant transactions with SEC Group. Other terms and conditions of the existing framework purchase agreement with SEG remain unchanged.

Fourth Supplemental Property Lease Agreement with SEG

The Company entered into the fourth supplemental property lease agreement dated 14 November 2016 with SEG (which supplements the original framework property lease agreement dated 31 March 2006, the first supplemental property lease agreement dated 25 April 2008, the second supplemental property lease agreement dated 12 August 2011 and the third supplemental property lease agreement dated 30 October 2013), pursuant to which the Group has agreed to lease certain properties as offices and production sites located in various districts in Shanghai, the PRC, with an aggregate gross floor area of approximately 135,104 square meters from SEG. The fourth supplemental property lease agreement covers a period of three years from 1 January 2017 to 31 December 2019.

The pricing basis of the lease rental is based on the prevailing market price as reported by real estate agencies, as well as on properties of similar nature, conditions and size within the same geographical region.

The proposed annual cap, representing the maximum aggregate rental payable, for 2017 was RMB32.0 million. The total rental payable to the Parent Group for FY2017 amounted to RMB19.3 million.

The fifth supplemental property lease agreement dated 26 September 2017 was entered into between the Company and SEG to change the lessor as defined in the agreement to SEG and its associates (including SEC Group). Other terms and conditions of the existing supplemental lease agreement with SEG remain unchanged.

Framework Comprehensive Service Agreement with SEG

The Company entered into a framework comprehensive service agreement dated 14 November 2016 with SEG, pursuant to which SEG and its associates have agreed to provide the services of freight transportation, collection and payment of water, electricity and gas charges on agency basis, systemic services and other services to the Group. The framework comprehensive service agreement covers a period of three years from 1 January 2017 to 31 December 2019 and is renewable upon expiry. Either party may terminate the framework comprehensive service agreement, in part or in whole, by giving at least three months' notice.

The pricing basis of the framework comprehensive service agreement shall be in the order of standards as follows:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price determined according to the actual or reasonable costs incurred plus a reasonable profit margin.

The proposed annual cap, representing the maximum aggregate comprehensive service fees, for 2017 was RMB3 million. The total comprehensive service fees paid by the Group to the Parent Group for FY2017 amounted to RMB nil million.

An amended framework comprehensive service agreement dated 26 September 2017 was entered into between the Company and SEG to (i) change the provider of services as defined in the agreement to SEG and its associates (including SEC Group); (ii) expand the scope of services to include shared services and consultation services; and (iii) increase the annual cap amounts for the two years ending 31 December 2019 under the agreement after taking into account the addition of the relevant transactions with SEC Group. Other terms and conditions of the existing framework comprehensive service agreement with SEG remain unchanged.

Framework Purchase Agreement with SEC

The Company entered into a framework purchase agreement dated 14 November 2016 with SEC, pursuant to which the Group has agreed to purchase certain raw materials, component parts, equipment and other related or similar items, from SEC and its associates. The framework purchase agreement covered a period of three years from 1 January 2017 to 31 December 2019, and was terminated on 1 January 2018.

The pricing basis of certain raw materials, component parts, equipment and other related or similar items under the framework purchase agreement shall be in the order of standards as follows:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price determined according to the actual or reasonable costs incurred plus a reasonable profit margin.

The proposed annual cap for 2017 was RMB7.0 million. The Group's total purchases from SEC and its associates for FY2017 amounted to RMB nil million.

Property Lease Agreement with SEG and SEC

As part of the group restructuring undertaken by SEG and SEC, the title to certain properties leased by the Group as offices and production sites located in various districts in Shanghai, the PRC, with an aggregate gross floor area of approximately 105,552 square meters was transferred from SEG (or its subsidiaries) to SEC (or its subsidiaries). As a result, the Company entered into the property lease agreement dated 31 August 2017 with SEG and SEC, pursuant to which the Group had agreed to lease the relevant properties from the SEC Group after the completion of the title transfer of such properties for the period from 1 August 31 to 31 December 2017.

The rental payable under the property lease agreement was based on the rental charged by the SEG Group under the original property lease agreement entered into between the Group and SEG Group in relation to the relevant properties. Such rental was in turn based on the prevailing market rates as quoted by real estate agencies in respect of properties of similar nature, conditions and size within the same geographical regions and after arm's-length negotiations among the parties.

The proposed cap for the transactions under the property lease agreement for 2017 was RMB6.8 million. The total rental payable to the SEC Group for FY2017 amounted to RMB4.6 million.

The Independent Non-executive Directors have reviewed the aforementioned continuing connected transactions and confirmed that the transactions have been entered into in the ordinary and usual courses of business of the Group, on normal commercial terms or better, and the transactions have been entered into according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The independent auditor of the Company has conducted review procedures on the above continuing connected transactions and concluded that:

(i) nothing has come to their attention that causes them to believe that the above continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) with respect to the aggregate amount of each of the above continuing connected transactions, nothing has come to their attention that cause them to believe that such transactions have exceeded the annual cap as set by the Company.

Save as disclosed in this annual report, there are no connected transactions that are required to be disclosed by the Company under the relevant requirements of Chapter 14A of the Listing Rules during FY2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

DIRECTOR'S INTEREST IN A COMPETING BUSINESS

None of the Directors or any of their associates had an interest in a business which causes or may cause significant competition with the business of the Group.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Group are set out in note 53 to the financial statements.

INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu will retire according to the Articles of Association of the Company. The reappointment of Deloitte Touche Tohmatsu as the auditors of the Company will be proposed at the forthcoming annual general meeting.

In the past three years, the retirement of Ernst & Young, which had served the Company, and the appointment of Deloitte Touche Tohmatsu as the auditors of the Company were approved at the annual general meeting of the Company held on 5 June 2015.

By order of the Board
Zhou Zhiyan
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
16 March 2018

Report of the Supervisory Committee

Dear Shareholders,

During the year ended 31 December 2017 ("FY2017"), members of the supervisory committee (the "Supervisory Committee") of Shanghai Prime Machinery Company Limited (the "Company") has convened three thematic meetings in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Articles of Association of the Company and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and has actively and effectively carried out all its duties with diligence and prudence, and has supervised all operating and management activities of the Company in a legal, timely and effective manner in compliance with the Company's Standing Order of the supervisory committee, effectively protected the interests of our shareholders and the Company.

During FY2017, the Supervisory Committee has attended two general meetings and 4 Directors' meetings, and convened meetings of the Supervisory Committee, during which it has completed the review of the interim results, annual financial accounts, financial budgets and profit distribution of the Company, as well as participated in the review of the auditors' report and provided justifiable advice. Members of the Supervisory Committee have capitalized on their business expertise to facilitate performance of all duties of the Supervisory Committee.

With respect to progress of the Company in FY2017, the Supervisory Committee has the following views:

- The Supervisory Committee has examined details of the implementation of financial management system and financial reports of the Company, and has confirmed that the budget report, financial report, annual report and interim report are true and reliable and that the auditing opinions expressed by the auditors engaged by the Company are objective and fair.

- The Supervisory Committee has supervised the operating activities of the Company, and believed that the Company has established a relatively comprehensive internal control system and a corresponding internal control structure, and has made great efforts to execute and improve the same so as to mitigate various operating risks of the Company.

- The Supervisory Committee has supervised the connected transactions of the Company, and believed that the connected transactions of the Company during the Year are fair, reasonable, impartial and without prejudice to the interests of other shareholders of the Company, while all continuing connected transactions have not exceed the approved annual cap during 2017.

- The Supervisory Committee has supervised duty fulfillment of the Directors and management of the Company, and considers that the Directors, presidents and other senior management of the Company have exercised every right granted by shareholders of the Company and discharged every duty in strict compliance with the principle of diligence and good faith. The Supervisory Committee is not aware of any abuse of authority which impairs our shareholders' interests and the legitimate rights of our employees until the date of this annual report.

In 2018, all members of the Supervisory Committee will continue to comply with relevant provisions of the Company law of the People's Republic of China, the Articles of Association of the Company and the Listing Rules. With dedication to protecting the interests of the Company and its shareholders, the Supervisory Committee will endeavor to perform its supervising duties for the benefits of all shareholders.

By order of the Supervisory Committee
Xu Jianguo
Chairman of the Supervisory Committee
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
16 March 2018

Deloitte. 德勤

TO THE SHAREHOLDERS OF SHANGHAI PRIME MACHINERY COMPANY LIMITED
(incorporated in the People's Republic of China as a joint stock company with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 184, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 ("HKFRS") 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Annual Impairment assessment on goodwill	
Refer to note 18 We identified the annual impairment assessment on carrying value of goodwill as a key audit matter because the assessment and conclusion as determined based on value-in-use calculation required significant management judgement with respect to the discount rate and assumptions adopted in the underlying cash flows of the cash-generating unit, in particular, business development plan and future revenue growth. In particular, as at 31 December 2017, the carrying amount of goodwill amounted to RMB1,488,323,000, which arise from the acquisition of Nedfast, (defined in note 18) in previous years. An annual impairment assessment has been performed by the management, including the assessment of the recoverable amounts in relation to the cash-generating unit determined based on a value-in-use calculation and no impairment indicators had been identified for the year ended 31 December 2017. Details of the related accounting policies and carrying value of goodwill and are set out in notes 3 and 18 to the consolidated financial statements.	Our audit procedures in relation to management's annual impairment assessment on goodwill included: • Assessing whether the model used by the management to calculate the value-in-use calculation of the cash-generating-unit was in compliance with the requirements of Hong Kong Accounting Standard ("HKAS") 36 Impairment of Assets; • Assessing whether the projected cash flow forecast adopted in the model is reasonable and supportable; • Understanding the projected cash flows, including the key assumptions such as revenue growth rates, market outlook and industry trend, and comparing operating margins and revenue growth against historical performance; and • Involving our internal valuation experts to evaluate the methodology of the valuation, inputs used for the cash flow forecast and factors considered in the discount rate and assess these rates.

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables	
Refer to note 25 We identified the impairment of trade receivables as a key audit matter because the amount was significant and the assessment of which involved significant estimation uncertainty. In determining the allowance for trade receivables, the management considers the credit history of individual counter-parties, including settlement pattern, history of default or delay in payments, settlement position after the balance sheet date and aging analysis. At 31 December 2017, the carrying amount of trade receivables was RMB1,264,452,000 (net of allowance for doubtful debts of RMB65,468,000).	Our procedures in relation to management's annual impairment assessment on trade receivables included: • Understanding the Group's credit policy and the process that the management used to estimate allowance for doubtful debts, reviewing the credit quality of the counterparties, including any experience of default, delay in payments and the aging analysis, the historical settlement pattern (especially on those overdue but not impaired balances), and checking the reasonableness of recoverability and whether recognition of allowance for doubtful debts is appropriate; and • Testing the aging analysis of the trade receivables, on a sample basis, to the source documents.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**Year ended 31/12/2017 RMB'000**	Year ended 31/12/2016 RMB'000
Revenue	5	**8,478,895**	7,644,931
Cost of sales		**(6,793,966)**	(6,055,232)
Gross profit		**1,684,929**	1,589,699
Other income and other gains and losses	5	**114,364**	106,548
Selling and distribution expenses		**(399,869)**	(370,963)
Administrative expenses		**(638,161)**	(624,366)
Research and development expenditure		**(322,030)**	(292,824)
Other expenses	7	**(5,163)**	(12,977)
Finance costs	8	**(123,308)**	(123,505)
Share of profits of associates		**41,601**	29,601
Share of loss of a joint venture		**(813)**	(657)
PROFIT BEFORE TAX	11	**351,550**	300,556
Income tax expense	9	**(98,776)**	(97,407)
PROFIT FOR THE YEAR		**252,774**	203,149
Profit (loss) for the year attributable to			
Owners of the company		**253,424**	203,401
Non-controlling interests		**(650)**	(252)
		252,774	203,149

For the year ended 31 December 2017

	NOTES	**Year ended 31/12/2017 RMB'000**	Year ended 31/12/2016 RMB'000
Other comprehensive income (expense)	10		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**5,775**	(8,611)
Income tax relating to items that will not be reclassified		**(1,732)**	3,210
		4,043	(5,401)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**6,184**	(8,782)
Fair value adjustment on interest rate swap contracts designated as hedging instruments		**2,134**	983
Income tax relating to items that may be reclassified subsequently		**(533)**	(246)
		7,785	(8,045)
Other comprehensive income (expense) for the year, net of income tax		**11,828**	(13,446)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**264,602**	189,703
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**265,147**	189,902
Non-controlling interests		**(545)**	(199)
		264,602	189,703
EARNINGS PER SHARE	15		
Basic (RMB cents)		**17.96**	14.41
Diluted (RMB cents)		**17.89**	14.36

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	31/12/2017 RMB'000	31/12/2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**2,343,766**	2,342,764
Prepaid lease payments	17	**135,924**	139,387
Goodwill	18	**1,513,334**	1,418,815
Intangible assets	19	**32,400**	31,836
Interests in associates	20	**144,349**	174,472
Interest in a joint venture		**568**	1,311
Available-for-sale investments	21	**2,043**	872
Deferred tax assets	22	**124,717**	133,278
		4,297,101	4,242,735
CURRENT ASSETS			
Prepaid lease payments	17	**3,463**	3,463
Inventories	23	**1,742,302**	1,615,391
Amounts due from customers for contract work	24	**59,956**	56,037
Trade receivables	25	**1,264,452**	1,225,995
Bills receivable	26	**716,854**	584,035
Prepayments, deposits and other receivables	27	**298,050**	217,710
Restricted deposits	28	**76,039**	51,543
Bank balances and cash	28	**804,956**	1,123,293
		4,966,072	4,877,467
CURRENT LIABILITIES			
Trade payables	29	**1,569,335**	1,371,103
Bills payable	30	**363,961**	422,145
Other payables and accruals	31	**478,672**	416,525
Derivative financial instruments	32	**2,583**	4,717
Tax liabilities		**66,707**	64,473
Government grants	33	**16,751**	13,663
Company bond	34	**–**	499,043
Bank borrowings	35	**171,383**	171,322
Shareholders' loans	36	**203,900**	–
Obligations under finance leases	38	**6,854**	–
		2,880,146	2,962,991
NET CURRENT ASSETS		**2,085,926**	1,914,476
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,383,027**	6,157,211

At 31 December 2017

	NOTES	31/12/2017 RMB'000	31/12/2016 RMB'000
NON-CURRENT LIABILITIES			
Bank borrowings	35	**679,417**	693,557
Shareholders' loans	36	**1,675,446**	1,681,059
Government grants	33	**245,900**	255,232
Deferred tax liabilities	22	**20,753**	25,031
Obligations under finance leases	38	**25,883**	–
Other long-term payables	39	**45,257**	26,510
Retirement benefit obligations	40	**127,346**	129,333
		2,820,002	2,810,722
NET ASSETS		**3,563,025**	3,346,489
CAPITAL AND RESERVES			
Share capital	41	**1,438,286**	1,438,286
Reserves		**2,079,473**	1,862,480
Total equity attributable to owners of the Company		**3,517,759**	3,300,766
Non-controlling interests		**45,266**	45,723
TOTAL EQUITY		**3,563,025**	3,346,489

The consolidated financial statements on pages 72 to 184 were approved and authorised for issue by the board of directors on 16 March 2018 and are signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the Company													
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Contributed surplus RMB'000 (Note b)	Share-based payments reserve RMB'000	Surplus reserves RMB'000 (Note c)	Hedging reserve RMB'000 (Note d)	Actuarial reserves RMB'000	Retained profits RMB'000 (Note f)	Proposed final dividend RMB'000 (Note f)	Foreign currency translation difference RMB'000 (Note e)	Shares held for Incentive Scheme (defined in note 37) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	1,438,286	702,945	50,469	3,279	314,851	(2,898)	4,492	1,084,560	50,340	(315,133)	(30,425)	3,300,766	45,723	3,346,489
Profit (loss) for the year	-	-	-	-	-	-	-	253,424	-	-	-	253,424	(650)	252,774
Other comprehensive income for the year	-	-	-	-	-	1,601	4,043	-	-	6,079	-	11,723	105	11,828
Total comprehensive income (expense) for the year	-	-	-	-	-	1,601	4,043	253,424	-	6,079	-	265,147	(545)	264,602
Final 2016 dividend paid	-	-	-	-	-	-	-	-	(50,340)	-	-	(50,340)	-	(50,340)
Appropriation of statutory reserves	-	-	-	-	24,666	-	-	(24,666)	-	-	-	-	-	-
Acquisition of a subsidiary (note 43)	-	-	-	-	-	-	-	-	-	-	-	-	88	88
Recognition of equity-settled share-based payments	-	-	-	2,186	-	-	-	-	-	-	-	2,186	-	2,186
At 31 December 2017	1,438,286	702,945	50,469	5,465	339,517	(1,297)	8,535	1,313,318	-	(309,054)	(30,425)	3,517,759	45,266	3,563,025

For the year ended 31 December 2017

	Attributable to owners of the Company													
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Contributed surplus RMB'000 (Note b)	Share-based payments reserve RMB'000	Surplus reserves RMB'000 (Note c)	Hedging reserve RMB'000 (Note d)	Actuarial reserves RMB'000	Retained profits RMB'000 (Note f)	Proposed final dividend RMB'000 (Note f)	Foreign currency translation difference RMB'000 (Note e)	Shares held for Incentive Scheme (defined in note 37) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	1,438,286	702,945	50,469	1,093	296,369	(3,635)	9,893	949,981	46,025	(306,298)	(30,425)	3,154,703	43,130	3,197,833
Profit (loss) for the year	–	–	–	–	–	–	–	203,401	–	–	–	203,401	(252)	203,149
Other comprehensive income (expense) for the year	–	–	–	–	–	737	(5,401)	–	–	(8,835)	–	(13,499)	53	(13,446)
Total comprehensive income (expense) for the year	–	–	–	–	–	737	(5,401)	203,401	–	(8,835)	–	189,902	(199)	189,703
Final 2015 dividend paid	–	–	–	–	–	–	–	–	(46,025)	–	–	(46,025)	–	(46,025)
Proposed final 2016 dividend	–	–	–	–	–	–	–	(50,340)	50,340	–	–	–	–	–
Appropriation of statutory reserves	–	–	–	–	18,482	–	–	(18,482)	–	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	2,186	–	–	–	–	–	–	–	2,186	–	2,186
Capital injection from a non-controlling shareholder upon incorporation of a subsidiary (note)	–	–	–	–	–	–	–	–	–	–	–	–	2,792	2,792
At 31 December 2016	1,438,286	702,945	50,469	3,279	314,851	(2,898)	4,492	1,084,560	50,340	(315,133)	(30,425)	3,300,766	45,723	3,346,489

Note: On 25 March 2016, Shanghai Premier Tension Control Bolts Company Limited ("SPTCB") was established by Shanghai Prime Machinery Company Limited (the "Company"). The Company owns 57% of the paid-in capital of SPTCB, representing 57% equity interest in SPTCB. The remaining 43% equity interest was accounted for as non-controlling interests.

Notes:

(a) Capital reserve

The capital reserve of the Group includes the Company's share premium and the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations of the People's Republic of China (the "PRC").

(b) Contributed surplus

The Group's contributed surplus represents the difference between (i) the Company's cost of investments in subsidiaries and an associate acquired from Shanghai Electric (Group) Corporation ("SEG") and Shanghai Electric Industrial Corporation as part of the Group reorganisation, and (ii) the aggregate amount of the paid-up capital of those subsidiaries attributable to the Company and the then carrying value of the Company's interest in the associate upon the establishment of the Company.

(c) Surplus reserves

In accordance with the PRC Company Law and the articles of association of the relevant companies, the Company and certain of its PRC subsidiaries are required to appropriate certain percentage of their net profits after tax to the surplus reserves comprising the statutory common reserve and the discretionary common reserve, until the statutory common reserve balance reaches 50% of the registered capital. Subject to certain restrictions set out in the relevant PRC regulations and in the group companies' articles of association, the statutory common reserve may be used either to offset losses, or to be converted to increase share capital, provided that the statutory common reserve balance is maintained at a minimum of 25% of the registered capital; and the discretionary common reserve is set aside to cover unexpected losses. These reserves cannot be used for purposes other than those for which they are created.

(d) Hedging reserve

The hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for hedge of cash flow.

(e) Foreign currency translation difference

Foreign currency translation difference represents i) the exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency, which are recognised directly in other comprehensive income (expense) and accumulated in the foreign currency translation difference and will be reclassified to profit or loss upon disposal of the foreign operations; and ii) the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for hedging a net investment in foreign operations, which is recognised directly in other comprehensive income (expense) and accumulated in the foreign currency translation difference and will be reclassified to profit or loss when the hedged foreign operations are disposed of or partially disposed.

(f) Distributable reserves

The amount for which the Group can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and HKFRSs. As at the end of the reporting period, the Group had distributable reserves amounting to RMB1,313,318,000 (31 December 2016: RMB1,134,900,000), of which RMB nil (31 December 2016: RMB50,340,000) has been proposed as a final dividend for the year.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**351,550**	300,556
Adjustments for:		
Finance costs	**123,308**	123,505
Share of loss of a joint venture	**813**	657
Share of profits of associates	**(41,601)**	(29,601)
Investment loss (income) earned on financial instruments	**97,509**	(28,102)
Dividend income from available-for-sale investments	**(214)**	(60)
Gain on disposal of items of property,plant and equipment	**(7,479)**	(4,247)
Loss on disposal/written off of items of property, plant and equipment	**5,738**	15,653
Gain on write-back of payables	**(706)**	(522)
Depreciation of property, plant and equipment	**256,798**	241,737
Release of prepaid lease payments	**3,463**	3,463
Amortisation of intangible assets	**11,081**	11,118
Impairment loss on trade receivables recognised	**19,637**	11,709
Reversal of allowance on trade receivables	**(7,063)**	(9,832)
Impairment loss on other receivables recognised	**6,063**	12,472
Reversal of impairment loss on other receivables	**(14,706)**	–
Allowance for inventories	**50,081**	32,188
Reversal of allowance for inventories	**(33,206)**	(22,187)
Release of deferred income related government grants	**(14,879)**	(14,266)
Recognition of equity-settled share-based payments	**2,186**	2,186
Operating cash flows before movements in working capital	**808,373**	646,427
Increase in inventories	**(23,596)**	(76,741)
(Increase) decrease in amounts due from customers for contract work	**(115)**	4,632
(Increase) decrease in trade receivables	**(16,569)**	79,154
Increase in bills receivable	**(132,819)**	(117,047)
(Increase) decrease in prepayments, deposits and other receivables	**(27,710)**	6,600
Increase in trade payables	**155,395**	19,456
(Decrease) increase in bills payable	**(58,184)**	72,387
Decrease in other payables and accruals	**(36,576)**	(9,039)
Increase in other long-term payables	**19,156**	44,559
Cash generated from operations	**687,355**	670,388
Income taxes paid	**(90,566)**	(83,086)
NET CASH FROM OPERATING ACTIVITIES	**596,789**	587,302

For the year ended 31 December 2017

	NOTE	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
INVESTING ACTIVITIES			
Dividend income from available-for-sale investments		**214**	60
Dividends received from associates		**33,556**	15,704
Purchase of property, plant and equipment		**(208,638)**	(212,114)
Proceeds from disposal of property, plant and equipment		**22,230**	646
Purchases of intangible assets		**(5,293)**	(16,548)
Acquisition of a subsidiary	43	**7,795**	–
(Payment of) Proceeds from disposal of financial instruments		**(97,509)**	28,102
Withdrawal of non-restricted deposits with original maturity of over three months		**100,500**	435,529
Placement of non-restricted deposits with original maturity of over three months		**(62,000)**	(458,529)
Withdrawal of restricted bank deposits		**51,543**	97,771
Placement of restricted bank deposits		**(76,039)**	(51,543)
NET CASH USED IN INVESTING ACTIVITIES		**(233,641)**	(160,922)
FINANCING ACTIVITIES			
Bank borrowings obtained		**485,286**	100,344
Repayment of bank borrowings		**(604,725)**	(192,486)
Shareholders' loans obtained		**400,000**	–
Non-controlling Shareholders' loan obtained		**3,900**	–
Repayment of Shareholders' loans		**(200,000)**	–
Payment of loan from non-controlling shareholders		**(62,673)**	–
New Obligations and finance lease		**30,000**	–
Repayment of company bonds		**(500,000)**	–
Dividends paid		**(50,340)**	(46,025)
Capital contribution from a non-controlling shareholder		**–**	2,792
Interest paid		**(130,253)**	(119,298)
NET CASH USED IN FINANCING ACTIVITIES		**(628,805)**	(254,673)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(265,657)**	171,707
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,079,793**	888,462
Effect of foreign exchange rate changes		**(14,180)**	19,624
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**799,956**	1,079,793
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**804,956**	1,123,293
Less: non-restricted time deposits with original maturity of over three months when acquired		**5,000**	43,500
		799,956	1,079,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

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

Amendments to HKAS 7 *Disclosure Initiative*

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

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

A reconciliation between the opening and closing balances of these items is provided in note 50. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 50, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

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

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

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

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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

HKFRS 9 Financial Instruments

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

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

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

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

Based on the Group's financial instruments and risk measurement policies as at 31 December 2017, the directors of the Company have assessed the potential impact on initial application of HKFRS 9 as follows:

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

HKFRS 9 Financial Instruments (Continued)

Classification and measurements:

- Part of the trade receivables and other receivables carried at amortised cost as disclosed in note 25 and note 27, respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9; and

- Part of the trade receivables and bills receivable carried at amortised cost as disclosed in note 25 and note 26 are held with a business model whose objective is achieved both by collecting contracted cash flows and selling the trade receivables and bills receivable. Accordingly, these part of the trade receivables and bills receivable will be subsequently measured at FVTOCI upon the application of HKFRS9, and the fair value gains or losses accumulated in the revaluation reserve will be subsequently reclassified to profit or loss when the trade receivables and bills receivable are derecognized or reclassified upon the initial application of HKFRS 9. Fair value gains or losses representing the difference between the amortized cost and fair value will be adjusted to other comprehensive income as at 1 January 2018.

- Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 21: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group did not elect the option for designating these securities to be measured at FVTOCI and would measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company have assessed that the application of the expected credit loss model of HKFRS 9 would result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables and other receivables, deposits with financial institutions, bills receivable and amounts due from customers for contract work. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets as at 1 January 2018.

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

HKFRS 9 Financial Instruments (Continued)

Hedge accounting

As the new hedge accounting requirements aligned more closely with the Group's risk management policies, with generally more qualifying hedging instruments and hedged items, an assessment of the Group's current hedging relationships indicated that they would qualify as continuing hedging relationships upon application of HKFRS 9. Accordingly, the directors of the Company have assessed that the application of the new hedging requirements did not have a material impact on the Group's current hedge designation and hedge accounting.

HKFRS 15 Revenue from Contracts with Customers

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

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligations is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

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

The directors of the Company have assessed that the application of HKFRS 15 would result in more disclosures but would not have a material impact on the timing and amounts of revenue recognition in the respective reporting periods.

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

HKFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB255,613,000 as disclosed in note 47. The directors of the Company have assessed that these arrangements met the definition of a lease. Upon application of HKFRS 16, the Group would recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

HKFRS 16 Leases (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB2,347,000 and refundable rental deposits received of RMB3,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of the new requirements would result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

The 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 listed above.

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is 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.

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

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transaction between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiaries net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transactions basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit.

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

Interests in associates and a joint venture

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates and joint ventures (Continued)

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

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

Revenue from a contract to provide services is recognised by reference to the percentage of completion of the contract 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.

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

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Construction contracts

Where the outcome of a construction contract including construction or upgrade services of the infrastructure under a service concession arrangement, can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (Continued)

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included m the consolidated statement of financial position, as a liability, as advances received. Amount billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and managing an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessee (Continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation difference (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as liability in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contributions retirement benefits plans, state-managed retirement benefit schemes and Mandatory Provident Fund Scheme ("MPF Scheme"), are recognised as an expense when employees have rendered service entitling them to the contributions.

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

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two component of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs (Continued)

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

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

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for that related service.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 37 to the Group's consolidated financial statements.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis, over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax and deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land and freehold land held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purpose (i.e. construction in progress) are carried at cost, less any recognised impairment loss, if any. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method or the unit-of-production method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lines on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciation over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold land and building

When the group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss. Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

AFS financial assets (Continued)

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, bills receivable, other receivables, restricted deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. For AFS equity investment, a significant or prolonged decline in the fair value of the asset below its cost is considered to be objective evidence of impairment. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of loans and receivables could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Other Financial liabilities

Other financial liabilities of the Group including trade payables, bills payable, other payables, company bonds shareholders' loans and bank borrowings are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Equity instruments

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

Derivative financial instruments

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

Embedded derivative

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to host of the host contracts and the host contracts are not measured at fair value through profit and loss ("FVTPL").

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Hedge accounting (Continued)

Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

Key sources of estimation uncertainty

The following are 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the values in use of the cash-generating units to which goodwill has been allocated, which is the higher of the value-in-use or fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 31 December 2017 is RMB1,513,334,000 (31 December 2016: RMB1,418,815,000). Details of the recoverable amount calculation are disclosed in note 18.

Impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss/further impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables is RMB1,264,452,000 (net of allowance for doubtful debts of RMB65,468,000) (31 December 2016: carrying amount of trade receivables is RMB1,225,995,000 (net of allowance for doubtful debts of RMB54,115,000)).

Deferred tax assets for tax losses

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the 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, the applicable tax rates, and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 31 December 2017 is RMB32,718,000 (31 December 2016: RMB30,546,000). The amount of unrecognised tax losses as at 31 December 2017 is RMB288,943,000 (31 December 2016: RMB248,183,000). Further details are set out in note 22.

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

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

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

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue		
Sales of goods	**8,188,528**	7,373,597
Rendering of services	**50,387**	51,137
Construction contracts	**239,980**	220,197
	8,478,895	7,644,931
Other Income		
Interest income from bank balances and deposits	**14,076**	10,555
Net rental income (Note i)	**1,507**	1,060
Government grants (Note ii)	**39,821**	27,059
Compensation income (Note iii)	**19,867**	20,870
Technology service income	**3,821**	9,683
Recovery freight and package	**1,404**	625
Commissions	**1,891**	2,439
Dividend income from available-for-sale investments	**214**	60
Others	**6,424**	6,664
	89,025	79,015
Other gains and losses		
Sales of spare parts, scrap materials and semi-finished goods	**110,427**	85,034
Less: costs related to sales of spare parts, scrap materials and semi-finished goods	**(68,939)**	(52,235)
	41,488	32,799
Gain on disposal of items of property, plant and equipment	**7,479**	4,247
Loss on disposal of items of property, plant and equipment	**(5,738)**	(5,401)
Impairment loss on trade and other receivables recognised	**(25,700)**	(24,181)
Impairment losses on trade and other receivables reversed	**21,769**	9,832
(Loss) gain on financial instruments (Note iv)	**(97,509)**	28,102
Foreign exchange gain	**108,436**	18,133
Foreign exchange loss	**(25,592)**	(36,520)
Gain on write-back of payables	**706**	522
	25,339	27,533
	114,364	106,548

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES (Continued)

Notes:

(i) Gross rental income is disclosed in note 11.

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

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

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

6. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

Inter-segment sales are transacted at prevailing market prices.

6. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31 December 2017

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

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2016

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of interest and dividend income and unallocated gains, which mainly include exchange gains, while corporate and other unallocated expenses mainly include administrative expenses of the head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

At 31 December 2017

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

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

At 31 December 2016

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets						
Assets	1,125,719	2,615,616	620,243	2,973,203	–	7,334,781
Eliminations of inter-segment receivables	(129,560)	(9,391)	(228,696)	(128,313)	(2,176,998)	(2,672,958)
Total segment assets						4,661,823
Interests in associates	86,778	–	16,522	–	71,172	174,472
Interest in a joint venture	–	–	–	1,311	–	1,311
Goodwill	25,012	–	–	1,393,803	–	1,418,815
Corporate and other unallocated assets						2,863,780
Consolidated assets						9,120,201
Segment liabilities						
Liabilities	379,996	1,538,783	131,179	3,351,732	–	5,401,690
Eliminations of inter-segment payables	(36,596)	(644,068)	(52,800)	(14,959)	(1,924,535)	(2,672,958)
Total segment liabilities						2,728,732
Corporate and other unallocated liabilities						3,044,981
Consolidated liabilities						5,773,713

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

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

6. SEGMENT INFORMATION (Continued)

Other Segment information

For the year ended 31 December 2017

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

6. SEGMENT INFORMATION (Continued)

Other Segment information (Continued)

For the year ended 31 December 2016

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

6. SEGMENT INFORMATION (Continued)

Geographical information

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

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

Information about major customers

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

7. OTHER EXPENSES

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Compensations and penalties	**4,374**	2,334
Donation	**225**	252
Others	**564**	139
Loss on written off of items of property, plant and equipment (note)	**–**	10,252
	5,163	12,977

Note: The amount for the year ended 31 December 2016 represented the loss of machinery and equipment with a carrying amount of RMB10,252,000 as a result of a fire.

8. FINANCE COSTS

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Interests on bank borrowings	**55,972**	51,327
Interests on shareholders' loans	**48,604**	44,959
Effective interest expense on company bonds	**17,867**	26,863
Other interest expenses	**865**	356
	123,308	123,505

9. INCOME TAX EXPENSE

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**26,447**	18,488
Other jurisdictions	**71,265**	65,968
	97,712	84,456
(Over) under provision in prior years:		
PRC EIT	**(3,385)**	(3,295)
Other jurisdictions	**1,122**	–
	(2,263)	(3,295)
Deferred tax (note 22):		
Current year	**3,327**	16,246
	3,327	16,246
	98,776	97,407

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

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

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

9. INCOME TAX EXPENSE (Continued)

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

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Profit before tax	**351,550**	300,556
Tax at the domestic income tax rate of 25% (2016: 25%) (Note)	**87,888**	75,139
Tax effect of share of profits of associates	**(10,400)**	(7,400)
Tax effect of share of loss of a joint venture	**203**	164
Income tax on concessionary rate	**(11,020)**	(18,440)
Tax effect of expenses not deductible for tax purpose	**8,325**	18,239
Tax effect of income not taxable for tax purpose	**(1,483)**	(1,632)
Tax effect of tax losses and deductible temporary differences not recognised	**25,271**	32,344
Utilisation of tax losses previously not recognised	**(684)**	(630)
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	**47**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**5,458**	5,752
Effect of tax exemptions	**(2,566)**	(2,834)
Over provision in respect of prior years	**(2,263)**	(3,295)
Income tax expense	**98,776**	97,407

Note: The domestic tax rate (which is the PRC corporate tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

10. OTHER COMPREHENSIVE INCOME (EXPENSE)

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Other comprehensive income (expense) includes:		
Items that will not be reclassified to profit or loss:		
Re-measurement of defined benefit pension plans	**5,775**	(8,611)
Income tax relating to items that will not be reclassified	**(1,732)**	3,210
	4,043	(5,401)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**6,184**	(8,782)
Fair value adjustment on interest rate swap contracts designated as hedging instruments	**2,134**	983
Income tax relating to items that will be reclassified subsequently	**(533)**	(246)
	7,785	(8,045)
Other comprehensive income (expense) for the year, net of income tax	**11,828**	(13,446)

10. OTHER COMPREHENSIVE INCOME (EXPENSE) (Continued)

Income tax effect relating to other comprehensive income (expense)

	Year ended 31/12/2017			Year ended 31/12/2016		
	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000
Items that will not be reclassified to profit or loss:						
Re-measurement of defined benefit pension plans	5,775	(1,732)	4,043	(8,611)	3,210	(5,401)
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	6,184	–	6,184	(8,782)	–	(8,782)
Fair value adjustment on interest rate swap contracts designated as hedging instruments	2,134	(533)	1,601	983	(246)	737
	14,093	(2,265)	11,828	(16,410)	2,964	(13,446)

11. PROFIT BEFORE TAX

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

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

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

(a) The basic emoluments of the Directors', chief executive's and supervisors' are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Subtotal of basic emoluments RMB'000
Year ended 31 December 2017				
Executive directors:				
Zhou Zhiyan (Note i)	–	904	46	950
Xiao Yuman	–	717	46	763
Chen Hui	–	714	46	760
Zhang Jie (Note viii)	–	–	–	–
Mao Yizhong (Note viii)	–	–	–	–
	–	2,335	138	2,473
Independent non-executive directors:				
Chan Oi Fat	156	–	–	156
Ling Hong	156	–	–	156
Sun Zechang	156	–	–	156
	468	–	–	468
Non-executive director:				
Dong Yeshun	156	–	–	156
	156	–	–	156
Supervisors:				
Xu Jianguo (Note viii)	–	–	–	–
Wei Li (Note vii)	–	233	22	255
Yu Yun	–	322	46	368
Si Wenpei (Notes vi, viii)	–	–	–	–
	–	555	68	623
	624	2,890	206	3,720

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

(b) Apart from the basic emoluments, the Directors, chief executive and supervisors are also entitled to share award and cash instalments as disclosed in note 37 based on the Group's performance as follow:

	Shares award RMB'000	Cash instalments RMB'000	Subtotal of Incentive Scheme RMB'000
Year ended 31 December 2017			
Executive directors:			
Zhou Zhiyan (Note i)	159	500	659
Xiao Yuman	–	500	500
Chen Hui	89	500	589
Zhang Jie (Note viii)	–	–	–
Mao Yizhong (Note viii)	–	–	–
	248	1,500	1,748
Independent non-executive directors:			
Chan Oi Fat	–	–	–
Ling Hong	–	–	–
Sun Zechang	–	–	–
	–	–	–
Non-executive director:			
Dong Yeshun	–	–	–
	–	–	–
Supervisors:			
Xu Jianguo (Note viii)	–	–	–
Wei Li (Note vii)	45	238	283
Yu Yun	–	–	–
Si Wenpei (Notes vi, viii)	–	–	–
	45	238	283
	293	1,738	2,031

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

(c) The basic emoluments of the Directors', chief executive's and supervisors' are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Subtotal of basic emoluments RMB'000
Year ended 31 December 2016				
Executive directors:				
Zhou Zhiyan (Note i)	–	835	42	877
Zhang Jianping (Note iv)	–	707	42	749
Xiao Yuman (Notes v, viii)	–	–	–	–
Chen Hui	–	658	42	700
Zhu Xi (Notes iv,viii)	–	–	–	–
Zhang Jie (Notes v, viii)	–	–	–	–
Sun Wei (Notes ii, viii)	–	–	–	–
Mao Yizhong (Notes iii, viii)	–	–	–	–
	–	2,200	126	2,326
Independent non-executive directors:				
Chan Oi Fat	152	–	–	152
Li Yin (Note ii)	74	–	–	74
Ling Hong	151	–	–	151
Sun Zechang (Note iii)	89	–	–	89
	466	–	–	466
Non-executive director:				
Dong Yeshun (Note iii)	89	–	–	89
	89	–	–	89
Supervisors:				
Xu Jianguo (Notes iii, viii)	–	–	–	–
Dong Jianhua (Notes ii, viii)	–	–	–	–
Wei Li	–	482	42	524
Yu Yun	–	324	42	366
	–	806	84	890
	555	3,006	210	3,771

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

(d) Apart from the basic emoluments, the Directors, chief executive and supervisors are also entitled to shares award and cash instalments as disclosed in note 37 based on the Group's performance as follow:

	Shares award RMB'000	Cash instalments RMB'000	Subtotal of Incentive Scheme RMB'000
Year ended 31 December 2016			
Executive directors:			
Zhou Zhiyan (Note i)	159	290	449
Zhang Jianping (Note iv)	159	290	449
Xiao Yuman (Notes v, viii)	–	–	–
Chen Hui	89	200	289
Zhu Xi (Notes iv, viii)	–	–	–
Zhang Jie (Note viii)	–	–	–
Sun Wei (Note viii)	–	–	–
Mao Yizhong (Notes v, viii)	–	–	–
	407	780	1,187
Independent non-executive directors:			
Chan Oi Fat	–	–	–
Li Yin (Note ii)	–	–	–
Ling Hong	–	–	–
Sun Zechang (Note iii)	–	–	–
	–	–	–
Non-executive director:			
Dong Yeshun (Note iii)	–	–	–
	–	–	–
Supervisors:			
Xu Jianguo (Note viii)	–	–	–
Dong Jianhua (Notes ii, viii)	89	304	393
Wei Li	–	–	–
Yu Yun	–	–	–
	89	304	393
	496	1,084	1,580

12. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

Notes:

(i) Mr. Zhou Zhiyan is the chief executive officer of the Group and emoluments disclosed above include those services rendered by him as chief executive officer.

(ii) Resigned on 27 May 2016.

(iii) Appointed on 27 May 2016.

(iv) Resigned on 16 December 2016.

(v) Appointed on 16 December 2016.

(vi) Appointed on 23 June 2017.

(vii) Resigned on 23 June 2017.

(viii) These directors' and supervisors' emoluments for the years ended 31 December 2017 and/or 2016 were borne by SEG and its subsidiaries ("SEG Group") for their services provided to SEG Group as a whole and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2017 and/or 2016.

The total number of awarded shares granted to the Directors, chief executive and a supervisor that have not yet become vested was 1,223,200 shares as at 31 December 2017 (31 December 2016: 1,223,200 shares).

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2016: nil). The executive directors' emoluments were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments were mainly for their services as directors of the Company.

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year did not include any director (2016: nil). Details of the remuneration for the year of the five (2016: five) highest paid employees who are neither directors nor chief executive of the Company are as follows:

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Salaries and other benefits	**13,145**	9,474
Performance-related bonuses	**5,766**	6,515
Pension scheme contributions	**356**	445
	19,267	16,434

The number of the highest paid employees who are not directors nor chief executives of the Company whose remuneration fell within the following bands is as follows:

	Year ended 31/12/2017 No. of employees	Year ended 31/12/2016 No. of employees
Hong Kong dollars ("HKD") nil to HKD2,000,000	**–**	–
HKD2,000,001 to HKD2,500,000	**1**	3
HKD2,500,001 to HKD3,000,000	**1**	–
HKD3,000,001 to HKD3,500,000	**–**	1
HKD4,000,001 to HKD4,500,000	**2**	–
HKD8,000,001 to HKD8,500,000	**–**	1
HKD9,500,001 to HKD10,000,000	**1**	–
	5	5

14. DIVIDENDS

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

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

15. EARNINGS PER SHARE

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

Earnings figures are calculated as follows:

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

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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST							
At 1 January 2016	757,896	2,648,038	29,029	97,866	148,948	91,811	3,773,588
Additions	5,714	36,279	1,835	17,882	143,399	7,005	212,114
Disposals	(28)	(58,986)	(6,288)	(12,178)	–	–	(77,480)
Transfers	2,572	115,848	747	8,026	(132,327)	5,134	–
Exchange adjustments	9,710	22,917	759	5,872	1,111	–	40,369
At 31 December 2016	775,864	2,764,096	26,082	117,468	161,131	103,950	3,948,591
Additions	20,915	86,846	3,376	24,919	95,486	11,228	242,770
Disposals	(5,984)	(122,507)	(3,258)	(16,499)	(445)	–	(148,693)
Transfer amongst property, plant and equipment	42,908	110,251	548	4,181	(157,126)	(762)	–
Transfer to intangible assets	–	–	–	–	(5,473)	–	(5,473)
Acquisition of a subsidiary (Note 43)	48,803	5,247	–	7,145	–	–	61,195
Exchange adjustments	24,166	59,132	1,608	15,376	6,049	–	106,331
At 31 December 2017	906,672	2,903,065	28,356	152,590	99,622	114,416	4,204,721
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	86,930	1,193,209	9,859	32,789	485	45,782	1,369,054
Provided for the year	24,306	209,707	4,685	24,591	–	17,072	280,361
Eliminated on disposals	(16)	(48,364)	(5,666)	(11,382)	–	–	(65,428)
Exchange adjustments	3,120	14,011	387	4,322	–	–	21,840
At 31 December 2016	114,340	1,368,563	9,265	50,320	485	62,854	1,605,827
Provided for the year	28,739	214,887	4,411	27,149	–	20,335	295,521
Eliminated on disposals	(3,662)	(77,462)	(2,390)	(15,644)	–	–	(99,158)
Exchange adjustments	8,099	38,298	870	11,498	–	–	58,765
At 31 December 2017	147,516	1,544,286	12,156	73,323	485	83,189	1,860,955
CARRYING VALUES							
At 31 December 2017	759,156	1,358,779	16,200	79,267	99,137	31,227	2,343,766
At 31 December 2016	661,524	1,395,533	16,817	67,148	160,646	41,096	2,342,764

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, except for construction in progress of the Group, are depreciated over their estimated useful lives and after taking into account their estimated residual values on a straight-line basis at the following rates per annum:

Land and buildings	2% to 9%
Machinery and equipment	5% to 24%
Motor vehicles	9% to 24%
Office and other equipment	9% to 32%
Leasehold improvements	over the shorter of the lease term and their useful lives, 10% to 20%

Included in machinery and equipment are two spire-pressure machines (10KT-clutch mode/35KT-clutch mode) with a carrying value of RMB229,009,000 (31 December 2016: RMB257,168,000) which are depreciated using the unit-of-production method to write off their cost to residual value over their estimated working hours.

Included in land and buildings are freehold land held by overseas subsidiaries of the Group. As the cost of freehold land and buildings cannot be separated reliably, depreciation is charged on the freehold land and building elements over the estimated useful lives of the buildings.

As at 31 December 2017, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB884,000 (31 December 2016: RMB996,000).

The directors conducted a review of the Group's machinery and equipment for both current and prior years and determined that no impairment is required.

Amounting to RMB51,207,000 of the Group's property, plant and equipment has been pledged as security for bank borrowings (31 December 2016: nil).

17. PREPAID LEASE PAYMENTS

The Group's leasehold land is all situated in the PRC and is held under medium-term leases.

	31/12/2017 RMB'000	31/12/2016 RMB'000
Analysed as		
Current portion	**3,463**	3,463
Non-current portion	**135,924**	139,387
	139,387	142,850

17. PREPAID LEASE PAYMENTS (Continued)

Amortisation is calculated using the straight-line method over the remaining useful lives ranging from 36 to 44 years (31 December 2016: 37 to 45 years) for all the prepaid lease payments.

	RMB'000
COST	
At 1 January 2016, 31 December 2016 and 31 December 2017	171,742
AMORTISATION	
At 1 January 2016	25,429
Provided for the year	3,463
At 31 December 2016	28,892
Provided for the year	3,463
At 31 December 2017	32,355
CARRYING VALUES	
At 31 December 2017	139,387
At 31 December 2016	142,850

18. GOODWILL

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

18. GOODWILL (Continued)

Impairment testing on goodwill

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

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

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

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

Nedfast

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

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

United Bearing

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

18. GOODWILL (Continued)

Impairment testing on goodwill (Continued)

United Bearing (Continued)

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

Shanghai Tianhong

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

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

19. INTANGIBLE ASSETS

	Deferred development costs RMB'000	Patents and licences RMB'000	Software RMB'000	Development expenditure in progress (Note) RMB'000	Total RMB'000
COST					
At 1 January 2016	52,566	5,024	18,870	–	76,460
Additions	–	–	3,975	12,573	16,548
Exchange adjustments	–	–	–	(27)	(27)
At 31 December 2016	52,566	5,024	22,845	12,546	92,981
Additions	1,577	–	58	3,658	5,293
Transfer to deferred development cost	5,759	–	–	(5,759)	–
Transfer from property, plant and equipment	–	–	5,473	–	5,473
Exchange adjustments	129	–	–	804	933
At 31 December 2017	60,031	5,024	28,376	11,249	104,680
AMORTISATION					
At 1 January 2016	31,240	3,876	14,911	–	50,027
Provided for the year	8,580	203	2,335	–	11,118
At 31 December 2016	39,820	4,079	17,246	–	61,145
Provided for the year	8,131	140	2,810	–	11,081
Exchange adjustments	54	–	–	–	54
At 31 December 2017	48,005	4,219	20,056	–	72,280
CARRYING VALUES					
At 31 December 2017	12,026	805	8,320	11,249	32,400
At 31 December 2016	12,746	945	5,599	12,546	31,836

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Deferred development costs	3 to 20 years
Patents and licences	5 to 10 years
Software	3 to 5 years
Development expenditure in progress	3 years after being transferred to deferred development costs

Note: During the year ended 31 December 2017, development expenditure in progress amounting to RMB5,759,000 (31 December 2016: nil) was completed and transferred to deferred development costs. As at 31 December 2017, development expenditure in progress amounting to RMB11,249,000 (31 December 2016: RMB12,546,000) was under development and will be transferred to deferred development costs upon completion and amortised over 3 years.

20. INTERESTS IN ASSOCIATES

	31/12/2017 RMB'000	31/12/2016 RMB'000
Cost of investment in associates	**122,955**	122,955
Share of post-acquisition profits and other comprehensive income, net of dividend received	**21,394**	51,517
	144,349	174,472

The Group's balances of trade receivables with its associates are disclosed in notes 25.

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Place of registration and operation	Registered capital at 31 December 2017 and 2016 (in '000)	Proportion of ownership interest held by the Group 2017	Proportion of ownership interest held by the Group 2016	Principal activities
上海通用軸承有限公司 Shanghai General Bearing Company Limited* ("Shanghai General Bearing") (Notes 1 & 2)	The PRC	USD23,750	**40%**	40%	Production and sale of bearings and spare parts
摩根新材料（上海）有限公司 Morgan Advanced Materials Technology (Shanghai) Company Limited* ("Morgan Advanced Materials") (Notes 1 & 2)	The PRC	USD17,941	**30%**	30%	Production and sale of carbolic products
上優機床工具（上海）有限公司 S.U. Machine Tool (Shanghai) Company Limited* ("S.U. Machine Tool ") (Note 1)	The PRC	EUR3,685	**40%**	40%	Design, production and sale of numerical control machine tools with three dimensions and above, and related tools

20. INTERESTS IN ASSOCIATES (Continued)

* The English name is for identification only. The official name of the entity is in Chinese.

Note 1: The entity is a sino-foreign joint venture.

Note 2: The equity interests of these companies are directly owned by the Company.

USD United States dollars

EUR Euro

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with China Accounting Standards, taking into account adjustments to conform with HKFRSs. All of these associates are accounted for using the equity method in these consolidated financial statements.

Shanghai General Bearing

	31/12/2017 RMB'000	31/12/2016 RMB'000
Current assets	348,016	244,981
Non-current assets	47,064	58,608
Current liabilities	(227,364)	(84,879)
Non-current liabilities	(1,512)	(1,764)

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	519,835	336,231
Profit for the year	82,496	50,865
Total comprehensive income for the year	82,496	50,865
Dividends received or receivable from the associate during the year	53,295	15,704

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Net assets	166,204	216,946
Proportion of the Group's ownership interest	40%	40%
Carrying amount of the Group's interest	66,481	86,778

20. INTERESTS IN ASSOCIATES (Continued)

Morgan Advanced Materials

	31/12/2017 RMB'000	31/12/2016 RMB'000
Current assets	249,812	274,614
Non-current assets	80,668	64,751
Current liabilities	(122,781)	(100,184)
Non-current liabilities	(1,800)	(1,942)

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	281,426	272,577
Profit for the year	30,091	31,960
Total comprehensive income for the year	30,091	31,960
Dividends received or receivable from the associate during the year	18,429	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Net assets	205,899	237,239
Proportion of the Group's ownership interest	30%	30%
Carrying amount of the Group's interest	61,770	71,172

S.U. Machine Tool

	31/12/2017 RMB'000	31/12/2016 RMB'000
Current assets	34,914	33,401
Non-current assets	29,423	31,262
Current liabilities	(24,093)	(23,357)

20. INTERESTS IN ASSOCIATES (Continued)

S.U. Machine Tool (Continued)

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Revenue	**14,452**	12,231
Loss for the year	**(1,062)**	(833)
Total comprehensive expense for the year	**(1,062)**	(833)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Net assets	**40,244**	41,306
Proportion of the Group's ownership interest	**40%**	40%
Carrying amount of the Group's interest	**16,098**	16,522

21. AVAILABLE-FOR-SALE INVESTMENTS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Unlisted equity investments, at cost	**2,227**	1,056
Less: impairment	**(184)**	(184)
	2,043	872

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC and Germany. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

22. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Deferred tax assets	**124,717**	133,278
Deferred tax liabilities	**(20,753)**	(25,031)
	103,964	108,247

The following is the major deferred tax liabilities and assets recognised and movements thereon during the current and prior year:

	Losses available for offsetting against future taxable profits RMB'000	Impairment of assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments on assets RMB'000	Employee benefits RMB'000	Accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	47,875	45,244	(33,818)	30,194	23,536	3,252	7,562	123,845
Credit (charge) to profit or loss	(18,094)	(15,658)	10,801	170	(986)	2,139	5,382	(16,246)
Credit to equity for the year	–	–	–	–	–	–	2,964	2,964
Exchange differences	765	1,003	(1,101)	(1,048)	400	5	(2,340)	(2,316)
At 31 December 2016	30,546	30,589	(24,118)	29,316	22,950	5,396	13,568	108,247
Credit (charge) to profit or loss	98	(12,651)	13,865	(5,026)	(4,441)	3,500	1,328	(3,327)
Charge to equity for the year	–	–	–	–	(1,732)	–	(533)	(2,265)
Acquisition of a subsidiary	–	–	–	3,928	–	–	–	3,928
Exchange differences	2,074	144	(1,512)	236	1,139	63	(4,763)	(2,619)
At 31 December 2017	32,718	18,082	(11,765)	28,454	17,916	8,959	9,600	103,964

At 31 December 2017, the Group has unused tax losses of RMB405,793,000 (31 December 2016: RMB357,277,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such losses of RMB116,850,000 (31 December 2016: RMB109,094,000). No deferred tax asset has been recognised in respect of the remaining RMB288,943,000 (31 December 2016: RMB248,183,000) due to the unpredictability of future profits streams.

22. DEFERRED TAXATION (Continued)

The analysis of the expiry dates of the unrecognised tax losses is as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
2017	–	29
2018	16,730	16,730
2019	24,463	24,463
2020	25,288	25,288
2021	36,189	36,189
2022	85,655	–
No due date	100,618	145,484
	288,943	248,183

At 31 December 2017, the Group had unrecognised deductible temporary differences of RMB199,168,000 (31 December 2016: RMB183,742,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can utilised.

23. INVENTORIES

	31/12/2017 RMB'000	31/12/2016 RMB'000
Raw materials and consumables	654,149	557,136
Work in progress	388,904	397,781
Finished goods	699,249	660,474
	1,742,302	1,615,391

During the year, allowance for inventories amounting to RMB50,081,000 (2016: RMB32,188,000) was recognised and included in cost of sales.

During the year, a reversal of allowance for inventories of RMB33,206,000 (2016: RMB22,187,000) was recognised as a result of the increase in the net realisable value of inventories caused by the increase in selling price and was included in cost of sales.

24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	31/12/2017 RMB'000	31/12/2016 RMB'000
Contracts in progress at the end of the reporting period		
Contract costs incurred plus recognised profits less recognised losses	**111,628**	75,620
Less: progress billings	**(52,990)**	(19,460)
Exchange differences	**1,318**	(123)
Gross amounts due from contract customers	**59,956**	56,037

At 31 December 2017, advances received from customers for contract work included in the balances of other payables and accruals amounted to RMB16,526,000 (31 December 2016: RMB5,251,000).

25. TRADE RECEIVABLES

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

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

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

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

25. TRADE RECEIVABLES (Continued)

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

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

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

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

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

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

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

25. TRADE RECEIVABLES (Continued)

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

The amounts due from SEG Group and the amounts due from associates included in the above can be analysed as follows:

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

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

26. BILLS RECEIVABLE

The maturity profile of the bills receivable are as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Within 3 months	**260,727**	231,128
Over 3 months but within 6 months	**259,852**	244,915
Over 6 months but within 1 year	**196,275**	107,992
	716,854	584,035

Included in bills receivable are bills endorsed and transferred from SEG Group amounting to RMB60,327,000 as at 31 December 2017 (31 December 2016: RMB212,690,000).

As at 31 December 2017, bills receivable amounting to RMB222,389,000 (31 December 2016: RMB176,209,000) have been pledged to banks as security for issuance of bills payable.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31/12/2017 **RMB'000**	31/12/2016 RMB'000
Prepayments for purchase of raw materials	**146,180**	139,026
Value-added tax recoverable	**43,994**	35,671
Dividends receivable	**38,168**	–
Discounts receivable from suppliers	**15,940**	4,015
Deposits (Notes i, ii)	**9,624**	8,468
Prepayments for rental expense	**7,056**	6,827
Prepayments related to Defined Benefit Plan	**3,443**	927
Others (Note ii)	**33,645**	22,776
	298,050	217,710

Note i: At 31 December 2017, rental deposits amounted to RMB2,347,000 (31 December 2016: RMB2,182,000).

Note ii: At 31 December 2017, doubtful debts of RMB10,780,000 (31 December 2016: RMB19,423,000) has been provided for deposits and other receivables due to the uncollectibility of these receivables.

28. RESTRICTED DEPOSITS AND BANK BALANCES AND CASH

Restricted deposits

The restricted deposits carried interest at fixed rates ranging from nil to 1% (31 December 2016: nil to 1.75%) per annum, which have been pledged to secure the Group's issuance of letters of credit, short term bills payable and letters of guarantee for bidding and are therefore classified as current assets. The restricted deposits will be released upon the settlement of relevant transactions and short term bills.

Bank balances and cash

Bank balances and cash included non-restricted time deposits, with original maturity of over three months when acquired amounting to RMB5,000,000 (31 December 2016: RMB43,500,000), which carried interest at prevailing market rates ranging from 1.35%–1.54% (31 December 2016: 1.35%–1.75%). The remaining bank balances carried interest at prevailing market rates ranging from nil to 1.00% (31 December 2016: nil to 1.75%).

29. TRADE PAYABLES

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

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

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

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

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

30. BILLS PAYABLE

The maturity profile of the bills payable are as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Within 3 months	**148,347**	168,656
Over 3 months but within 6 months	**95,556**	183,880
Over 6 months but within 1 year	**120,058**	69,609
	363,961	422,145

31. OTHER PAYABLES AND ACCRUALS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Payroll payable	**223,963**	205,824
Advance from customers	**45,519**	47,765
Other tax payable	**34,083**	21,096
Sales rebate	**33,341**	2,045
Payable for purchases of property, plant and equipment	**28,204**	24,072
Professional fees payable	**19,782**	10,448
Accruals for utilities	**6,484**	5,522
Interest payable	**13,918**	24,268
Retention money	**12,460**	10,725
Defined Benefit Plan	**5,842**	5,948
Subcontracting costs payable	**3,000**	3,000
Due to SEG Group	**21**	2,325
Dividend payable	**16**	16
Other payables	**52,039**	53,471
	478,672	416,525

Other payables are non-interest bearing and mainly include payroll payable, advance from customers and other tax payable, which have an average term of one to three months. At 31 December 2017, amongst which there are rental deposits received amounting to RMB3,000 (31 December 2016: RMB3,000). The Group's balances with related parties are unsecured and are repayable on demand or within three months.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Interest rate swaps	**2,583**	4,717

32. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its variable-rate Euro bank borrowings by swapping the variable-rate interest for fixed-rate interest. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments.

Major terms of the interest rate swaps are as follows:

Notional amount	Maturity	Swaps
EUR44,550,000	30/9/2018	From 3-month EURIBOR to 0.2565%
EUR29,700,000	30/9/2018	From 3-month EURIBOR to 0.3235%

33. GOVERNMENT GRANTS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Analysed for reporting purpose as:		
Current liabilities	16,751	13,663
Non-current liabilities	245,900	255,232
	262,651	268,895

The government grants, which are related to depreciable assets, will be charged to profit or loss over the useful lives of the relevant assets attached to the grants.

34. COMPANY BOND

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

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

35. BANK BORROWINGS

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

The bank borrowings were guaranteed and secured by:

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

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

35. BANK BORROWINGS (Continued)

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

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

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

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

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

36. SHAREHOLDERS' LOANS

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

37. INCENTIVE SCHEME

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

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

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

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

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

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

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

Shares Award

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

37. INCENTIVE SCHEME (Continued)

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

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

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

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

Cash Instalments

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

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

37. INCENTIVE SCHEME (Continued)

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

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

38. OBLIGATIONS UNDER FINANCE LEASES

	31/12/2017 **RMB'000**	31/12/2016 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**6,854**	–
Non-current liabilities	**25,883**	–
	32,737	–

38. OBLIGATIONS UNDER FINANCE LEASES (Continued)

During the year, the Group acquired certain of its fixtures and equipment under finance lease arrangements. Details of the relevant accounting policies are set out in note 3. The average lease term is 4 years (31 December 2016: not applicable). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.50% to 5.31% (31 December 2016: not applicable) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2017	31/12/2016	**31/12/2017**	31/12/2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Obligations under finance Leases payable:				
Within one year	**8,409**	–	**6,854**	–
Within a period of more than one year but not more than two years	**7,601**	–	**6,376**	–
Within a period of more than two year but not more than five years	**20,406**	–	**19,507**	–
Less: future finance charges	**(3,679)**	–	**–**	–
Present value of lease obligations	**32,737**	–	**32,737**	–
Less: Amount due for settlement with 12 months (shown under current liabilities)			**(6,854)**	–
Amount due for settlement after 12 months			**25,883**	–

Finance lease obligations are all denominated in the functional currencies of the relevant entities.

39. OTHER LONG-TERM PAYABLES

As at 31 December 2017, the balance of other long-term payables comprises mainly performance bonus payable to certain senior management of a subsidiary of the Group amounting to RMB22,443,000 (31 December 2016: RMB11,576,000), provision for environmental protection amounting to RMB6,949,000 (31 December 2016: RMB6,508,000) and products warranty provision of RMB5,102,000 (31 December 2016: RMB5,710,000).

40. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

The Company and its subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of the trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Defined benefit plan

The Group operates a funded defined benefit plan for qualifying employees of its subsidiaries in Europe. The defined benefit plan is administered by a separate fund that is legally separated from the entity. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

Under the plans, the employees are entitled to post-retirement yearly instalments amounting to a certain percentage of their final salary for each year of service until a certain retirement age. The pensionable salary is limited to certain amounts. The pensionable salary is the difference between the current salary of the employee and the state retirement benefit. In addition, the service period is limited to certain years resulting in a maximum entitlement (life-long annuity) of a certain percentage of their final salary.

The defined benefit plan requires contributions from employees. Contributions are in the following two forms: one is based on the number of years of service and the other one is based on a fixed percentage of salary of the employees. Employees can also make discretionary contributions to the plans.

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

40. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (continued)

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yield. If the return on plan assets is below this rate, it will create a plan deficit. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in funds invested by insurance companies to leverage the return generated by the funds.

Interest risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The composition of the defined benefit plan was as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Non-current liability	**127,346**	129,333
Current liability	**5,842**	5,948
	133,188	135,281

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	31/12/2017	31/12/2016
Discount rate	**1.90%**	1.58%
Expected rate of future pension cost increases	**1.50%**	1.50%
Expected rate of salary increase	**2.25%**	2.25%

40. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (continued)

Amounts recognised in other comprehensive income in respect of these defined benefit plans are as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Service cost:		
Current service cost	**13,270**	19,634
Net interest expense	**2,074**	2,607
Expected return on plan assets	**(158)**	–
Components of defined benefit costs recognised in profit or loss	**15,186**	22,241
Remeasurement on the net defined benefit liability:		
Actuarial (gains) losses on obligation	**(6,083)**	8,692
Actuarial losses (gains) on plan assets	**308**	(81)
Components of defined benefit (income) costs recognised in other comprehensive (income) expense	**(5,775)**	8,611
Total	**9,411**	30,852

40. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (continued)

Movements in the present value of the defined benefit obligations were as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Opening defined benefit obligation	147,848	118,636
Acquisition of a subsidiary	1,142	–
Current service cost	13,270	19,634
Interest expense	2,074	2,607
Actuarial (gains) losses on obligation	(6,083)	8,692
Benefits paid	(8,084)	(5,235)
Exchange differences on foreign plans	(6,149)	3,514
Closing defined benefit obligation	144,018	147,848

Movements in the fair values of plan assets are as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Opening fair value of plan assets	12,567	12,756
Expected return	158	–
Actuarial (losses) gains on plan assets	(308)	81
Benefits paid	(2,384)	(650)
Exchange differences on foreign plans	797	380
Closing fair value of plan assets	10,830	12,567

40. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (continued)

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Funds invested by insurance companies	**10,830**	12,567
Total	**10,830**	12,567

The fair values of the above funds are determined based on quoted market prices in active markets.

41. SHARE CAPITAL

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

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

As at 31 December 2017, 27,126,000 (31 December 2016: 27,126,000) shares of the Company were held in custody by the trustee for the Incentive Scheme, out of which 5,406,000 shares (31 December 2016: 5,406,000 shares) were granted to but have not yet become vested in the participants. Further details are set out in note 37.

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

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTES	31/12/2017 RMB'000	31/12/2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**31,784**	39,114
Prepaid lease payments		**29,200**	29,880
Intangible assets		**4,317**	763
Investments in subsidiaries		**1,953,324**	1,961,431
Interests in associates		**81,272**	81,272
Amounts due from subsidiaries		**356,808**	250,617
		2,456,705	2,363,077
CURRENT ASSETS			
Prepaid lease payments		**677**	677
Trade receivables		**105,663**	79,011
Bills receivable		**54**	8,000
Prepayments, deposits and other receivables		**722,473**	633,805
Dividends receivable		**124,413**	62,459
Bank balances and cash		**475,997**	710,745
		1,429,277	1,494,697
CURRENT LIABILITIES			
Trade payables		**166,088**	143,540
Other payables and accruals		**684,172**	452,202
Shareholder's loan		**200,000**	–
Company bonds	34	**–**	499,043
		1,050,260	1,094,785
NET CURRENT ASSETS		**379,017**	399,912
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,835,722**	2,762,989
NET ASSETS		**2,835,722**	2,762,989
CAPITAL AND RESERVES			
Share capital	41	**1,438,286**	1,438,286
Reserves		**1,397,436**	1,324,703
TOTAL EQUITY		**2,835,722**	2,762,989

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	Capital reserve RMB'000 (Note a)	Contributed surplus RMB'000	Share-based payments reserves RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Shares held for Incentive Scheme RMB'000	Total RMB'000
At 1 January 2016	692,553	26,970	1,093	106,093	462,590	46,025	(30,425)	1,304,899
Profit for the year	–	–	–	–	63,643	–	–	63,643
Final 2015 dividend paid	–	–	–	–	–	(46,025)	–	(46,025)
Proposed final 2016 dividend	–	–	–	–	(50,340)	50,340	–	–
Appropriation of statutory reserves	–	–	–	7,787	(7,787)	–	–	–
Recognition of equity-settled share-based payments	–	–	2,186	–	–	–	–	2,186
At 31 December 2016	692,553	26,970	3,279	113,880	468,106	50,340	(30,425)	1,324,703
Profit for the year	–	–	–	–	112,333	–	–	112,333
Final 2016 dividend paid	–	–	–	–	–	(50,340)	–	(50,340)
Proposed final 2017 dividend	–	–	–	–	–	–	–	–
Appropriation of statutory reserves	–	–	–	8,263	(8,263)	–	–	–
Deemed contribution from a subsidiary (Note b)	–	8,554	–	–	–	–	–	8,554
Recognition of equity-settled share-based payments	–	–	2,186	–	–	–	–	2,186
At 31 December 2017	692,553	35,524	5,465	122,143	572,176	–	(30,425)	1,397,436

Notes:

a. The capital reserve account balance as at 31 December 2017 represented the Company's share premium of RMB692,553,000 (31 December 2016: RMB692,553,000).

b. During the year, the Company received from its wholly owned subsidiary, Shanghai Fastener and Welding Material Technology Research Centre Company Limited's transfer of its lands use rights and buildings with a carrying amount of RMB50,681,000 for no consideration. An amount of RMB42,127,000 was used to replace the Company's investment as capital reduction in Shanghai Fastener and Welding Material Technology Research Centre Company Limited, while the remaining RMB8,554,000 was recorded as contributed surplus.

43. ACQUISITION OF A SUBSIDIARY/BUSINESS

For the year ended 31 December

On 31 August, 2017, the Group acquired 90% of the issued share capital of CP Tech Gmbh ("CP tech") from an independent third party of the Group. CP tech and its subsidiaries are principally engaged in the design, development and manufacture of innovative and high-performance components, and the provision of engineering solutions for automobile manufacturers and motorsport teams. The purchase consideration for the acquisition was in the form of cash, with EUR6,989,000 (RMB54,881,000) paid at the acquisition date, including EUR100,000 (RMB785,000) for equity interest and EUR6,889,000 (RMB54,096,000) (representing an initial payment of EUR5,200,000 (RMB40,833,000) and a subsequent payment of EUR1,689,000 (RMB13,263,000) for the settlement of shareholders' loans).

Consideration transferred

	RMB'000
Consideration satisfied by cash	785

Acquisition-related costs amounting to RMB2,953,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the 'administrative expense' line item in the consolidated statement of profit or loss and other comprehensive income.

Assets and liabilities recognised at the date of acquisition of CP tech are as follows:

	RMB'000
Property, plant and equipment	61,195
Available-for-sale investment	1,178
Deferred tax assets	4,991
Inventories	57,525
Trade receivables	12,684
Bank balances and cash	8,580
Trade payables	(25,198)
Deferred tax liabilities	(1,063)
Retirement benefit obligations	(1,142)
Interest-bearing bank borrowings	(52,450)
Loans from previous shareholders	(62,673)
Obligations under finance leases	(2,754)
	873

The trade receivables acquired with a fair value of RMB12,684,000 at the date of acquisition had gross contractual amounts of RMB12,684,000, contractual cash flows not expected to be collected under the best estimate of the directors of the Company is nil.

43. ACQUISITION OF A SUBSIDIARY/BUSINESS (Continued)

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	785
Plus: non-controlling interests (10%) in CP tech	88
Less: net assets acquired	(873)
	–

The non-controlling interests (10%) in CP tech recognised at the acquisition date was measured by reference to the proportionate share of the recognized amounts of CP tech's net assets and amounted to RMB88,000.

Net cash inflow on acquisition of CP tech

	RMB'000
Cash consideration paid	785
Less: cash and cash equivalent balances acquired	8,580
	7,795

Included in the profit for the year 2017 is loss amounting to RMB5,504,000 attributable to CP tech. Revenue for the year includes RMB54,832,000 generated from CP tech.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been RMB8,585,027,000, and profit for the year would have been RMB250,018,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had CP tech been acquired at the beginning of the current year, the directors of the Company have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

44. TRANSFER OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2017, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB57,832,000 (31 December 2016: RMB51,397,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. The Endorsed Bills are carried at amortised cost in the Group's consolidated statement of financial position.

(b) As part of its normal business, the Group entered into several trade receivable factoring arrangements (the "Arrangements") and transferred certain trade receivables to certain banks. Under the Arrangements, the Group may be required to reimburse the bank for any loss if any trade debtors has default on payment. As at 31 December 2017, there were no trade receivables (31 December 2016: RMB32,294,000) under the Arrangements, and no cash was received (31 December 2016: RMB25,000,000), which was treated as secured bank borrowings.

Transferred financial assets that are derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in the PRC to certain suppliers amounting to RMB78,042,000 (31 December 2016: RMB162,620,000) (the "Derecognised Bills"). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to losses from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills are equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2017 and 2016, the Group did not recognise any gains or losses upon the transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively.

45. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the company bonds disclosed in note 34, bank borrowings disclosed in note 35, shareholders' loans disclosed in note 36, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through new share issues, the payment of dividends as well as the issue of new debts or the repayment of existing debts.

46. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP	
	31/12/2017	31/12/2016
	RMB'000	RMB'000
Financial assets		
Available-for-sale investments	**2,043**	872
Loans and receivables (including cash and cash equivalents)	**2,963,122**	3,021,052
	2,965,165	3,021,924
Financial liabilities		
Derivative financial instruments	**2,583**	4,717
Other financial liabilities	**4,837,623**	4,978,652
	4,840,206	4,983,369

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables, bills receivable, other receivables, restricted deposits and bank balances and cash, trade payables, bills payable, other payables, bank borrowings, shareholders' loans, company bonds, and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

46. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	USD		HKD	
	31/12/2017	31/12/2016	**31/12/2017**	31/12/2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**231,930**	198,196	**–**	–
Bank balances and cash	**137,338**	202,922	**27,002**	35,669
Total assets	**369,268**	401,118	**27,002**	35,669
Trade payables	**3,528**	4,540	**–**	–
Other payables and accruals	**5,238**	1,220	**–**	–
Long-term borrowings	**895,216**	950,369	**–**	–
Total liabilities	**903,982**	956,129	**–**	–

Sensitivity analysis

Most of the Group's foreign currency transactions are denominated in USD and HKD and the Group is mainly exposed to the foreign exchange risk arising from these currencies.

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in USD and HKD against the functional currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD and HKD denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rate. A positive number below indicates an increase in profit before tax where the relevant foreign currencies strengthen 5% (2016: 5%) against the functional currencies. For a 5% weakening of the relevant foreign currency against the functional currencies, there would be a comparable impact on the profit before tax, and the balances below would be negative.

46. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

	Profit before tax	
	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
USD	**(26,734)**	(27,751)
HKD	**1,350**	1,783

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, shareholders' loans and company bonds (see notes 35, 36 and 34 for details).

The Group is also exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings (see notes 28 and 35 for details) due to the fluctuation of the prevailing market interest rates.

The Group aims at keeping borrowings at fixed rates to minimise the impact of unfavourable interest rate fluctuation. In order to achieve this result, the Group enters into interest rate swaps to hedge against its exposures to changes in cash flows in relation to the borrowings. The critical terms of these interest rate swaps are similar to those of the hedged borrowings. These interest swaps are designated as effective hedging instruments and hedge accounting is applied.

Sensitivity analysis

The sensitivity analyses below have been prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2016: 10 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points (2016: 10 basis points) higher/lower for variable-rate interest bearing financial assets/liabilities and all other variables were held constant, the Group's profit before tax for the year would decrease/increase by RMB104,000 (2016: RMB377,000).

46. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. The Group does not have a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for only 20% (2016: 26%) of the Group's total trade receivables.

Liquidity risk

The ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

At 31 December 2017, the Group had available financing facilities amounting to RMB2,515,500,000 (31 December 2016: RMB2,460,000,000) of which RMB2,124,833,000 (31 December 2016: RMB1,994,854,000) were unused which is subject to approval on a case-by-case basis. The Group expects to meet its other obligations out of operating cash flows and of maturing financial assets.

46. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows/outflows on derivative instruments that are settled on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average effective interest rate %	On demand or less than 3 month RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2017							
Non-derivative financial liabilities							
Trade payables		1,569,335	-	-	-	1,569,335	1,569,335
Bills payable		363,961	-	-	-	363,961	363,961
Other payables		119,868	-	-	-	119,868	119,868
Other long-term payables		-	-	7,658	-	7,658	7,658
Obligations under finance leases		1,730	6,679	28,007	-	36,416	32,737
Bank borrowings							
— fixed rate	3.02	9,068	18,023	19,784	46,179	93,054	77,583
— variable rate	2.04	3,836	158,225	647,294	-	809,355	774,054
Shareholders' loans							
— fixed rate	2.81	16,845	235,725	1,726,407	-	1,978,977	1,888,460
— variable rate	3.92	-	4,053	-	-	4,053	3,967
	-	2,084,643	422,705	2,429,150	46,179	4,982,677	4,837,623
Derivatives — net settlement							
Interest rate swaps	-	2,583	-	-	-	2,583	2,583

46. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average effective interest rate %	On demand or less than 3 month RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016							
Non-derivative financial liabilities							
Trade payables		1,371,103	–	–	–	1,371,103	1,371,103
Bills payable		422,145	–	–	–	422,145	422,145
Other payables		109,579	–	–	–	109,579	109,579
Other long-term payables		–	–	6,576	–	6,576	6,576
Bank borrowings							
— fixed rate	4.30	205	68,400	–	–	68,605	66,986
— variable rate	2.32	4,625	120,836	740,865	–	866,326	800,727
Shareholders' loans							
— fixed rate	2.73	15,810	22,839	1,758,398	–	1,797,047	1,694,003
Company bonds	5.41	–	525,400	–	–	525,400	507,533
		1,923,467	737,475	2,505,839	–	5,166,781	4,978,652
Derivatives — net settlement							
Interest rate swaps	–	4,717	–	–	–	4,717	4,717

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

As at 31 December 2017 and 2016, the Group's maximum exposure to loss, which is the same as the amounts payable to suppliers and the amounts of bills receivables endorsed, should the issuing banks fail to settle the bills on maturity, amounted to RMB78,042,000 (31 December 2016: RMB162,620,000).

46. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at 31 December		Fair value Hierarchy	Valuation technique(s) and key input(s)
	2017	2016		
	RMB'000	RMB'000		
Interest rate swaps	**Liabilities: 2,583**	Liabilities: 4,717	Level 2	Discounted cash flow. Future cash flows are estimated based on applicable yield curves derived from observable interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Except for those set out above and available-for-sale investments of the Group, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 31 December 2017 and 2016 recorded at amortised cost in the consolidated financial statements approximate their fair values.

47. OPERATING LEASES

As lessor

At the end of the reporting period, the Group had contracted with tenants for leasing of plant and machinery for the following future minimum lease payments:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Within one year	**5,377**	6,380
In the second to fifth year inclusive	**3,136**	728
After five years	**96**	642
	8,609	7,750

As lessee

The Group's minimum lease payments paid during the year ended 31 December 2017 under operating leases in respect of land and buildings and equipment amounted to RMB128,521,000 (2016: RMB115,080,000).

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

	31/12/2017 RMB'000	31/12/2016 RMB'000
Within one year	**90,049**	96,030
In the second to fifth year inclusive	**138,346**	130,232
After five years	**27,218**	27,445
	255,613	253,707

Operating lease payments represent rentals payable by the Group for certain of its land and buildings and equipment. Leases are negotiated for terms ranging from one year to ten years (31 December 2016: one year to ten years) and rentals are fixed upon the signing of the lease agreements.

48. CAPITAL COMMITMENTS

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

49. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2016: nil).

50. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below shows the detailed changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Obligations under finance leases RMB'000	Shareholders' loans RMB'000	Loan from non-controlling interest shareholders RMB'000	Company bonds RMB'000	Interest payable RMB'000	Dividends paid RMB'000	Total RMB'000
At 1 January 2017	864,879	–	1,681,059	–	499,043	24,268	16	3,069,265
Financing cash flows	(119,439)	30,000	200,000	(58,773)	(500,000)	(130,253)	(50,340)	(628,805)
Acquisition of a subsidiary	52,450	2,754	–	62,673	–	–	–	117,877
Foreign exchange translation	52,910	(17)	(1,713)	–	–	(2,448)	–	48,732
Finance costs	–	–	–	–	957	122,351	–	123,308
Dividends paid	–	–	–	–	–	–	50,340	50,340
At 31 December 2017	850,800	32,737	1,879,346	3,900	–	13,918	16	2,780,717

51. RELATED PARTY DISCLOSURES

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

(a) Related party transactions

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

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

Notes:

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

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

51. RELATED PARTY DISCLOSURES (Continued)

(b) Related party balances

Other related party balances including trade receivables, bills receivable, trade payables, other payables and accruals are set out in notes 25, 26, 27, 29 and 31.

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

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

(d) Compensation of key management personnel

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

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

Further details of directors', chief executive's and supervisors' emoluments are included in note 12.

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

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

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital in '000	Attributable equity interest held by the Company 31/12/2017	31/12/2016	Principal activity
Directly owned					
Shanghai Tian An Bearing Company Limited* 上海天安軸承有限公司	PRC	RMB159,389	**100%**	100%	Production and sale of precision and other bearings and ancillary appliances
Wuxi Turbine Blade Company Limited* 無錫透平葉片有限公司	PRC	RMB713,450	**100%**	100%	Production and sale of turbine blades
Shanghai Tool Works Company Limited* (Note i) 上海工具廠有限公司	PRC	RMB340,910	**100%**	100%	Production and sale of cutting tools and accessories
Shanghai Biaowu High Tensile Fasteners Company Limited* (Note ii) 上海標五高強度緊固件有限公司	PRC	RMB233,100	**100%**	100%	Sale of high tensile fasteners and related equipment
Shanghai Zhenhua Bearing Works Company Limited* 上海振華軸承總廠有限公司	PRC	RMB54,500	**100%**	100%	Production and sale of bearings and related specific equipment
United Bearing* 上海聯合滾動軸承有限公司	PRC	RMB176,380	**90%**	90%	Production and sale of bearings and related specific equipment
Shanghai Electric Bearing Company Limited* ("Shanghai Electric Bearing") 電氣軸承	PRC	RMB100,000	**100%**	100%	Production and sale of bearing products

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital in '000	Attributable equity interest held by the Company 31/12/2017	31/12/2016	Principal activity
Shanghai High Strength Bolt Factory Company Limited* 上海高強度螺栓廠有限公司	PRC	RMB11,865	**100%**	100%	Production and sale of high strength bolts
Shanghai Fastener and Welding Material Technology Research Centre Company Limited* 上海市緊固件和焊接材料技術研究所有限公司	PRC	RMB5,000	**100%**	100%	Research and development, provision of services of expertise and quality testing for fasteners and related equipment
Shanghai Prime (HK) Investment Management Company Limited	Hong Kong	HKD7,500	**100%**	100%	Investment, holding and financing
Shanghai Tianhong* 上海天虹微型軸承有限公司	PRC	RMB1,000	**70%**	70%	Production and design of high-precision bearings
Shanghai Prime Biaowu High Tensile Fasteners Company Limited* 上海集優標五高强度緊固件有限公司	PRC	RMB100,000	**100%**	100%	Production and sale of high tensile fasteners and related equipment
Indirectly owned					
Shanghai Mohong Bearing Company Limited* 上海摩虹軸承有限公司	PRC	RMB12,800	**70%**	70%	Production and design of high-precision bearings
Shanghai Prime Netherlands B.V.	Netherlands ("NL")	EUR5	**100%**	100%	Investment, holding and financing
Nedfast	NL	EUR1,038	**100%**	100%	Investment, holding and financing
Nedfast Holding B.V.	NL	EUR20	**100%**	100%	Investment, holding and financing
Nedschroef Helmond B.V.	NL	EUR2,725	**100%**	100%	Manufacture of fasteners

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital in '000	Attributable equity interest held by the Company 31/12/2017	31/12/2016	Principal activity
Nedschroef Altena GmbH	Deutschland ("DEU")	EUR25	**100%**	100%	Manufacture of fasteners
Nedschroef Fraulautern GmbH	DEU	EUR1,023	**100%**	100%	Manufacture of fasteners
Nedschroef Plettenberg GmbH	DEU	EUR1,000	**100%**	100%	Manufacture of fasteners
Nedschroef Herentals N.V.	Belgium ("BEL")	EUR2,042	**100%**	100%	Manufacture of machines
Nedschroef Fasteners S.A.S.	France ("FRA")	EUR2,898	**100%**	100%	Trading of fasteners
Nedschroef Kunshan Company Limited* 內德史羅夫緊固件（昆山）有限公司	PRC	RMB69,214	**100%**	100%	Manufacture of fasteners
Nedschroef Langeskov ApS	Denmark ("DNK")	DKK295	**100%**	100%	Manufacture of fasteners
Nedschroef Fasteners Spain S.A.	Spain ("ESP")	EUR260	**100%**	100%	Trading of fasteners
Nedschroef Barcelona SAU	ESP	EUR1,000	**100%**	100%	Manufacture of fasteners
Nedschroef Beckingen GmbH	DEU	EUR1,000	**100%**	100%	Manufacture of fasteners
Nedschroef Schrozberg GmbH	DEU	EUR1,000	**100%**	100%	Manufacture of fasteners
SPTCB 上海集優張力控制螺栓有限公司	PRC	USD1,000	**57%**	57%	Production and sale of tension control bolts

* The English name is for identification only. The official name of the entity is in Chinese.

Note i: There is 0.02% equity interest held by the Company indirectly.

Note ii: There is 1.07% equity interest held by the Company indirectly.

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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

None of the subsidiaries had issued any debt securities at the end of the year.

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

Name of subsidiary	Principal place of business	Proportion of ownership interests/ voting rights held by non-controlling interests		(Loss) profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31/12/2017	31/12/2016	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
				RMB'000	RMB'000	**RMB'000**	RMB'000
United Bearing	PRC	**10%**	10%	**(1,255)**	(2,377)	**33,745**	35,000
Shanghai Tianhong	PRC	**30%**	30%	**2,609**	2,014	**15,542**	12,933
Total				**1,354**	(363)	**49,287**	47,933

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

	31/12/2017 United Bearing RMB'000	31/12/2016 United Bearing RMB'000	**31/12/2017 Shanghai Tianhong RMB'000**	31/12/2016 Shanghai Tianhong RMB'000
Current assets	**499,891**	500,134	**37,686**	33,314
Non-current assets	**64,101**	134,148	**17,450**	14,765
Current liabilities	**(221,562)**	(277,259)	**(16,362)**	(18,003)
Non-current liabilities	**(4,982)**	(7,022)	**–**	–
Equity attributable to owners of the Company	**303,703**	315,001	**27,142**	21,053
Non-controlling interests	**33,745**	35,000	**11,632**	9,023

52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

	Year ended 31/12/2017 United Bearing RMB'000	Year ended 31/12/2016 United Bearing RMB'000	**Year ended 31/12/2017 Shanghai Tianhong RMB'000**	Year ended 31/12/2016 Shanghai Tianhong RMB'000
Revenue	**325,534**	336,929	**32,778**	29,802
Expenses	**(338,087)**	(360,694)	**(24,080)**	(23,088)
(Loss) profit for the year	**(12,553)**	(23,765)	**8,698**	6,714
(Loss) profit attributable to owners of the Company	**(11,298)**	(21,388)	**6,089**	4,700
(Loss) profit attributable to the non-controlling interests	**(1,255)**	(2,377)	**2,609**	2,014
(Loss) profit for the year	**(12,553)**	(23,765)	**8,698**	6,714
Total comprehensive (expense) income attributable to owners of the Company	**(11,298)**	(21,388)	**6,089**	4,700
Total comprehensive (expense) income attributable to the non-controlling interests	**(1,255)**	(2,377)	**2,609**	2,014
Total comprehensive (expense) income for the year	**(12,553)**	(23,765)	**8,698**	6,714
Dividends paid to non-controlling interests	**–**	–	**–**	–
Net cash (outflow) inflow from operating activities	**(51,686)**	46,732	**5,677**	10,815
Net cash inflow (outflow) from investing activities	**38,400**	5,833	**(2,943)**	(124)
Net cash inflow (outflow) from financing activities	**4,619**	(45,712)	**(3,622)**	(5,911)
Net cash (outflow) inflow	**(8,667)**	6,853	**(888)**	4,780

53. EVENTS AFTER THE REPORTING PERIOD

(i) The board of directors of the Company considered and approved a proposal to enter into an equity transfer agreement with SEG on 26 February 2018, pursuant to which the Company agrees to sell and SEG agrees to purchase 100% equity interests in Shanghai Electric Bearing, a wholly-owned subsidiary of the Company, for a total consideration of RMB58,849,000. The consideration was based on the appraised value of the net assets of Shanghai Electric Bearing as of 30 November 2017, which was valued by an independent valuer. The book value of Shanghai Electric Bearing's net asset is RMB58,546,000 as of 31 December 2017.

(ii) On 16 March 2018, cash instalments of RMB15,120,000 in total have been approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. Further details are set out in note 37.

54. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation, which in the opinion of the directors, provides for better presentation of the consolidated financial statements.

55. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 16 March 2018.

PMC 上海集优
SHANGHAI PRIME