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)**

2018 Annual Report

Contents

Corporate Information

EXECUTIVE DIRECTORS

Zhou Zhiyan (Chairman)
Xiao Yuman
Zhang Mingjie
(appointed on 8 June 2018)
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
Yu Yun

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)
Zhang Mingjie
(appointed on 8 June 2018)
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

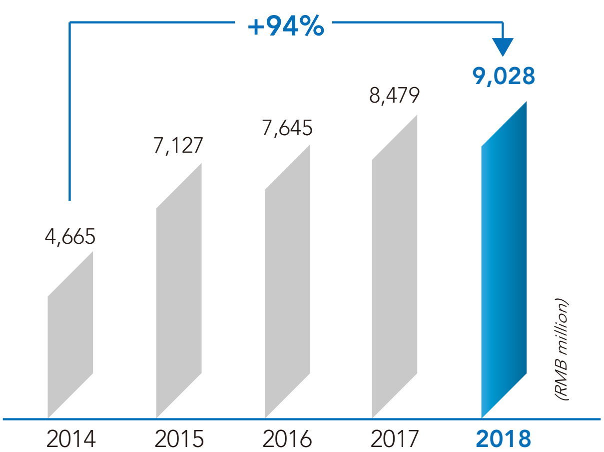
2747 Songhuajiang Road,
Hongkou District, Shanghai
The People's Republic of China
Postal Code: 200437

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

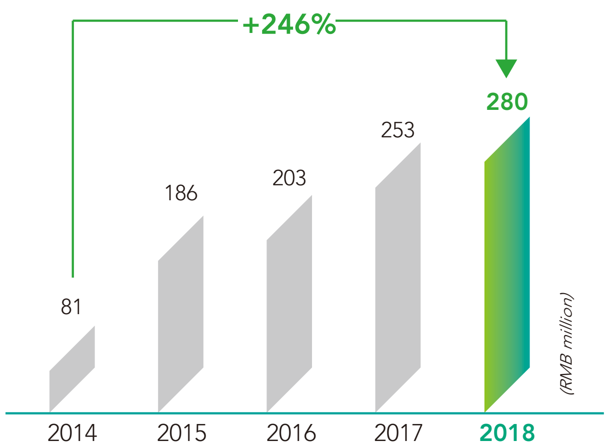
Financial Summary

RMB (Million)	2014	2015	2016	2017	2018
Revenue and Profit					
Revenue from continuing operations	4,665	7,127	7,645	8,479	**9,028**
Profit before tax from continuing operations	116	288	300	352	**362**
Income tax expense	(20)	(97)	(97)	(99)	**(85)**
Profit (loss) for the year from discontinued operations	(15)	(4)	–	–	**–**
Profit for the year attributable to					
— Owners of the Company	81	186	203	253	**280**
— Non-controlling interests	0	1	0	0	**(3)**
	81	187	203	253	**277**
Dividends — proposed final	20	46	50	–	**71**
Earnings per share					
— Basic (RMB cents)	5.60	13.13	14.41	18.21	**19.88**
— Diluted (RMB cents)	N/A	13.10	14.36	18.14	**19.86**
Assets and Liabilities					
Non-current assets	4,603	4,268	4,243	4,297	**4,198**
Current assets	4,582	4,556	4,877	4,966	**5,460**
Current liabilities	2,929	2,387	2,963	2,880	**3,616**
Net current assets	1,653	2,169	1,914	2,086	**1,844**
Total assets less current liabilities	6,256	6,437	6,157	6,383	**6,042**
Non-current liabilities	3,008	3,239	2,811	2,820	**1,885**
Net assets	3,248	3,198	3,346	3,563	**4,157**
Total equity attributable to owners of the Company	3,142	3,155	3,301	3,518	**4,111**
Non-controlling interests	106	43	45	45	**46**

REVENUE



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY



Performance Highlights

PERFORMANCE HIGHLIGHTS

For the year ended 31 December 2018 ("FY2018"), the revenue of Shanghai Prime Machinery Company Limited (the "Company"), together with its subsidiaries (the "Group"), grew 6.5% to RMB9,028 million — a record high since the establishment of the Company in 2005 — from RMB8,479 million for the year ended 31 December 2017 ("FY2017"), driven primarily by organic growth in the fastener business and the acquisition of CP Tech GmbH ("CP Tech") completed in August 2017, partially offset by the decline in revenue of the turbine blade business. Profit attributable to owners of the Company increased by 10.6% to RMB280 million in FY2018 (FY2017: RMB253 million).

Basic earnings per share ("EPS") for FY2018 was RMB19.88 cents (FY2017: RMB18.21 cents). The board of directors of the Company (the "Board") proposed a final dividend for FY2018 of RMB4.1 cents (FY2017: Nil) per share, representing a payout ratio of approximately 25%.

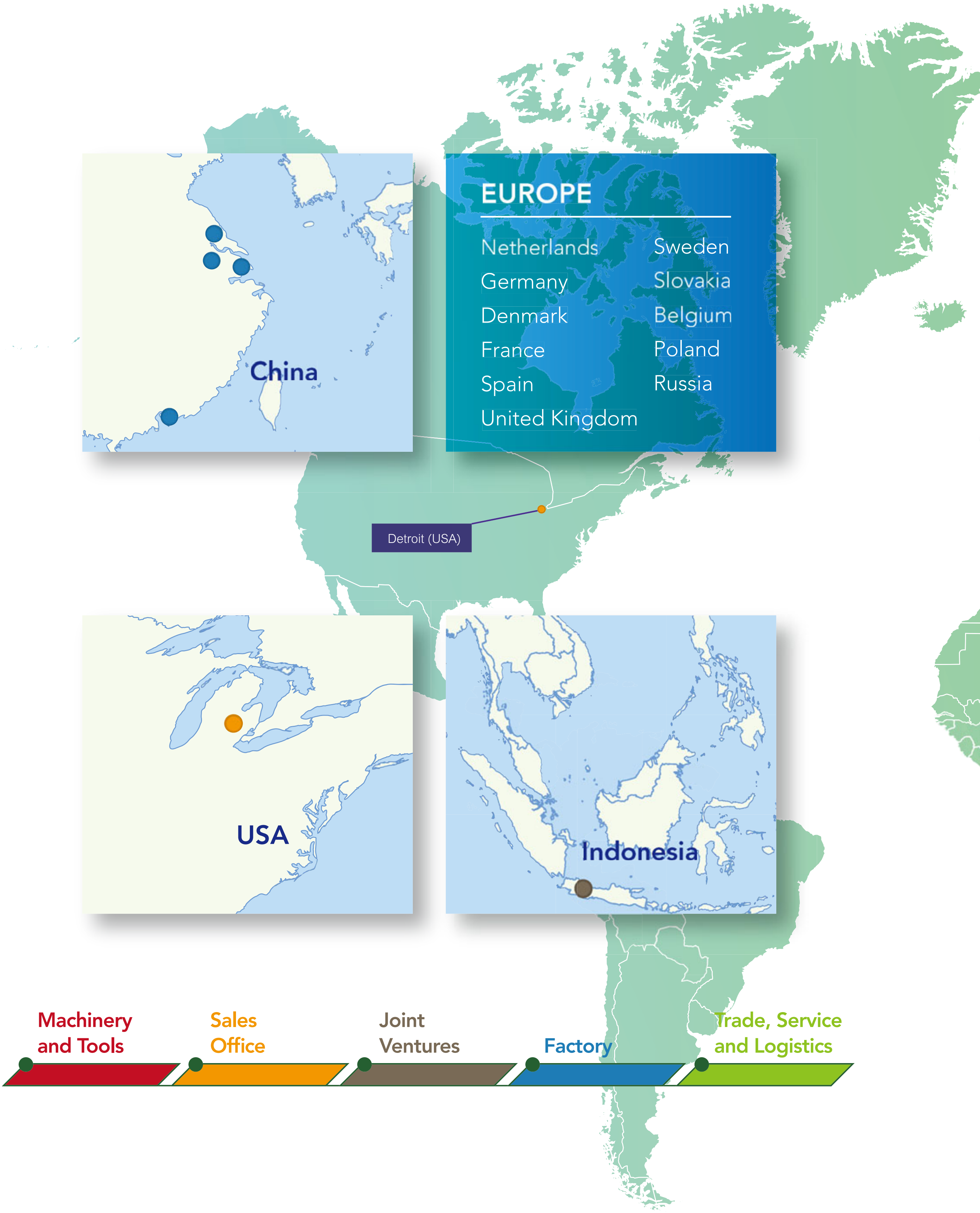
Revenue of the fastener business amounted to RMB6,784 million for FY2018 (FY2017: RMB6,186 million), representing an increase of 9.7% as compared with FY2017, and accounted for 75% (FY2017: 73%) of the Company's total revenue for FY2018. In FY2018, the average gross profit margin of the fastener business of the Company was 17.9%, representing a decrease of 0.7 percentage point from FY2017.

The revenue of the turbine blade business in FY2018 was RMB867 million (FY2017: RMB964 million), representing a decrease of 10.0% as compared with FY2017, and accounted for 10% (FY2017: 11%) of the Group's total revenue. In FY2018, the average gross profit margin of the turbine blade business was 20.6%, representing a decrease of 1.6 percentage points from FY2017.

The revenue of the bearing business in FY2018 was RMB786 million (FY2017: RMB758 million), representing an increase of 3.7% as compared with FY2017, and accounted for 9% (FY2017: 9%) of the Group's total revenue. In FY2018, the average gross profit margin of the bearing business was 27%, representing an increase of 5 percentage points from FY2017.

The revenue of the cutting tool business in FY2018 was RMB591 million (FY2017: RMB571 million), representing an increase of 3.5% as compared with FY2017, and accounted for 6% (FY2017: 7%) of the Group's total revenue. In FY2018, the average gross profit margin of the cutting tool business was 30.1%, representing an increase of 2.9 percentage points from FY2017.

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 Tianhong Miniature Bearing Company Limited	70%
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 referred to as the "Group") for the year ended 31 December 2018 ("FY2018"). The Group's annual results for FY2018 have been audited by Deloitte Touche Tohmatsu.

BUSINESS REVIEW

During FY2018, the Group generated revenue of RMB9,028 million (FY2017: RMB8,479 million), upped 6.5% comparing with FY2017. The increase in revenue was primarily driven by organic growth in the fastener business and the acquisition of CP Tech GmbH ("CP Tech") completed in August 2017, partially offset by decline in revenue of the turbine blade business. Revenue growth in the second half of FY2018 decelerated mainly because of production bottleneck for some of our automotive customers caused by WLTP (Worldwide Harmonized Light Vehicles Test Procedure) in Europe. The Group's overall gross profit margin was relatively stable at 19.7% (FY2017: 19.9%). Total operating expenses grew 7.7% to RMB1,465 million (FY2017: RMB1,360 million) mainly due to increase in administrative expenses and sales and distribution expenses as well as certain one-off legal provision and restructuring costs (totaled approximately RMB34 million). Profit attributable to owners of the Company for FY2018 increased by 10.6% to RMB280 million (FY2017: RMB253 million), helped by the reduction in finance costs and higher net foreign exchange gains (after hedging).

The Company completed a rights issue in December 2018 raising approximately RMB312 million cash (net of relevant expenses) to the Group, mainly intended for partial repayment of shareholder loans and funding potential investments. Earnings per share of the Company for FY2018 grew by 9.2% to RMB19.88 cents (FY2017: RMB18.21 cents). The Board of the Company proposed a final dividend for FY2018 of RMB4.1 cents (FY2017: nil) per share, representing a payout ratio of approximately 25%.

Strategic Review

The Group recorded steady growth in its business in Europe and will transform and upgrade to achieve sustainable development

The revenue of Nedschroef amounted to EUR717 million, representing a year-on-year increase of 7.1%. Significant increase is recorded in machinery business and CP Tech business. Business in Europe accounted for a significant portion in the business of the Group, the acquisition of Nedschroef has resulted in continuous growth the results of European business. Steady growth of Nedschroef has provided strong support to the stable growth in the Group's results. In order to meet the market demand for fasteners of new energy vehicles, Nedschroef will continuously transform and upgrade to formulate sustainable development plan and achieve stable growth.

Well-prepared high-end manufacturing business bring great potential for industrialization

With years of accumulated experience, the high-end manufacturing business of the Group is in a well-equipped condition, which is reflected in the increased proportion of high-end products, expanded high-end business sector and client base and improved high-end R&D capability. The sales revenue from the finished blades produced for Rolls-Royce civil aircraft engine under the turbine blade segment, the high-end TG rollers and harmonic gear drive bearings under the bearing segment, new Greenkote-coated Bolts under fastener segment and the high-performance screw-threading cutting tools under the cutting tool segment recorded a remarkable increase, the high-end products are recognized by high-end customers, orders in hand rose sharply in 2019, showing great potential for industrialization.

Innovative business model further consolidate the industry leading position of the Group

Brand industry chain under tool segment and e-commerce platform under fastener segment are two innovative business models that have worked very successfully in the past two years. The sales volume was still able to record a growth under the tight financial situation in 2018, demonstrated a strong ability to withstand market challenges and resist market risks. Our leading position in the tool segment and fastener business is consolidated and strengthened through continuous business model innovation.

First successful refinancing to open up financing channels in the capital market

In 2018, by virtue of the Group's satisfactory financial performance and positive market image, a favorable timing for financing appeared. The Group decided unhesitatingly to carry out re-financing activities in the form of rights issue with our target smoothly achieved as a result of which, 287 million rights shares were issued, raising approximately RMB312 million. The placement of the rights issue funds reduced the Group's gearing ratio and also created favorable conditions for the Group's future capital operation and product operation. Through this rights issue, the Group also accumulated financing experience and opened up its refinancing channels in the capital market.

FUTURE PROSPECTS

Extensive customer base platform has begun to take shape and value-added function will be further enhanced

The efficacy of the three main business platforms, which are railway transportation, automobile and large size aircraft in terms of headquarters level, gradually emerges. Strategic cooperation agreements were signed with a number of automobile groups under automobile segment, the first Shanghai urban rail bearing repair and maintenance project was awarded under rail transit segment, small batch of cutting tools was provided under large size aircraft segment. The group headquarters also accepted Shanghai automotive orders for Nedschroef.

The function of accepting orders from extensive customer base at headquarters level is an important measure for the Group to operate in the market and generate value-added effects. In the future, the Group will continue to strengthen this value-added function and add momentum to the Group's development strategy.

Implement innovation and transformation and lean management

The Group will focus on the concept of "innovation and transformation" and will apply it to the aspects of business philosophy, business model, core technology, etc. In terms of business model, transformation will be carried out step by step, from the existing mechanical parts, components to electromechanical integrated unit. The Group will take initiatives in exploring new ideas, new models, and new ways of business growth and will keep with the times to adapt to the new situation and new requirements of the market and achieve business growth. Meanwhile, the Group will establish and upgrade its market capabilities, promote lean operational management capabilities and quality control capabilities; implement management capabilities and establish business capabilities.

Expanding our global portfolio and seeking opportunities for mergers and acquisitions

The Group will further promote globalization, deploy global business layout, stabilize business in Europe, put more efforts in developing business in China, start the establishment in Asia-Pacific region, and formulate business planning in the Americas.

The Group will continue the "Double Drive" strategies to rely on both product management and capital operation as its driving forces and push its product management forward by capital operation. The Group will also continue to seek opportunities for mergers and acquisitions to further accelerate internationalization and business development, stabilize the existing business, expand the number of business projects and achieve corporate transformation and upgrading in the future.

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 2019, 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
15 March 2019

Key Events of the Group in the Financial Year 2018

1. The Group achieved satisfactory results for FY2018, the operating scale and economic benefits recorded new highs since the establishment of the Company. The revenue exceeded the RMB9 billion threshold to reach RMB9.03 billion for the first time.

2. The Company has completed H Shares and Domestic Shares rights issue: the issue of 151,942,000 H Shares at a price of HK$1.30 per H Rights Shares on the basis of 1 H Rights Share for every 5 existing H Shares; the issue of 135,715,236 Domestic Shares at a price of RMB1.07 per Domestic Rights Shares on the basis of 1 Domestic Rights Share for every 5 existing Domestic Shares.

3. The Company appointed Mr. Gou Jianhui as the Chief Executive Officer (總經理) of the Company. Mr. Gou Jianhui has extensive experience in managing and growing multi-national industrial enterprises that are leading suppliers of important parts and components for industries such as automotive, railway and energy. After resigning as the president of the Company, Mr. Zhou Zhiyan continued to serve on the Board and Board committees.

4. Nedschroef Aviation Fasteners GmbH (內德史羅夫航空緊固件公司) has entered into a business partnership with Airbus of France ("Airbus") and is currently developing related products for Airbus, some of which have been converted into official orders.

5. Shanghai High Strength Bolting Co., Ltd was awarded "Bangladesh Hakata River Rail/Road Bridge Project", an important project of "One Belt, One Road" initiative, and will provide joint bolts for all 41-span new coated high-strength steel structure; and Amur Gas Processing Plant, the largest single project in Russia undertaken by China, and will provide 1,000 tonnes of new coated bolts for this part of 40,000-tonne steel structure.

6. Leveraging on its advanced technical skills, excellent service and reasonable price, Shanghai United Bearing Co., Ltd. successfully won the bid of Shanghai's first rail links cylindrical roller bearing repair and maintenance project in 2019, which is the first project of the Group's bearing business to enter the PRC urban rail transit market.

7. High-end Greenkote-coated anti-corrosion high-performance bolt of Shanghai Premier Tension Control Bolts Company Limited was first applied to rail vehicle chassis, and the engineering technology was reviewed and verified by Shanghai Rail Traffic Equipment Development Co., Ltd. Orders have been placed by Shanghai Metro Line 15, marks our Greenkote-coated high-strength products entering into the rail transit market, laying a good foundation for the subsequent development of the rail transit market.

8. Wuxi Turbine Blade Company Limited has completed the delivery of trial piece of new intermediate pressure stage 2 blade of Rolls-Royce Trent1000–Pack C engine for HCF testing, and proceed to the product certification phase, which signifies that the strategic cooperation with Rolls-Royce has taken a solid step forward, building a strong foundation for further cooperation in the future.

9. The Company has entered into a formal strategic cooperation agreement with Huayu Automotive System Co., Ltd., a group company of Shanghai Huayu Automotive (上海華域汽車), under which the Company will provide high-end bearings, fasteners and other core components for the partner's new energy drive systems for the coming years.

10. The Company has entered into a formal business cooperation agreement with Shanghai FANUC robotics Co. Ltd. ("Fanuc") and Shanghai Valeo Automotive Electrical Systems Co., Ltd ("Valeo"), under which the Company, Fanuc and Valeo cooperate to develop new energy vehicle parts business and intelligent manufacturing business.

Management Discussion and Analysis

BUSINESS REVIEW

During FY2018, the Group generated revenue of RMB9,028 million (FY2017: RMB8,479 million), upped 6.5% comparing with FY2017. The increase in revenue was primarily driven by organic growth in the fastener business and the acquisition of CP Tech completed in August 2017, partially offset by decline in revenue of the turbine blade business. Revenue growth in the second half of FY2018 decelerated mainly because of production bottleneck for some of our automotive customers caused by WLTP (Worldwide Harmonized Light Vehicles Test Procedure) in Europe. The Group's overall gross profit margin was relatively stable at 19.7% (FY2017: 19.9%). Total operating expenses grew 7.7% to RMB1,465 million (FY2017: RMB1,360 million) mainly due to increase in administrative expenses and sales and distribution expenses as well as certain one-off legal provision and restructuring costs (totaled approximately RMB34 million). Profit attributable to owners of the Company for FY2018 increased by 10.6% to RMB280 million (FY2017: RMB253 million), helped by the reduction in finance costs and higher net foreign exchange gains (after hedging).

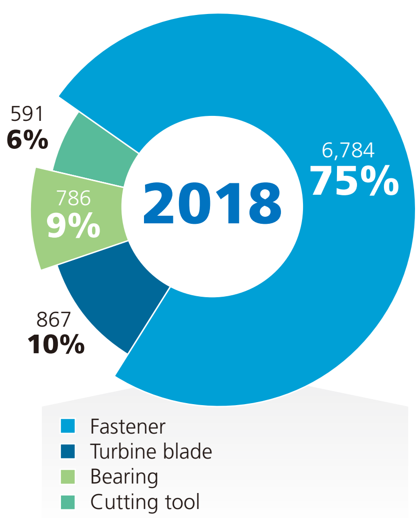
The Company completed a rights issue in December 2018 raising approximately RMB312 million cash (net of relevant expenses) to the Group, mainly intended for partial repayment of shareholder loans and funding potential investments. Earnings per share of the Company for FY2018 grew by 9.2% to RMB19.88 cents (FY2017: RMB18.21 cents). The Board of the Company proposed a final dividend for FY2018 of RMB4.1 cents (FY2017: nil) per share, representing a payout ratio of approximately 25%.

RESULTS OF PRINCIPAL BUSINESS

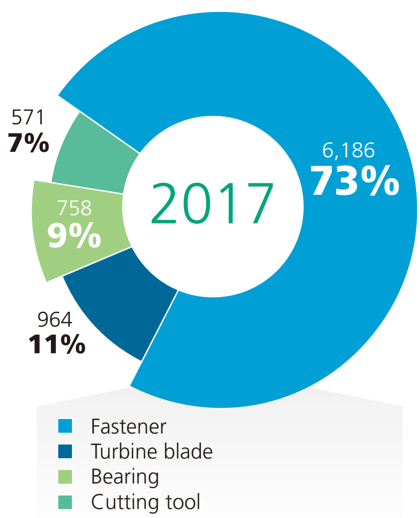
Set out below are the revenue, gross profit and gross profit margin in terms of business nature:

Business	Revenue 2018	Revenue 2017	Gross Profit 2018	Gross Profit 2017	Gross Profit Margin 2018	Gross Profit Margin 2017
	(RMB million)					
Fastener business	**6,784**	6,186	**1,212**	1,148	**17.9%**	18.6%
Percentage of total	**75%**	73%	**68%**	68%		
Turbine blade business	**867**	964	**179**	214	**20.6%**	22.2%
Percentage of total	**10%**	11%	**10%**	13%		
Bearing business	**786**	758	**212**	167	**27.0%**	22.0%
Percentage of total	**9%**	9%	**12%**	10%		
Cutting tool business	**591**	571	**177**	156	**30.1%**	27.2%
Percentage of total	**6%**	7%	**10%**	9%		

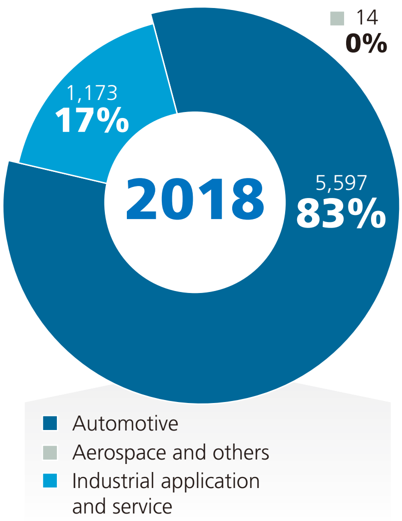
Revenue in 2018 (RMB million)

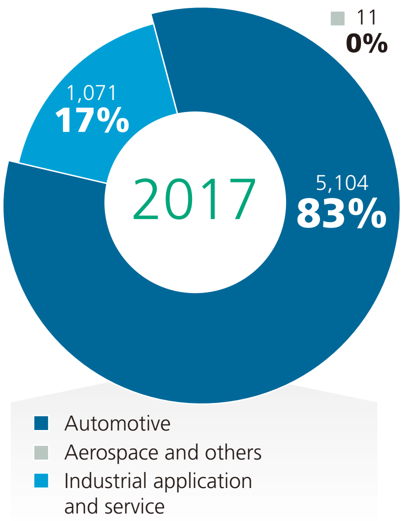


Revenue in 2017 (RMB million)



FASTENER BUSINESS



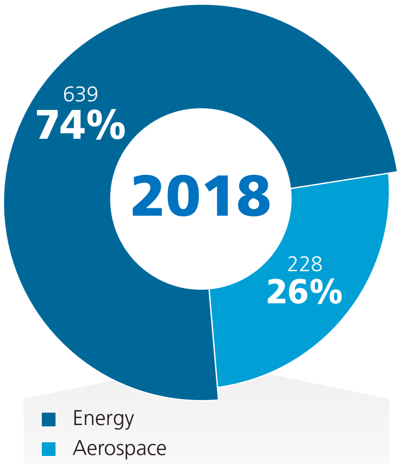


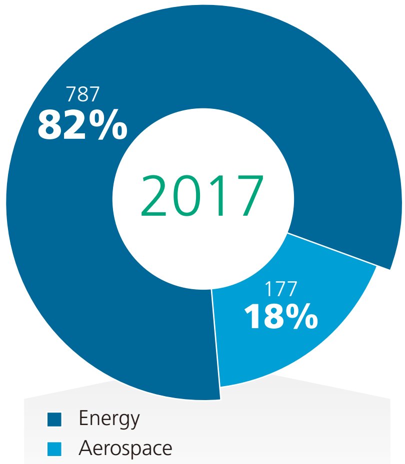
The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the energy industry, the aerospace industry and for general industrial applications and services. In addition, the Group also offers customers premium and one-stop 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, 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.

Revenue of fastener business amounted to RMB6,784 million (FY2017: RMB6,186 million), representing an increase of 9.7% as compared with FY2017. Of this, revenue generated from automotive products, representing 83% of the segment's total revenue, increased by 9.7% as compared with FY2017 to RMB5,597 million (FY2017: RMB5,104 million), underpinned by higher average fastener selling prices, increased sale of cold-forging machineries, additional contribution from CP Tech and the appreciation of Euro. However, revenue growth in the second half of FY2018 decelerated mainly because of production bottleneck for some of our automotive customers caused by WLTP in Europe. Revenue generated from products for general industrial applications and testing services grew 9.5% as compared with FY2017 to RMB1,173 million (FY2017: RMB1,071 million), mainly attributable to increased export to Americas and Australia markets and higher sales of high-tensile strength fasteners. Included in this segment was CP Tech's contribution of RMB187 million revenue to the Group in FY2018 (FY2017: RMB55 million), representing mainly sales of high-performance automotive components. The segment's average gross profit margin reduced to 17.9% (FY2017: 18.6%) mainly because of increased outsourcing spending and higher yet moderating raw material prices.

TURBINE BLADE BUSINESS

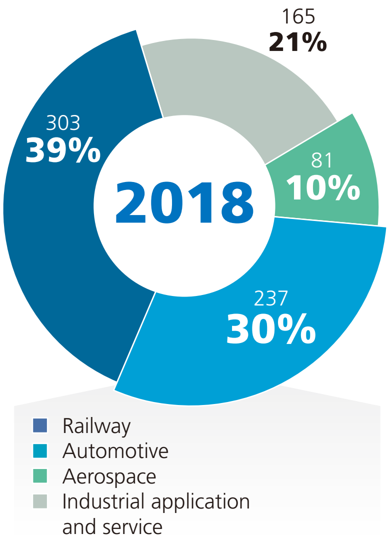


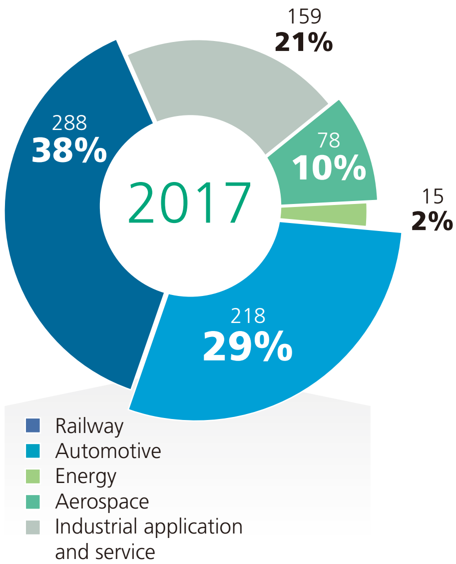


By virtue of its advanced process technologies and professional management, the Group is a world-renowned supplier of power components for the energy industry and the aviation industry, and has a leading position in the relevant markets in China. The Group primarily supplies gas turbine blades, steam 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.

Revenue of the turbine blade business declined by 10.0% to RMB867 million for FY2018 (FY2017: RMB964 million). Of which, revenue generated from energy products decreased by 18.7% as compared with FY2017 to RMB639 million (FY2017: RMB787 million), primarily due to reduction in market demand in both the domestic and overseas markets. Revenue generated from aviation products, however, continued to gain traction and grew by 28.8% as compared with FY2017 to RMB228 million (FY2017: RMB177 million), mainly due to scaled production and sale of certain aviation products to domestic customers and increased order from Rolls-Royce. In FY2018, the segment's average gross profit margin declined to 20.6% (FY2017: 22.2%) mainly due to lower share of the higher-margin energy products in the product mix.

BEARING BUSINESS





The Group supplies a diversified portfolio of bearing products ranging from precision miniature 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 upped moderately to RMB786 million for FY2018 (FY2017: RMB758 million). Of which, revenue generated from cargo railway products and services amounted to RMB303 million (FY2017: RMB288 million), representing an increase of 5.2% as compared with FY2017, mainly due to the increase in the provision of higher-margin repair services for cargo railway bearings. Revenue generated from automotive products increased by 8.7% to RMB237 million (FY2017: RMB218 million), mainly as a result of higher demand from a key customer. Revenue generated from aerospace products increased by 3.8% to RMB81 million (FY2017: RMB78 million), mainly due to higher customer demand. There are no sales of products for wind power energy for FY2018 (FY2017: RMB15 million) since the Group has strategically withdrawn from this business and has completed disposal of its entire equity interest in Shanghai Electric Bearing Company Limited in May 2018. In FY2018, the segment's average gross profit margin was 27.0% (FY2017: 22.0%), mainly due to the change of product mix as the Group focused on promoting products and services with higher-margin.

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 grew steadily to RMB591 million (FY2017: RMB571 million), mainly driven by higher average product selling prices as the Group raised product catalog prices in May 2018. The segment's average gross profit margin for FY2018 increased to 30.1% (FY2017: 27.3%), as the segment benefited from improved economies of scale and lower sales rebate.

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 FY2018 increased 7.5% year-on-year to RMB430 million (FY2017: RMB400 million), mainly due to higher staff costs, partially offset by the reduction of certain other expenses.

Administrative Expenses

The Group's administrative expenses are mainly comprised of staff costs, professional fees, travel expenses, office expenses, rental expenses and depreciation and amortization. Administrative expenses for FY2018 increased 9.6% year-on-year to RMB700 million (FY2017: RMB638 million), mainly due to the increase in staff costs, travel expenses and certain one-off legal provision and restructuring costs (totaled approximately RMB34 million), partially offset by the reduction of certain other expenses.

Research Expenditure

The Group's research expenditure for FY2018 increased 4.1% year-on-year to RMB335 million (FY2017: RMB322 million), mainly due to the increase in investments arising from more research projects undertaken by the Group.

Finance Costs

The Group's finance costs for FY2018 decreased 15.8% year-on-year to RMB104 million (FY2017: RMB123 million), mainly due to the decrease in the Group's bank and other borrowings during FY2018 and the redemption of the RMB500 million company bonds on 31 August 2017.

Share of Profits of Associates

The Group's share of profits of associates for FY2018 amounted to RMB29 million (FY2017: RMB42 million), representing a year-on-year decrease of 29.5%. The decrease in the share of profits of associates was mainly due to the disposal of the Company's investment in Shanghai General Bearing Company Limited, one of the Group's associates, in FY2018.

Income Tax Expense

The Group's income tax expense amounted to RMB85 million in FY2018 compared with RMB99 million in FY2017, representing a year-on-year decrease of 13.8%. The effective tax rate of the Group decreased to 23.5% for FY2018 (FY2017: 28.1%), mainly due to the recognition of 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 RMB280 million in FY 2018 (FY2017: RMB253 million), representing a year-on-year increase of 10.6%. Basic EPS was RMB19.88 cents (FY2017: RMB18.21 cents).

Cash Flow

As at 31 December 2018, the Group's cash and bank balances were RMB1,320 million (31 December 2017: RMB881 million). Of which, RMB170 million (31 December 2017: RMB76 million) were restricted deposits which increased by 123.2% over FY2018. During FY2018, the Group had a net cash inflow from operating activities of RMB507 million (FY2017: net inflow of RMB597 million), a net cash outflow from investing activities of RMB146 million (FY2017: net outflow of RMB234 million), and a net cash outflow from financing activities of RMB10 million (FY2017: net outflow of RMB629 million).

Assets and Liabilities

As at 31 December 2018, the Group had total assets of RMB9,658 million (31 December 2017: RMB9,263 million), representing an increase of RMB395 million over FY2018. Total current assets amounted to RMB5,460 million (31 December 2017: RMB4,966 million), accounting for 56.5% of total assets, representing an increase of RMB494 million over FY2018. Total non-current assets were RMB4,198 million (31 December 2017: RMB4,297 million), accounting for 43.5% of total assets, representing a decrease of RMB99 million over FY2018.

As at 31 December 2018, the total liabilities of the Group were RMB5,501 million (31 December 2017: RMB5,700 million). Total current liabilities amounted to RMB3,616 million (31 December 2017: RMB2,880 million), accounting for 65.7% of total liabilities. Total non-current liabilities amounted to RMB1,885 million (31 December 2017: RMB2,820 million), accounting for 34.3% of total liabilities.

Details of the shareholder's loans of the Group are set out in note 41 to the consolidated financial statements as included in this annual report.

As at 31 December 2018, the net current assets of the Group were RMB1,844 million (31 December 2017: RMB2,086 million), representing a decrease of RMB242 million or 11.6% over FY2018. As at 31 December 2018, the current ratio was 151.0% (31 December 2017: 172.4%).

Sources of Funding and Indebtedness

As at 31 December 2018, the Group had bank and other borrowings with an aggregate amount of RMB2,568 million (31 December 2017: RMB2,730 million), representing a decrease of RMB162 million or 5.9% over FY2018. Borrowings repayable by the Group within one year were RMB1,147 million (31 December 2017: RMB375 million), representing an increase of RMB772 million over FY2018, whereas borrowings repayable after one year were RMB1,421 million (31 December 2017: RMB2,355 million). The Group repaid the loans due on schedule during FY2018.

As at 31 December 2018, bank and other borrowings of the Group were interest-bearing at fixed rates ranging from 0.12% to 3.915% (31 December 2017: 2.00% to 5.44%) per annum, or at floating rates ranging from 3-month EURIBOR plus 1.60% to 2.25%, to interest rate released by the People's Bank of China deducted by 5 bps (31 December 2017: 3-month EURIBOR plus 1.35% to 2.00%, to interest rate released by the People's Bank of China deducted by 5 bps) per annum.

Details of the Group's bank and other borrowings are set out in notes 40 and 41 to the consolidated financial statements as included in this annual report.

Gearing Ratio

As at 31 December 2018, the gearing ratio of the Group, defined as the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 62.5% (31 December 2017: 77.6%). The Group's shareholder's loans represent 32.0% (31 December 2017: 33.0%) of total liabilities. As at the date of this announcement, the Group has not formulated any financial plan and fund-raising activities for the provision of capital commitments and repayment of outstanding debts.

Restricted Deposits

As at 31 December 2018, bank deposits of RMB170 million (31 December 2017: RMB76 million) of the Group were restricted deposits.

Pledges of Assets

As at 31 December 2018, in addition to restricted deposits, the Group had other pledged assets of RMB299 million (31 December 2017: RMB273 million). Moreover, the equities held by certain subsidiaries of the Group were pledged assets.

Capital Expenditure

The total capital expenditure of the Group for FY2018 was approximately RMB297 million (FY2017: RMB214 million), which was principally invested in the upgrading of production technologies and equipment, and the enhancement of production capacity.

Risks Faced by the Company

Risk of Intense Competition

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

Unforeseeable Difficulties the Group May Encounter When Exploring New Markets

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

Risk of Exchange Rate Fluctuation

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

Significant Events

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 refer to the Company's connected transaction announcement dated 27 February 2018.

On 17 April 2018, Mr. Mao Yizhong, a member of the fifth session of the Board, resigned as an executive director of the Company due to the job re-arrangement and ceased to be a member of the strategy committee of the Board. The Board nominated Mr. Zhang Mingjie for election as an executive director of the Company at the next annual general meeting of the Company. For details, please refer to the Company's announcement dated 17 April 2018.

On 17 April 2018, to better fulfill the responsibilities of a state-owned enterprise and to improve its corporate governance, the Board proposed to amend the articles of association. For details, please refer to the Company's announcement dated 17 April 2018.

On 10 May 2018, the Company issued an inside information announcement and announced that the Board has approved the proposed guarantee to be provided by the Company in favour of Shanghai Prime (HK) Investment Management Company Limited in the maximum amount of EUR125 million. For details, please refer to the Company's inside information announcement dated 10 May 2018.

On 8 June 2018, the 2017 annual general meeting of the Company was held and Mr. Zhang Mingjie has been appointed as an executive director. His term of office will take effect immediately, and his tenure as the executive director will end upon the expiration of term of the current session of the Board.

On 8 June 2018, the Board announced that Mr. Zhang Mingjie has been appointed as a member of the strategy committee of the Board.

On 21 June 2018, the Board announced the proposed H Share rights issue of 151,942,000 H Shares, on the basis of one H Rights Share for every five existing H Shares at HK$1.30 per H Rights Share payable in full on acceptance; and the proposed Domestic Share rights issue of 135,715,236 Domestic Shares, on the basis of one Domestic Rights Share for every five existing Domestic Shares at RMB1.07 per Domestic Rights Share payable in full on acceptance. For details, please refer to the Company's announcement dated 21 June 2018.

On 26 September 2018, the Board announced Mr. Zhou Zhiyan, currently having dual roles of Chairman of the Board and President of the Company, has resigned from the position of President with effect from 25 September 2018. Mr. Zhou Zhiyan will continue serving on the Board and Board committees. Mr. Gou Jianhui has been appointed as the Chief Executive Officer (總經理) of the Company with effect from 25 September 2018. For details, please refer to the Company's announcement dated 26 September 2018.

On 19 October 2018, the Company issued an inside information announcement and announced that the Board of the Company has approved the potential disposal of a 40% equity interest in Shanghai General Bearing Company Limited owned by the Company. For details, please refer to the Company's announcement dated 19 October 2018.

On 15 November 2018, the Board of the Company issued a prospectus regarding H Share rights issue of 151,942,000 H Shares on the basis of one H Rights Share for every five existing H Shares at HK$1.30 per H Rights Share payable in full on acceptance. For details, please refer to the Company's announcement dated 15 November 2018.

On 27 November 2018, the Board announced that on 27 November 2018, the Company (as the vendor) and Ningbo General Bearing Company Limited (寧波通用軸承有限公司) (as the purchaser) entered into the Equity Transfer Agreement, pursuant to which the Company agreed to sell 40% equity interest in Shanghai General Bearing Company Limited, representing the entire equity interest owned by the Company, to Ningbo General Bearing Company Limited (寧波通用軸承有限公司) for a cash consideration of RMB74,987,725. For details, please refer to the Company's announcement dated 27 November 2018.

On 7 December 2018, the Board announced the results of the H Shares rights issue, and all the conditions set out in the Underwriting Agreement had been fulfilled and the Underwriting Agreement was not terminated by the Underwriters prior to the latest time for termination of the Underwriting Agreement. The H Share rights issue became unconditional at 5:00 p.m. on Wednesday, 5 December 2018. As at 4:00 p.m. on Friday, 30 November 2018, being the latest time for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares, a total of 40 valid applications and acceptances in respect of a total of 15,852,938 H Rights Shares (representing approximately 10.43% of the total number of H Rights Shares) had been received. Given the under-subscription of the H Rights Shares, the Board had resolved to accept 13 valid applications for excess H Rights Shares under the EAFs in respect of a total of 159,000 H Rights Shares (representing approximately 0.10% of the total number of H Rights Shares) and to allot and issue such number of H Rights Shares to the relevant applicants in full. The Underwriter had performed its underwriting obligations and subscribed for, all the untaken H Shares, being 136,089,062 H Rights Shares, representing approximately 89.57% of the total number of Rights Shares, in accordance with the terms of the Underwriting Agreement. For details, please refer to the Company's announcement dated 7 December 2018.

EMPLOYEES

As of 31 December 2018, the Group had 4,539 (31 December 2017: 4,575) 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 FY2018, the total salary of the employees of the Group was RMB1,382 million (FY2017: RMB1,214 million), and the total social security cost was RMB364 million (FY2017: RMB328 million).

The Company does not have material reliance on minority employees.

INCENTIVE SCHEME

As of 31 December 2018, in accordance with the adjusted incentive scheme approved by the resolution passed at the extraordinary general meeting of the Company held on 16 December 2016, the Company made a distribution to eligible participants based on the amounts of profits distributable and actually available for distribution from the operating results of the Group for FY2017.

Based on the operating results for FY2018, a total amount of RMB18 million can be used for the adjusted incentive scheme of the Group, and RMB18 million can be actually distributed. The Company will make distribution and adjustment (if necessary) in accordance with the adjusted incentive scheme.

FUTURE PROSPECTS

Extensive customer base platform has begun to take shape and value-added function will be further enhanced

The efficacy of the three main business platforms, which are railway transportation, automobile and large size aircraft in terms of headquarters level, gradually emerges. Strategic cooperation agreements were entered into with a number of automobile groups under automobile segment, the first Shanghai urban rail bearing repair and maintenance project was awarded under rail transit segment, small batch of cutting tools was provided under large size aircraft segment. The group headquarters also accepted Shanghai automotive orders for Nedschroef.

The function of accepting orders from extensive customer base at headquarters level is an important measure for the Group to operate in the market and generate value-added effects. In the future, the Group will continue to strengthen this value-added function and add momentum to the Group's development strategy.

Implement innovation and transformation and lean management

The Group will focus on the concept of "innovation and transformation" and will apply it to the aspects of business philosophy, business model, core technology, etc. In terms of business model, transformation will be carried out step by step, from the existing mechanical parts to, components and electromechanical integrated unit. The Group will take initiatives in exploring new ideas, new models, and new ways of business growth and will keep with the times to adapt to the new situation and new requirements of the market and achieve business growth. Meanwhile, the Group will establish and upgrade its market capabilities, promote lean operational management capabilities and quality control capabilities; implement management capabilities and establish business capabilities.

Expanding our global portfolio and seeking opportunities for mergers and acquisitions

The Group will further promote globalization, deploy global business layout, stabilize business in Europe, put more efforts in developing business in China, initiate the development in Asia-Pacific region, and formulate business planning in the Americas.

The Group will continue the "Double Drive" strategies to rely on both product management and capital operation as its driving forces and push its product management forward by capital operation. The Group will also continue to seek opportunities for mergers and acquisitions to further accelerate internationalization and business development, stabilize the existing business, expand the number of business projects and achieve corporate transformation and upgrading in the future.

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	55	Chairman and executive director
Xiao Yuman	47	Executive director
Zhang Mingjie (appointed on 8 June 2018)	56	Executive director
Zhang Jie	42	Executive director
Chen Hui	50	Executive director and vice president
Dong Yeshun	57	Non-executive director
Ling Hong	58	Independent non-executive director
Chan Oi Fat	40	Independent non-executive director
Sun Zechang	65	Independent non-executive director
Xu Jianguo	54	Chairman of the supervisory committee
Si Wenpei	55	Supervisor
Yu Yun	50	Supervisor
Gou Jianhui (appointed on 25 September 2018)	57	Chief Executive Officer (總經理)
Zhu Jun	50	Vice president
Ng Kwong, Alexander	40	Chief financial officer and company secretary

DIRECTORS

Mr. Zhou Zhiyan is a chairman and executive director 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 as well as the chairman, executive director and president of the Company since 2015. 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 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 Mingjie

Mr. Zhang Mingjie is an executive director of the Company, director of department of industry development of and dean of central research institute of Shanghai Electric Group Company Limited and party secretory. Mr. Zhang joined Shanghai Electric in September 1985, and worked at Shanghai Transformer Factory (上海變壓器廠), Shanghai Voltage Regulator Factory (上海電壓調整器廠), Shanghai Electric Co., Ltd. (上海電器股份有限公司), Shanghai Huatong Switch Factory (上海華通開關廠), Shanghai Power Transmission and Distribution Co., Ltd. (上海輸配電股份有限公司), Shanghai Electric Group Company Limited, Shanghai Electric (Group) Corporation, Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) and the central research institute of Shanghai Electric Group Company Limited respectively. He used to be party secretory and deputy general manager of Shanghai Power Transmission and Distribution Co., Ltd. from June 2007 to July 2008, director of wind power department of Shanghai Electric (Group) Corporation from December 2008 to March 2014 and director of Shanghai Mechanical & Electrical Industry Co., Ltd. From October 2010 to March 2012. Mr. Zhang graduated from Shanghai Jiao Tong University in July 1985 with a bachelor degree of high voltage technology, and obtained MBA from Shanghai Jiao Tong University in July 2002. He was awarded the title of senior engineer with professorship in December 2008.

Mr. Zhang Jie

Mr. Zhang Jie is an executive director of the Company, an executive director and general manager of Shanghai Electric Group Hongkong Company Limited, 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 and vice president of financial group of SEC. 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. 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 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 Co., Ltd. (MSN (中國)有限公司) 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 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 is an independent non-executive director of the Company, the company secretary of China Leon Inspection Holding Limited (Stock code: 1586) listed on the Main Board of the Stock Exchange in Hong Kong and the chief financial officer of an international enterprise. 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 is an independent non-executive director of the Company as well as the professor and the doctoral tutor of the School of Automobile of Tongji University, the chair professor for new energy automobile of the Sino-Germany School of Tongji University and 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, who is a well-known expert in the field of automobile and automotive electronics in China. He served as the head of the automotive engineering teaching and research section, the vice dean of the School of Automobile of Tongji University, the deputy head of the new energy automobile engineering center, the chief professor of automotive electronics of the School of Automobile, the head of the institute of automotive electronics of Tongji University and the chair professor for automotive electronics of the Sino-Germany School of Tongji University. Mr. Sun graduated from Harbin Institute of Technology in 1976, and obtained a master's degree 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 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 director of Shanghai Highly (Group) Co., Ltd. (上海海立(集團)股份有限公司) which is listed on the Shanghai Stock Exchange with a stock code of 600619, 900910 (B share), the deputy head of the financial budget department of SEG, the director of the Company, 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 is a supervisor of the Company, and has been the head of the assets and finance department of Shanghai Electric Group Company Limited since November 2017. Since July 1986, Mr. Si has served at the SEC and/or its subsidiaries in various positions, including the secretary to the board, financial director and chief accountant of Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) from August 2003 to August 2016 and the deputy head of the assets and finance department of SEC from August 2016 to November 2017. Mr. Si has served as a supervisor in the Shanghai Mechanical & Electrical Industry Co., Ltd. since April 2017 and the chairman of the board of the director in Suzhou Thvow Technology Co., Ltd. since February 2019. 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 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. Gou Jianhui is the Chief Executive Officer (總經理) of the Company. He has extensive experience in managing and growing multi-national industrial enterprises that are leading suppliers of important parts and components for industries such as automotive, railway and energy. Prior to joining the Company, Mr. Gou served as the managing director of Knorr-Bremse in China from July 2017 to September 2018. He was appointed as an executive director of China High Speed Transmission Equipment Group Co., Ltd. (stock code: 00658) in 2015 and held senior positions within that group from 2013. During 2004 to 2013, Mr. Gou was the managing director and president of Schaeffler Greater China. Mr. Gou started his career with FAG Schweinfurt in Germany in 1997 and was an academic at his alma mater, the Harbin Institute of Technology. Mr. Gou obtained a bachelor's and a master's degree in mechanical engineering from the Harbin Institute of Technology in China in 1982 and 1986, respectively. He also obtained a doctoral degree in engineering from the Technische Universität Braunschweig in Germany in 1997.

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 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 2018 to 31 December 2018.

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.

During FY2018, the Company were in compliance with relevant laws and regulations which are material to the Company.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During FY2018, to better fulfill the responsibilities of a state-owned enterprise and to improve its corporate governance, the Board has amended the articles of association with the approval obtained at the 2017 annual general meeting. For details, please refer to the Company's announcement dated 17 April 2018.

The latest version of the articles of association has been published on the websites of the Company and the Hong Kong Stock Exchange.

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 of the Company confirmed that they have complied with the Model Code throughout FY2018.

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)
Mr. Xiao Yuman
Mr. Zhang Mingjie
Mr. Zhang Jie
Mr. Chen Hui

Current 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 ten polls were taken for the review of matters, and one general meetings (including the annual general meeting and the extraordinary general meeting) were held in FY2018. Attendance of each director is summarized as follows:

	Number of Meeting		Actual Attendance		Attendance Rate	
Directors	Board	General Meeting	Board	General Meeting	Board	General Meeting
Mr. Zhou Zhiyan	4	1	4	1	100%	100%
Mr. Mao Yizhong (resigned on 19 April 2018)	1	0	0	0	0%	–
Mr. Xiao Yuman	4	1	4	1	100%	100%
Mr. Zhang Mingjie (appointed on 8 June 2018)	3	0	3	0	100%	–
Mr. Zhang Jie	4	1	3	1	75%	100%
Mr. Chen Hui	4	1	4	1	100%	100%
Mr. Dong Yeshun	4	1	4	1	100%	100%
Mr. Ling Hong#	4	1	2	1	50%	100%
Mr. Chan Oi Fat#	4	1	3	0	75%	0%
Mr. Sun Zechang#	4	1	3	1	75%	100%

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 of an independent non-executive director for corporate governance in compliance with the new requirement of the revised code provisions on continuous professional development during FY2018:

Director	Reading Materials
Mr. Zhou Zhiyan	✔
Mr. Xiao Yuman	✔
Mr. Zhang Mingjie (appointed on 8 June 2018)	✔
Mr. Zhang Jie	✔
Mr. Chen Hui	✔
Mr. Dong Yeshun	✔
Mr. Ling Hong	✔
Mr. Chan Oi Fat	✔
Mr. Sun Zechang	✔

INSURANCE OF THE DIRECTORS

During FY2018, 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. Mr. Zhou Zhiyan, the chairman and president of the Company, has resigned as the president of the Company with effect from 25 September 2018. Mr. Zhou Zhiyan continued serving on the Board and Board committees. Mr. Gou Jianhui has been appointed as the Chief Executive Officer (總 經 理) of the Company with effect from 25 September 2018. Mr. Zhou Zhiyan and Mr. Gou Jianhui have executed their respective duties according to the Articles of Association of the Company.

Following the change of chief executive of the Company as set out above, the Company would be in compliance with A.2.1 of the Corporate Governance Code regarding the separation of the roles of chairman and chief executive.

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 FY2018 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong (Chairman)	1	0
Mr. Chan Oi Fat	1	1
Mr. Dong Yeshun	1	1

During FY2018, the remuneration committee reviewed and approved the proposal adopted from the 2017 Incentive Scheme, submitted the 2018 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 2017. 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 FY2018 is set out on page 215 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 three meetings in FY2018 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Chan Oi Fat (Chairman)	3	3
Mr. Ling Hong	3	1
Mr. Dong Yeshun	3	3

In FY2018, the audit committee reviewed and approved the proposal regarding the appointment of auditors of the Company for 2018 and the interim financial report of 2018. 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 FY2018 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 two meeting in FY2018 whereby one poll was taken for the review of matters. The attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	2	2
Mr. Xiao Yuman	2	2
Mr. Ling Hong	2	1
Mr. Chan Oi Fat	2	2
Mr. Sun Zechang	2	1

In FY2018, 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. Zhang Mingjie as candidate for the executive director of the Company and the nomination of Mr. Gou Jianhui as candidate for the chief executive officer (總經理) 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. Zhang Mingjie, 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. Mr. Zhou Zhiyan, Mr. Zhang Jie, Mr. Chen Hui, Mr. Dong Yeshun and Mr. Sun Zechang were re-elected as the directors of the Company at the annual general meeting held on 23 June 2017, while Mr. Zhang Mingjie was elected as the executive director of the Company at the annual general meeting held on 8 June 2018, 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 FY2018 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Zhang Mingjie (appointed on 8 June 2018)	1	1
Mr. Zhang Jie	1	0
Mr. Chen Hui	1	1
Mr. Dong Yeshun	1	1
Mr. Sun Zechang	1	1

In FY2018, the strategy committee has reviewed the report of ideas and briefings for the projects about the Company's project mergers and acquisitions in 2019.

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 FY2018 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	0
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 FY2018. Details are set out on pages 39 to 40 of this report.

NOMINATION POLICY FOR DIRECTORSHIP

Purpose

To set out criteria and procedures for nomination and appointment of Directors of the Company; to ensure the members of the Board of the Company have a balance of skills, experience and diversity of perspectives appropriate for the requirements of the business of the Company; and to ensure the continuity of the Board of the Company and maintain its leadership role.

Nomination procedure adopted by candidates of directors

(a) Appointment of a new director

(i) After receiving recommendations to appoint a new director and personal information of the candidate (or related details), nomination committee and/or the Board shall evaluate the candidate based on the above criteria in order to decide whether the candidate is eligible to serve as a director.

(ii) If one or more desirable candidates are involved in the process, the nomination committee and/or the Board shall prioritize them according to the Company's needs and each candidate's proof of qualification (if applicable).

(iii) The nomination committee shall make recommendations to the Board in regards to the appointment of a suitable candidate as a director subsequently (if applicable).

(iv) In case of the candidate who is nominated by the shareholders and is appointed as a director at the general meeting of the Company, the nomination committee and/or the Board shall evaluate the candidate based on the above criteria in order to decide whether the candidate is eligible to serve as a director.

The nomination committee and/or the Board shall make recommendations to the shareholders on the proposed appointment of a director at the general meeting.

(b) Re-election of directors at the general meeting

(i) The nomination committee and/or the Board shall review the overall contribution of the retiring directors and their services for the Company, as well as their participation and performance within the Board.

(ii) The nomination committee and/or the Board shall also review and ensure the retiring directors still meet the above criteria.

(iii) The nomination committee and/or the Board shall make recommendations to the shareholders on the proposed re-election of retiring directors at the general meeting.

When the Board intends to propose a resolution to appoint or re-elect an individual as a director at the general meeting, the information related to the candidate shall be set out in the circular to the shareholders and/or explanatory statement accompanying the notice of the relevant general meeting according to the Listing Rule and/or related requirements of the applicable laws and rules.

Criteria to select and recommend candidates for directorship

In evaluating and selecting a candidate for directorship, the nomination committee and/or the Board shall consider the followings:

- Character and integrity.
- Qualification, including professional qualifications, skills, knowledge and experience related to the Company's business and strategy, as well as the diversity aspects stated under the Board Diversity Policy.
- Any measurable objectives adopted for achieving the Board Diversity Policy.
- Requirement for the Board to have a independent non-executive director in accordance with the Listing Rule, and whether the candidate is considered to be independent with reference to the independence guidelines set out in the Listing Rule.
- any potential contributions the candidate may bring to the Board in terms of perspectives, professional qualifications, skills, experience, independence, age and educational background, length of service and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and its committee member(s) of the Board;
- such other factors that are appropriate to the Company's business and succession plan, and where applicable, the nomination committee and/or the Board may amend such factors.

BOARD DIVERSITY POLICY

Purpose

Board diversity policy of the Company aims to set out the approach to achieve diversity on the Company's board of director. 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, professional experience, skills, knowledge and regional experience. The Company recognizes and embraces the benefits of having Board diversity, and considers that increasing diversity at the Board level is an essential element in maintaining the Group's competitive advantage

Measurable Objectives

The Company aims to maintain an appropriate balance of diversity of the Board in every aspect so as to cater for the needs of business development of the Company. The nomination committee will discuss and agree on measurable objectives for achieving diversity of the Board, where necessary, and make recommends to the Board in this regard. Where necessary, the Board may adopt and/or amend diversity factors and measurable objectives in any time, in order to cater for the needs of the Company's business and the succession plan of the Board (if applicable).

Progress on achieving the objectives

In FY2018, the members of the Board of the Company have extensive experience in the professional aspects, including strategy planning, operation management, finance, financial management, investment management, industrial technology, human resources etc. The age of the Board members ranged from 40 to 65, none of the Board members has any financial, business, family or other relationships with each other. The independent non-executive directors of the Company accounted for one third of the members of the Board, among which, Mr. Chan Oi Fat 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.

DIVIDEND POLICY

Purpose

The dividend policy of the Company aims to set out the principles and guidelines proposed to be applied during the time the Company declared, paid or distributed its net profits to the shareholder of the Company as dividends.

Principles and Guidelines

The policy adopted by the Board stated that, when the Company proposes or declares dividends, it should maintain sufficient cash reserves, in order to cater for capital needs, future growth and its equity value; depending on the various factors and conditions, including financial situation and operation of the Company and the Group, and the income, capital needs and expenditure plans, interests of the shareholders, any restrictions on the payment of dividends etc., the Company proposes to distribute no less than 25% of its annual net profits to the shareholders of the Company as dividends.

According to the articles of association of the Company, all applicable laws and other factors, the Board is entitled to declare and distribute dividends to the shareholders of the Company.

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	6.82
Non-audit services	0.57

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 RMB0.26 million); and (ii) various services provided in connection with the preparation of the Company's prospectus dated 16 November 2018 (for a fee of RMB0.31 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 FY2018, 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 86 to 88.

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, audit office 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 audit office 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 2018, 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 FY2018, 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 audit office 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 FY2018, 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 Securities Compliance 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 46 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
15 March 2019

Other Information

SHARE CAPITAL STRUCTURE

	Number of shares	Approximate percentage of issued share capital (%)
Domestic Shares	814,291,420	47.18
H Shares	911,652,000	52.82
Total	1,725,943,420	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 2018, 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	814,291,420	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	212,747,462	(1)(2)(3)	Interest of controlled corporation	Long position	23.33	12.33
Shanghai Electric (Group) Corporation	Domestic	814,291,420	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	212,747,462	(1)(2)(3)	Interest of controlled corporation	Long position	23.33	12.33
Shanghai Electric Group Company Limited	Domestic	814,291,420	(1)	Beneficial owner	Long position	100.00	47.18
	H	136,089,062	(2)	Interest of controlled corporation	Long position	14.93	7.88

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 (%)
Shanghai Electric Hongkong Company Limited	H	136,089,062	(2)	Beneficial owner	Long position	14.93	7.88
Shanghai Electric Group Hongkong Company Limited	H	76,658,400	(3)	Beneficial owner	Long position	8.41	4.44
Citigroup Inc.	H	55,053,492	(4)	Approved lending agent	Long position	6.04	3.19
		55,053,492	(4)	Approved lending agent	Shares available for lending	6.04	3.19

Notes:

(1) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and Shanghai Electric (Group) Corporation ("SEG") were deemed to be interested in domestic shares and H shares by virtue of SFO because:

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

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

As disclosed under the announcement dated 7 December 2018 in relation to the results of the H share rights issue, Shanghai Electric Group Company Limited held interest in the 814,291,420 domestic shares.

(2) Shanghai Electric Group Company Limited held interest in the H shares through its wholly-owned subsidiary (Shanghai Electric Hongkong Company Limited).

(3) SEG held interest in the H shares of the Company through its wholly-owned subsidiary (Shanghai Electric Group Hongkong Company Limited).

As disclosed under the announcement dated 7 December 2018 in relation to the results of the H share rights issue of the Company, Shanghai Electric Group Hongkong Company Limited held interest in the 76,658,400 H shares.

(4) Citigroup Inc. held interest in the Company through its wholly-owned subsidiary/indirectly wholly-owned subsidiary (Citicorp LLC and Citibank N.A.).

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 2018 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 2018, 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	156,800	(1)	Beneficial owner	Long position	0.02	0.00
Chen Hui	H	87,800	(1)	Beneficial owner	Long position	0.01	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 2018, 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 REPORT

Principle of Reporting

The Environmental, Social and Governance Report (hereinafter referred to as the "ESG Report") is prepared based on Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") issued by the Stock Exchange of Hong Kong Limited in December 2015. It is to be read in conjunction with the Corporate Governance Report on page 30 of this document.

Reporting Period

FY2018 (From January 1st 2018 to December 31st 2018).

Reporting Scope

This *ESG Report* covers the majority of the business activities of Shanghai Prime Machinery Co., Ltd, 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: mainly including Wuxi Turbine Blade Co., Ltd., Shanghai Prime Biaowu High Tensile Co., Ltd., Shanghai Tool Works Co., Ltd., Shanghai United Bearing Co., Ltd., Shanghai Zhenhua Bearing Factory Co., Ltd., Shanghai Tian An Bearing Co., Ltd., and Shanghai Tianhong Miniature Bearing Co., Ltd. The sales in this range accounted for more than 90% sales of Shanghai Prime Machinery Co., Ltd.

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

The scrop of this ESG Report differs from that of the previous year. Shanghai Electric Bearing Company Limited has not been included in this report, as its 100% shareholding was sold by Shanghai Prime Machinery Co., Ltd. in FY2018. Shanghai Prime Biaowu High Tensile Fastener Co., Ltd has been transformed into Shanghai Prime Biaowu High Tensile Fasteners Company Limited in need of optimized equity structure, asset structure and improved operational efficiency of assets, while the business of Shanghai Biaowu High Tensile Fastener Co., Ltd has been transferred to Shanghai Prime Biaowu High Tensile Fasteners Company Limited.

For convenience of statement and reading, "Shanghai Prime Machinery Company Limited" is referred to as "Shanghai Prime", "the Company", or "we", and Koninklijke Nedschroef Holding B.V. as well as its four subsidiaries are referred to as "Nedschroef".

Data Source

The ESG Report authentically reflects the ESG activities carried out by us. All the information and data adopted came from our official documents and statistics reports, and the summaries and statistics of affiliated companies. The data has not been reviewed by the independent auditor of Shanghai Prime.

Content Selection

The content selection of the ESG Report is pursuant to the materiality principle of report preparation set out in ESG Reporting Guide, so as to ensure that the disclosures in the ESG report can both include our strategic priorities and sufficiently reflect the concerns of our major stakeholders (e.g. employees, governments/ regulatory institutions, investors, communities, NGOs, customers, suppliers, etc.).

MANAGEMENT APPROACH

ESG Governance

The Company's Board of Directors is responsible for ESG reporting, including assessing and identifying risks associated with ESG responsibilities, and ensuring that an appropriate and effective system for ESG responsibility management and internal monitoring is in place. We have delegated our business function to review the Company's operation and conduct internal discussions, aiming to identify relevant ESG responsibility issues and assess the materiality of such issues to our business and stakeholders. The Company management has already confirmed with the Board the effectiveness of the above-mentioned system. The ESG Report, in accordance with the general disclosure stipulations in the ESG Reporting Guide, covers all the identified ESG issues of significance in order to disclose the ESG responsibility performance during the operation of Shanghai Prime on a balanced basis.

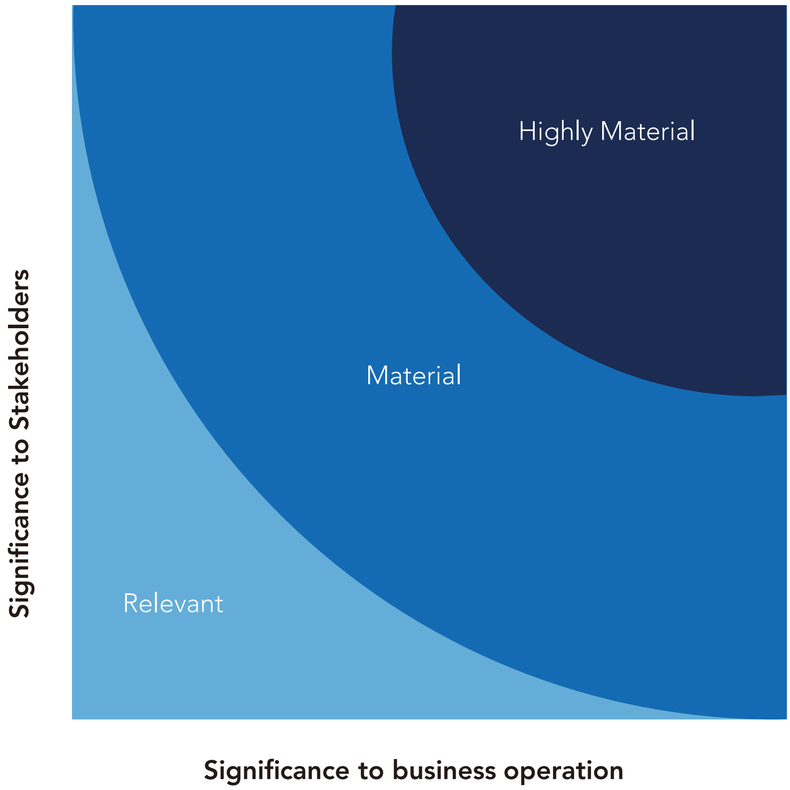
Communication with Stakeholders

Judging from the characteristics of the business and operation, we recognize our employee, governments/ regulatory institutions, investors, communities, NGOs, customers and suppliers as major stakeholders. We thoroughly consider the concerns of all stakeholders, with whom we keep formal and informal communication.

Stakeholders	Concerns	Means of Communication
Employees	• Competitive remuneration & welfare • Workplace health & safety • Training & ability development	• Labor union/staff assembly • Collective bargaining agreements • Security & compliance agreements • Training & career development • Employee communication channels
Governments/ Regulatory institutions	• Law and regulation compliance • Workplace health & safety • Creating well-being for relevant communities	• Compliance reporting • Supervision & inspections • Approval applications • Compliance meetings
Investors	• Guaranteeing shareholder rights and interests • Timely disclosure of relevant information • Corporate governance improvements • Operation compliance to laws and regulations	• Shareholders' meetings • Press releases and announcements • Disclosure reports • Posts on company website • Investors' orientation meetings
Communities	• Local development • Fulfilling environmental responsibility • Promoting employment • Creating opportunities for local product & service providers	• Community meetings • Meetings for focus groups • Procurement demand notices • Recruitment advertisement
NGOs	• Local development-targeted investment • Involvement in local community programs • Fulfilling environmental responsibility • Human rights performance • Fair benefit allocation	• Annual ESG Report • Direct communication • Plant visit
Customers	• Customer services • Quality assurance • Product responsibility	• VIP customer forums • Systematic communication • Visits to operating plant areas • Participation in trade organizations • Sustainable development reporting
Suppliers	• Supplier admittance management • Supplier evaluation • Assurance of suppliers' rights and interests • Supplier cooperation	• Invitation for bids & seminar • Supplier admittance & evaluation • Field inspections • Executive meetings Material ESG issues

Material ESG Issues

During this year, Shanghai Prime communicated and conducted investigations with internal as well as external stakeholders with regard to the Company's ESG responsibility issues. Based on the feedback collected, we scored and ranked the issues by their influence on the Company's business operation and on stakeholders, aiming to reflect our material influence on the environment and the society, and better respond to stakeholders' expectations and demands. The materiality matrix below for details:



Highly Material
Product responsibility
Technological development
Business ethics
Employee safety
Talent development

Material
Supplier management
Resource management
Employee health
Employee assistance
Community involvement

Relevant
Waste management
Water resource managements

ACCOUNTABILITY FOR MARKET

Adhering to the philosophy of win-win cooperation, we established a cooperation mechanism featuring joint development, mutual trust and mutual benefit together with customers and suppliers, which enables us to hold a dominant position in the industry. Apart from focusing on product quality, we put an emphasis on technology investment and R&D, expanding market with technology. Currently, we have become a leading manufacturer as well as a service provider in the machinery component industry.

In FY2018, no products sold or shipped have been recalled for safety and health reasons.

Accountability for Product

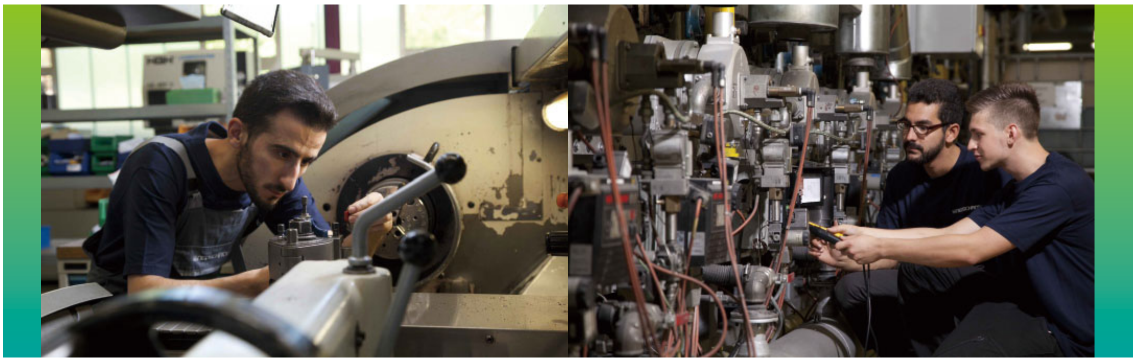
Our products include fastener, blades, bearing, blade tools, etc. We highly advocate "Superior Products, Excellent Services", and devote ourselves to providing high-quality products and services for customers. Our subsidiaries have established mature quality management systems (QMS) with ISO9001 certification, among which Center of Competence Plettenberg has been awarded EN 9100 certification on aerospace QMS. Meanwhile, we attach importance to the protection of intellectual property rights and make timely declarations of intellectual property rights. We recognize that intellectual property rights have significant impacts in trade, investment and economic and technological cooperation with foreign countries.

Quality Assurance

In China, we adopt a one-stop product management system which covers material-offering, producing, packaging, and delivering. Quality is strictly controlled throughout the operating process to ensure thorough inspection of products before they move to their next step. During this year, we continued to conduct self-examination for quality management, aiming at examining the quality of products and services as well as standard implementation and field management. Moreover, we also organized internal quality audit, with a view to guaranteeing product quality at each step of the production.

Outside of China, Nedschroef adheres to the Quality Strategy as a guide, establishes a comprehensive quality awareness in organization, products and services. The necessity of quality management is emphasized in the Company's development. Nedschroef has established a LEAN NEED-Systems based on Lean Manufacturing Principles, which mainly includes four principles of "zero accident", "pull", "flow" and "balance", improving the quality and efficiency of production under the premise of safe production. All of Nedschroef's employees are committed to continuous improvement from development to delivery processes to increase operational efficiency and ensure timely and high quality delivery of products.

Case: Employees in Nedschroef were testing and repairing equipment.



Because of the excellent quality management, the Company's subsidiaries were awarded the following honors in FY2018:

- Wuxi Turbine Blade Co., Ltd. won the "China Quality Credit Enterprise Award" granted by China Entry & Exit Inspection and Quarantine Association in recognition of its excellence in guaranteeing product quality over the years;

- Shanghai Zhenhua Bearing Factory Co., Ltd. and Shanghai High Strength Bolt Factory Co., Ltd., by virtue of scientific rules and regulations as well as a strict management mechanism, acquired the "Contract Credit Class AAA 2016-2017 Certificate" issued by Shanghai Contract Credit Promotion Commission;

- Center of Competence Altena was presented the "Supplier Quality Excellence Award" by General Motors Europe for its outstanding product quality.

In China, we won a plurality of major domestic projects by the superior product quality and leading technologies in FY2018. For example, Shanghai United Bearing Co., Ltd., one of our subsidiaries, won the bid for the first-batch maintenance works of cylindrical roller bearing for Shanghai Metro over its strong competitors in the country or overseas by means of its advantageous technical competence, excellent services, reasonable price, and reliable quality. This is also Shanghai Prime's first deal in the field of domestic urban rail transit.

Outside of China, our products have also been highly recognized by customers in overseas markets. In FY2018 Wuxi Turbine Blade Co., Ltd. was selected to be a "Forged-component Strategic Supplier in Asian-Pacific Region" of British company Rolls-Royce by its remarkable performance in past projects.

In Asia, we supplied the products for use in the multipurpose road-rail Padma Bridge Project in Bangladesh, a pivot project of the Belt and Road Initiative, and were praised by the customer. In Europe, with our products winning the GOST certification adopted by Russian Federation countries, we won the contract for the Amurski Gas Processing Plant (AGPP), which was the largest Russian unit construction project Chinese companies ever undertook.

Customer Services

We strive to provide best-in-class products and high-quality services for customers. Committing to the philosophy of "Eyes on Quality, Heart on Customers", we spare no efforts to boost customer satisfaction. In order to better handle and respond to customer complaints, we have formulated and strictly executed the *Administrative Measures for the Client Service and Feedback, Regulation of After-sale Service* and *Procedure of Service Management* to clarify complaint handling procedures and department obligations.

In FY2018, Shanghai Tool Works Co., Ltd. was titled "Customer Satisfaction Enterprise" by China Association for Quality (CAQ) and China Customers' Committee for the "Customer Satisfaction" program which has been carried out for years.

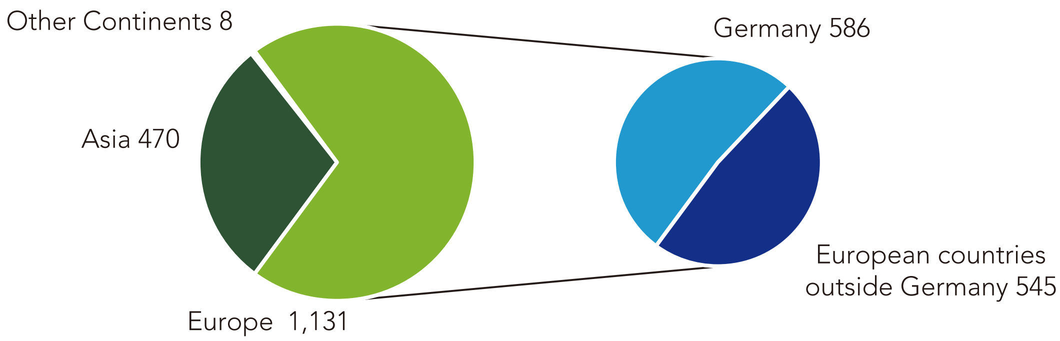
In addition, we set access control on customer files based on the responsibility of sales personnel to secure customers' privacy to the best.

Supplier Management

When we establish globalized networks of procurement and sales, we give our first priority to outstanding local suppliers, which can not only lower the cost in procurement and transportation and reduce energy consumption during the transportation, but also boost local economy and create job opportunities.

We have 1,609 suppliers. The domestic suppliers are mainly distributed in Eastern China. The overseas suppliers are mainly located in Germany.

Supplier distribution



We have formulated *Supplier Management Regulations, Procurement Management Regulations*, etc., and strictly and fairly implement supplier admittance procedure, admittance review and annual review to urge suppliers to guarantee product quality and safety. For better quality control, we share our own experience with suppliers to assist them to improve their quality control system, and encourage them to get ISO9001 Quality Management System Certificate. In addition, we carry out spot check on suppliers occasionally and convene suppliers' meetings to further ensure the quality of products procured.

In China, attaching great importance to the management of environmental and social risks, we sign the *Honesty and Integrity Procurement Agreement* with suppliers to supervise and promote suppliers to strictly implement Chinese laws and regulations in terms of environment and safety, and ensure that their products are in line with EU environmental standards.

Outside of China, Nedschroef adopts a supplier rating system to evaluate the overall performance of suppliers based on the criteria including but not limited to the delivery quality, price level, and other factors such as environmental effects, to assess suppliers' sustainability. Nedschroef encourages suppliers to complete ISO14001 certification for environmental management system.

Business Ethics

In FY2018, while expanding the market and upgrading transformation, we consistently stick to morality and integrity in order to build a positive and healthy business environment and ensure sound development.

In China, we have established an anti-corruption mechanism in accordance with the guiding ideology of education as base, institution as focus, supervision as orientation, and accountability as support, and formulated a guiding document *Regulations on the management of Integrity Construction*. The Company also acts as a model for our partners to jointly build a healthy industry environment of integrity, morality, and fairness. In FY2018, Mr. Bian Jianchun, the Party Secretary at Shanghai Prime Biaowu High-Tensile Fasteners Co., Ltd., a subsidiary to Shanghai Prime, was elected as the Chairman of the 2nd Fastener Association of Shanghai. He urged the member enterprises to make joint efforts to achieve healthy progress of the industry.

Outside of China, in order to hold fast to its corporate responsibility and in pursuit of sustainable development, Nedschroef has developed the *Code of Employees' Conducts* based on the morality and integrity in business conducts. On the one hand, Nedschroef undertakes the responsibility to its staff and protect their rights; on the other hand, it has made stipulations and requirements on employee conducts, and publicized violations and reporting procedures. It has also established *Global Compliance System*, and appointed a Group Compliance Officer as well as one Compliance Director for each subsidiary, supervising and preventing violations. In addition, a special reporting procedure and anonymous reporting hotline are provided to encourage employees to inform against any misconducts.

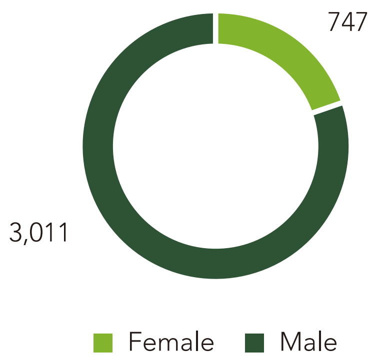
In FY2018, we have not been involved in any lawsuits relating to corruption, bribery, blackmail, fraud, or money laundering.

ACCOUNTABILITY FOR EMPLOYEE

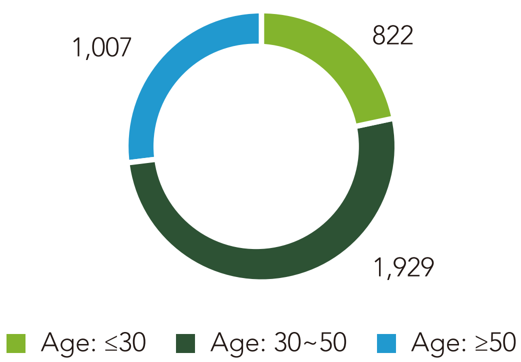
Each and every employee constitutes a precious resource to a company. We provide equal job opportunity to excellent talents, and build inclusive and diversified corporation culture. Employees shall receive fair and transparent compensation, and capable employees are encouraged to obtain more benefits. We place great emphasis on talent cultivation and provide systemic development plan in pursuit of joint development. Furthermore, we strive to provide employees with cozy and healthy working environment, so as to mitigate their stress and protect their mental and physical health.

In FY2018, the total number of employees was 3,758 and the employee's turnover rate was 6.3% in the scope of this ESG Report.

Employee by gender



Employee by age



Talent Development

In order to better cultivate and motivate employees, we treat all employees fairly without discrimination, input sufficient resources to establish training system, and provide customized cultivation plan and wider vocational development platform. Our customized training covers all skills like sales, quality, R&D, know-how, safety and management.

In FY2018, the average training hours of each employee were 13.9 and the total training hours were 52,383.

Building four Talent Teams

In China, we started to build four talent teams from the 2017, namely the team of scientific and technological talents, team of high potential talents, team of skilled talents, as well as the team of young college students, aiming to improve staff abilities by means of holistic, multi-dimensional training plans and a sound training system.

- **Scientific and technological talent team:** In FY2018 we held the 2nd Scientific and Technological Conference, announcing the establishment of "Shanghai Prime Doctors' Studio" and entering into a cooperation agreement with Shanghai Electric Central Academe. These measures reinforced our efforts in cultivating scientific and technological talents as well as improving the mechanism for encouraging scientific and technological innovations.

- **High potential talent team:** In FY2018 we held the "Shanghai Prime School — Potential Talent Workshop", which enhanced the participants' understanding of the Company's development and the manufacturing industry.

- **Skilled talent team:** In FY2018 we organized technical skill contests of certain types of work among employees, aiming to guide employees to understand the charm of "artisan spirit", build a team of skilled talents and create a healthy craftsmanship atmosphere. It also helped us to improve the quality of the workforce and promote the sustainable development of the Company.

- **Young college student team:** In FY2018 we launched young college student workshop. More than 30 excellent students took part in the workshop and gained deep insight into the Company's development as well as their own career planning.

Development of Apprenticeship Culture

Outside of China, Nedschroef continues developing the traditional German apprentice culture in its affiliated German company. We continue signing apprentice contracts with students who finished compulsory education and with an age above the minimum age required by law and cultivating them by joint cooperation with schools. Those apprentices spend two thirds of their time in receiving our trainings on production activity and technical skills and the rest in learning at school.

Case: A German company under Nedschroef signed apprenticeship contracts with students and offered them training on production skills as well as technical know-how; so as to cooperate with schools to develop technical talents and apprenticeship culture.

Equal Employment

We adhere to equal employment, prohibit employee discrimination in any form, and strictly abide by governing laws and regulations on human rights, labor, and employment. In China, we strictly comply with the *Labor Law of the People's Republic of China*. Outside of China, Nedschroef complies with local laws and regulations, including the *Working Hours Act*, *General Equal Treatment Act*, *Anti-discrimination Law* (AGG), etc. We strictly prohibit child labor and any form of harassment, physical punishment, psychological oppression, language assault, or coercion. We respect the rights of employees to freely join associations or labor unions. We were not involved in any child labor, forced labor, or discrimination cases in FY2018.

By recruiting employees with different backgrounds, we bring diversified views and values to the Company and inject vitality into the Company and its employees. We do not treat employees differently because of race, skin color, religion, gender or physical health. For example, we have set up the Female Employees Committee under the labor union according to laws, which is responsible for the deliberation and development of rules and regulations relevant to the protection of female employees' rights, such as *Protection of Rights and Interests of Female Employees*, to protect and maximize the legal as well as special rights and interests of the female employees in China. Outside of China, Nedschroef rejects HIV testing as a prerequisite for recruitment, access to training or promotion, unless it is so required under the legal standards of the countries in which Nedschroef conducts its business.

Case: In FY2018, we held the awarding ceremony for outstanding female employees of 2017 themed "Walk with beauty, work with teammates", appreciating the efforts and contributions made by female employees for the development of the Company.

Compensation and Benefits

We provide employees with competitive compensation and benefits and we have already established a relatively complete compensation incentive system which provides a fair and attractive career development plan based on the overall strength of employees' capability, performance and achievements. In China, we timely pay social insurances including endowment insurance, medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance, as well as housing provident fund for employees in full in compliance with the *Social Insurance Law of the People's Republic of China*, *Regulations on Management of Housing Provident Fund*, as well as other laws and regulations. We also buy commercial insurances for them to improve their capabilities to overcome unexpected difficulties. Outside of China, Nedschroef also offers competitive compensation and benefits for employees in accordance with local labor and compensation policies.

Employee Safety

We attach great importance to employee safety. In improving employee safety management system, we strengthen publicity and education on safety awareness for employees and always take safety production as one of the significant indicators for enterprise operators' economic responsibility evaluation. Our factories in China including Wuxi Turbine Blade Co., Ltd., Shanghai Tool Works Co., Ltd., and Shanghai United Bearing Co., Ltd. have acquired OHSAS18001 Occupational Health and Safety Management System Certification. We were not involved in any serious production accidents in FY2018.

Raising Safety Awareness

To ensure employee safety and reduce accidents, we give priority to raising employees' safety awareness. In China, we undertook various safety training sessions and publicity activities to raise employees' safety awareness. For example, we held a safety and environmental protection knowledge contest themed "Safety and environmental protection accompanies me" to guide employees to learn safety knowledge.

Outside of China, Nedschroef has also organized a series of safety training sessions and publicity activities to enhance employees' attention to safety at work. Center of Competence Helmond put up safety posters all around the Company to warn against potential safety hazards all the time.

In addition, to reduce company losses and employee injuries caused by emergencies, accidents, or natural disasters, we have held emergency drills to strengthen employees' awareness of firefighting and escape, and improve their ability to cope with emergencies.

Case: The Labor Union and the Safety and Environmental Protection Department of Shanghai Prime jointly held a safety and environmental protection knowledge contest, covering safety management, SEC-LOVE optimization planning, safety and environmental protection, safety production related laws and regulations, etc.

Center of Competence Helmond put up posters of "Ten Safety Rules" around the Company, showing content such as wearing helmets, emergency escape, etc.

Key Risk Control

In China, we pay attention to safety protection during the production process, and comply with the *Labor Law of the People's Republic of China*. According to our production process and operation activities, we formulate *Regulations for Safety Production and Safety Production Accident Reporting, Investigation and Handling*. Based on the standards of *Major Risk Management and Control Measures of Shanghai Electric*, we carried out risk and hazard identification activities and formulated our own major risk (Level I, Level II) management and control manual for production security. Based on the different operation locations and the corresponding risk assessment results, a new risk map is made with updated risk point map, alarm reporting telephone and evacuation chart; risk-informing boards are placed in appropriate areas for reminding employees to be cautious about possible risks. In addition, we have classified the recorded accidents happening in the work flow based on the frequency of occurrence and consequences, deeply investigated the causes, and proposed preventive and rectifying measures to avoid similar accidents.

Outside of China, Nedschroef comply with the relevant Health and Safety laws and regulations as well as Voluntary Standards to which Nedschroef subscribes. Besides, Center of Competence Fraulautern & Berlin conduct regular inspections by the external service provider and the internal specialist for occupational safety.

In FY2018, the number of lost days due to work injuries was 1,841, and the number per capita was 0.5 days. There was no work-related fatality.

Employee Health

Due to concerns about employees' health, we are committed to creating a healthy work and life environment to maximize the protection of their physical and psychological health.

Employee Health Care

To promote employees' physical and mental health, we comply with the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, and provides employees with regular examinations. Outside of China, Nedschroef monitors employees' disease rate, and engages professional doctors to provide routine occupational health examinations and consultation for employees, including eye and ear examination, as well as regular workplace examinations. Nedschroef also provides its employees with a series of disease prevention courses, such as mental stress prevention and handling, back problem prevention and treatment, etc.

Case: *Employees of Nedschroef can use the Lifestyle Checkpoint machine for self-health detection, including detection of weight, body fat, blood pressure, blood oxygen level, bone mass, muscle mass, basic metabolism rate, etc.*

Favorable Working Environment

In China, with staff canteens, we provide our employees with balanced dietary nutritions, and regularly inspect the food service sanitation of the canteens, ensuring a healthy dining environment and food safety in order to provide high-standard food.

During the summer, we attach importance to heatstroke prevention and endeavor to create a safe and comfortable working environment for our employees. Heatstroke prevention articles are provided for the employees who need to work in high temperature. For instance, Shanghai Tool Works Co., Ltd., Shanghai Tian An Bearing Co., Ltd., and other subsidiaries offered mung bean soup and other heatstroke prevention drinks in summer. We also renovate or add heatstroke prevention facilities to improve the working environment. Furthermore, we have fully prepared heatstroke preventing medical supplies to ensure complete emergency measures.

Work-life Balance

We arrange for various spare-time cultural activities to help employees achieve work-life balance, and relieve their stress caused by imbalance between work and family.

In China, we held the "Healthy trip" activity designed to help employees relieve work stress through sport exercise, participated by nearly 200 employees in FY2018; we also regularly organize sports activities such as table tennis, badminton, and swimming competitions as a platform for exchange among employees with the same hobbies; in spring, we organize mountain climbing and other outdoor activities to help them develop a healthy, happy, and natural lifestyle.

Outside of China, Nedschroef encourages employees to work out. Employees could get discounts at local fitness centers, as well as for buying bicycles in order to develop a low-carbon commuting lifestyle.

Case: More than 180 employees of Wuxi Turbine Blade Co., Ltd. and their families participated in FY2018 Spring Mountain Climbing Competition.

Shanghai Prime subsidiaries actively organized teams to compete in the 7th "Shanghai Prime Cup" Employee Table Tennis Competition.

Employee Assistance

We always care about our employees, and provide financial assistance for the needy ones. Each year, we carry out the "Autumn student aid" activity to fund low-income employees' children for schooling and provide incentives for children admitted into universities in China.

We have also worked out a budget to provide immediate financial aids for employees who are in urgent need of money in the event of an accident. The "One day donation" event held in FY2018 gathered an assistance donation of RMB200,000 to the Electromechanical Workers Mutual Aid. By applying for the poverty alleviation fund, we helped 85 employees in need. We made home visits and gave consolation money to employees suffering or employees whose family members suffering from serious illness. On Chinese New Year's Eve, we paid special visits to employees having long illness and those in difficulties in the hope of conveying them warmth.

ACCOUNTABILITY FOR ENVIRONMENT

In China, in strict compliance with *Environmental Protection Law of the People's Republic of China*, we attach great importance to and keep increasing input into environmental protection to enhance cleaner production. Some of our factories in China have completed ISO14001 certification for environmental management system, including Wuxi Turbine Blade Co., Ltd., Shanghai Tool Works Co., Ltd., Shanghai United Bearing Co., Ltd., and Shanghai Zhenhua Bearing Factory Co., Ltd.

Outside of China, Nedschroef has also obtained ISO14001 certification for environmental management system. Three of its subsidiaries, namely Center of Competence Altena, Center of Competence Plettenberg, and Center of Competence Fraulautern & Berlin, have got ISO50001 certification for energy management system.

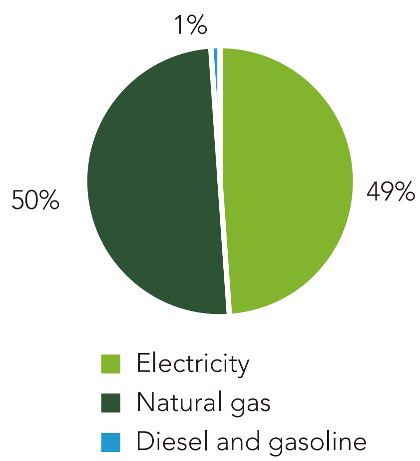
Every year we regularly conduct internal and external review on enterprise environment for continuous optimization of environment and resource management system as well as standardization of energy saving and emission reduction management. No major environmental pollution accidents and ecological damage incidents occurred in the Company in FY2018.

Resource Management

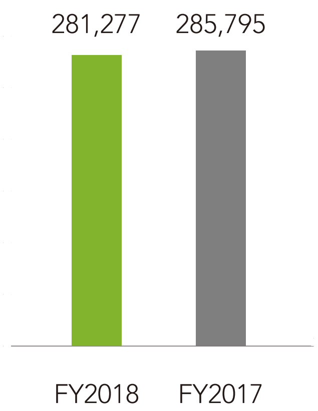
In the course of business operation, we mainly consume such resources as electricity, natural gas, steel and paperboards. We have established the *Energy Resource Management Regulations* for control over the resources consumed by the Company to enhance the use efficiency of resources and to lower energy consumption.

Nature gas and electricity are the main energy consumed by the Company, with the consumption of 278,737 MWh, accounting for 99% of the total energy consumption. In FY2018, we focused on saving energy and minimizing greenhouse gas (GHG) when increasing revenue. The greenhouse gas emissions intensity (the amount of greenhouse gas emissions per million yuan of sales revenue) decreased by 1.2 tonnes/million yuan, which would help ease the pressure of global warming.

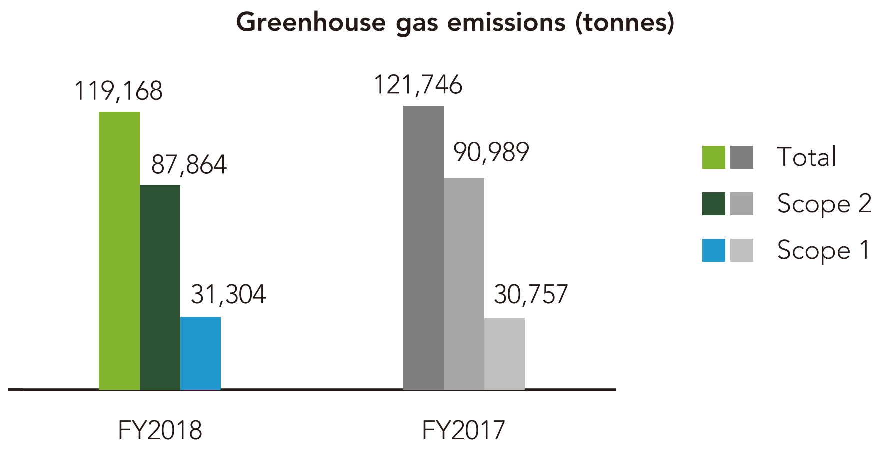
Percentage of energy consumption by source

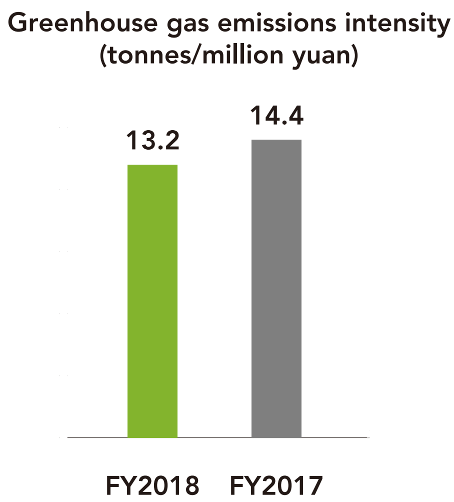


Energy consumption (MWh)



Note: The energy consumption in FY2017 (increased disclosure of diesel and gasoline consumption) restated to ensure comparability.





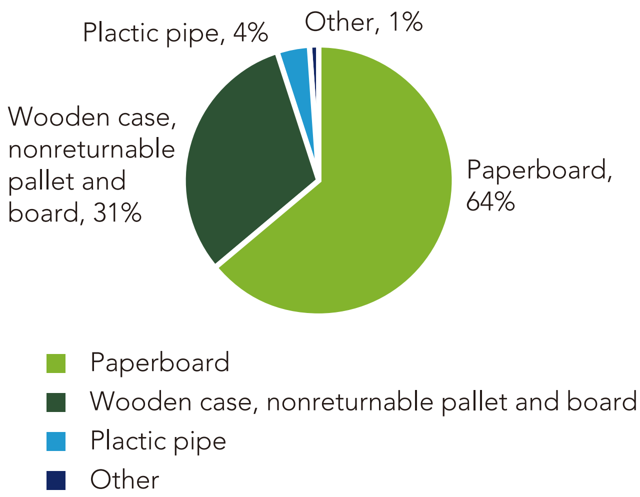
In China, to further promote energy saving and consumption reduction, we set the energy consumption indexes for the Company and the departments with high energy consumption, conducted monthly statistical evaluation based on such indexes, and required the departments failing to meet the index requirements to figure out the cause. Meanwhile, we strengthened employees' awareness of energy saving by enhancing publicity. The measures we took in FY2018 to promote energy saving and emission reduction included:

- Further complete the replacement with LED.
- Optimize the use of air conditioners.
- Implement node-based equipment shut-down to reduce energy reactive loss in response to governmental requirements of energy conservation and emission reduction.
- Require affiliated companies to replace and upgrade original air compressors and take advantage of waste heat to partially meet the heating demand in winter.
- Utilize regenerated hydrocarbon to reduce hydrocarbon consumption and hazardous wastes produced.

Outside of China, Nedschroef measures and assesses factory energy consumption to timely detect deviations and take measures accordingly. To reduce energy loss, Nedschroef selects high-efficiency electrical appliances and parts in procurement. For example, Center of Competence Plettenberg has purchased high-efficiency compressors, optimized the washing process and reduced the leakage of compressed air.

We encourage our customers to adopt renewable or recyclable packing materials to lower the consumption of packaging materials. In FY2018, we used a total of 4,210 tonnes of packaging materials, mainly paperboard and wooden case, nonreturnable pallet and board.

Percentae of used packaging materials by source



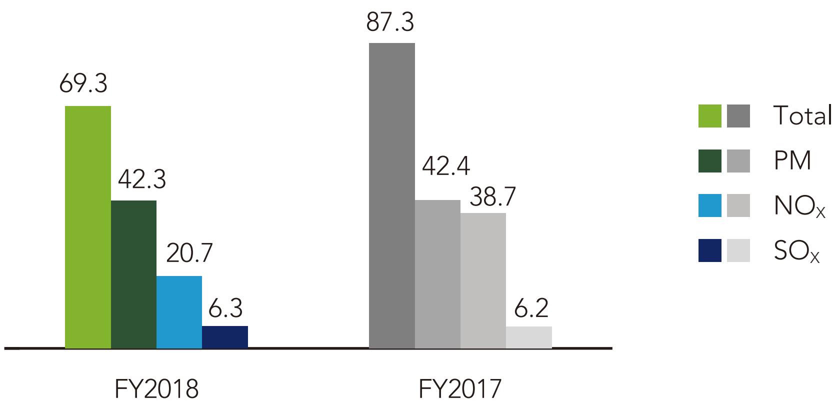
Waste Management

As for pollution emissions, we trace pollution sources, conduct effective monitoring and management waste timely, and develop proper solutions based on the actual situation, in an attempt to minimize the harm to the environment.

Waste Gas

We mainly generate industrial waste gas such as particulate matter (PM), nitrogen oxide (NOx) and sulphur oxide (SOx). In FY2018, the total amount of waste gas was 69.3 tonnes. The emissions of nitrogen oxide decreased by 18.0 tonnes compared to that of in FY2017, mainly due to the fact that the Center of Competence Fraulautern & Berlin did not use fossil fuels.

Waste gas emissions (tonnes)



In China, we exercise control over waste gas emission in strict compliance with the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Atmospheric Pollutant Emission Standard of the People's Republic of China*, as well as other rules and regulations. We utilize the tower-type circulating spraying facility for waste gas purification, with the dilution discharge for waste gas to upper air.

In addition, we strive to reduce oil mist and exhaust gas through constant equipment renovation and upgrade, as well as furnishing efficient oil mist and exhaust gas processing units. For example, in FY2018, Shanghai Tool Works Co., Ltd., one of our subsidiaries, invested RMB1 million to transform and upgrade boilers. By using a low-nitrogen burner and an exhaust gas treatment device, we are trying to ensure that the exhaust gas meets the standards. This project is expected to be completed in FY2019.

Solid Waste

In FY2018, we produced 3,081 tonnes of hazardous wastes, mainly including waste emulsion, waste oil and sewage sludge. Our non-hazardous wastes were 5,978 tonnes, mainly containing domestic waste, waste iron scrap, waste steel and salt bath slag.

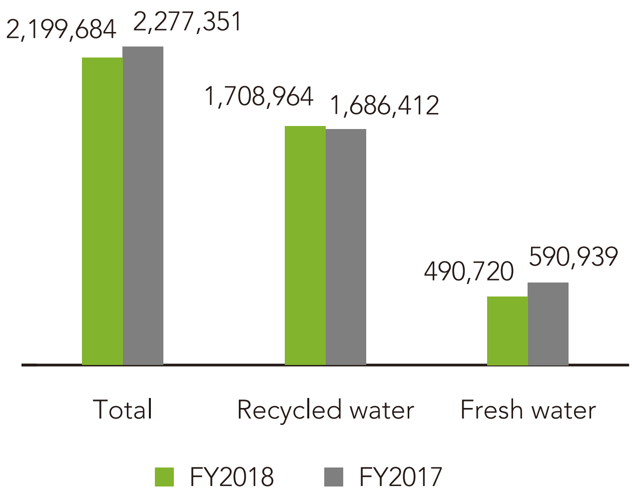
In China, in strict compliance with the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste*, we have issued the Waste Management Regulations which stipulates the treatment process of wastes generated in production and operation activities. We first conduct waste classification in accordance with the *National Catalogue of Hazardous Wastes* and then separately dispose the wastes of different categories. For example, we tend to classify the lab wastes into general solid wastes and hazardous wastes (such as waste emulsion and waste oil) which will be handled by qualified third-party professional organizations.

Outside of China, Center of Competence Plettenberg has formulated various policies and regulations for the disposal of hazardous and non-hazardous wastes. Center of Competence Fraulautern renovated its waste storage yard to alleviate the adverse environmental impacts of wastes.

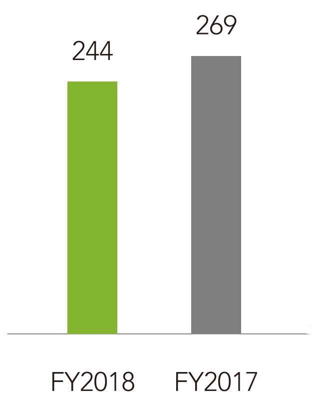
Water Resource Management

We have formulated and strictly enforced the water saving management system to reduce the water consumption specifically through regular spot inspection on water wasting practices, regular maintenance of water facilities, promotion and education for employees to strengthen their water-saving awareness, and other water saving initiatives. Our water consumed is all taken from the urban water supply system. In FY2018, our total water demand in and outside of China is 2,199,684 cubic meters, with a decline of 77,667 cubic meters than that of in FY2017. The percentage of recycling water increased to 78%. Due to the increase in consumption of recycled water and sales revenue, the water consumption density (the consumption of per million yuan of sales revenue) reduced by 25 cubic meters per million yuan.

Total water consumption (m^3)



Water consumption intensity (m^3/million yuan)



Industrial waste water is mainly derived from the heat treatment cooling process. The cooling water produced in the heat treatment process will be recycled and the waste water blackened during heat treatment or generated in the acid washing process will be handled by qualified third parties after removal of salt slags by filtration through wastewater treatment facilities. We ensure up-to-standard wastewater discharge, which has no significant impact on rivers, lakes, groundwater, and glaciers.

Domestic sewage primarily comes from offices, toilets and kitchens, without the discharge of poisonous, hazardous substances. To improve sewage treatment efficiency and reduce urban water pollution, we have taken a series of measures: oily sewage produced in kitchens will be discharged into the municipal sewage pipe network after the solid impurities contained are filtered through the trap valve in the cleaning pool; one of the Company's subsidiaries Wuxi Turbine Blade Co., Ltd. implements "rainwater and wastewater separation" by discharging sanitary wastewater and rainwater separately, and Shanghai Zhenhua Bearing Factory Co., Ltd., has installed intercept valves at rainwater discharge outlets to ensure the wastewater can be intercepted in case of emergency disposal.

In China, we entrust an environmental monitoring station to check our wastewater discharge each year in accordance with the Integrated Wastewater Discharge Standard of the People's Republic of China so as to conduct effective inspection on the discharge of industrial wastewater and domestic sewage. We also conduct self-inspections to ensure the wastewater is adequately treated before discharge. For instance, Shanghai Zhenhua Bearing Factory Co., Ltd., one of the Company's subsidiaries, has installed automatic on-line monitoring devices at the wastewater discharge outlets to timely monitor the discharge of wastewater.

ACCOUNTABILITY FOR SOCIETY

We never forget to make contributions to the society while pursuing development. As an industry-leading enterprise, we hope to promote technology development of the whole industry by means of cooperative research and development and technology sharing. In China, we formulate the *Needy-assistance and Warmth Regulations*, and continue to establish relationships with communities and make earnest effort to participate in public welfare activities, so as to fully perform our corporate social responsibilities. Outside of China, Nedschroef take various measures to protect environment, help people in need and improve the life of local residents, so as to actively take social responsibilities.

Technological Development

As a national famous enterprise producing machinery parts and components and providing relevant services, we have set up a quality control system in line with international standards, equipped with advanced inspection equipment, a professional quality control team, and cutting edge technology in various business areas:

- Blade: We are one of the biggest professional turbine blade manufacturers in the world.

- Bearing: We have become a state designated supplier of railway bearings and relevant maintenance services, a professional production base of precision miniature bearings for aviation and aerospace use, and a professional supplier of special automotive bearings.

- Cutting tool: We are a leading Chinese company in manufacturing modernized large metal cutting tools.

- Fastener: We are one of the largest fastener exporters 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) prizes for progress in science and technology, and were the supplier of many high-tech projects, hence boosting the development of China's high-end manufacturing industry. For example, in FY2018, Shanghai Tool Works Co., Ltd., one of our subsidiaries, won the second prize of State Science and Technology Advancement Award of China by participating in the "Design, preparation, and application of high-efficiency cutting tools" project, which commended our independent innovation efforts for over a decade and the breakthroughs in the design, preparation, and application of high-efficiency cutting tools. This project will be applied by high-end equipment manufacturers, and is of great significance to promoting the progress of independent innovation technologies in China's tool industry.

We have reserved a large number of technical resources through the cooperation with the Institute of Metal Research of the Chinese Academy of Sciences, the Central Iron & Steel Research Institute and major universities on joint development of blades, bearings and other products. With great emphasis on industry communication and cooperation, we actively engage in setting industrial standards and sharing our experience and achievements with other enterprises in the industry, aiming to promote the healthy and prosperous technology development in the whole industry.

Community Involvement

We are enthusiastic about community services, and committed to building a harmonious and friendly community relationship, performing our social responsibilities with practical actions and passing on positive energies.

Outside of China, Nedschroef has made many community donations in FY2018. For example, Koninklijke Nedschroef Holding B.V donated EUR1,500 to orphanages in Romania , poor children, and the disabled to help them have a better life; Center of Competence Plettenberg has sponsored a number of local badminton and foot racing events to help residents develop a healthy lifestyle; Nedschroef Fraulautern GmbH made community contributions mainly in education by providing financial support for local students to help them enhance personal abilities.

Case: *In February 2018, Nedschroef Fraulautern GmbH financially supported the local students who participate in the contest of electric sports car construction with EUR5,000 contest to help them enhance their abilities in areas such as automobile construction, project leading, and marketing.*

In June 2018, Nedschroef Fraulautern GmbH held a seminar at which kids could carry out small projects under teachers' guidance, with an aim of fostering their enthusiasm for technology was fostered.

In China, we organized volunteers to help residents of neighboring communities govern the environment, publicize safety concepts, provide community services, and take care of the elderly. Through a series of public service activities, we kept communication with the community, established and maintained friendly relations with them and discharged our social responsibility.

Environmental Governance

Without a good environment surrounded, residents cannot live comfortably. In order to better serve the people, we have undertook some voluntary activities to manage the community environment. For example, in China, volunteers from Shanghai Tool Works Co., Ltd., one of our subsidiaries, took part in the "Clean community" initiative and carried out clean-up work on green belt garbage, public area pile-ups, illegal parking of non-motor vehicles, and dusty corners in FY2018.

Case: Volunteers from Shanghai Tool Works Co., Ltd. went to communities to beautify the residential environment by picking up garbage, cleaning the ground, and putting non-motor vehicles in order.

Noise Management

Our major noise sources include air conditioning units, air compressors, cooling towers, heat treatment facilities, etc.

In China, the Company strictly complies with *Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise*. Measures like building noise shields and sound-absorbing walls around facilities have been taken to control noise. One of our subsidiaries, Wuxi Turbine Blade Co., Ltd., has optimized and improved the equipment foundation and mitigated the equipment vibration through the mode of industrial upgrading in combination with new plant construction and enterprise relocation. The investment of capital construction related to the equipment foundation totaled RMB25 million.

Out of China, construction work at night is prohibited in Nedschroef. Our measurement results of factory boundary noise can meet the standards of Category II of the *Emission Standard for Industrial Enterprises Noise at Boundary*, and we always do our utmost in minimizing the noise impact on surrounding communities to ensure a quiet sleeping environment for residents.

Publicity of Safety Doctrines

In China, we provide community residents with door-to-door power circuit security check services and emphasize the importance of safe electricity use. In FY2018, volunteers from our subsidiary Shanghai Tool Works Co., Ltd. went to homes of the poor in the Changbai Street community. With the principle of "Safety first, prevention oriented", we removed the water, electricity, and coal related hidden dangers and timely refurbished and updated components for them so that they feel the warmth. Also, for consecutive years, volunteers from the same subsidiary took cooling drinks as well as festival greetings to the officers and soldiers at Yangpu Fire Detachment Xiangyin Road Brigade on the Army Day, who have been fighting in the frontline against fire.

Case: Volunteers from Shanghai Tool Works Co., Ltd. were checking the kitchen circuit aging status of needy families and imparting electricity safety knowledge.

Convenience Services

In China, we delivered a series of convenience services for communities. In FY2018, one of our subsidiaries, Shanghai Tool Works Co., Ltd. provided small appliance repair and maintenance, haircutting, blood pressure measurement, health consultation, as well as other services for community residents, getting highly recognition and praises by them and helping maintain a good relationship with neighboring communities.

Case: Volunteers from Shanghai Tool Works Co., Ltd. were offering free haircut services to community residents.

Caring the Elderly

In China, we pay attention to the living conditions of the elderly and have launched a series of condolence activities. Before the Chinese New Year in FY2018, Shanghai Tool Works Co., Ltd. sent representatives to express sympathy and solicitude for the poor and the solitary elderly in Changbai Street community with consolation money totaling RMB2,000. Representatives of Shanghai United Bearing Co., Ltd., one of our subsidiaries, went to the sanatorium for army-men to visit the old soldiers and gave them traditional holiday food Double Ninth cakes.

ESG DATA OVERVIEW

Indicators	FY2018	FY2017
Emissions		
Greenhouse gas emissions in total (Scope 1&2) (tonnes)	**119,168**	121,746
Direct greenhouse gas emissions (Scope 1)	**31,304**	30,757
Indirect greenhouse gas emissions (Scope 2)	**87,864**	90,989
Greenhouse gas emissions per million yuan of sales revenue (tonnes/million yuan)	**13.2**	14.4
Waste gas emissions in total (tonnes)	**69.3**	87.3
PM emissions	**42.3**	42.4
NOx emissions	**20.7**	38.7
SOx emissions	**6.3**	6.2
Hazardous wastes produced in total (tonnes)	**3,081**	2,809
Hazardous wastes produced per million yuan of sales revenue (tonnes/million yuan)	**0.3**	0.3
Non-hazardous wastes produced in total (tonnes)	**5,978**	4,972
Non-hazardous wastes produced per million yuan of sales revenue (tonnes/million yuan)	**0.7**	0.6
Water resource consumption		
Water consumption in total (cubic meters)	**2,199,684**	2,277,351
Fresh water	**490,720**	590,939
Recycled water	**1,708,964**	1,686,412
Water consumption per million yuan of sales revenue (cubic meters/million yuan)	**244**	269
Energy consumption		
Energy consumption in total (MWh)	**281,277**	285,795*
Electricity	**138,069**	140,530
Gas	**140,668**	141,997
Diesel and gasoline	**2,540**	3,268*
Energy consumption per million yuan of sales revenue (MWh/million yuan)	**31.2**	33.7
Packaging materials		
Packaging materials in total (tonnes)	**4,210**	3,892

* The energy consumption in FY2017 (increased disclosure of diesel and gasoline consumption) restated to ensure comparability.

Indicators	FY2018	FY2017
Employment		
Total workforce	**3,758**	3,891
By gender		
Female	**747**	785
Male	**3,011**	3,106
By age group		
Under 30	**822**	902
From 30 to 50	**1,929**	1,954
Over 50	**1,007**	1,035
Employee turnover ratio	**6.3%**	4.6%
By gender		
Female	**7.4%**	3.8%
Male	**6.0%**	4.8%
By age group		
Under 30	**12.9%**	9.4%
From 30 to 50	**3.5%**	3.0%
Over 50	**6.2%**	2.7%
Safety		
Number of work-related fatalities	**0**	0
Number of lost days due to work injury	**1,841**	1,853
Average number of working days lost due to work injury	**0.5**	0.5

* The energy consumption in FY2017 (increased disclosure of diesel and gasoline consumption) restated to ensure comparability.

Indicators	FY2018	FY2017
Development		
The percentage of trained employees	**73.4%**	59.1%
By gender		
Female	**70.3%**	57.1%
Male	**74.2%**	59.6%
By employee type		
Senior management	**66.0%**	74.0%
Middle management	**82.0%**	68.3%
Staff	**72.8%**	59.2%
The average training hours completed per employee	**13.9**	17.2
By gender		
Female	**11.2**	17.0
Male	**14.6**	18.8
By employee type		
Senior management	**24.2**	34.7
Middle management	**26.5**	20.8
Staff	**12.5**	16.2

APPENDIX I — INDEX OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Aspect	Description	Location/Remarks
A. Environmental		
Aspect A1: Emissions		
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 air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	Resource management; Waste management
A1.1	The types of emissions and respective emissions data	Waste management
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Resource management
A1.3	Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Waste management; ESG data overview
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Waste management; ESG data overview
A1.5	Description of measures to mitigate emissions and results achieved	Waste management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste management
Aspect A2: Use of resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Accountability for environment
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)	Resource management; ESG data overview
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Water resource management
A2.3	Description of energy use efficiency initiatives and results achieved	Resource management
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Water resource management
A2.5	Total packing material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Resource management

Aspect	Description	Location/Remarks
Aspect A3: The environment and natural resources		
General disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Accountability for environment
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Resource management
B. Social		
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	Accountability for employee
B1.1	Total workforce by gender, employment type, age group and geographical region	Accountability for employee; ESG data overview
B1.2	Employee turnover rate by gender, age group and geographical region	Accountability for employee; ESG data overview
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	Accountability for employee
B2.1	Number and rate of work-related fatalities	Employee safety
B2.2	Lost days due to work injury	Employee safety
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Employee health
Aspect B3: Development and training		
General disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Accountability for employee
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	ESG data overview
B3.2	The average training hours completed per employee by gender and employee category	Talent development; ESG data overview

Aspect	Description	Location/Remarks
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 forced labour	Accountability for employee
B4.1	Description of measures to review employment practices to avoid child and forced labor	Talent development
B4.2	Description of steps taken to eliminate such practices when discovered	Talent development
Aspect B5: Supply chain management		
General disclosure	Policies on managing environmental and social risks of the supply chain	Supplier management
B5.1	Number of suppliers by geographical region	Supplier management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier management
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	Accountability for market
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Accountability for market
B6.2	Number of products and service related complaints received and how they are dealt with	Accountability for product
B6.3	Description of practices relating to observing and protecting intellectual property rights	Accountability for product
B6.4	Description of quality assurance process and recall procedures	Accountability for product
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Accountability for product

Aspect	Description	Location/Remarks
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	Business ethics
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	Business ethics
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Business ethics
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	Accountability for society
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	Community involvement
B8.2	Resources contributed (e.g. money or time) to the focus area	Community involvement

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 2018 ("FY2018").

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 59 to the financial statements. During FY2018, 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 19 to 20
The probable future business development of the Company	Pages 9 to 10 and 21
The environment-related policies and performance of the Company	Pages 46 to 74
Details of important relationships of the Company and its employees, customers and suppliers	Pages 20 and 76

RESULTS AND DIVIDENDS

The Group's profit for FY2018 and the financial positions of the Company and the Group as at 31 December 2018 are set out on pages 89 to 92 of this annual report.

The Board proposed the payment of a final dividend of RMB4.10 cents (FY2017: Nil) per share in respect of FY2018 to shareholders whose names appear on the register of members of the Company on Monday, 1 July 2019. This recommendation has been incorporated as an allocation of retained profits within the equity section in the statement of financial position. The dividend will be distributed on 12 August 2019 subject to the approval of the shareholders at the annual general meeting of the Company to be held on 14 June 2019.

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 FY2018 are set out in note 18 to the financial statements.

SHARE CAPITAL

During FY2018, there were no movements in the authorised share capital of the Company. The details of the movements in the issued share capital of the Company are set out in note 47 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 FY2018.

RESERVES

Details of movements in the reserves of the Company and the Group during FY2018 are set out in note 48 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB690 million. In addition, the Company's share premium account, in the amount of RMB719 million, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In FY2018, sales to the Group's five largest customers accounted for less than 30% of the total sales of the Group for FY2018. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases of the Group for FY2018.

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. Xiao Yuman, Mr. Zhang Mingjie, 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 22 to 29 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 FY2018.

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 FY2018 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 FY2018.

Use of Proceeds

By way of rights issue in December 2018, the aggregate net proceeds is approximately RMB312 million. As stated in the prospectus of the Company dated November 15, 2018, the intended uses of the proceeds raising from the rights issue are set out as follows:

- approximately HK$183 million (representing approximately 50% of the estimated net proceeds from the rights issue) will be applied for the partial repayment of the shareholder's loan in the amount of RMB 895 million and/or bank loans;

- approximately HK$146 million (representing approximately 40% of the estimated net proceeds from the rights issue) will be applied for investments including potential acquisitions of business related to the principal business of the Group (e.g. fastener, automotive and cutting tool industries) and/or capital expenditure in relation to business enhancement and expansion (e.g. construction of warehouse and factory), among which approximately HK$58 million will be utilised for capital expenditure and the rest will be used for potential investments;

- the remaining proceeds of approximately HK$37 million (representing approximately 10% of the estimated net proceeds from the rights issue) will be applied for general working capital of the Company.

As of December 31, 2018, the Group hasn't utilized the proceeds from the rights issue. As at the date of this annual report, the Company has deposited the unused proceeds raising from rights issue into short-term demand deposits with commercial banks in the PRC. The Group will gradually utilize the residual amount of the proceeds raising from the rights issue in accordance with the intended purposes.

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

As at 31 December 2018, 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 page 44 of this report.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during FY2018 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 FY2018, 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 2018, 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 42 to 43 of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During FY2018, 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 FY2018, 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 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.

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.

The proposed annual cap, representing the maximum aggregate sales amount, for 2018 was RMB496.0 million. The Group's total sales to the Parent Group for FY2018 amounted to RMB279.0 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 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, 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.

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.

The proposed annual cap, representing the maximum aggregate purchase amount, for 2018 was RMB655.0 million. The Group's total purchases from the Parent Group for FY2018 amounted to RMB nil million.

Fourth And Fifth 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 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. The fifth supplemental property lease agreement took effect on 1 January 2018.

The proposed annual cap, representing the maximum aggregate rental payable, for 2018 was RMB36.0 million. The total rental payable to the Parent Group for FY2018 amounted to RMB23.9 million.

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.

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.

The proposed annual cap, representing the maximum aggregate comprehensive service fees, for 2018 was RMB30.0 million. The total comprehensive service fees paid by the Group to the Parent Group for FY2018 amounted to RMB0.3 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 FY2018.

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

No events after the reporting period of the Group are to be reported.

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, there is no change to the Company's auditor.

By order of the Board
Zhou Zhiyan
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
15 March 2019

Report of the Supervisory Committee

Dear Shareholders,

During the year ended 31 December 2018 ("FY2018"), members of the supervisory committee (the "Supervisory Committee") of Shanghai Prime Machinery Company Limited (the "Company") has convened two 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 FY2018, the Supervisory Committee has attended one 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 FY2018, 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 FY2018.

- 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 2019, 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
15 March 2019

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 89 to 220, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 matters	How our audit addressed the key audit matters
Annual Impairment assessment on goodwill	
Refer to note 20 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 2018, the carrying amount of goodwill amounted to RMB1,496,907,000 which arose from the acquisition of Nedfast (defined in note 20) in previous year. 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 2018. Details of the related accounting policies and carrying value of goodwill are set out in notes 3 and 20 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 is 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 and earnings before interest and tax ("EBIT") developments, and comparing EBIT margins and revenue growth against historical performance; and • Involving our internal valuation experts to assess and 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 matters	How our audit addressed the key audit matters
Impairment assessment of trade receivables	
We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period. As at 31 December 2018, the Group's net trade receivables amounting to approximately RMB1,210,677,000, which represented approximately 12.54% of total assets of the Group and out of these trade receivables of approximately RMB723,504,000 were past due. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Hong Kong Financial Reporting Standard 9 "Financial Instruments" (HKFRS 9) and recognised an additional impairment of RMB12,379,000 as at 1 January 2018 in accordance with the transitional provisions of HKFRS9. As disclosed in note 53 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade receivables that with significant outstanding balances or are credit-impaired are assessed for ECL individually. The loss allowance amount of the significant outstanding balances or credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 53 to the consolidated financial statements, the Group recognized an additional amount of RMB57,211,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2018 amounted to approximately RMB126,297,000.	Our procedures in relation to impairment assessment of trade receivables included: • Understanding key controls on how the management estimates the loss allowance for trade receivables; • Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adaption of HKFRS9 • Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 1 January 2018 and 31 December 2018, including their identification of trade receivables with significant outstanding balances or credit-impaired, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade receivables in notes 29 and 53 to the consolidated financial statements; and • Testing subsequent settlements of credit-impaired trade receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

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

15 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue			
Goods and services	5	**9,027,535**	8,478,895
Cost of sales		**(7,247,401)**	(6,793,966)
Gross profit		**1,780,134**	1,684,929
Other income	7a	**71,041**	89,025
Impairment losses, net of reversal	8	**(48,379)**	(3,931)
Other gains and losses	7b	**100,048**	29,270
Selling and distribution expenses		**(429,799)**	(399,869)
Administrative expenses		**(699,590)**	(638,161)
Research expenditure		**(335,348)**	(322,030)
Other expenses	9	**(1,106)**	(5,163)
Share of profits of associates		**29,315**	41,601
Share of loss of a joint venture		**(198)**	(813)
Finance costs	10	**(103,736)**	(123,308)
PROFIT BEFORE TAX	13	**362,382**	351,550
Income tax expense	11	**(85,131)**	(98,776)
PROFIT FOR THE YEAR		**277,251**	252,774
Profit (loss) for the year attributable to			
Owners of the Company		**280,438**	253,424
Non-controlling interests		**(3,187)**	(650)
		277,251	252,774

	NOTES	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Other comprehensive (expense) income	12		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**(900)**	5,775
Income tax relating to items that will not be reclassified		**280**	(1,732)
		(620)	4,043
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**3,585**	6,184
Fair value gain on hedging instruments designated as cash flow hedges		**–**	2,134
Income tax relating to items that may be reclassified subsequently		**–**	(533)
		3,585	7,785
Other comprehensive income for the year, net of income tax		**2,965**	11,828
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**280,216**	264,602
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**284,227**	265,147
Non-controlling interests		**(4,011)**	(545)
		280,216	264,602
EARNINGS PER SHARE	17		
Basic (RMB cents)		**19.88**	18.21
Diluted (RMB cents)		**19.86**	18.14

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	31/12/2018 RMB'000	31/12/2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**2,302,620**	2,343,766
Prepaid lease payments	19	**132,461**	135,924
Goodwill	20	**1,521,918**	1,513,334
Intangible assets	21	**33,556**	32,400
Interests in associates	22	**78,378**	144,349
Interest in a joint venture		**373**	568
Financial assets at fair value through profit or loss ("FVTPL")	23	**3,551**	–
Available-for-sale investments	24	**–**	2,043
Deferred tax assets	25	**125,181**	124,717
		4,198,038	4,297,101
CURRENT ASSETS			
Prepaid lease payments	19	**3,463**	3,463
Inventories	26	**1,863,522**	1,742,302
Amounts due from customers for contract work	27	**–**	59,956
Bills receivable	28	**–**	716,854
Trade receivables	29	**1,210,677**	1,264,452
Debt instruments at fair value through other comprehensive income ("FVTOCI")	30	**719,278**	–
Prepayments, deposits and other receivables	31	**300,333**	298,050
Contract costs	32	**42,612**	–
Restricted deposits	33	**169,715**	76,039
Bank balances and cash	33	**1,150,582**	804,956
		5,460,182	4,966,072
CURRENT LIABILITIES			
Trade payables	34	**1,424,870**	1,569,335
Bills payable	35	**408,124**	363,961
Other payables and accruals	36	**464,860**	478,672
Derivative financial instruments	37	**–**	2,583
Tax liabilities		**72,864**	66,707
Deferred income — government grants	38	**16,498**	16,751
Contract liabilities	39	**75,800**	–
Bank borrowings	40	**202,484**	171,383
Shareholders' loans	41	**944,311**	203,900
Obligations under finance leases	43	**6,368**	6,854
		3,616,179	2,880,146
NET CURRENT ASSETS		**1,844,003**	2,085,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,042,041**	6,383,027

	NOTES	31/12/2018 RMB'000	31/12/2017 RMB'000
NON-CURRENT LIABILITIES			
Bank borrowings	40	**606,128**	679,417
Shareholders' loans	41	**814,730**	1,675,446
Deferred income — government grants	38	**227,876**	245,900
Deferred tax liabilities	25	**12,773**	20,753
Obligations under finance leases	43	**19,393**	25,883
Other long-term payables	44	**52,426**	45,257
Refund liabilities	45	**21,520**	–
Retirement benefit obligations	46	**130,315**	127,346
		1,885,161	2,820,002
NET ASSETS		**4,156,880**	3,563,025
CAPITAL AND RESERVES			
Share capital	47	**1,725,943**	1,438,286
Reserves		**2,385,453**	2,079,473
Total equity attributable to owners of the Company		**4,111,396**	3,517,759
Non-controlling interests		**45,484**	45,266
TOTAL EQUITY		**4,156,880**	3,563,025

The consolidated financial statements on pages 89 to 220 were approved and authorised for issue by the board of directors on 15 March 2019 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	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	Proposed final dividend RMB'000 (Note f)	Foreign currency translation difference RMB'000 (Note e)	Shares held for Incentive Scheme (defined in note 42) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	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
Adjustments (see note 2)	-	-	-	-	-	-	-	(10,524)	-	-	-	(10,524)	-	(10,524)
At 1 January 2018 (restated)	1,438,286	702,945	50,469	5,465	339,517	(1,297)	8,535	1,302,794	-	(309,054)	(30,425)	3,507,235	45,266	3,552,501
Profit (loss) for the year	-	-	-	-	-	-	-	280,438	-	-	-	280,438	(3,187)	277,251
Other comprehensive (expense) income for the year	-	-	-	-	-	-	(620)	-	-	4,409	-	3,789	(824)	2,965
Total comprehensive (expense) income for the year	-	-	-	-	-	-	(620)	280,438	-	4,409	-	284,227	(4,011)	280,216
Proposed final 2018 dividend	-	-	-	-	-	-	-	(70,764)	70,764	-	-	-	-	-
Appropriation of statutory reserves	-	-	-	-	40,731	-	-	(40,731)	-	-	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	1,757	-	-	-	-	-	-	-	1,757	-	1,757
Proceeds from Rights Issue (Note g)	287,657	24,808	-	-	-	-	-	-	-	-	-	312,465	-	312,465
Capital injection in Shanghai Premier Tension Control Bolts Company Limited ("SPTCB") (Note h)	-	-	-	-	-	-	-	-	-	-	-	-	4,229	4,229
Disposal of Shanghai Electric Bearing Company Limited ("Shanghai Electric Bearing") (Note 50)	-	-	4,415	-	-	-	-	-	-	-	-	4,415	-	4,415
Awarded shares vested	-	1,311	-	(4,695)	-	-	-	-	-	-	3,384	-	-	-
Awarded shares forfeited	-	530	-	(530)	-	-	-	-	-	-	-	-	-	-
Hedging reserve reclassified to profit or loss on disposal of hedging instruments designated as cash flow hedge	-	-	-	-	-	1,297	-	-	-	-	-	1,297	-	1,297
At 31 December 2018	1,725,943	729,594	54,884	1,997	380,248	-	7,915	1,471,737	70,764	(304,645)	(27,041)	4,111,396	45,484	4,156,880

	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	Proposed final dividend RMB'000 (Note f)	Foreign currency translation difference RMB'000 (Note e)	Shares held for Incentive Scheme (defined in note 42) 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 49)	–	–	–	–	–	–	–	–	–	–	–	–	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

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. Details of disposal of Shanghai Electric Bearing is set out in note 50.

(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 the HKFRSs. At the end of the reporting period, the Group had distributable reserves amounting to RMB1,542,501,000 (31 December 2017: RMB1,313,318,000) of which RMB70,764,000 (31 December 2017: nil) has been proposed as a final dividend for the year.

(g) During the year ended 31 December 2018, the Group issued 151,942,000 H shares on the basis of one new H share ("H Rights Share") for every five existing H shares held on 15 November 2018 at RMB1.07 (equivalent to HKD1.30) per H Rights Share and 135,715,236 domestic shares on the basis of one new domestic share ("Domestic Rights Share") for every five existing domestic shares held on 15 November 2018 at RMB1.07 per Domestic Rights Share (the "Rights Issue"). The transaction was completed on 7 December 2018 with the net proceeds from the Rights Issue being RMB312,465,000, which were calculated based on the total proceeds of RMB318,902,000 after deducting all costs and expenses incidental to the Rights Issue of RMB6,437,000. The completion of the Rights Issue resulted in an increase of RMB287,657,000 in share capital and RMB24,808,000 in capital reserve.

(h) On 12 November 2017, a board resolution of Shanghai Premier Tension Control Bolts Company Limited ("SPTCB") was granted to increase SPTCB's share capital from USD1,000,000 (equivalent to RMB6,472,000) to USD2,500,000 (equivalent to RMB16,307,000). Shanghai High Strength Bolt Factory Company Limited made the capital injection amounting to USD855,000 (equivalent to RMB5,606,000) to SPTCB, accounts for 57% of the total increased share capital, while the remaining shareholders of SPTCB made the remaining capital injection amounting to USD645,000 (equivalent to RMB4,229,000).

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**362,382**	351,550
Adjustments for:		
Finance costs	**103,736**	123,308
Share of loss of a joint venture	**198**	813
Share of profits of associates	**(29,315)**	(41,601)
Net foreign exchange losses	**49,405**	19,246
(Gain) loss on settlement of financial instruments	**(56,618)**	97,509
Dividend income from financial instrument at FVPTL	**(29)**	(214)
Gain on disposal of items of property, plant and equipment	**(8,359)**	(1,741)
Gain on write-back of long-aged payables	**(3,748)**	(706)
Cumulative loss reclassified to profit or loss on disposal of hedging instruments designated as cash flow hedges	**1,297**	–
Gain on disposal of interest in an associate	**(7,668)**	–
Depreciation of property, plant and equipment	**274,563**	256,798
Impairment loss, net of reversal		
— financial assets	**48,379**	3,931
— property, plant and equipment	**1,194**	–
Release of prepaid lease payments	**3,463**	3,463
Amortisation of intangible assets	**9,028**	11,081
Allowance for inventories	**51,020**	50,081
Reversal of allowance for inventories	**(26,464)**	(33,206)
Release of deferred income related government grants	**(20,186)**	(14,879)
Recognition of equity-settled share-based payments	**1,757**	2,186
Operating cash flows before movements in working capital	**754,035**	827,619
Increase in inventories	**(187,150)**	(23,596)
Increase in amounts due from customers for contract work	**–**	(115)
Increase in trade receivables	**(7,061)**	(16,569)
Increase in bills receivable	**–**	(132,819)
Increase in debt instruments at FVTOCI	**(2,424)**	–
Increase in prepayments, deposits and other receivables	**(20,078)**	(27,710)
(Decrease) increase in trade payables	**(92,221)**	136,149
Increase (decrease) in bills payable	**44,163**	(58,184)
Decrease in contract costs	**17,344**	–
Increase in contract liabilities	**28,019**	–
Increase in refund liabilities	**11,322**	–
Increase (decrease) in other payables and accruals	**46,028**	(36,576)
Increase in other long-term payables	**1,060**	19,156
Increase in deferred income — government grants	**1,909**	–
Cash generated from operations	**594,946**	687,355
Income taxes paid	**(87,547)**	(90,566)
NET CASH FROM OPERATING ACTIVITIES	**507,399**	596,789

	NOTES	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
INVESTING ACTIVITIES			
Dividend income from available-for-sale investments		–	214
Dividend income from financial assets at FVTPL		29	–
Dividends received from associates		27,966	33,556
Purchase of property, plant and equipment		(287,435)	(208,638)
Proceeds from disposal of property, plant and equipment		20,212	22,230
Proceeds from disposal of a subsidiary	50	58,847	–
Purchases of intangible assets	21	(9,912)	(5,293)
Proceeds from disposal of an associate		74,988	–
Acquisition of a subsidiary	49	–	7,795
Proceeds from disposal (payments in settlement) of financial instruments		54,035	(97,509)
Withdrawal of non-restricted deposits with original maturity of over three months		5,000	100,500
Placement of non-restricted deposits with original maturity of over three months		(2,000)	(62,000)
Withdrawal of restricted bank deposits		238,783	51,543
Placement of restricted bank deposits		(326,479)	(76,039)
NET CASH USED IN INVESTING ACTIVITIES		(145,966)	(233,641)
FINANCING ACTIVITIES			
Bank borrowings obtained		175,673	485,286
Repayment of bank borrowings		(225,068)	(604,725)
Shareholders' loans obtained		970,411	400,000
Repayment of shareholders' loans		(1,140,258)	(200,000)
Non-controlling shareholders' loan obtained		–	3,900
Repayment of loan from non-controlling shareholders		–	(62,673)
New obligations under finance leases		–	30,000
Repayment of obligations under finance leases		(7,007)	–
Repayment of company bonds		–	(500,000)
Dividends paid		(16)	(50,340)
Capital contribution from a non-controlling shareholder		4,229	–
Proceeds from Rights Issue (as defined in note (g) in consolidated statement of changes in equity)		312,465	–
Interest paid		(100,369)	(130,253)
NET CASH USED IN FINANCING ACTIVITIES		(9,940)	(628,805)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		351,493	(265,657)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		799,956	1,079,793
Effect of foreign exchange rate changes		(2,867)	(14,180)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,148,582	799,956
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		1,150,582	804,956
Less: non-restricted time deposits with original maturity of over three months when acquired		2,000	5,000
		1,148,582	799,956

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. The parent of the Company is Shanghai Electric Group Company Limited ("SEC") and the ultimate holding parent is Shanghai Electric (Group) Corporation ("SEG").

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

In addition, the Group has early applied Amendments to HKFRS 9 Prepayment Features with Negative Compensation which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except as described below, the application of the new and 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.

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

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue mainly from sale of goods and service fee.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of HKFRS 15

There was no impact of transition to HKFRS 15 on retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018*
		RMB'000	RMB'000	RMB'000
Current Assets				
Contract costs (a)	32	–	59,956	59,956
Amounts due from customers for contract work (a)	27	59,956	(59,956)	–
Current Liabilities				
Contract liabilities (b)	39	–	47,781	47,781
Other payables and accruals (b)	36	478,672	(57,979)	420,693
Non-current Liabilities				
Refund liabilities (b)	45	–	10,198	10,198

* The amounts in this column are before the adjustments from the application of HKFRS 9.

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

(a) In relation to contracts previously accounted for under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. RMB59,956,000 of amounts due from customers for contract work were reclassified to contract costs.

(b) As at 1 January 2018, advances from customers of RMB47,781,000 in respect of contracts and quality assurance of RMB10,198,000 previously included in other payables and accruals were reclassified to contract liabilities and refund liabilities for RMB47,781,000 and RMB10,198,000, respectively.

The following table summarises the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Notes	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Current Assets				
Contract costs	32	42,612	(42,612)	–
Amounts due from customers for contract work		–	42,612	42,612
Current Liabilities				
Contract liabilities	39	75,800	(75,800)	–
Other payables and accruals	36	464,860	97,320	562,180
Non-current Liabilities				
Refund liabilities	45	21,520	(21,520)	–

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

2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of HKFRS 15 (Continued)

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Operating Activities			
Decrease in contract costs	17,344	(17,344)	–
Decrease in amounts due from customers for contract work	–	17,344	17,344
Increase in other payables and accruals	46,028	39,341	85,369
Increase in contract liabilities	28,019	(28,019)	–
Increase in refund liabilities	11,322	(11,322)	–
Cash generated from operations	594,946	–	594,946
Net cash from operating activities	507,399	–	507,399

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

There was no impact on the consolidated statement of profit and loss and other comprehensive income.

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

2.2 HKFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied HKFRS 9 Financial Instruments, Amendments to HKFRS 9 Prepayment Features with Negative Compensation and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

In addition, the Group applied the hedge accounting prospectively.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

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

2.2 HKFRS 9 Financial Instruments and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Debts instruments at FVTOCI RMB'000	Financial Assets at FVTPL RMB'000	Retained profits RMB'000
Closing balance at 31 December 2017 — HKAS 39		2,043	2,963,122	–	–	1,313,318
Effect arising from initial application of HKFRS 9:						
Reclassification						
From available-for-sale	(a)	(2,043)	–	–	2,043	–
From loans and receivables	(b)	–	(716,854)	716,854	–	–
Remeasurement						
Impairment under ECL model	(c)	–	(12,379)	–	–	(12,379)
From cost less impairment to fair value		–	–	–	1,855	1,855
Opening balance at 1 January 2018		–	2,233,889	716,854	3,898	1,302,794

(a) *Available-for-sale investments*

At the date of initial application of HKFRS 9, the Group's equity investments of RMB2,043,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gain of RMB1,855,000 relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

(b) *Loans and receivables*

As part of the Group's cash flow management, the Group has the practice of endorsing some of the bills receivables to the suppliers before the bills are due for payment and derecognises bills endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables of RMB716,854,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. There was no fair value gain or loss needed to be adjusted to debts instruments at FVTOCI and equity as at 1 January 2018.

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

2.2 HKFRS 9 Financial Instruments and the related amendments (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and debt instruments at FVTOCI. Except for those which had been determined as credit impaired under HKAS 39, trade receivables and debt instruments at FVTOCI have been assessed individually with outstanding significant balances and the remaining balances have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost, which are mainly comprised of restricted deposits, bank balances and cash, deposits and other receivables, are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss of RMB12,379,000 has been recognised against retained profits. The additional loss allowance is charged against trade receivables.

Loss allowances for trade receivables as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 as follows:

	Trade receivables RMB'000
At 31 December 2017 — HKAS 39	65,468
Amounts remeasured through opening retained profits	12,379
At 1 January 2018	77,847

(d) Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of a derivative contract as the hedging instrument for all of its hedging relationships. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

(e) Interests in associates/joint ventures

The net effects arising from the initial application of HKFRS 9 resulted in no change in the carrying amounts of interests in associates/joint ventures.

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

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
Non-current Assets				
Available-for-sale investments	2,043	–	(2,043)	–
Financial assets at FVTPL	–	–	3,898	3,898
Current Assets				
Contract costs	–	59,956	–	59,956
Amounts due from customers for contract work	59,956	(59,956)	–	–
Bills receivable	716,854	–	(716,854)	–
Debt instruments at FVTOCI	–	–	716,854	716,854
Trade receivables	1,264,452	–	(12,379)	1,252,073
Current Liabilities				
Contract liabilities	–	47,781	–	47,781
Other payables and accruals	478,672	(57,979)	–	420,693
Non-current Liabilities				
Refund liabilities	–	10,198	–	10,198
Capital and reserves				
Reserves	2,079,473	–	(10,524)	2,068,949

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

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

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

2. APPLICATION OF NEW AND AMENDMENTS TO 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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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.

Other than certain requirements which are also applicable to lessor, 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.

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

HKFRS 16 Leases (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB239,484,000 as disclosed in note 54. A preliminary assessment indicates that these arrangement met the definition of a lease. Upon application of HKFRS 16, the Group recognises 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.

In addition, the Group currently considers refundable rental deposits paid of RMB5,150,000 and refundable rental deposits received of RMB3,000,000 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Upon application of HKFRS 16, the Group will apply the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of HKFRS 9. In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and recognises the cumulative effect of initial application to retained profits without restating comparative information.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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.

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, or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

Investments 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and a joint venture (Continued)

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.

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 Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and a joint venture (Continued)

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.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Revenue recognition (prior to 1 January 2018)

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 the sale of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

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

Interest income is accrued on a time 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction contracts (prior to 1 January 2018)

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.

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 in 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 receivables.

Leases

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

The Group as lessor

Rental income from operating leases is recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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 42 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.

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

Current and deferred tax are recognised 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 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 and contract costs 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 and contract costs 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.

The recoverable amount of tangible and intangible assets are estimated individually. 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.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. 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 sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (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 financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, debt instruments at FVTOCI, deposits and other receivables, restricted deposits, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and debt instruments at FVTOCI. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk based on historical experience and credit assessment of the counterparties.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over a certain number of years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account. For debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: FVTPL 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 sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 53.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, restricted deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets 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 assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment 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 reorganisation.

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.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability and is included in the "other gains and losses" line item.

Financial liabilities at amortised cost

Financial liabilities including trade payables, bills payable, other payables, shareholders' loans and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when 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.

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 the 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 fair values or cash flows of the hedged item attributable to the hedged risk.

Assessment of hedging relationship and effectiveness (under HKFRS 9 since 1 January 2018)

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Assessment of hedging relationship and effectiveness (before application of HKFRS 9 on 1 January 2018)

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Hedge accounting (Continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Derecognition of financial liabilities

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

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.

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

Key sources of estimation uncertainty (Continued)

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 2018 is RMB1,521,918,000 (31 December 2017: RMB1,513,334,000). Details of the recoverable amount calculation are disclosed in note 20.

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. As at 31 December 2018, the carrying amount of trade receivables was RMB1,210,677,000 (net of allowance for credit losses of RMB126,297,000) (2017: RMB1,264,452,000 (net of allowance of doubtful debts of RMB65,468,000)). The information about the ECL and the Group's trade receivables are disclosed in notes 29 and 53.

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 2018 is RMB36,352,000 (31 December 2017: RMB32,718,000). The amount of unrecognised tax losses as at 31 December 2018 is RMB192,236,000 (31 December 2017: RMB288,943,000). Further details are set out in note 25.

Revenue recognition from sales of products over time

Under HKFRS 15, control from asset is transferred over time when the Group's performance does not create an asset with alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Significant judgement is required in determine whether the terms of the Group's contracts with customers in relation to products with no alternative use create an enforceable right to payment for the Group. The Group has considered relevant local laws that apply to those relevant contacts. Based on the assessment of the Group's management, the terms of the relevant sales contracts create an enforceable right to payment for the Group. Accordingly, the sales of these products are considered to be performance obligation satisfied over time.

5. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018				
Segments	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Total RMB'000
Types of goods or service					
Sales of goods and services	785,924	867,367	590,288	6,783,956	9,027,535
Total	785,924	867,367	590,288	6,783,956	9,027,535
Timing of revenue recognition					
A point in time	785,924	867,367	590,288	6,420,069	8,663,648
Over time	–	–	–	363,887	363,887
Total	785,924	867,367	590,288	6,783,956	9,027,535

(ii) Performance obligations for contracts with customers

Sales of products (revenue recognised at a point in time)

The Group sells products directly to end customers except for cutting tool, which is sold to the distributors.

For sales to end customers, revenue is recognised when control of the goods has transferred to the customers, being when the goods are delivered to the customers. Following delivery, the customers have full discretion and bear the risks of obsolescence and loss in relation to the goods.

For sales to distributors, revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the distributors. Following delivery, the distributors have full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods.

The normal credit term is 30 to 180 days. When end customer or distributor pay in advance for the purchase, the transaction price received by the Group is recognised as contract liability until the goods have been delivered to the end customer or the distributor.

Sales of products (revenue recognised over time)

The Group sells specifically designed products to customers. Such revenues are recognised as a performance obligation satisfied over time as the Group's performance does not create an asset with alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue is recognised for these products based on the stage of completion using input method.

5. REVENUE (Continued)

B. For the year ended 31 December 2017

An analysis of the Group's revenue is as follows:

	Year ended 31/12/2017 RMB'000
Sales of goods	8,188,528
Rending of services	50,387
Construction contracts	239,980
	8,478,895

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 2018

	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	785,924	867,367	590,288	6,783,956	–	9,027,535
Inter-segment sales	–	–	584	–	–	584
Sub-total	785,924	867,367	590,872	6,783,956	–	9,028,119
Eliminations						(584)
Group revenue						9,027,535
Segment profit	15,902	41,750	93,262	281,573	–	432,487
Interest and dividend income and unallocated gains						88,258
Corporate and other unallocated expenses						(83,744)
Finance costs						(103,736)
Share of profits (losses) of associates	23,166	–	(4,051)	–	10,200	29,315
Share of loss of a joint venture	–	–	–	(198)	–	(198)
Profit before tax						362,382

6. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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

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 2018

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets						
Assets	1,113,278	2,596,895	691,229	3,720,783	–	8,122,185
Eliminations of inter-segment receivables	(168,542)	(110,213)	(265,874)	(231,483)	(2,651,963)	(3,428,075)
Total segment assets						4,694,110
Interests in associates	–	–	12,047	–	66,331	78,378
Interest in a joint venture	–	–	–	373	–	373
Goodwill	25,012	–	–	1,496,906	–	1,521,918
Corporate and other unallocated assets						3,363,441
Consolidated assets						9,658,220
Segment liabilities						
Liabilities	382,766	1,509,330	187,611	3,952,778	–	6,032,485
Eliminations of inter-segment payables	(50,216)	(632,965)	(52,869)	(32,854)	(2,659,171)	(3,428,075)
Total segment liabilities						2,604,410
Corporate and other unallocated liabilities						2,896,930
Consolidated liabilities						5,501,340

6. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

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

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

- other than assets of the head office, interests in associates, interest in a joint venture and goodwill, 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 2018

	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	12,434	48,053	9,195	211,569	281,251	26,094	307,345
Depreciation and amortisation	28,230	99,050	21,139	127,241	275,660	11,394	287,054
Impairment loss on trade and other receivables recognised in profit or loss	24,109	8,708	3,385	12,177	48,379	–	48,379
Loss (gain) on disposal/ written-off of property, plant and equipment	178	(1,177)	(1,419)	(5,941)	(8,359)	–	(8,359)
Allowance for (reversal of allowance for) inventories	10,344	10,974	1,170	2,068	24,556	–	24,556
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	(10,964)	(2,070)	12,952	85,213	85,131	–	85,131

6. SEGMENT INFORMATION (Continued)

Other Segment information (Continued)

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 (reversed) recognised in profit or loss	5,674	(6,911)	541	4,781	4,085	(154)	3,931
Loss (gain) on disposal/ write-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)

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, financial assets at FVTPL and deferred tax assets.

	Revenue from external customers		Non-current assets	
	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000	**31/12/2018 RMB'000**	31/12/2017 RMB'000
The PRC	**2,465,091**	2,428,313	**1,498,595**	1,628,767
Outside the PRC	**6,562,444**	6,050,582	**2,491,960**	2,396,657
	9,027,535	8,478,895	**3,990,555**	4,025,424

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2018 and 2017.

7a. OTHER INCOME

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest income from bank balances and deposits	**9,310**	14,076
Net rental income (Note i)	**1,811**	1,507
Government grants (Note ii)	**36,721**	39,821
Compensation income (Note iii)	**4,799**	19,867
Technology service income	**6,494**	3,821
Recovery freight and package	**2,896**	1,404
Commissions	**2,363**	1,891
Dividend income from financial assets at FVTPL	**29**	214
Others	**6,618**	6,424
	71,041	89,025

Notes:

(i) Gross rental income is disclosed in note 13.

(ii) Government grants represent amount received from local governments by certain PRC entities of the Group. Government grants of approximately (a) RMB19,063,000 (2017: RMB24,942,000) 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) RMB17,658,000 (2017: RMB14,879,000) represents subsidies for the acquisition of machinery amortised to profit or loss for the year.

(iii) Compensation income relates to compensation amounting to RMB4,799,000 received from suppliers for losses in respect of certain unqualified raw materials (2017: compensation income mainly included compensation amounting to RMB14,782,000 received from insurance companies for losses incurred on certain items of property, plant and equipment).

7b. OTHER GAINS AND LOSSES

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Sales of spare parts, scrap materials and semi-finished goods	162,928	110,427
Less: costs related to sales of spare parts, scrap materials and semi-finished goods	(113,431)	(68,939)
	49,497	41,488
Gain on disposal of property, plant and equipment	8,359	1,741
Gain (loss) on settlement of financial instruments (Note i)	56,618	(97,509)
Cumulative loss reclassified to profit or loss on disposal of hedging instruments designated as cash flow hedges	(1,297)	–
Gain on disposal of interest in an associate (Note 22)	7,668	–
Impairment loss recognised in respect of property, plant and equipment	(1,194)	–
Net foreign exchange (losses) gains	(23,351)	82,844
Gain on write-back of long-aged payables	3,748	706
	100,048	29,270

Note:

(i) The amount represents the gain on the settlement of foreign currency forward contracts and interest rate swap contracts amounting to RMB56,618,000 (2017: loss of RMB97,509,000). Such contracts were used to hedge the foreign currency risk and cash flow risk.

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Impairment losses recognised (reversed) on:		
— Trade receivables — goods and services	48,356	12,575
— Other receivables	23	(8,644)
	48,379	3,931

Details of impairment assessment for the year ended 31 December 2018 are set out in note 53.

9. OTHER EXPENSES

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Compensations and penalties	829	4,374
Donations	199	225
Others	78	564
	1,106	5,163

10. FINANCE COSTS

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interests on bank borrowings	50,227	55,972
Interests on shareholders' loans	53,233	48,604
Effective interest expense on company bonds	–	17,867
Other interest expenses	276	865
	103,736	123,308

11. INCOME TAX EXPENSE

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**43,715**	26,447
Other jurisdictions	**54,730**	71,265
	98,445	97,712
(Over) under provision in prior years:		
PRC EIT	**(7,278)**	(3,385)
Other jurisdictions	**1,882**	1,122
	(5,396)	(2,263)
Deferred tax (note 25):		
Current year	**(7,918)**	3,327
	(7,918)	3,327
	85,131	98,776

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.

11. 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 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Profit before tax	**362,382**	351,550
Tax at the domestic income tax rate of 25% (2017: 25%) (Note)	**90,596**	87,888
Tax effect of share of profits of associates	**(7,329)**	(10,400)
Tax effect of share of loss of a joint venture	**50**	203
Income tax on concessionary rate	**(3,584)**	(11,020)
Tax effect of expenses not deductible for tax purpose	**21,843**	8,325
Tax effect of income not taxable for tax purpose	**(358)**	(1,483)
Tax effect of tax losses and deductible temporary differences not recognised	**5,764**	25,271
Recognition of tax losses and deductible temporary differences previously not recognised	**(10,476)**	–
Utilisation of tax losses previously not recognised	**(16,425)**	(684)
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	**15,424**	5,458
Effect of tax exemptions	**(4,978)**	(2,566)
Over provision in respect of prior years	**(5,396)**	(2,263)
Income tax expense	**85,131**	98,776

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.

12. OTHER COMPREHENSIVE (EXPENSE) INCOME

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Other comprehensive (expense) income includes:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plans	**(900)**	5,775
Income tax relating to items that will not be reclassified	**280**	(1,732)
	(620)	4,043
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**3,585**	6,184
Fair value gain on hedging instruments designated as cash flow hedges	**–**	2,134
Income tax relating to items that may be reclassified subsequently	**–**	(533)
	3,585	7,785
Other comprehensive income for the year, net of income tax	**2,965**	11,828

12. OTHER COMPREHENSIVE (EXPENSE) INCOME (Continued)

Income tax effect relating to other comprehensive (expense) income

	Year ended 31/12/2018			Year ended 31/12/2017		
	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000	Before tax amount RMB'000	Tax expense RMB'000	Net of income tax amount RMB'000
Items that will not be reclassified to profit or loss:						
Remeasurement of defined benefit pension plans	(900)	280	(620)	5,775	(1,732)	4,043
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	3,585	–	3,585	6,184	–	6,184
Fair value gain on hedging instruments designated as cash flow hedges	–	–	–	2,134	(533)	1,601
	2,685	280	2,965	14,093	(2,265)	11,828

13. PROFIT BEFORE TAX

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

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Cost of inventories recognised as expenses	**7,239,852**	6,756,783
Cost of services provided	**7,549**	37,183
Depreciation of property, plant and equipment	**274,563**	295,521
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)	**9,028**	11,081
Total depreciation and amortisation	**287,054**	310,065
Capitalised in inventories	**(40,282)**	(38,723)
	246,772	271,342
Auditor's remuneration		
Audit services	**6,822**	6,907
Non-audit services	**574**	447
	7,396	7,354
Research expenditure recognised as an expense	**335,348**	322,030
Gross rental income	**5,326**	8,638
Less: direct operating expenses	**(3,515)**	(7,131)
	1,811	1,507
Operating leasing payments in respect of property, plant and equipment	**120,773**	128,521
Directors' emoluments (note 14)	**5,371**	5,751
Other staff costs	**1,673,112**	1,462,169
Retirement benefits for other staff	**67,612**	74,329
Total staff costs	**1,746,095**	1,542,249
Capitalised in inventories	**(187,038)**	(167,582)
	1,559,057	1,374,667

14. 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 2018				
Executive directors:				
Zhou Zhiyan (Note i)	–	910	50	960
Xiao Yuman	–	789	50	839
Chen Hui	–	750	50	800
Zhang Jie (Note vi)	–	–	–	–
Mao Yizhong (Notes iv, vi)	–	–	–	–
Zhang Mingjie (Notes v, vi)	–	–	–	–
	–	2,449	150	2,599
Independent non-executive directors:				
Chan Oi Fat	151	–	–	151
Ling Hong	150	–	–	150
Sun Zechang	150	–	–	150
	451	–	–	451
Non-executive director:				
Dong Yeshun	150	–	–	150
	150	–	–	150
Supervisors:				
Xu Jianguo (Note vi)	–	–	–	–
Yu Yun	–	414	50	464
Si Wenpei (Notes ii, vi)	–	–	–	–
	–	414	50	464
	601	2,863	200	3,664

14. 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 42 based on the Group's performance as follows:

	Shares award RMB'000	Cash instalments RMB'000	Subtotal of Incentive Scheme RMB'000
Year ended 31 December 2018			
Executive directors:			
Zhou Zhiyan (Note i)	128	500	628
Xiao Yuman	–	500	500
Chen Hui	72	500	572
Zhang Jie (Note vi)	–	–	–
Mao Yizhong (Notes iv, vi)	–	–	–
Zhang Mingjie (Note v, vi)	–	–	–
	200	1,500	1,700
Independent non-executive directors:			
Chan Oi Fat	–	–	–
Ling Hong	–	–	–
Sun Zechang	–	–	–
	–	–	–
Non-executive director:			
Dong Yeshun	–	–	–
	–	–	–
Supervisors:			
Xu Jianguo (Note vi)	–	–	–
Yu Yun	–	7	7
Si Wenpei (Notes ii, vi)	–	–	–
	–	7	7
	200	1,507	1,707

14. 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 2017				
Executive directors:				
Zhou Zhiyan (Note i)	–	904	46	950
Xiao Yuman	–	717	46	763
Chen Hui	–	714	46	760
Zhang Jie (Note vi)	–	–	–	–
Mao Yizhong (Note vi)	–	–	–	–
	–	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 vi)	–	–	–	–
Wei Li (Note iii)	–	233	22	255
Yu Yun	–	322	46	368
Si Wenpei (Notes ii, vi)	–	–	–	–
	–	555	68	623
	624	2,890	206	3,720

14. 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 42 based on the Group's performance as follows:

	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 vi)	–	–	–
Mao Yizhong (Note vi)	–	–	–
	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 vi)	–	–	–
Wei Li (Note iii)	45	238	283
Yu Yun	–	–	–
Si Wenpei (Notes ii, vi)	–	–	–
	45	238	283
	293	1,738	2,031

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

Notes:

(i) Mr. Zhou Zhiyan resigned as the chief executive officer of the Group on 25 September 2018 and emoluments disclosed above include those services rendered by him as chief executive officer.

(ii) Appointed on 23 June 2017.

(iii) Resigned on 23 June 2017.

(iv) Resigned on 19 April 2018.

(v) Appointed on 8 June 2018.

(vi) These directors' and supervisors' emoluments for the years ended 31 December 2018 and/or 2017 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 2018 and/or 2017.

The total number of awarded shares granted to the Directors, chief executive and a supervisor that have not yet become vested was 244,600 shares as at 31 December 2018 (31 December 2017: 1,223,200 shares).

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2017: 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.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year did not include any director (2017: nil). Details of the remuneration for the year of the five (2017: five) highest paid employees who are neither directors nor chief executive of the Company are as follows:

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Salaries and other benefits	**15,096**	13,145
Performance-related bonuses	**7,283**	5,766
Pension scheme contributions	**379**	356
	22,758	19,267

15. FIVE HIGHEST PAID EMPLOYEES (Continued)

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 31/12/2018 No. of employees	Year ended 31/12/2017 No. of employees
Hong Kong dollars ("HKD") nil to HKD2,000,000	**–**	–
HKD2,000,001 to HKD2,500,000	**1**	1
HKD2,500,001 to HKD3,000,000	**1**	1
HKD3,500,001 to HKD4,000,000	**1**	–
HKD4,000,001 to HKD4,500,000	**–**	2
HKD6,000,001 to HKD6,500,000	**1**	–
HKD9,500,001 to HKD10,000,000	**–**	1
HKD11,000,001 to HKD11,500,000	**1**	–
	5	5

16. DIVIDEND

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Dividend for ordinary shareholders of the Company recognised as distribution during the year:		
Proposed 2018 Final — 2018 final RMB4.10 cents (2017: 2017 final nil)	**70,764**	–

Subsequent to the end of this reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB4.10 cents (no final dividend in respect of the year ended 31 December 2017) has been proposed by the directors of the Company.

17. 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 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Profit for the year attributable to owners of the Company	**280,438**	253,424
Earnings for the purpose of basic and diluted earnings per share	**280,438**	253,424

	31/12/2018 in '000	31/12/2017 (restated) in '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,410,464**	1,391,475
Effect of dilutive potential ordinary shares in respect of shares awarded under the Incentive Scheme — unvested	**1,935**	5,406
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,412,399**	1,396,881

The weighted average number of ordinary shares for the purpose of basic earning per share has been adjusted for the Rights Issue. Further details are set out in note (g) of consolidated statement of changes in equity.

18. 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 2017	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 49)	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
Additions	10,599	63,153	2,661	24,845	193,935	2,240	297,433
Disposals	–	(128,830)	(3,051)	(8,940)	(48)	–	(140,869)
Transfer amongst property, plant and equipment	31,140	88,956	579	6,069	(127,601)	857	–
Disposal of a subsidiary (Note 50)	–	(55,577)	(57)	(2)	–	–	(55,636)
Exchange adjustments	4,010	8,704	796	2,870	719	–	17,099
At 31 December 2018	952,421	2,879,471	29,284	177,432	166,627	117,513	4,322,748
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	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
Provided for the year	30,497	194,616	4,008	29,720	–	15,722	274,563
Eliminated on disposals	–	(118,310)	(2,002)	(8,704)	–	–	(129,016)
Disposal of a subsidiary (note 50)	–	(4,191)	(2)	–	–	–	(4,193)
Impairment	–	848	–	–	346	–	1,194
Exchange adjustments	4,059	8,472	357	3,737	–	–	16,625
At 31 December 2018	182,072	1,625,721	14,517	98,076	831	98,911	2,020,128
CARRYING VALUES							
At 31 December 2018	770,349	1,253,750	14,767	79,356	165,796	18,602	2,302,620
At 31 December 2017	759,156	1,358,779	16,200	79,267	99,137	31,227	2,343,766

18. 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 RMB207,314,000 (31 December 2017: RMB229,009,000) 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 2018, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB772,000 (31 December 2017: RMB884,000).

The directors conducted an impairment review of the Group's property, plant and equipment and determined to recognise an impairment of RMB1,194,000 (2017: nil).

At 31 December 2018, of the Group's property, plant and equipment amounting to RMB49,150,000 has been pledged as security for bank borrowings (31 December 2017: RMB51,207,000).

19. PREPAID LEASE PAYMENTS

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analysed as		
Current portion	3,463	3,463
Non-current portion	132,461	135,924
	135,924	139,387

19. PREPAID LEASE PAYMENTS (Continued)

Amortisation is calculated using the straight-line method over the remaining useful lives ranging from 35 to 43 years (31 December 2017: 36 to 44 years) for all the prepaid lease payments.

	RMB'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	171,742
AMORTISATION	
At 1 January 2017	28,892
Provided for the year	3,463
At 31 December 2017	32,355
Provided for the year	3,463
At 31 December 2018	35,818
CARRYING VALUES	
At 31 December 2018	135,924
At 31 December 2017	139,387

20. GOODWILL

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2017	1,418,815
Exchange adjustments	94,519
At 31 December 2017	1,513,334
Exchange adjustments	8,584
At 31 December 2018	1,521,918

20. 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:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Fastener — Nedfast Investment B.V. ("Nedfast")	1,496,907	1,488,323
Bearing — Shanghai United Bearing Company Limited ("United Bearing")	8,818	8,818
Bearing — Shanghai Tianhong Micro Bearing Company Limited ("Shanghai Tianhong")	16,193	16,193
	1,521,918	1,513,334

As at 31 December 2018 and 2017, 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 include revenue, growth rates and earnings before interest and tax ("EBIT") developments 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% (2017: 10.5%) per annum. The cash flows beyond the five-year period are extrapolated using a 1.0% (2017: 1.0%) 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 revenue, EBIT developments and EBIT margins 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.

20. GOODWILL (Continued)

Impairment testing on goodwill (Continued)

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, 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% (2017: 14.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2017: 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 considers 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, 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% (2017: 13.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2017: 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 considers 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.

21. 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 2017	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 1 January 2018	60,031	5,024	28,376	11,249	104,680
Additions	–	50	–	9,862	9,912
Exchange adjustments	34	–	–	252	286
At 31 December 2018	60,065	5,074	28,376	21,363	114,878
AMORTISATION					
At 1 January 2017	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
Provided for the year	7,559	93	1,376	–	9,028
Exchange adjustments	14	–	–	–	14
At 31 December 2018	55,578	4,312	21,432	–	81,322
CARRYING VALUES					
At 31 December 2018	4,487	762	6,944	21,363	33,556
At 31 December 2017	12,026	805	8,320	11,249	32,400

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 to 5 years after being transferred to deferred development costs

Note: During the year ended 31 December 2018, there was no development expenditure in progress completed and transferred to deferred development costs (31 December 2017: RMB5,759,000). As at 31 December 2018, development expenditure in progress amounting to RMB21,363,000 (31 December 2017: RMB11,249,000) was under development and will be transferred to deferred development costs upon completion and amortised over 3 to 5 years.

22. INTERESTS IN ASSOCIATES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Cost of investment in associates	60,919	122,955
Share of post-acquisition profits and other comprehensive income, net of dividend received	17,459	21,394
	78,378	144,349

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 2018 and 2017 (in '000)	Proportion of ownership interest held by the Group 2018	2017	Principal activities
上海通用軸承有限公司 Shanghai General Bearing Company Limited* ("Shanghai General Bearing") (Notes 1, 2 & 3)	The PRC	USD23,750	–	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

* 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.

Note 3: The associate was disposed of during the year ended 31 December 2018.

USD United States dollars

EUR Euro

22. INTERESTS IN ASSOCIATES (Continued)

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	n/a	348,016
Non-current assets	n/a	47,064
Current liabilities	n/a	(227,364)
Non-current liabilities	n/a	(1,512)

	Year ended 31/12/2018 RMB'000 (Note)	Year ended 31/12/2017 RMB'000
Revenue	315,644	519,835
Profit for the year	57,915	82,496
Total comprehensive income for the year	57,915	82,496
Dividends received or receivable from the associate during the year	22,328	53,295

Note: Revenue, profit for the year, total comprehensive income for the year represent cumulative amounts from 1 January 2018 to 1 October 2018 (date of disposal).

Reconciliation of the above summarised financial information to the carrying amount of the interests in associates recognised in the consolidated financial statements:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Net assets	n/a	166,204
Proportion of the Group's ownership interest	n/a	40%
Carrying amount of the Group's interest	n/a	66,481

During the year ended 31 December 2018, the Group disposed of its entire 40% equity interest in Shanghai General Bearings for the cash consideration of RMB74,988,000.

22. INTERESTS IN ASSOCIATES (Continued)

Shanghai General Bearing (Continued)

	RMB'000
Proceeds from disposal	**74,988**
Less: carrying amount of the 40% investment on the date of loss of significant influence	**(67,320)**
Gain recognised	**7,668**

Morgan Advanced Materials

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	**242,963**	249,812
Non-current assets	**90,208**	80,668
Current liabilities	**(110,265)**	(122,781)
Non-current liabilities	**(1,800)**	(1,800)

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	**313,250**	281,426
Profit for the year	**34,000**	30,091
Total comprehensive income for the year	**34,000**	30,091
Dividends received or receivable from the associate during the year	**5,638**	18,429

Reconciliation of the above summarised financial information to the carrying amount of the interests in associates recognised in the consolidated financial statements:

22. INTERESTS IN ASSOCIATES (Continued)

Morgan Advanced Materials (Continued)

	31/12/2018 RMB'000	31/12/2017 RMB'000
Net assets	221,106	205,899
Proportion of the Group's ownership interest	30%	30%
Carrying amount of the Group's interest	66,331	61,770

S.U. Machine Tool

	31/12/2018 RMB'000	31/12/2017 RMB'000
Current assets	23,041	34,914
Non-current assets	30,532	29,423
Current liabilities	(23,456)	(24,093)

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Revenue	15,567	14,452
Loss for the year	(10,127)	(1,062)
Total comprehensive expense for the year	(10,127)	(1,062)

Reconciliation of the above summarised financial information to the carrying amount of the interests in associates recognised in the consolidated financial statements:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Net assets	30,117	40,244
Proportion of the Group's ownership interest	40%	40%
Carrying amount of the Group's interest	12,047	16,098

23. FINANCIAL ASSETS AT FVTPL

Financial assets mandatorily measured at FVTPL	31/12/2018 RMB'000
Unlisted equity investments	**3,551**

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC and Germany.

24. AVAILABLE-FOR-SALE INVESTMENTS

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

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC and Germany. They were measured at cost less impairment as at 31 December 2017.

25. DEFERRED TAXATION

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deferred tax assets	**125,181**	124,717
Deferred tax liabilities	**(12,773)**	(20,753)
	112,408	103,964

25. DEFERRED TAXATION (Continued)

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	Allowance for doubtful debts RMB'000	ECL provision 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 2017	30,546	23,308	7,281	-	(24,118)	29,316	22,950	5,396	13,568	108,247
Charge (credit) to profit or loss	98	(11,408)	(1,243)	-	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	(2,704)	2,848	-	(1,512)	236	1,139	63	(4,763)	(2,619)
At 31 December 2017	32,718	9,196	8,886	-	(11,765)	28,454	17,916	8,959	9,600	103,964
Adjustments	–	–	(8,886)	8,886	-	-	-	-	-	-
At 31 December 2017	32,718	9,196	-	8,886	(11,765)	28,454	17,916	8,959	9,600	103,964
Charge (credit) to profit or loss	3,447	(6,237)	-	15,500	(9,161)	3,459	4,927	(3,744)	(273)	7,918
Charge to equity for the year	–	–	-	-	-	-	280	-	-	280
Exchange differences	187	374	-	(238)	(442)	612	93	(255)	(85)	246
At 31 December 2018	36,352	3,333	-	24,148	(21,368)	32,525	23,216	4,960	9,242	112,408

At 31 December 2018, the Group has unused tax losses of RMB333,315,000 (31 December 2017: RMB405,793,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such losses of RMB141,079,000 (31 December 2017: RMB116,850,000). No deferred tax asset has been recognised in respect of the remaining RMB192,236,000 (31 December 2017: RMB288,943,000) due to the unpredictability of future profits streams.

25. DEFERRED TAXATION (Continued)

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
2018	–	16,730
2019	14,915	24,463
2020	25,518	25,288
2021	24,010	36,189
2022	24,790	85,655
2023	4,572	–
No due date	98,431	100,618
	192,236	288,943

At 31 December 2018, the Group had unrecognised deductible temporary differences of RMB172,210,000 (31 December 2017: RMB199,168,000). 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.

26. INVENTORIES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Raw materials and consumables	645,498	654,149
Work in progress	406,682	388,904
Finished goods	811,342	699,249
	1,863,522	1,742,302

During the year, allowance for inventories amounting to RMB51,020,000 (2017: RMB50,081,000) was recognised and included in cost of sales.

During the year, a reversal of allowance for inventories of RMB26,464,000 (2017: RMB33,206,000) 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.

27. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

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

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.

28. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

	2017 RMB'000
Within 3 months	260,727
Over 3 months but within 6 months	259,852
Over 6 months but within 1 year	196,275
	716,854

Included in bills receivables are bills endorsed and transferred from SEG Group, which are related parties of the Group amounting to RMB60,372,000 as at 31 December 2017.

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

29. TRADE RECEIVABLES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Trade receivables	1,336,974	1,329,920
Less: allowance for credit losses / doubtful debts	(126,297)	(65,468)
	1,210,677	1,264,452

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB1,210,677,000 and RMB1,252,073,000 respectively.

The following is an aged analysis of trade receivables net of allowance for credit losses / doubtful debts presented based on the invoice dates:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within 3 months	894,956	831,061
Over 3 months but within 6 months	181,658	269,732
Over 6 months but within 1 year	106,928	119,126
Over 1 year but within 2 years	27,135	26,382
Over 2 years	–	18,151
	1,210,677	1,264,452

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB723,504,000 which are past due as at the reporting date. Out of the past due balances, RMB306,886,000 has been past due 90 days or more and is not considered as in default. 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 reassessment of each individual customer. The Group does not hold any collateral over these balances.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB293,730,000 which are past due as at the reporting date for which the Group has not provided for impairment loss. 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 reassessment of each individual customer. The Group does not hold any collateral over these balances.

29. TRADE RECEIVABLES (Continued)

Aging of trade receivables which are past due but not impaired:

	31/12/2017 RMB'000
Within 3 months	124,952
Over 3 months but within 6 months	5,119
Over 6 months but within 1 year	119,126
Over 1 year but within 2 years	26,382
Over 2 years	18,151
	293,730

Movements in the allowance for doubtful debts are as follows:

	2017 RMB'000
1 January	54,115
Impairment losses recognised on receivables	19,637
Amount written off as uncollectible	(2,160)
Impairment losses reversed	(7,063)
Exchange differences	939
31 December	65,468

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. 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.

Details of impairment assessment of trade receivables as at 31 December 2018 are set out in note 53.

29. TRADE RECEIVABLES (Continued)

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Due from SEG Group	145,084	95,170

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.

30. DEBT INSTRUMENTS AT FVTOCI

The maturity profile of the debt instruments at FVTOCI are as follows:

	31/12/2018 RMB'000
Within 3 months	334,754
Over 3 months but within 6 months	230,972
Over 6 months but within 1 year	153,552
	719,278

Debt instruments at FVTOCI represent bills receivable at 31 December 2018. Included in debt instruments at FVTOCI are bills endorsed and transferred from SEG Group amounting to RMB114,444,000 as at 31 December 2018.

As at 31 December 2018, debt instruments at FVTOCI amounting to RMB249,399,000 have been pledged to banks as security for issuance of bills payable.

Details of impairment assessment of debt instruments at FVTOCI as at ended 31 December 2018 are set out in note 53.

31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Prepayments for purchase of raw materials	**117,744**	146,180
Receivables on settlement of financial instruments	**54,783**	–
Value-added tax recoverable	**50,174**	43,994
Dividends receivable	**22,329**	38,168
Deposits *(note)*	**15,000**	9,624
Discounts receivable from suppliers	**5,887**	15,940
Prepayments for rental expense	**1,078**	7,056
Prepayments related to Defined Benefit Plan (as defined in note 46)	**3,430**	3,443
Others	**29,908**	33,645
	300,333	298,050

Note: Deposits mainly include deposits paid for project amounting bidding RMB7,963,000 (2017: RMB7,093,000).

At 31 December 2017, doubtful debts of RMB10,780,000 has been provided for deposits and other receivables due to the uncollectibility of these receivables.

Detail of impairment assessment of deposits and other receivables as at 31 December 2018 are set out in note 53.

32. CONTRACT COSTS

Contracts in progress at the end of the reporting period	31/12/2018 RMB'000
Contract costs incurred plus recognised profits less recognised losses	**70,423**
Less: progress billings	**(28,888)**
Exchange differences	**1,077**
Gross amounts due from contract customers	**42,612**

At 31 December 2018, advances received from customers for contract work included in the balances of contract liabilities as set out in note 39 amounted to RMB36,528,000.

33. RESTRICTED DEPOSITS AND BANK BALANCES AND CASH

Restricted deposits

The restricted deposits carried interest at fixed rates ranging from nil to 1.75% (31 December 2017: nil to 1.00%) 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 RMB2,000,000 (31 December 2017: RMB5,000,000), which carried interest at prevailing market rates of 1.75% (31 December 2017: 1.35%–1.54%). The remaining bank balances carried interest at prevailing market rates ranging from nil to 1.75% (31 December 2017: nil to 1.00%).

34. TRADE PAYABLES

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within 3 months	**1,205,902**	1,381,590
Over 3 months but within 6 months	**162,237**	126,202
Over 6 months but within 1 year	**33,605**	37,914
Over 1 year but within 2 years	**19,904**	20,279
Over 2 years	**3,222**	3,350
	1,424,870	1,569,335

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:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Due to SEG Group	**670**	442

35. BILLS PAYABLE

The maturity profile of the bills payable are as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within 3 months	**141,701**	148,347
Over 3 months but within 6 months	**151,421**	95,556
Over 6 months but within 1 year	**115,002**	120,058
	408,124	363,961

36. OTHER PAYABLES AND ACCRUALS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Payroll payable	**263,476**	223,963
Advance from customers	**–**	45,519
Payable for purchases of property, plant and equipment	**38,202**	28,204
Sales rebate	**34,040**	33,341
Other tax payable	**17,632**	34,083
Professional fees payable	**17,467**	19,782
Interest payable	**13,585**	13,918
Defined Benefit Plan (as defined in note 46)	**6,123**	5,842
Accruals for utilities	**6,082**	6,484
Subcontracting costs payable	**7,000**	3,000
Due to SEG Group	**2**	21
Retention money	**–**	12,460
Others	**61,251**	52,055
	464,860	478,672

Other payables are non-interest bearing and have an average term of one to three months.

As at 31 December 2018, others includes a provision of RMB20,000,000 made in response to a court judgement against one of the Company's subsidiaries in respect of the failure to meet certain financial obligation by its original shareholder prior to its acquisition by the Company.

The Group's balances with related parties are unsecured and are repayable on demand or within three months.

37. DERIVATIVE FINANCIAL INSTRUMENTS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Interest rate swaps	–	2,583

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%

38. DEFERRED INCOME — GOVERNMENT GRANTS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analysed for reporting purpose as:		
Current liabilities	16,498	16,751
Non-current liabilities	227,876	245,900
	244,374	262,651

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.

39. CONTRACT LIABILITIES

	31/12/2018 RMB'000	1/1/2018* RMB'000
Sales of goods	75,800	47,781
Current	75,800	47,781

* The amount in this column is after the adjustments from the application of HKFRS 15.

40. BANK BORROWINGS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Bank borrowings	808,612	850,800

	31/12/2018 RMB'000	31/12/2017 RMB'000
Secured and guaranteed	–	2,100
Unguaranteed and secured by equity interest of subsidiaries	736,020	753,397
Unguaranteed and secured by property of subsidiaries	52,592	52,435
	788,612	807,932
Unsecured and unguaranteed	20,000	42,868
	808,612	850,800
Less: Amounts shown under current liabilities	(202,484)	(171,383)
Amounts shown under non-current liabilities	606,128	679,417

40. BANK BORROWINGS (Continued)

	31/12/2018 RMB'000	31/12/2017 RMB'000
The carrying amounts of the above borrowings are repayable:		
Within one year	**202,484**	171,383
More than one year but not exceeding two years	**457,065**	75,446
More than two years but not exceeding five years	**110,107**	565,995
More than five years	**38,956**	37,976
	808,612	850,800

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Fixed-rate borrowings repayable*:		
— expiring within one year	**2,118**	25,119
— expiring beyond one year	**50,474**	52,284
Variable-rate borrowings repayable*:		
— expiring within one year	**200,366**	146,264
— expiring beyond one year	**555,654**	627,133

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

40. BANK BORROWINGS (Continued)

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 2018	2.70%	3-month Euro Interbank Offered Rate ("EURIBOR") plus 1.6% to 2.25%; and interest rate released by the People's Bank of China ("PBOC") deducted by 5 basis points ("bps")
31 December 2017	2.70% to 5.44%	3-month EURIBOR plus 1.35% to 2.00%; and interest rate released by the PBOC deducted by 5 bps

41. SHAREHOLDERS' LOANS

The shareholders' loans are unsecured, bear interest at 0.12% to 3.915% (31 December 2017: 2.0% to 3.915%) per annum, and denominated in RMB, USD and EUR, of which RMB944,311,000 (31 December 2017: RMB203,900,000) is due within one year, RMB784,730,000 (31 December 2017: 895,216,000) is due in more than one year but not exceeding two years, RMB30,000,000 (31 December 2017: 780,230,000) is due in more than two years but not exceeding five years. Interest has been paid to lenders on time.

42. 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 on 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.

42. INCENTIVE SCHEME (Continued)

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 2018, there were 22,244,000 (31 December 2017: 21,720,000) unawarded shares with a total value of HKD31,586,000 (31 December 2017: HKD30,842,000) held by the trustee.

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

	Number of shares '000
Outstanding at 1 January 2018	5,406
Vested during the year	2,947
Forfeited during the year	524
Outstanding at 31 December 2018	1,935

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 since 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 RMB1,757,000 (2017: 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 2018.

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.

42. INCENTIVE SCHEME (Continued)

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.

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 RMB768,000 (2017: RMB1,920,000) in respect of cash instalment under the Incentive Scheme was recognised as an expense and included in staff costs for the year ended 31 December 2018.

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 RMB1,243,000 (2017: RMB5,719,000) in respect of cash instalment under the Incentive Scheme was recognised as an expense and included in the staff costs for the year ended 31 December 2018.

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. An amount in respect of the cash instalment under the Incentive Scheme of RMB11,592,000 (2017: nil) was recognised as an expense and included in the staff costs for the year ended 31 December 2018 and 2017.

43. OBLIGATIONS UNDER FINANCE LEASES

	31/12/2018 RMB'000	31/12/2017 RMB'000
Analysed for reporting purposes as:		
Current liabilities	**6,368**	6,854
Non-current liabilities	**19,393**	25,883
	25,761	32,737

43. OBLIGATIONS UNDER FINANCE LEASES (Continued)

Details of the relevant accounting policies are set out in note 3. The average lease term is 3 years (31 December 2017: 4 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.50% to 5.31% (31 December 2017: 2.50% to 5.31%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Obligations under finance Lease payable:				
Within one year	**7,701**	8,409	**6,368**	6,854
Within a period of more than one year but not more than two years	**8,028**	7,601	**6,628**	6,376
Within a period of more than two years but not more than five years	**14,910**	20,406	**12,765**	19,507
Less: future finance charges	**(4,878)**	(3,679)	**–**	–
Present value of lease obligations	**25,761**	32,737	**25,761**	32,737
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(6,368)**	(6,854)
Amount due for settlement after 12 months			**19,393**	25,883

Finance lease obligations are all denominated in the functional currencies of the relevant entities.

44. OTHER LONG-TERM PAYABLES

As at 31 December 2018, the balance of other long-term payables comprises mainly performance bonus payable to certain senior management of a subsidiary of the Group amounting to RMB37,101,000 (31 December 2017: RMB22,443,000) and provision for environmental protection amounting to RMB6,989,000 (31 December 2017: RMB6,949,000).

45. REFUND LIABILITIES

	31/12/2018 RMB'000
Refund liabilities	
Arising from right of return	21,520
	21,520

At 31 December 2018, refund liabilities represented deposits received from suppliers in respect of quality guarantee.

46. 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 plan, 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 employees 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.

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (Continued)

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.

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:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Non-current liability	**130,315**	127,346
Current liability	**6,123**	5,842
	136,438	133,188

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (Continued)

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	31/12/2018	31/12/2017
Discount rate	**2.02%**	1.90%
Expected rate of future pension cost increases	**1.75%**	1.50%
Expected rate of salary increase	**2.25%**	2.25%

Amounts recognised in profit or loss and other comprehensive income in respect of these defined benefit plan are as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Service cost:		
Current service cost	**13,462**	13,270
Net interest expense	**2,389**	2,074
Expected return on plan assets	**(167)**	(158)
Components of defined benefit costs recognised in profit or loss	**15,684**	15,186
Remeasurement on the net defined benefit liability:		
Actuarial losses (gains) on obligation	**923**	(6,083)
Actuarial (gains) losses on plan assets	**(23)**	308
Components of defined benefit costs (income) recognised in other comprehensive expense (income)	**900**	(5,775)
Total	**16,584**	9,411

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Defined benefit plan (Continued)

Movements in the present value of the defined benefit obligations were as follows:

	2018 RMB'000	2017 RMB'000
Opening defined benefit obligation	144,018	147,848
Acquisition of a subsidiary	–	1,142
Current service cost	13,462	13,270
Interest expense	2,389	2,074
Actuarial losses (gains) on obligation	923	(6,083)
Benefits paid	(5,122)	(8,084)
Exchange differences on foreign plans	(8,199)	(6,149)
Closing defined benefit obligation	147,471	144,018

Movements in the fair values of plan assets are as follows:

	2018 RMB'000	2017 RMB'000
Opening fair value of plan assets	10,830	12,567
Expected return	167	158
Actuarial gains (losses) on plan assets	23	(308)
Benefits paid	(51)	(2,384)
Exchange differences on foreign plans	64	797
Closing fair value of plan assets	11,033	10,830

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Funds invested by insurance companies	11,033	10,830
Total	11,033	10,830

The fair values of the above funds are determined based on quoted market prices in active markets.

47. SHARE CAPITAL

	31/12/2018		31/12/2017	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Registered, issued and fully paid:				
Domestic ordinary shares of RMB1.00 each, currently not listed				
— State-owned ordinary shares	814,291,420	814,291	678,576,184	678,576
H ordinary shares of RMB1.00 each	911,652,000	911,652	759,710,000	759,710
	1,725,943,420	1,725,943	1,438,286,184	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 2018, 24,179,000 (31 December 2017: 27,126,000) shares of the Company were held in custody by the trustee for the Incentive Scheme, out of which 1,935,000 shares (31 December 2017: 5,406,000 shares) were granted to but have not yet become vested in the participants. Further details are set out in note 42.

Details of the Rights Issue are set out in note (g) of consolidated statement of changes in equity.

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTE	31/12/2018 RMB'000	31/12/2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		44,203	31,784
Prepaid lease payments		28,526	29,200
Intangible assets		7,269	4,317
Investments in subsidiaries		2,290,372	1,953,324
Interests in associates		66,331	81,272
Amounts due from subsidiaries		–	356,808
		2,436,701	2,456,705
CURRENT ASSETS			
Prepaid lease payments		677	677
Trade receivables		96,021	105,663
Debt instruments at FVTOCI		1,000	–
Bills receivable		–	54
Prepayments, deposits and other receivables		853,277	722,473
Dividends receivable		167,199	124,413
Bank balances and cash		863,894	475,997
		1,982,068	1,429,277
CURRENT LIABILITIES			
Trade payables		230,687	166,088
Other payables and accruals		791,077	684,172
Shareholder's loan		–	200,000
Tax liabilities		7,181	–
Contract liabilities		12,169	–
		1,041,114	1,050,260
NET CURRENT ASSETS		940,954	379,017
TOTAL ASSETS LESS CURRENT LIABILITIES		3,377,655	2,835,722
NON-CURRENT LIABILITIES			
Government grants		1,744	–
Refund liabilities		8,253	–
		9,997	–
NET ASSETS		3,367,658	2,835,722
CAPITAL AND RESERVES			
Share capital	47	1,725,943	1,438,286
Reserves		1,641,715	1,397,436
TOTAL EQUITY		3,367,658	2,835,722

48. 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 2017	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
Profit for the year	–	–	–	–	213,299	–	–	213,299
Proposed final 2018 dividend	–	–	–	–	(70,764)	70,764	–	–
Capital injection (Note c)	24,808	–	–	–	–	–	–	24,808
Disposal of Shanghai Electric Bearing (Note 50)	–	4,415	–	–	–	–	–	4,415
Appropriation of statutory reserves	–	–	–	25,191	(25,191)	–	–	–
Awarded shares vested	1,311	–	(4,695)	–	–	–	3,384	–
Awarded shares forfeited	530	–	(530)	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	1,757	–	–	–	–	1,757
At 31 December 2018	719,202	39,939	1,997	147,334	689,520	70,764	(27,041)	1,641,715

Notes:

a. The capital reserve account balance as at 31 December 2018 represented the Company's share premium of RMB719,202,000 (31 December 2017: RMB692,553,000).

b. During the year ended 31 December 2017, the Company received from its wholly owned subsidiary, Shanghai Fastener and Welding Material Technology Research Centre Company Limited's transfer of its land 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.

c. The increase of RMB24,808,000 in capital reserve is the result of the Rights Issue during the year ended 31 December 2018. Details of the Rights Issue are disclosed in note g to consolidated statement of changes in equity.

49. ACQUISITION OF A SUBSIDIARY/BUSINESS

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 are nil.

49. 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 recognised 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 2017, 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.

50. DISPOSAL OF A SUBSIDIARY

During the current year, the Group entered into a sale agreement to dispose of its 100% equity interest in Shanghai Electric Bearing to SEG. The disposal was completed on 29 May 2018, on which date the Group lost control of Shanghai Electric Bearing.

Consideration received

	RMB'000
Cash received	58,849

Analysis of assets and liabilities of Shanghai Electric Bearing over which control was lost:

	RMB'000
Property, plant and equipment	51,443
Inventories	40,846
Prepayments, deposits and other receivables	17,772
Bank balances and cash	2
Trade payables	(48,496)
Other payables and accruals	(7,133)
Net assets disposed of	54,434
Gain on disposal of a subsidiary:	
Consideration received	58,849
Net assets disposed of	(54,434)
Gain on disposal of a subsidiary accounted for as deemed capital contribution and recognised in contributed surplus	4,415

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration	58,849
Cash and cash equivalents disposed of	(2)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	58,847

The Group did not incur any significant transaction cost for this disposal transaction.

51. TRANSFER OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB57,296,000 (31 December 2017: RMB57,832,000) to certain suppliers in settlement of the trade payables due to them. 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 being settled. The Endorsed Bills are carried at fair value in the Group's consolidated statement of financial position.

Transferred financial assets that are derecognised in their entirety

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in the PRC to certain suppliers amounting to RMB110,030,000 (31 December 2017: RMB78,042,000) (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 2018 and 2017, 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.

52. 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 bank borrowings disclosed in note 40 and shareholders' loans disclosed in note 41, 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.

53. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP	
	31/12/2018	31/12/2017
	RMB'000	RMB'000
Financial assets		
Available-for-sale investments	–	2,043
Financial assets at FVTPL	3,551	–
Financial assets at amortised cost	2,699,036	2,963,122
Debt instruments at FVTOCI	719,278	–
	3,421,865	2,965,165
Financial liabilities		
Derivative financial instruments	–	2,583
Amortised cost	4,628,761	4,837,623
	4,628,761	4,840,206

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL (31 December 2017: available-for-sale investments), debt instruments at FVTOCI (31 December 2017: bills receivable), trade receivables, deposit and other receivables, restricted deposits and bank balances and cash, trade payables, bills payable, other payables, bank borrowings, shareholders' loans and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate and other price risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

53. 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 management of the Group monitors foreign exchange exposures and will consider hedging significant foreign exchange exposures should the need arise. In addition, the Group has intra-group balances with several subsidiaries denominated in foreign currencies which also expose the Group to foreign 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	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**217,180**	231,930	**–**	–
Bank balances and cash	**14,631**	137,338	**187,436**	27,002
Total assets	**231,811**	369,268	**187,436**	27,002
Trade payables	**1,324**	3,528	**–**	–
Other payables and accruals	**2,057**	5,238	**–**	–
Long-term borrowings	**940,258**	895,216	**–**	–
Total liabilities	**943,639**	903,982	**–**	–

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2017: 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% (2017: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit and other equity currently where the relevant foreign currencies strengthen 5% (2017: 5%) against the functional currencies. For a 5% weakening of the relevant foreign currencies against the functional currencies, there would be an equal but opposite impact on post-tax profit and other equity, and the balances below would be negative.

	USD Impact		HKD Impact	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Profit or loss	**(26,694)**	(20,052)	**7,029**	1,013
Equity	**(26,517)**	(19,714)	**7,029**	1,013

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 and shareholders' loans (see notes 40 and 41 for details).

The Group is also exposed to cash flow interest rate risk in relation to bank balances, variable-rate bank borrowings and shareholders' loans (see notes 33, 40 and 41 for details) due to the fluctuation of the prevailing market interest rates.

The Group cashflow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and variable-rate bank borrowings and shareholder loan.

During the year ended 2018, the Group aims at keeping bank borrowings at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(ii) Interest rate risk (Continued)

During the year ended 31 December 2017, the Group enters into interest rate swaps to hedge against its exposures to changes in cash flows in relation to the bank borrowings. The critical terms of these interest rate swaps are similar to those of the hedged borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is applied.

Total interest income from financial assets that are measured at amortised cost is as follows:

Other income	Year ended 31/12/2018 RMB'000
Financial assets at amortised cost	9,310

Other income	Year ended 31/12/2017 RMB'000
Loans and receivables (including bank balances and cash)	14,076

Sensitivity analyses

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis-point increase (31 December 2017: 10 basis-point) or decrease in variable-rate bank balances and a 10 basis point (31 December 2017: 10 basis-point) increase or decrease in variable-rate bank borrowings and shareholders loan interest represent management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points (2017: 10 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit and other equity reserves for the year ended 31 December 2018 would decrease/increase by RMB4,934,000 (2017: decrease/increase by RMB271,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and shareholders' loans.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Bank balances and debt instruments at FVTOCI

The credit risks on bank balances and debt instruments at FVTOCI are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
				RMB'000	RMB'000
Debt instruments at FVTOCI					
Bills receivable	30	Low risk	12-month ECL	719,278	719,278
Financial assets at amortised cost					
Restricted deposits	33	N/A	12-month ECL	619,715	619,715
Bank balances	33	N/A	12-month ECL	1,150,168	1,150,168
Other receivables	31	(Note 1)	12-month ECL	125,450	–
			Credit-impaired	10,803	136,253
Trade receivables	29	(Note 2)	Lifetime ECL (provision matrix)	1,028,757	–
		Watch list	Lifetime ECL	260,143	–
		Loss	Credit-impaired	48,074	1,336,974

Notes:

1. For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past Due	Not past due/ No fixed repayment terms	Total
	RMB'000	RMB'000	RMB'000
Other receivables	10,803	125,450	136,253

2. For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix grouped by shared credit risk characteristics.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Provision matrix — debtor's aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 31 December 2018. Trade receivables with significant outstanding balances or credit impaired with gross carrying amounts of RMB260,143,000 and RMB48,074,000 respectively as at 31 December 2018 were assessed individually.

Gross carrying amount

	Average loss rate	Trade receivables RMB'000
Current (not past due)	–	314,615
Within 90 days past due	0.56%	397,866
91 to 180 days past due	2.05%	151,886
181 days to 1 year past due	5.91%	93,150
1 to 2 years past due	78.97%	71,240
		1,028,757

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, there was a reversal of impairment losses of RMB8,855,000 on trade receivables based on the provision matrix. Impairment losses of RMB9,892,000 and RMB47,319,000 were recognised on trade receivables with significant balances or credit impaired respectively.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Provision matrix — debtor's aging (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 31 December 2017 under HKAS 39	–	65,468	65,468
Adjustment upon application of HKFRS 9	12,379	–	12,379
As at 1 January 2018 — As restated	12,379	65,468	77,847
Changes due to financial instruments recognised as at 1 January:			
— Impairment losses recognised	–	57,211	57,211
— Impairment losses reversed	(1,644)	(7,211)	(8,855)
Exchange adjustments	94	–	94
As at 31 December 2018	10,829	115,468	126,297

Changes in the loss allowance for trade receivables are mainly due to:

	31/12/2018 Increase/(decrease) in lifetime ECL	
	Not credit-impaired RMB'000	Credit-impaired RMB'000
9 trade debtors with a gross carrying amount of RMB48,074,000 defaulted and were considered credit-impaired as at 31 December 2018	–	**47,319**

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

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 2018, the Group had available financing facilities amounting to RMB4,003,160,000 (31 December 2017: RMB2,515,500,000) of which RMB2,728,184,000 (31 December 2017: RMB2,124,833,000) 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.

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.

53. 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 2018							
Non-derivative financial liabilities							
Trade payables		1,424,870	–	–	–	1,424,870	1,424,870
Bills payable		408,124	–	–	–	408,124	408,124
Other payables		177,629	–	–	–	177,629	177,629
Refund liabilities			–	21,520	–	21,520	21,520
Other long-term payables		–	–	3,204	–	3,204	3,204
Obligations under finance leases		1,925	5,776	22,938	–	30,639	25,761
Bank borrowings							
— fixed rate	2.70%	–	2,175	53,236	–	55,411	52,592
— variable rate	2.58%	–	205,545	584,748	–	790,293	756,020
Shareholders' loans							
— fixed rate	2.59%	–	971,284	899,528	–	1,870,812	1,754,988
— variable rate	3.83%	–	4,212	–	–	4,212	4,053
		2,012,548	1,188,992	1,585,174	–	4,786,714	4,628,761

53. 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 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

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.

53. 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).

	Fair value as at		Fair value Hierarchy	Valuation technique(s) and key input(s)
	31 December 2018 RMB'000	31 December 2017 RMB'000		
Interest rate swaps	**Liability Not applicable**	Liability 2,583	Level 2	Discounted cash flow. Future cash flows are estimated based on applicable yield curves and discounted at a rate that reflects the credit risk of various counterparties.
Debt instruments at FVTOCI	**Asset 719,278**	Asset –	Level 2	Discounted cash flow. Future cash flows are discounted at a rate that reflects the credit risk various counter parties.
Financial assets at FVTPL for unlisted equity investments	**Asset 3,551**	Asset –	Level 3	Market approach.

There were no transfers between level 1 and 2 during both years.

Except for those set out above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 31 December 2018 and 2017 recorded at amortised cost in the consolidated financial statements approximate their fair values.

54. OPERATING LEASES

As lessor

At the end of the reporting period, the Group had contracted with tenants for the leasing of property, plant and machinery for the following future minimum lease payments:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	1,391	5,377
In the second to fifth year inclusive	1,842	3,136
After five years	–	96
	3,233	8,609

As lessee

The Group's minimum lease payments paid during the year ended 31 December 2018 under operating leases in respect of land and buildings and equipment amounted to RMB120,773,000 (2017: RMB128,521,000).

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:

	31/12/2018 RMB'000	31/12/2017 RMB'000
Within one year	90,446	90,049
In the second to fifth year inclusive	133,939	138,346
After five years	15,099	27,218
	239,484	255,613

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 2017: one year to ten years) and rentals are fixed upon the signing of the lease agreements.

55. CAPITAL COMMITMENTS

	31/12/2018 RMB'000	31/12/2017 RMB'000
Capital commitments contracted but not provided for in the consolidated financial statements in respect of:		
— Plant and machinery	**83,370**	39,912
— Land and buildings	**228**	–
	83,598	39,912

56. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2017: nil).

57. 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.

	Bank 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 payable 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

57. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)

	Bank borrowings RMB'000	Obligations under finance leases RMB'000	Shareholders' loans RMB'000	Loan from non-controlling interest shareholders RMB'000	Interest payable RMB'000	Dividends payable RMB'000	Total RMB'000
At 1 January 2018	850,800	32,737	1,879,346	3,900	13,918	16	2,780,717
Financing cash flows	(49,395)	(7,007)	(169,847)	–	(100,369)	–	(326,618)
Foreign exchange translation	7,207	31	45,642	–	(3,424)	–	49,456
Finance costs	–	–	–	–	103,460	–	103,460
Dividends paid	–	–	–	–	–	(16)	(16)
At 31 December 2018	808,612	25,761	1,755,141	3,900	13,585	–	2,606,999

58. 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 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
SEG Group and its associates including SEC and its subsidiaries	Sales of goods (Note i)	279,036	278,222
	Comprehensive services charges incurred	264	12
	Rental expense (Note ii)	23,935	23,887
	Interest expense	53,091	48,986
	Dividend distribution	–	23,750
	Rendering of comprehensive services	175	1,511
	Obligations under financial leases	–	30,000

58. RELATED PARTY DISCLOSURES (Continued)

(a) Related party transactions (Continued)

Notes:

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

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

(b) Related party balances

Other related party balances including trade receivables, debt instruments at FVTOCI, trade payables, other payables and accruals are set out in notes 29, 30, 34 and 36.

(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 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Fees	**601**	624
Short-term employee benefits	**4,570**	4,921
Retirement benefit	**200**	206
	5,371	5,751

Further details of directors', chief executive's and supervisors' emoluments are included in note 14.

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.

59. 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 31/12/2018	31/12/2017	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 Factory 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 電氣軸承	PRC	RMB100,000	–	100%	Production and sale of bearing products
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

59. 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 31/12/2018	31/12/2017	Principal activity
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	HKD438,684	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
Nedschroef Altena GmbH	Deutschland ("DEU")	EUR25	100%	100%	Manufacture of fasteners

59. 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 31/12/2018	31/12/2017	Principal activity
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	EUR25	100%	100%	Manufacture of fasteners
Nedschroef Schrozberg GmbH	DEU	EUR25	100%	100%	Manufacture of fasteners
SPTCB 上海集優張力控制螺栓有限公司	PRC	USD2,500	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.

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.

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017
				RMB'000	RMB'000	RMB'000	RMB'000
United Bearing	PRC	10%	10%	1,727	(1,255)	34,972	33,745
Shanghai Tianhong	PRC	30%	30%	(3,285)	2,609	8,347	11,632
Total				(1,558)	1,354	43,319	45,377

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.

	31/12/2018 United Bearing RMB'000	31/12/2017 United Bearing RMB'000	31/12/2018 Shanghai Tianhong RMB'000	31/12/2017 Shanghai Tianhong RMB'000
Current assets	510,465	499,891	50,422	37,686
Non-current assets	67,619	64,101	17,433	17,450
Current liabilities	(223,384)	(221,562)	(40,030)	(16,362)
Non-current liabilities	(4,982)	(4,982)	–	–
Equity attributable to owners of the Company	314,746	303,703	19,477	27,142
Non-controlling interests	34,972	33,745	8,348	11,632

59. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

	Year ended 31/12/2018 United Bearing RMB'000	Year ended 31/12/2017 United Bearing RMB'000	Year ended 31/12/2018 Shanghai Tianhong RMB'000	Year ended 31/12/2017 Shanghai Tianhong RMB'000
Revenue	332,007	325,534	35,094	32,778
Expenses	(314,737)	(338,087)	(46,043)	(24,080)
Profit (loss) for the year	17,270	(12,553)	(10,949)	8,698
Profit (loss) attributable to owners of the Company	15,543	(11,298)	(7,664)	6,089
Profit (loss) attributable to non-controlling interests	1,727	(1,255)	(3,285)	2,609
Profit (loss) for the year	17,270	(12,553)	(10,949)	8,698
Total comprehensive income (expense) attributable to owners of the Company	15,543	(11,298)	(7,664)	6,089
Total comprehensive income (expense) attributable to non-controlling interests	1,727	(1,255)	(3,285)	2,609
Total comprehensive income (expense) for the year	17,270	(12,553)	(10,949)	8,698
Dividends paid to non-controlling interests	500	–	–	–
Dividends paid to owners of the Company	4,500	–	–	–
Net cash inflow (outflow) from operating activities	74,753	(51,686)	11,574	5,677
Net cash (outflow) inflow from investing activities	(35,758)	38,400	(4)	(2,943)
Net cash (outflow) inflow from financing activities	(39,742)	4,619	(111)	(3,622)
Net cash (outflow) inflow	(747)	(8,667)	11,458	(888)

60. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 15 March 2019.

上海集优
SHANGHAI PRIME