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)**

2019 ANNUAL REPORT

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Corporate Information

Executive Directors

Zhou Zhiyan (Chairman)
Xiao Yuman
Gou Jianhui
(appointed on 14 June 2019, resigned on 1 April 2020)
Zhang Mingjie
Si Wenpei (appointed on 14 June 2019)
Zhang Jie (resigned on 14 June 2019)
Chen Hui (resigned on 14 June 2019)

Non-Executive Director

Dong Yeshun

Independent Non-Executive Directors

Ling Hong
Chan Oi Fat
Sun Zechang

Supervisors

Zhang Yan (Chairman, appointed on 14 June 2019)
Lu Haixing
(appointed on 14 June 2019)
Yu Yun
Xu Jianguo (Chairman, resigned on 14 June 2019)
Si Wenpei (resigned on 14 June 2019)

Company Secretary

Ng Kwong, Alexander (CPA)

Audit Committee

Chan Oi Fat (Chairman)
Ling Hong
Sun Zechang
(appointed on 14 June 2019)
Dong Yeshun (resigned on 14 June 2019)

Remuneration Committee

Ling Hong (Chairman)
Chan Oi Fat
Dong Yeshun

Strategy Committee

Zhou Zhiyan (Chairman)
Gou Jianhui (appointed on 14 June 2019, resigned on 1 April 2020)
Zhang Mingjie
Dong Yeshun
Sun Zechang
Zhang Jie (resigned on 14 June 2019)
Chen Hui (resigned on 14 June 2019)

Nomination Committee

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

Risk Management Committee

Zhou Zhiyan (Chairman)
Xiao Yuman
Gou Jianhui (appointed on 14 June 2019, resigned on 1 April 2020)
Si Wenpei (appointed on 14 June 2019)
Ling Hong
Chan Oi Fat
Zhang Jie (resigned on 14 June 2019)

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 LLP

H-Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, 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

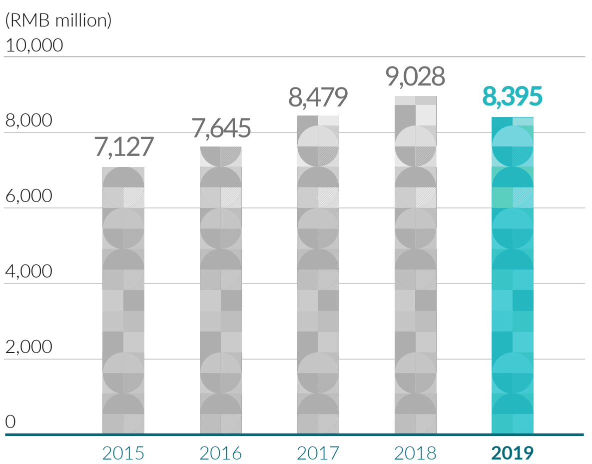
2747 Songhuajiang Road,
Hongkou District, Shanghai
The People's Republic of China
Postal Code: 200437

The 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

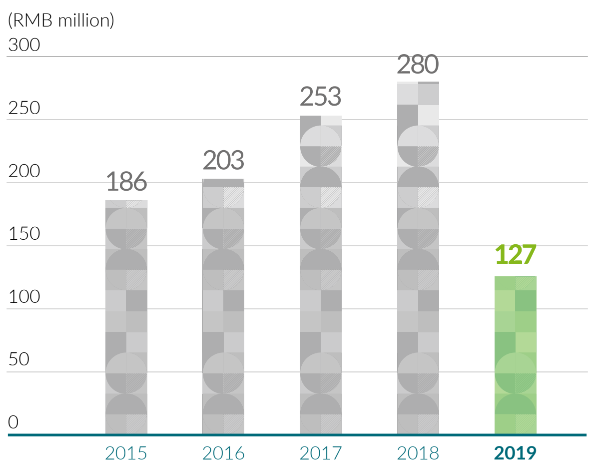
Financial Summary

RMB (Million)	2015	2016	2017	2018	2019
Revenue and Profit					
Revenue from continuing operations	7,127	7,645	8,479	9,028	**8,395**
Profit before tax from continuing operations	288	300	352	362	**145**
Income tax expense	(97)	(97)	(99)	(85)	**(13)**
Profit (loss) for the year from discontinued operations	(4)	–	–	–	**–**
Profit for the year attributable to					
— Owners of the Company	186	203	253	280	**127**
— Non-controlling interests	1	0	0	(3)	**5**
	187	203	253	277	**132**
Dividends — proposed final	46	50	–	71	**66**
Earnings per share					
— Basic (RMB cents)	13.13	14.41	18.21	19.88	**7.48**
— Diluted (RMB cents)	13.10	14.36	18.14	19.86	**7.48**
Assets and Liabilities					
Non-current assets	4,268	4,243	4,297	4,198	**4,412**
Current assets	4,556	4,877	4,966	5,460	**5,232**
Current liabilities	2,387	2,963	2,880	3,616	**3,427**
Net current assets	2,169	1,914	2,086	1,844	**1,805**
Total assets less current liabilities	6,437	6,157	6,383	6,042	**6,217**
Non-current liabilities	3,239	2,811	2,820	1,885	**2,033**
Net assets	3,198	3,346	3,563	4,157	**4,184**
Total equity attributable to owners of the Company	3,155	3,301	3,518	4,111	**4,146**
Non-controlling interests	43	45	45	46	**38**

Revenue



Profit Attributable to Owners of the Company



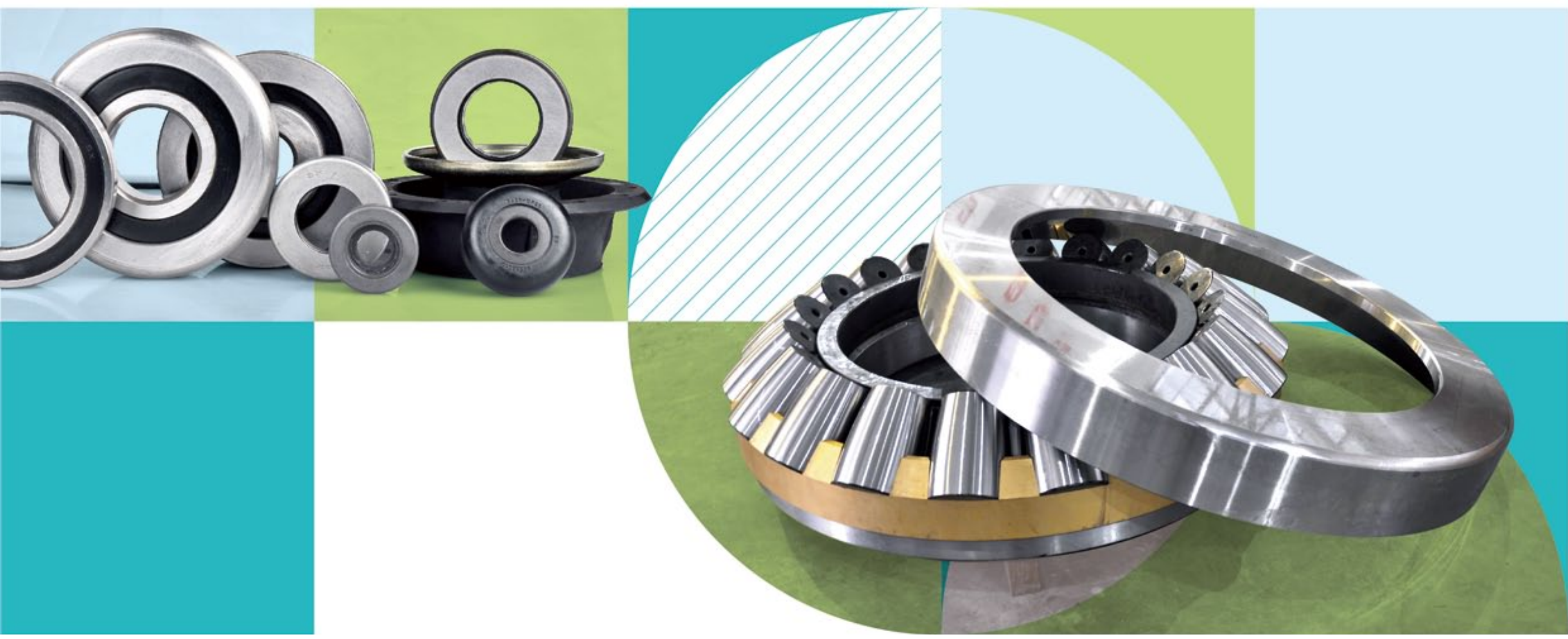
Performance Highlights

Performance Highlights

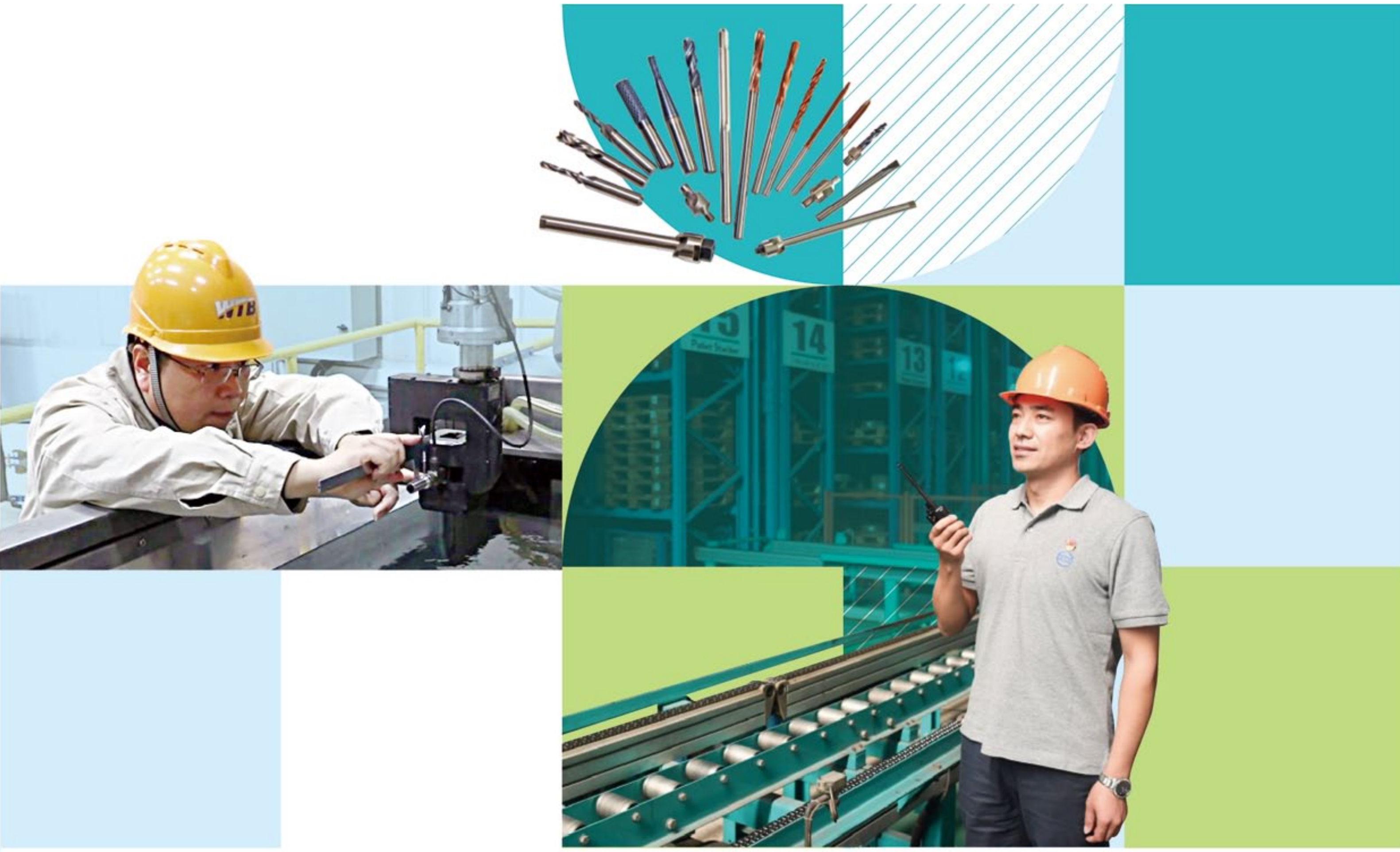
For the year ended 31 December 2019 ("FY2019"), the revenue of Shanghai Prime Machinery Company Limited (the "Company"), together with its subsidiaries (the "Group"), declined by 7.0% to RMB8,395 million from RMB9,028 million for the year ended 31 December 2018 ("FY2018"), driven primarily by the contraction in revenue of the fastener business, especially for automotive fastener. Profit attributable to owners of the Company decreased by 54.6% to RMB127 million in FY2019 (FY2018: RMB280 million).

Basic earnings per share ("EPS") for FY2019 was RMB7.48 cents (FY2018: RMB19.88 cents). The board of directors of the Company (the "Board") proposed a final dividend for FY2019 of RMB3.8 cents (FY2018: RMB4.1 cents) per share, representing a payout ratio of approximately 51%.

Revenue of the fastener business amounted to RMB6,138 million for FY2019 (FY2018: RMB6,784 million), representing a decrease of 9.5% as compared with FY2018, and accounted for 73% (FY2018: 75%) of the Company's total revenue for FY2019. In FY2019, the average gross profit margin of the fastener business of the Company was 16.2%, representing a decrease of 1.7 percentage points from FY2018.



PERFORMANCE HIGHLIGHTS

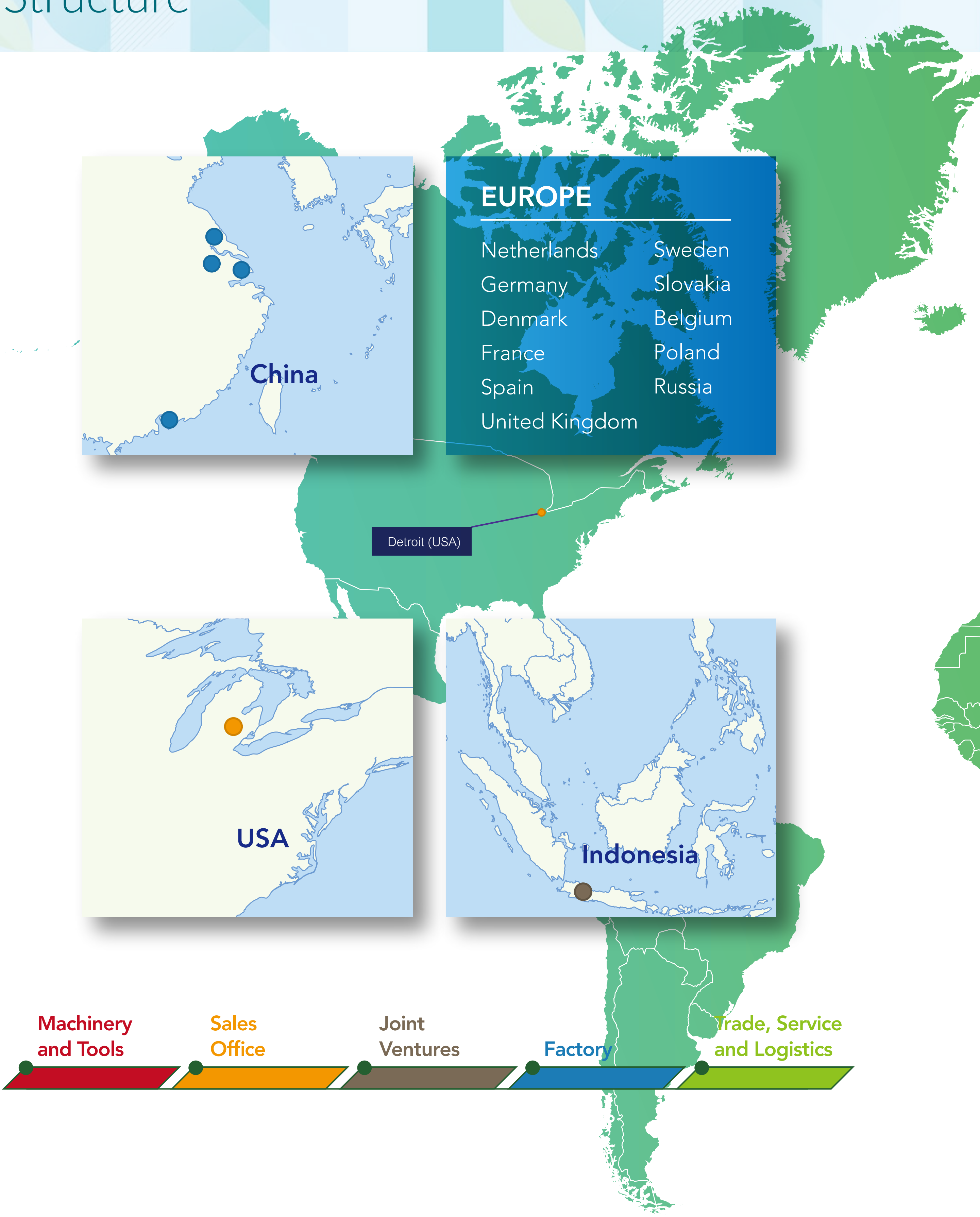


The revenue of the turbine blade business in FY2019 was RMB897 million (FY2018: RMB867 million), representing an increase of 3.5% as compared with FY2018, and accounted for 11% (FY2018: 10%) of the Group's total revenue. In FY2019, the average gross profit margin of the turbine blade business was 20.4%, representing a decrease of 0.2 percentage point from FY2018.

The revenue of the bearing business in FY2019 was RMB797 million (FY2018: RMB786 million), representing an increase of 1.4% as compared with FY2018, and accounted for 9% (FY2018: 9%) of the Group's total revenue. In FY2019, the average gross profit margin of the bearing business was 26.2%, representing a decrease of 0.8 percentage points from FY2018.

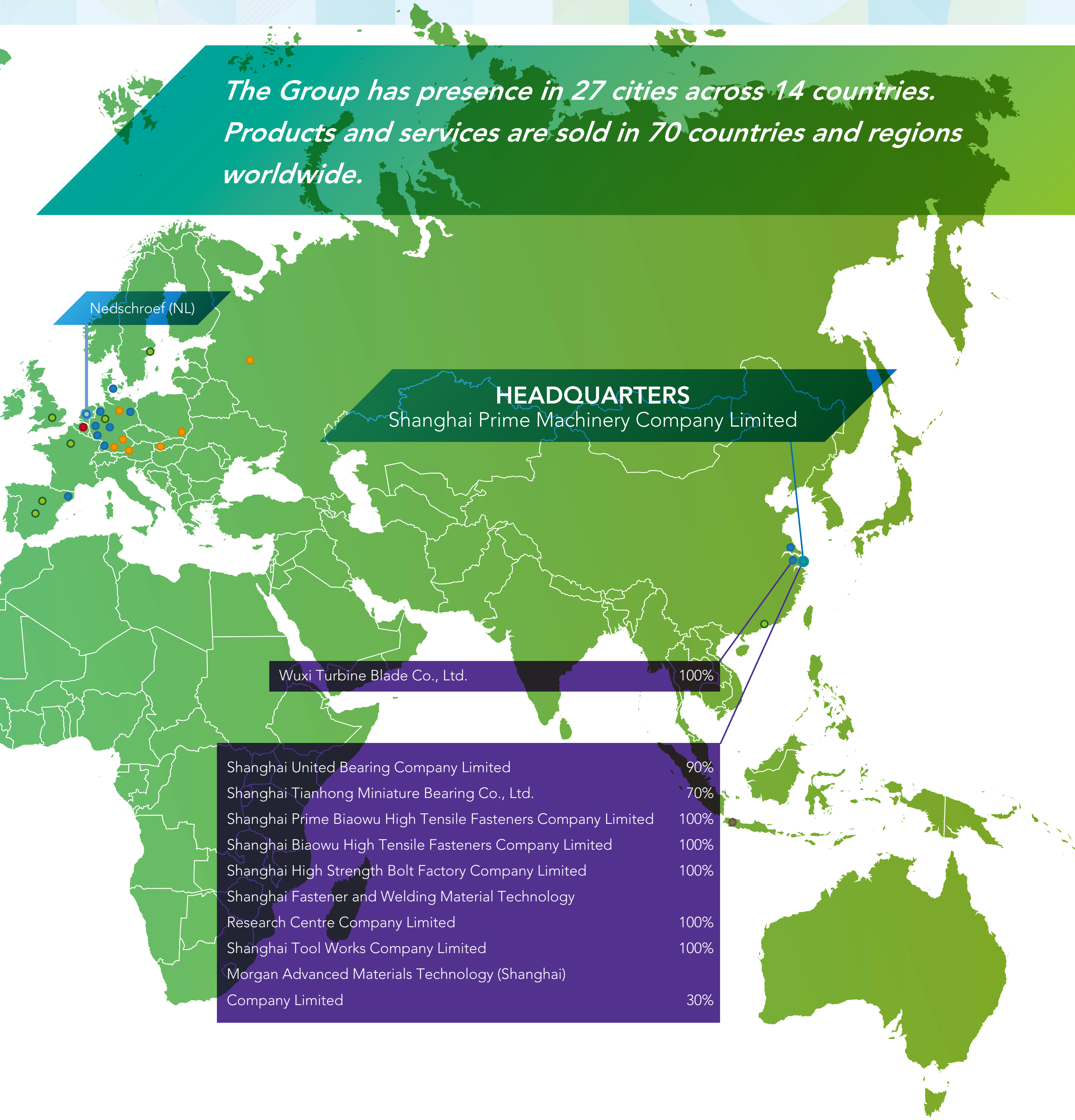
The revenue of the cutting tool business in FY2019 was RMB563 million (FY2018: RMB591 million), representing a decrease of 4.7% as compared with FY2018, and accounted for 7% (FY2018: 6%) of the Group's total revenue. In FY2019, the average gross profit margin of the cutting tool business was 35.2%, representing an increase of 5.1 percentage points from FY2018.

Corporate Structure



CORPORATE STRUCTURE

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



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 2019 ("FY2019"). The Group's annual results for FY2019 have been audited by Deloitte Touche Tohmatsu.

Business Review

During FY2019, the Group generated revenue of RMB8,395 million (FY2018: RMB9,028 million), declined by 7.0% as compared with FY2018. The decrease in revenue was primarily due to the contraction in revenue of the fastener business, especially for automotive fastener. The Group's overall gross profit margin decreased by 0.8 percentage points to 18.9% for FY2019 (FY2018: 19.7%). Total operating expenses amounted to RMB1,440 million (FY2018: RMB1,465 million), of which selling and distribution expenses decreased by 8.7% while administrative expenses increased by 1.0%. Profit attributable to owners of the Company for FY2019 decreased by 54.6% to RMB127 million (FY2018: RMB280 million).

Earnings per share of the Company for FY2019 dropped by 62.4% to RMB7.48 cents (FY2018: RMB19.88 cents). The Board of the Company proposed a final dividend for FY2019 of RMB3.8 cents (FY2018: RMB4.1 cents) per share, representing a payout ratio of approximately 51%.

CHAIRMAN'S STATEMENT

Strategic Review

Domestic business generally stable, development of automotive fastener business facing challenge

In FY2019, the economic growth in China slowed down and the domestic business of the Group was generally stable. The business in Europe was influenced by continuously weak demand in automotive market to a greater extent, which caused challenges to the development of the business.

Growth in revenue pf high-end products, gradual optimization of product structure

In FY2019, turbine blade business and bearing segment of the Group achieved outstanding performance in the transformation and upgrading to high-end products; the operating income of overseas aviation and energy exceeded that of domestic energy for the first time; the sales revenue of aviation bearings, medical machinery, miniature bearings increased significantly.

Actively expanding into markets of emerging industries and creating new growth drivers

Emerging industry will be the industry representing the industrial development direction of the world and China, with broad market prospects and growth potential. In FY2019, the Group actively expanded into markets of emerging industries such as wind power, civil aviation (large aircraft), rail transit, and robotics, opening up new space for future performance growth.

Develop high-end large customers, enhance its own R&D capabilities and brand value

In FY2019, all business segments of the Group strived to acquire high-end large customers, and have established business partnership with a number of new high-end large customers, such as Honeywell, Schaeffler, etc. In providing services to high-end large customers, the R&D capabilities and brand value of the Group have also been enhanced. The Group is committed to becoming a supplier to renowned domestic and international enterprises in the future.

FUTURE PROSPECTS

Implementation of "Double Drive" strategies

With the slowdown of China's economic growth, the competition of traditional industries have shifted from "incremental business" to "existing business", with distinctive characteristics of "stronger remains as strong" and increasing concentration of the industry. Under such economic situation, the Group will be committed to maintaining the steady growth of its existing business and increasing the scale of incremental business by mergers and acquisitions to achieve a continuous steady growth in operating income and gradual improvement of profitability.

Promote transformation and upgrading

Under fierce competition in the "existing business", sustainable growth can only be achieved by developing new products, expanding new markets, acquiring new customers and promoting the transformation and upgrading of the business. Through market analysis and technology research and development, the Group will promote customer-oriented product upgrading, the business of the Group will transform from mechanical components to spare parts, functional components, and mechanical and electrical units, which will continuously enhance the profitability of the business.

Business collaboration

In the competition of "existing business", customer resources are the most valuable resources of an enterprise. The Group's business segments shared a large number of domestic and overseas customer resources. It is expected to drive the growth of existing business by the synergy in sales created through the sharing of customer and channel resources between domestic and overseas companies and different business segments.

Take advantage of innovative mechanism

The competition is more intensive than the past in the "existing business" competition. The Group will continue to improve the mechanism by adopting measures such as mixed ownership reform and the introduction of strategic investors. In the future, the Group will put more efforts in reforms. Strategic investors with high compatibility and synergy will also be introduced to form the new mechanism of "risk sharing and benefit sharing" to stimulate the competitiveness and vitality of the Company.

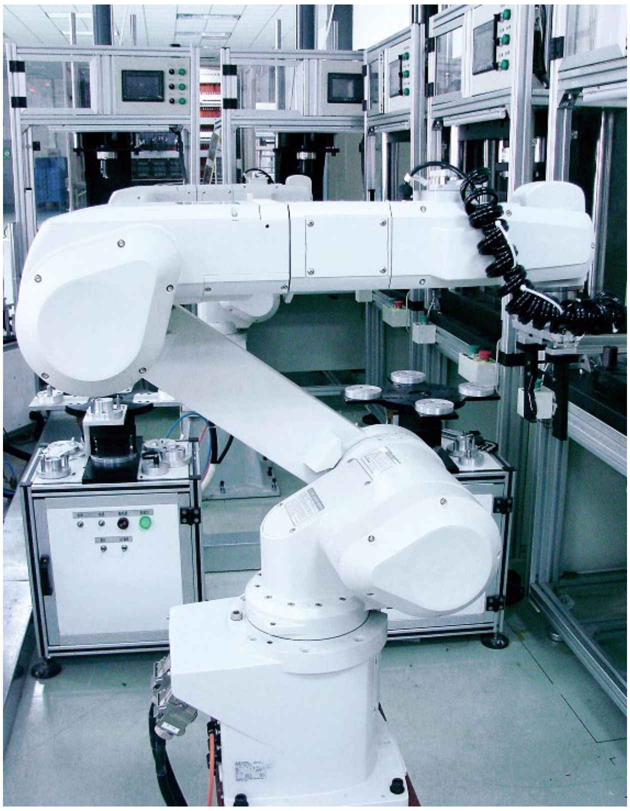
CHAIRMAN'S STATEMENT

Gradient transfer

In the competition of "existing business", efficient operation is a key for success. At present, the operating costs of some subsidiaries of the Group are high but with insufficient operating efficiency. Therefore, it is necessary to achieve gradient transfers by integrating business, improving management, reducing operating costs, and improving operational efficiency and product competitiveness.

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 2020, the Group will stick to its healthy growth strategy, and continue to drive its internationalisation, 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
29 March 2020

Key Events of the Group in the Financial Year 2019

1. Wuxi Turbine Blade Co., Ltd was awarded "Best Delivery Award 2018" by its client Aero Engine Corporation of China, "Trusted to Deliver Excellence Award 2018" by Rolls-Royce, "Cooperation Partner Award 2018" by GE Power and "Excellent Service Provider Award 2019" by SIEMENS.

2. In June 2019, Nedschroef celebrated its 125th anniversary as a trusted and innovative partner to its automotive customers.

3. Leveraging on its excellent branding and product function standards, steel structure bolts of Shanghai High Strength Bolt Factory Company Limited won the bid of final assembly work shop construction project of the Shanghai factory of U.S. Tesla, laying a good foundation for Shanghai High Strength Bolt Factory Company Limited to continue the provision of services for subsequent multiphase plants construction projects of the Shanghai factory of Tesla.

4. "Sophisticated axle bearing design of railway transport axle box and key manufacturing technology" project of Shanghai United Bearing Company Limited was officially included in the "Strong Industrial Base" (工業強基) plan of Shanghai. Scientific research and development expenses were granted by Shanghai to support technical research and development.

5. Dr. Matthias Sckuhr was appointed as the chief executive officer of Nedschroef. After joining the senior management of Nedschroef, Dr. Matthias Sckuhr will ensure that Nedschroef continues focusing on the innovation, cutting-edge solutions and services of the automotive industry.

6. Nedschroef (Kunshan) Company Limited (內德史羅夫緊固件(昆山)有限公司) has been actively exploring the new energy automotive market, establishing cooperation relationships with multiple new energy automotive customers and securing orders.

7. Leveraging on privileged products and services, Nedschroef (Kunshan) Company Limited (內德史羅夫緊固件(昆山)有限公司) cooperated with Schaeffler Shanghai, established business partnership and realised sales. In the process of providing services for key high-end customers, Nedschroef (Kunshan) Company Limited (內德史羅夫緊固件(昆山)有限公司) elevated its own research and development capability and brand value.

8. The Company established a strategic cooperation relationship with Shanghai Aircraft Design & Research Institute of Commercial Aircraft Corporation of China, Ltd. and officially signed a cooperation framework agreement. The parties will begin exploring and cooperating in respect of "research and manufacture of domestic standard parts as well as inspection of standard parts" to achieve mutual benefit and development.

9. Leveraging on the advantageous anti-corrosion feature of Greenkote coat , Shanghai Premier Tension Control Bolts Co., Ltd has been actively exploring the railway transport construction market by cooperating with Shanghai Shentong Metro Co., Ltd. (上海申通地鐵股份有限公司). With project of bolts for subway tunnels as a breakthrough, it facilitated the promotion of subway construction trial orders. In the financial year of 2019, there has been a new breakthrough in respect of new fasteners orders.

Management Discussion and Analysis

Business Review

2019 was a year with uncertainties characterized by weaker demand in global car markets especially Europe and China; unfavourable trade environment underscored by tension in United States-China trade relations; general slow-down in China's macro-economy; as well as continued downturn in demand for coal-fired power equipment in China. Against this backdrop, the Group's revenue for FY2019 declined by 7.0% as compared with FY2018 to RMB8,395 million (FY2018: RMB9,028 million), primarily due to the contraction in revenue of the fastener business especially automotive fastener. The Group's overall gross profit margin decreased by 0.8 percentage point to 18.9% for FY2019 (FY2018: 19.7%) mainly due to under-absorption of overhead resulting from lower production rate. Total operating expenses amounted to RMB1,440 million (FY2018: RMB1,465 million), of which selling and distribution expenses decreased by 8.7% while administrative expenses increased by 1.0%.

During FY2019, the Group has incurred certain non-recurrent or non-operating expenses, including (a) professional expenses totaled RMB15.0 million in relation to a potential acquisition which was not proceeded; (b) write-off of unamortized capitalized upfront fee amounting to RMB9.2 million as a result of early repayment of a Euro syndicated loan; (c) compensation expenses totaled circa RMB18.5 million (approximately EUR2.4 million) in relation to change of senior management of the Group's European operations; and (d) restructuring costs of circa RMB33.2 million (EUR4.3 million) incurred for FY2019 in relation to the close-down of a manufacturing plant in Berlin, Germany.

The Group, in November 2018, completed disposal of its entire equity interest in Shanghai General Bearing Company Limited, which was an associate of the Group that produced bearings in China predominately for North American market and contributed RMB30.9 million (of which RMB7.7 million was disposal gain) to the Group's consolidated net profits for FY2018. Hence, the Group's share of profits of associate for FY2019 was significantly lower.

EBITDA for FY2019 amounted to RMB584 million (FY2018: RMB674 million) and EBITDA to revenue margin was 7.0% (FY2018: 7.5%). Profit attributable to owners of the Company for FY2019 decreased by 54.6% to RMB127 million (FY2018: RMB280 million).

Earnings per share of the Company for FY2019 dropped by 62.4% to RMB7.48 cents (FY2018: RMB19.88 cents). The Board of the Company proposed a final dividend for FY2019 of RMB3.8 cents (FY2018: RMB4.1 cents) per share, representing a payout ratio of approximately 51%.

Note: EBITDA is defined as earnings before interest income, finance costs, net exchange differences, hedging results, income tax expenses, depreciation, amortization, and share of results and/or results of disposal of interests in equity-accounted entities.

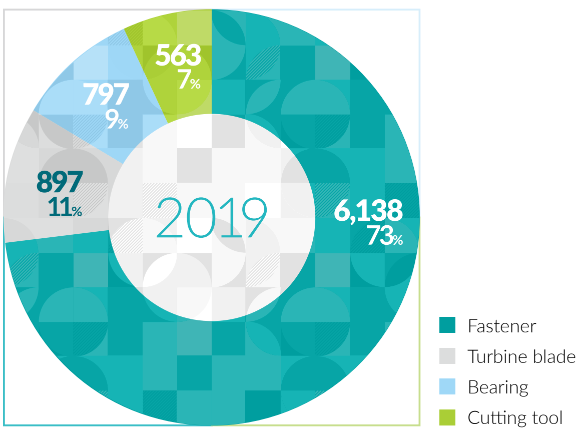
MANAGEMENT DISCUSSION AND ANALYSIS

Results of Principal Business

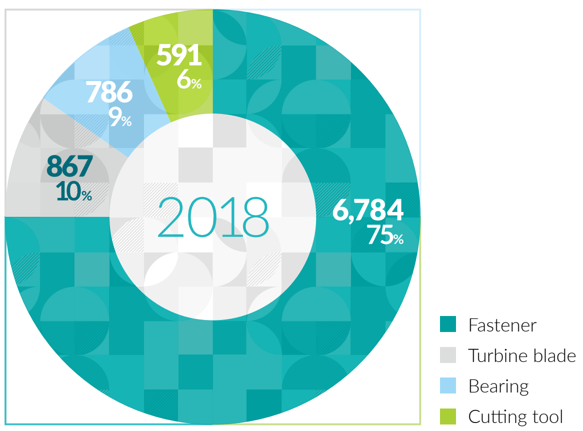
Set out below are the revenue, gross profit and gross profit margin in terms of business nature:

	Revenue		Gross Profit		Gross Profit Margin	
RMB (Million)	2019	2018	2019	2018	2019	2018
Fastener business	**6,138**	6,784	**996**	1,212	**16.2%**	17.9%
Percentage of total	**73%**	75%	**63%**	68%		
Turbine blade business	**897**	867	**183**	179	**20.4%**	20.6%
Percentage of total	**11%**	10%	**12%**	10%		
Bearing business	**797**	786	**209**	212	**26.2%**	27.0%
Percentage of total	**9%**	9%	**13%**	12%		
Cutting tool business	**563**	591	**198**	177	**35.2%**	30.1%
Percentage of total	**7%**	6%	**12%**	10%		

Revenue in 2019 (RMB million)

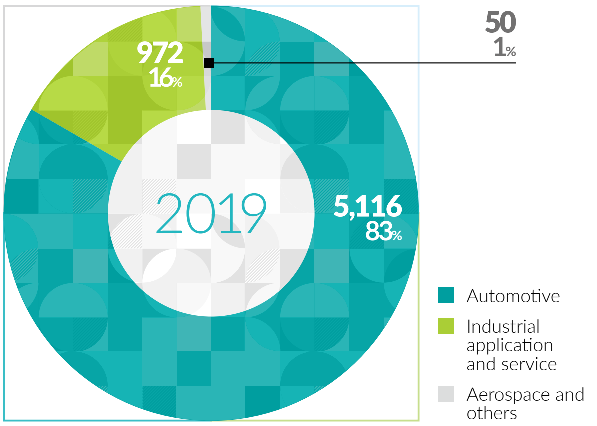


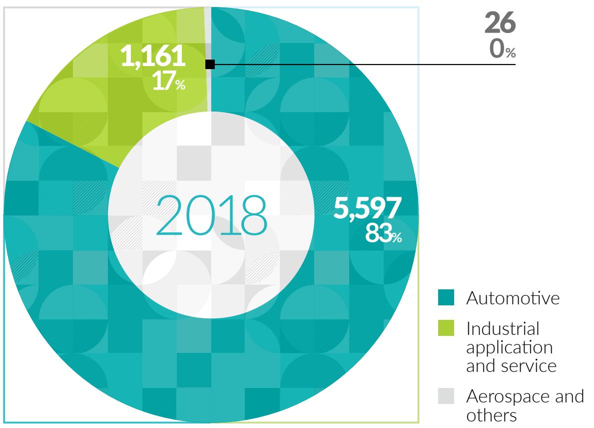
Revenue in 2018 (RMB million)



MANAGEMENT DISCUSSION AND ANALYSIS

Fastener Business





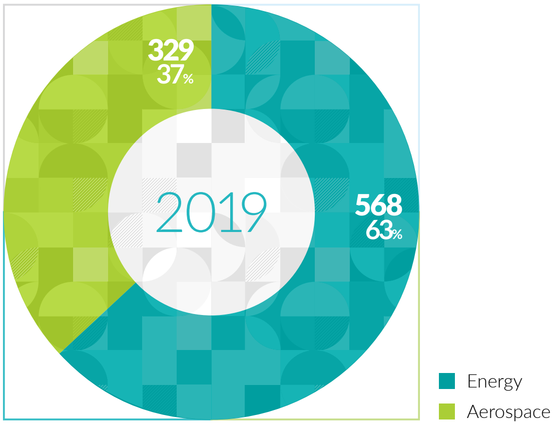
The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the energy industry, aerospace industry and for general industrial applications. In addition, the Group also offers customers premium and one-stop services, ranging from testing, logistics and warehousing to ERP and electronic procurement via a proprietary B2B online platform. The Group is a leading global fastener partner for world-renowned automobile manufacturers and our diversified customer portfolio includes Volkswagen, BMW, Renault, Audi, Daimler, Paccar, Volvo, ZF Group, Adient and SAIC Motor. The Group also supplies highly engineered parts and components for high-performance and motorsport cars and provides related design and engineering services. To evolve into a high-tech engineering company for the automotive and motorsport industry, the Group strives 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.

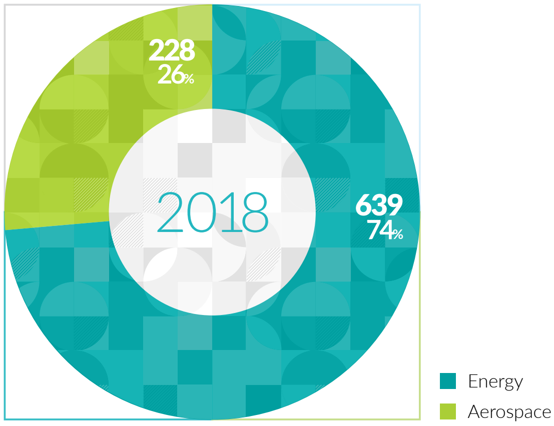
In response to the demanding business environment, the Group has continued to invest in upgrading IT and ERP systems of Nedschroef, a key member of the Group in Europe, and centralized certain back-office supporting functions in order to further streamline operations and enhance efficiency in 2019. In June 2019, Nedschroef celebrated its 125th anniversary as a trusted and innovative partner to its automotive customers. In November 2019, the Group announced a restructuring plan to close down a Nedschroef production plant located in a rented premises in Berlin, Germany, transferring substantially all existing business and assets (primarily machineries) of the plant to certain other production plants in Europe. As of to-date, the Group is expected to incur one-off net restructuring costs of circa RMB49.5 million (EUR6.4 million) covering mainly staff reduction compensation and reinstallation of machineries. Of this, circa RMB33.2 million (EUR4.3 million) has been provided for in FY2019. The aforementioned restructuring is expected to be completed in the third quarter of 2020 and bring recurrent annual saving of RMB29.2 million (EUR3.8 million).

Revenue of fastener business amounted to RMB6,138 million for FY2019 (FY2018: RMB6,784 million), representing a decrease of 9.5% as compared with FY2018. Revenue generated from automotive products decreased by 8.6% as compared with FY2018 to RMB5,116 million (FY2018: RMB5,597 million), primarily due to weaker demand in car markets in Europe and China as well as early phase-out of certain higher-margin products for some customers. Revenue generated from products for general industrial applications and testing services declined 16.3% as compared with FY2018 to RMB972 million (FY2018: RMB1,161 million), mainly due to lower export sales to the United States, Europe, South Africa and Turkey. Nonetheless, sales of high-tensile strength fasteners grew by 22.2% as compared with FY2018 due to higher sales to wind energy and urban metro customers. Included in this segment was revenue of RMB27.5 million (FY2018: RMB24.0 million) generated from sale of high-performance automotive components and provision of related engineering services. The segment's average gross profit margin was reduced to 16.2% (FY2018: 17.9%), mainly due to under-absorption of overhead as a consequence of lower production rate; and the early phase-out of certain higher-margin business.

MANAGEMENT DISCUSSION AND ANALYSIS

Turbine Blade Business



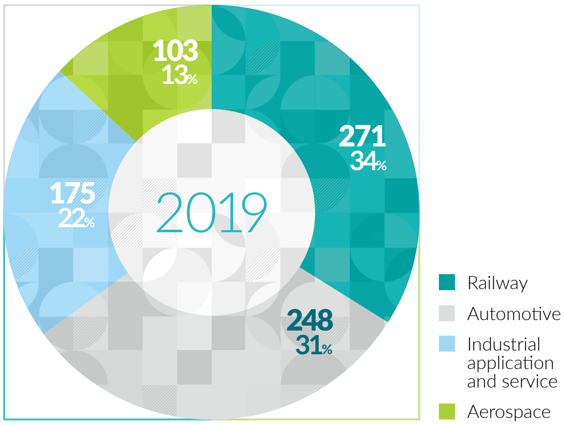


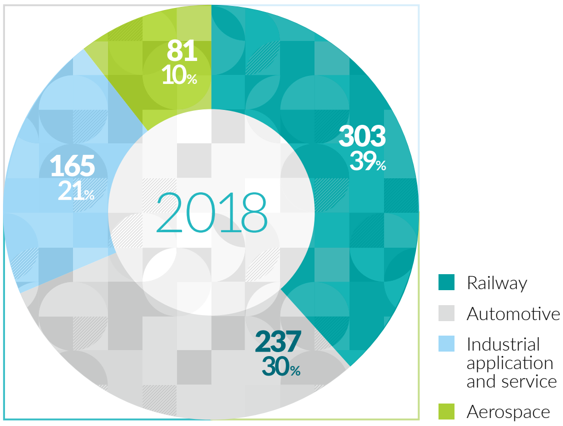
By virtue of its advanced process technologies and professional management, the Group is a world-renowned supplier of power components for the energy industry and the aviation industry, and has a leading position in the relevant markets in China. The Group primarily supplies gas turbine blades, steam 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 amounted to RMB897 million for FY2019 (FY2018: RMB867 million), up 3.5% as compared with FY2018. Revenue generated from energy products decreased by 11.1% as compared with FY2018 to RMB568 million (FY2018: RMB639 million), mainly due to lower domestic sales as a consequence of further reduction in demand for coal-fired power equipment in China despite growth in overseas sales underpinned by increase in share of certain customers' purchases. Of note, the Group has been focusing on developing gas turbine blade products, which initiatives have led to relevant sales rising by 42.9% as compared with FY2018 to RMB160 million (FY2018: RMB112 million). Revenue generated from aviation products grew 44.3% as compared with FY2018 to RMB329 million (FY2018: RMB228 million), primarily driven by higher demand from both domestic and overseas customers. The Group continued to gain positive recognition from its key aviation and energy customers for the quality and reliability of our products and services. The segment's average gross profit margin was relatively stable at 20.4% (FY2018: 20.6%), with gross profit margin of aviation products rising significantly offsetting the decline in gross profit margin of energy products.

MANAGEMENT DISCUSSION AND ANALYSIS

Bearing Business





The Group supplies a diversified portfolio of bearing products ranging from precision micro bearings to standard bearings and specialized bearings for various industries such as aerospace, automobile, cargo railway 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 RMB797 million for FY2019 (FY2018: RMB786 million). Revenue generated from cargo railway products and services amounted to RMB271 million (FY2018: RMB303 million), down 10.6% as compared with FY2018, as customers reduced their inventory and intense price competition. Revenue generated from automotive products increased by 4.6% to RMB248 million (FY2018: RMB237 million), underpinned by the success in securing orders from certain automotive OEMs amid a difficult automotive market in China. Revenue generated from aerospace products grew 26.5% as compared with FY2018 to RMB103 million (FY2018: RMB81.4 million), primarily due to higher market demand. Revenue generated from products for general industrial applications increased by 6.1% as compared with FY2018 to RMB175 million (FY2018: RMB165 million) mainly due to growth in export sales as certain customer stocked up amid United States-China trade relations uncertainty. The segment's average gross profit margin was 26.2% (FY2018: 27.0%), with gross profit margin of aerospace products rising significantly partly offsetting the decline in gross profit margin of cargo railway products.

MANAGEMENT DISCUSSION AND ANALYSIS

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 decreased by 4.7% as compared with FY2018 to RMB563 million for FY2019 (FY2018: RMB591 million), as demand was negatively impacted by the general slow-down in industrial production during FY2019. The segment's average gross profit margin for FY2019, however, expanded to 35.2% (FY2018: 30.1%), primarily because of the increase in product prices during FY2019.

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 FY2019 decreased 8.7% year-on-year to RMB393 million (FY2018: RMB430 million), mainly due to lowered staff costs and transportation expenses.

Administrative Expenses

The Group's administrative expenses are mainly comprised of staff costs, professional fees, travel expenses, office expenses, rental expenses and depreciation and amortization. Administrative expenses for FY2019 increased 1.0% year-on-year to RMB706 million (FY2018: RMB700 million), mainly due to the increase in staff costs and transportation expenses, and the increase in certain one-off professional and consultancy fees, depreciation and amortisation partially offset by the reduction in staff costs and certain other expenses.

Research Expenditure

The Group's research expenditure for FY2019 increased 1.8% year-on-year to RMB341 million (FY2018: RMB335 million), mainly due to the increase in investments in research projects undertaken by the Group.

Finance Costs

The Group's finance costs for FY2019 decreased 15.3% year-on-year to RMB88.1 million (FY2018: RMB104 million), mainly due to lowered borrowing rates as a result of the Group's refinancing efforts made during FY2019.

Share of Profits of Associates

The Group's share of profits of associates for FY2019 amounted to RMB9.3 million (FY2018: RMB29.3 million), representing a year-on-year decrease of 68.3%. The decrease in the share of profits of associates was mainly due to the disposal of the Company's 40% equity interest in Shanghai General Bearing Company Limited, one of the Group's associates, in FY2018, and the disposal of the Group's 40% equity interest in S.U. Machine Tool (Shanghai) Company Limited, another one of the Group's associates, in FY2019.

Income Tax Expense

The Group's income tax expense amounted to RMB13.3 million in FY2019 compared with RMB85.1 million in FY2018, representing a year-on-year decrease of 84.4%. The effective tax rate of the Group decreased to 9.2% for FY2019 (FY2018: 23.5%), mainly due to the Group's overseas fastener business suffering a pre-tax loss in FY2019.

EBITDA and Profit Attributable to Owners of the Company

EBITDA for FY2019 amounted to RMB584 million (FY2018: RMB674 million) and EBITDA to revenue margin for FY2019 was 7.0% (FY2018: 7.5%). The decrease in EBITDA has been mitigated by the positive impact of the first-time application of HKFRS 16 "Leases" in FY2019.

Profit attributable to owners of the Company was RMB127 million in FY2019 (FY2018: RMB280 million), representing a year-on-year decrease of 54.6%. Basic EPS was RMB7.48 cents (FY2018: RMB19.88 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

Cash Flow

As at 31 December 2019, the Group's cash and bank balances were RMB1,464 million (31 December 2018: RMB1,320 million). Of which, RMB187 million (31 December 2018: RMB170 million) were restricted deposits which increased by 10.0% over FY2019. During FY2019, the Group had a net cash inflow from operating activities of RMB612 million (FY2018: net inflow of RMB507 million), a net cash outflow from investing activities of RMB245 million (FY2018: net outflow of RMB146 million), and a net cash outflow from financing activities of RMB236 million (FY2018: net outflow of RMB10 million).

Assets and Liabilities

As at 31 December 2019, the Group had total assets of RMB9,644 million (31 December 2018: RMB9,658 million), representing a decrease of RMB14 million over FY2019. Total current assets amounted to RMB5,232 million (31 December 2018: RMB5,460 million), accounting for 54.2% of total assets, representing a decrease of RMB228 million over FY2019. Total non-current assets were RMB4,412 million (31 December 2018: RMB4,198 million), accounting for 45.8% of total assets, representing an increase of RMB214 million over FY2019.

As at 31 December 2019, the total liabilities of the Group were RMB5,460 million (31 December 2018: RMB5,501 million). Total current liabilities amounted to RMB3,427 million (31 December 2018: RMB3,616 million), accounting for 62.8% of total liabilities. Total non-current liabilities amounted to RMB2,033 million (31 December 2018: RMB1,885 million), accounting for 37.2% of total liabilities.

Details of the shareholder's loans of the Group are set out in note 39 to the consolidated financial statements as included in this annual report.

As at 31 December 2019, the net current assets of the Group were RMB1,805 million (31 December 2018: RMB1,844 million), representing a decrease of RMB39 million or 2.1% over FY2019. As at 31 December 2019, the current ratio was 152.7% (31 December 2018: 151.0%).

Sources of Funding and Indebtedness

As at 31 December 2019, the Group had bank and other borrowings with an aggregate amount of RMB2,583 million (31 December 2018: RMB2,568 million), representing an increase of RMB15 million or 0.6% over FY2019. Borrowings repayable by the Group within one year were RMB1,076 million (31 December 2018: RMB1,147 million), representing a decrease of RMB71 million over FY2019, whereas borrowings repayable after one year were RMB1,507 million (31 December 2018: RMB1,421 million). The Group repaid the loans due on schedule during FY2019.

As at 31 December 2019, bank and other borrowings of the Group were interest-bearing at fixed rates ranging from 0.12% to 5.44% (31 December 2018: 0.12% to 3.915%) per annum, or at floating rates ranging from 3-month EURIBOR plus 1.25% to 1.30%, to 6-month EURIBOR plus 1.50% (31 December 2018: 3-month EURIBOR plus 1.60% to 2.25%, 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 38 and 39 to the consolidated financial statements as included in this annual report.

Gearing Ratio

As at 31 December 2019, the gearing ratio of the Group, defined as the ratio of interest-bearing bank and other borrowings to total equity attributable to owners of the Company, was 62.3% (31 December 2018: 62.5%). The Group's shareholder's loans represent 14.9% (31 December 2018: 32.0%) of total liabilities. As at the date of this annual report, the Group has not formulated any financial plan and fund-raising activities for the provision of capital commitments and repayment of outstanding debts.

MANAGEMENT DISCUSSION AND ANALYSIS

Restricted Deposits

As at 31 December 2019, bank deposits of RMB187 million (31 December 2018: RMB170 million) of the Group were restricted deposits.

Pledges of Assets

As at 31 December 2019, in addition to restricted deposits, the Group had other pledged assets of RMB219 million (31 December 2018: RMB299 million). Moreover, as at 31 December 2019, no equity interests held by the Company (31 December 2018: equity interests held by the Company in certain of its subsidiaries) were pledged as security for bank borrowings and other banking facilities granted to the Group.

Capital Expenditure

The total capital expenditure of the Group for FY2019 was approximately RMB341 million (FY2018: RMB297 million), which was principally invested in the upgrading of production technologies and equipment, and the enhancement of production capacity.

Risks Faced by the Company

Market risk brought about by trade barriers

Factors such as rising global protectionism, trade friction and non-tariff barriers, together with the tightening of anti-dumping and tariff policies in certain overseas markets and intensifying international trade frictions have increased the operating costs of the Group, which in turns affected the Group's market share and profitability in overseas markets, and posed new challenges to the market expansion of the Group.

Risk in export market and exchange losses due to exchange rate fluctuations

High volatility in exchange rate of RMB to US dollar was recorded in recent years. In FY2019, the Group has experienced significant exchange rate fluctuations. If exchange rate fluctuations of RMB to US dollar persist, the Group will be exposed to greater exchange risks and this will cause higher exchange cost and economic losses to the Group.

Risk relating to human resources planning

Age bunching problem was found in the structure of employees, reflecting a lack of professional management and technical personnel in some subsidiaries, which has affected the sustainable development of the Group. To cope with the increasingly intensive market competition and industry development trends, the Group was continuously committed to improving operating efficiency, strengthening technological innovation, strengthening its efforts in acquisitions and mergers in domestic and overseas markets, which has led to soaring demand for professional talents and senior management personnel.

Risk relating to key customer management

The proportion of the business of a few key customers of some subsidiaries of the Group is relatively large, over-reliance on such important customers may lead to over concentration of customer base of the Group. In case of loss of such important customers, it will seriously hinder the sales growth rate and stability of the Group. In addition, the Group needs to enhance the management and maintenance of key customers, improve the construction of service management system of key customers. Improper management of key customers will directly affect the Group's profitability and the achievement of strategic goals.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Events

On 15 March 2019, Mr. Zhang Jie, a member of the fifth session of the Board, resigned as an executive director of the Company and ceased to be a member of the Strategy Committee and the Risk Management Committee of the Board due to change of work arrangement; Mr. Chen Hui resigned as an executive director of the Company and ceased to be a member of the Strategy Committee of the Board due to change of work arrangement. The Nomination Committee of the Board nominated Dr. -Ing. Gou Jianhui and Mr. Si Wenpei for election as executive directors of the Company at the forthcoming annual general meeting of the Company.

Mr. Xu Jianguo, a member of the fifth session of the Supervisory Committee, resigned as a supervisor and the chairman of the Supervisory Committee of the Company due to change of work arrangement. Mr. Si Wenpei resigned as a supervisor of the Company due to change of work arrangement. The Supervisory Committee nominated Ms. Zhang Yan and Ms. Lu Haixing for election as Supervisors at the forthcoming annual general meeting of the Company. For details, please refer to the announcement of the Company dated 15 March 2019.

On 15 March 2019, to protect the legitimate rights and interests of the Company, shareholders and creditors of the Company, and regulate the organisation and behaviour of the Company, the Board proposed to amend the Articles of Association after considering the actual conditions of the Company. For details, please refer to the announcement of the Company dated 15 March 2019.

On 14 June 2019, the Company held 2018 annual general meeting. Dr.-Ing. Gou Jianhui and Mr. Si Wenpei were appointed as executive directors for a term until the end of the terms of the current session of the Board of the Company with immediate effect; Ms. Zhang Yan and Ms. Lu Haixing were appointed as supervisors for a term until the end of the terms of the current session of the Supervisory Committee of the Company with immediate effect; and the amendments to the Articles of Association were approved. For details, please refer to the announcement of the Company dated 14 June 2019.

On 14 June 2019, the Board announced that Dr.-Ing. Gou Jianhui was appointed as a member of the Strategy Committee and Risk Management Committee; and Mr. Si Wenpei was appointed as a member of the Risk Management Committee for a term until the end of the terms of the current session of the Board of the Company with immediate effect. Ms. Zhang Yan was appointed as the chairman of the Supervisory Committee for a term until the end of the terms of the current session of the Supervisory Committee of the Company with immediate effect. For details, please refer to the announcement of the Company dated 14 June 2019.

On 8 November 2019, the Board wished to inform shareholders of the Company and potential investors that, after a strategic review conducted by the Board of the Group's European business operations, the Company intended to close down a production plant located in Berlin, Germany. For details, please refer to the announcement of the Company dated 8 November 2019.

On 6 December 2019, the extraordinary general meeting approved the Framework Sales Agreement dated 18 October 2019 entered into between the Company and Shanghai Electric (Group) Corporation, and the transactions contemplated thereunder and the proposed annual cap amounts were approved, confirmed and ratified; and any one director of the Company was authorised to sign or execute such other document(s) or supplemental agreement(s) or deed(s), including under seal where appropriate, on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the Framework Sales Agreement with such changes as he may consider necessary, desirable or expedient. For details, please refer to the announcement of the Company dated 6 December 2019.

Employees

As of 31 December 2019, the Group had 4,488 (31 December 2018: 4,539) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

In FY2019, the total salary of the employees of the Group was RMB1,491 million (FY2018: RMB1,382 million), and the total social security cost was RMB210 million (FY2018: RMB364 million).

The Company does not have material reliance on minority employees.

Incentive Scheme

As of 31 December 2019, 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 FY2018.

Based on the operating results for FY2019, a total amount of RMBnil can be used for the adjusted incentive scheme of the Group, and RMBnil can be actually distributed. The Company will make distribution and adjustment (if necessary) in accordance with the adjusted incentive scheme.

Future Prospects

Implementation of "Double Drive" strategies

With the slowdown of China's economic growth, the competition of traditional industries have shifted from "incremental business" to "existing business", with distinctive characteristics of "stronger remains as strong" and increasing concentration of the industry. Under such economic situation, the Group will be committed to maintaining the steady growth of its existing business and increasing the scale of incremental business by mergers and acquisitions to achieve a continuous steady significant increase in operating income and gradual improvement of profitability.

Promote transformation and upgrading

Under fierce competition in the "existing business", sustainable growth can only be achieved by developing new products, expanding new markets, acquiring new customers and promoting the transformation and upgrading of the business. Through market analysis and technology research and development, the Group will promote customer-oriented product upgrading, the business of the Group will transform from mechanical components to spare parts, functional components, and mechanical and electrical units, which will continuously enhance the profitability of the business.

Business collaboration

In the competition of "existing business", customer resources are the most valuable resources of an enterprise. The Group's business segments shared a large number of domestic and overseas customer resources. It is expected to drive the growth of existing business by the synergy in sales created through the sharing of customer and channel resources between domestic and overseas companies and different business segments.

Take advantage of innovative mechanism

The competition is more intensive than the past in the "existing business" competition. The Group will continue to improve the mechanism by adopting measures such as mixed ownership reform and the introduction of strategic investors. In the future, the Group will put more efforts in reforms. Strategic investors with high compatibility and synergy will also be introduced to form the new mechanism of "risk sharing and benefit sharing" to stimulate the competitiveness and vitality of the Company.

Gradient transfer

In the competition of "existing business", efficient operation is a key for success. At present, the operating costs of some subsidiaries of the Group are high but with insufficient operating efficiency. Therefore, it is necessary to achieve gradient transfers by integrating business, improving management, reducing operating costs, and improving operational efficiency and product competitiveness.

Biographical Details of Directors, Supervisors and Senior Management

The following table sets forth certain information concerning our directors, supervisors and senior management.

There are no family relationships between any director, supervisor or senior management of the Company.

Name	Age	Position
Zhou Zhiyan	56	Chairman, Executive Director and President (appointed on 1 April 2020)
Xiao Yuman	48	Executive Director
Gou Jianhui	58	Executive Director and Chief Executive Officer (總經理) (resigned on 1 April 2020)
Zhang Mingjie	57	Executive Director
Si Wenpei	56	Executive Director
Dong Yeshun	58	Non-executive Director
Ling Hong	59	Independent Non-executive Director
Chan Oi Fat	41	Independent Non-executive Director
Sun Zechang	66	Independent Non-executive Director
Zhang Yan	44	Chairman of Supervisory Committee
Lu Haixing	53	Supervisor
Yu Yun	51	Supervisor
Chen Hui	51	Vice President
Zhu Jun	51	Vice President
Bao Ye	37	Vice President
Ng Kwong, Alexander	41	Chief Financial Officer and Company Secretary

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is the chairman and an executive director of the Company and serves as the President of the Company since 1 April 2020. 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 Shanghai Electric (Group) Corporation in August 1983. He served as chief financial officer for the business department of Shanghai Electric (Group) Corporation, deputy chief accountant of Shanghai Electric (Group) Corporation, 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 Shanghai Electric (Group) Corporation. Mr. Zhou graduated from the School of Accounting of Shanghai Industry and Commerce Institute in 1988 majoring in finance and accounting and obtained a MBA degree from Shanghai Jiao Tong University in 1992. He is a senior accountant.

Mr. Xiao Yuman

Mr. Xiao Yuman is an executive director, the secretary of Party Committee, the secretary of Disciplinary Committee and the leader of Trade Union of the Company. Mr. Xiao joined Shanghai Electric in 1995, and worked at Shanghai No. 1 Nut Factory (上海螺帽一廠), Shanghai Shang Biao (Group) Co., Ltd., Shanghai Electric (Group) Corporation and Shanghai Electric Group Company Limited. He served as the deputy director of the General Office and deputy director, executive deputy director, director of the Research Office of Shanghai Electric (Group) Corporation and office manager of Shanghai Electric Group Company Limited. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Dr. -Ing. Gou Jianhui

Dr. -Ing. Gou Jianhui served as the Chief Executive Officer (總經理) and an executive director of the Company during the reporting period, and resigned as the Chief Executive Officer (總經理) and an executive director of the Company on 1 April 2020. 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, Dr. -Ing. Gou Jianhui 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. (listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), stock code: 00658) in 2015 and held senior positions within that group from 2013. During 2004 to 2013, Dr. -Ing. Gou Jianhui was the managing director and president of Schaeffler Greater China. Dr. -Ing. Gou Jianhui started his career with FAG Schweinfurt in Germany in 1997 and was an academic at his alma mater, the Harbin Institute of Technology. Dr. -Ing. Gou Jianhui 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. Zhang Mingjie

Mr. Zhang Mingjie is an executive director of the Company, director of department of industry development of Shanghai Electric Group Company Limited, the vice-chairman of Shanghai Highly (Group) Co., Ltd. (listed on the Shanghai Stock Exchange with a stock code of 600619, 900910 (B share)) and dean of central research institute of Shanghai Electric Group Company Limited and party secretary. 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 secretary 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Si Wenpei

Mr. Si Wenpei is an executive director 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 Shanghai Electric (Group) Corporation 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 Shanghai Electric Group Company Limited from August 2016 to November 2017. He served as a supervisor of the Company from June 2017 to June 2019. Mr. Si has served as a supervisor of Shanghai Mechanical & Electrical Industry Co., Ltd. since April 2017 and the chairman of the board of the director in Suzhou Thvow Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002564) 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 China Europe International Business School in April 2006. He is an accountant.

Mr. Dong Yeshun

Mr. Dong Yeshun is a non-executive director of the Company. Mr. Dong currently acts as an independent director of AXA SPDB Investment Managers Co., Ltd. (浦銀安盛基金管理有限公司), the chairman of IMS Automotive Electronic System Co., Ltd. (上海艾銘思汽車電子系統有限公司), an independent director of Shanghai Xintonglian Packing Co., Ltd. (上海新通聯包裝股份有限公司) (listed on Shanghai Stock Exchange, stock code: 603022) and the co-founder of Shanghai Volcanic Stone Investment Management Co., Ltd. (上海火山石投資管理有限公司). Mr. Dong served as a partner of IDG Capital, the general manager of Shanghai Shenya Seal Components Co., Ltd. (上海申雅密封件系統有限公司), the general manager of United Automobile Electronic Systems Co., Ltd. (聯合汽車電子有限公司), the deputy general manager of Shanghai Alliance Investment Ltd. (上海聯和投資有限公司), the chairman and chief executive officer of Shanghai Grace Semiconductor Manufacturing Corporation (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 Visteon 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ling Hong

Mr. Ling Hong is an independent non-executive director of the Company as well as an independent director of Goldcard Smart Group Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 300349) since December 2018, the head, professor and tutor of doctoral students of information management and information system department of the School 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 School 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 graduated from the Department of Computer Science and Engineering of Tsinghua University in Beijing and obtained a bachelor's degree in Computer Applications in 1984 and graduated from the Department of Management Science and Engineering of Fudan University and obtained a doctoral degree in Management in 2000.

Mr. Chan Oi Fat

Mr. Chan Oi Fat is an independent non-executive director of the Company, the company secretary of China Leon Inspection Holding Limited (listed on Hong Kong Stock Exchange, stock code: 01586) 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's degree 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Sun Zechang

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 Automotive Studies of Tongji University and the vice chairman of the Automotive Electronics Committee of China Society of Automotive Engineers. 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 Automotive Studies of Tongji University, the deputy head of the new energy automobile engineering center, the chief professor of automotive electronics of the School of Automotive Studies, the head of the institute of automotive electronics of Tongji University , the chair professor for automotive electronics of the Sino-German School of Tongji University and the chair professor for new energy automobile of the Sino-German School of Tongji University. Mr. Sun graduated from Harbin Institute of Technology in 1976, and obtained a master's degree in engineering majoring in industrial automation from Harbin Institute of Technology in 1981 and a doctor's degree in engineering majoring in control theory and control engineering from Tongji University in 1999.

Supervisors

Ms. Zhang Yan

Ms. Zhang Yan is the chairman of the supervisory committee of the Company and the chief of the risk management department, the chief of audit department and the director of the office of supervisory committee of Shanghai Electric Group Company Limited. Ms. Zhang joined Shanghai Electric (Group) Corporation in July 1997, and has served at Shanghai Electric (Group) Corporation and/or its subsidiaries, including Shanghai Mechanical & Electrical Industry Company Limited (上海機電股份有限公司) (formerly known as Shanghai Shangling Electric Appliances Co., Ltd. (上海上菱電器股份有限公司), Shanghai Electric Development Co., Ltd. (上海電氣企業發展有限公司) and Shanghai Electric Assets Management Company Limited (上海電氣資產管理有限公司). From June 2008 to November 2009, she served as the deputy chief of financial budget department of Shanghai Electric (Group) Corporation. From December 2009 to May 2018, she served as the deputy chief of secretariat office of Shanghai Electric Group Company Limited. She has been a non-executive director of Shanghai Mechanical & Electrical Industry Company Limited since June 2014; from December 2018 to now, she serves as the chief of the risk management department of Shanghai Electric Group Company Limited; from February 2019 to now, she serves as the chairman of the supervisory committee of Suzhou Thvow Technology. Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002564); and from May 2019 to now, she serves as employee representative supervisor of Shanghai Electric Group Company Limited (listed on Shanghai Stock Exchange, stock code: 601727; and The Stock Exchange of Hong Kong Limited, stock code: 02727). She graduated from the Law Department of East China University of Political Science and Law in June 1997, majoring in law. In June 2012, she graduated from Shanghai National Accounting Institute and Arizona State University in the United States with EMBA degrees.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Lu Haixing

Ms. Lu Haixing is a supervisor of the Company and the secretary of CPC General Branch of Shanghai High Strength Bolt Factory Company Limited (上海高強度螺栓廠有限公司). Ms. Lu joined Shanghai Electric (Group) Corporation in October 1985, and has served at Shanghai No.3 Standard Parts Plant Company Limited (上海標準件三廠), Shanghai High Strength Bolt Factory Company Limited (上海高強度螺栓廠) and Shanghai Electric Hydraulics and Pneumatics Co., Ltd. (上海液壓氣動總公司). From December 2015 to March 2018, she served as the general manager and secretary of CPC General Branch of Shanghai High Strength Bolt Factory Company Limited (上海高強度螺栓廠有限公司), and served as the chairman of the board of directors and general manager of Shanghai Premier Tension Control Bolts Co., Ltd. (上海集優張力控制螺栓有限公司) from February 2016 to September 2016. She graduated from the School of Continuing Education of Fudan University in June 2005, majoring in accounting. She is a senior political engineer (高級政工師).

Mr. Yu Yun

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

Mr. Chen Hui

Mr. Chen Hui is the 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 Shanghai Electric (Group) Corporation 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 Bearing 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 economist and vice chairman of China Bearing Industry Association (中國軸承工業協會).

Mr. Zhu Jun

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Bao Ye

Ms. Bao Yan is the vice president of the Company. From July 2004 to July 2008, she worked as a commissioner of the chief executive department and a senior commissioner of the strategy department of Shanghai Electric Power Generation Group (上海電氣電站集團). From August 2008 to May 2016, she served as a senior supervisor and a manager of the strategic planning department of Shanghai Electric (Group) Corporation (上海電氣(集團)總公司). In May 2016, she worked as manager and senior manager of the industry investment department of Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), as well as an assistant to the general manager (work on secondment) of the Company in March 2019. Ms. Bao Yan graduated from Shanghai International Studies University with a bachelor's degree of Arts in July 2004, and then obtained a master's degree of Management from Shanghai University of Finance and Economics in January 2010.

Mr. Ng Kwong, Alexander

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

Corporate Governance Report

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 save as disclosed in this annual report, 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 2019 to 31 December 2019.

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 FY2019, the Company were in compliance with relevant laws and regulations which have material effect on the Company.

Amendments to the Articles of Association

The Company has amended the articles of association with the approval obtained at the 2018 annual general meeting. For details, please refer to the Company's announcement dated 15 March 2019.

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

Model Code for Securities Transactions by Directors

The Board has adopted and implemented the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, 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 FY2019.

The Board

The Board is responsible for formulating the overall development strategy of the Group, monitoring its financial condition 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 fully 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.

During the reporting period, 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.

CORPORATE GOVERNANCE REPORT

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:

Current Executive Directors:

Mr. Zhou Zhiyan (Chairman)
Mr. Xiao Yuman
Dr.-Ing. Gou Jianhui (resigned on 1 April 2020)
Mr. Zhang Mingjie
Mr. Si Wenpei

Current Non-executive Director:

Mr. Dong Yeshun

Current Independent Non-executive Directors:

Mr. Ling Hong
Mr. Chan Oi Fat
Mr. Sun Zechang

Four board meetings were held on site whereby eight polls were taken in writing for the review of matters, and two general meetings (including the annual general meeting and the extraordinary general meeting) were held in FY2019. Attendance of each director is summarised as follows:

	Number of Meeting		Actual Attendance		Attendance Rate	
Directors	Board	General Meeting	Board	General Meeting	Board	General Meeting
Mr. Zhou Zhiyan	4	2	4	2	100%	100%
Mr. Xiao Yuman	4	2	3	1	75%	50%
Dr.-Ing. Gou Jianhui (appointed on 14 June 2019)	3	1	3	1	100%	100%
Mr. Zhang Mingjie	4	2	2	0	50%	0%
Mr. Si Wenpei (appointed on 14 June 2019)	3	1	2	0	67%	0%
Mr. Dong Yeshun	4	2	4	2	100%	100%
Mr. Ling Hong#	4	2	4	2	100%	100%
Mr. Chan Oi Fat#	4	2	4	2	100%	100%
Mr. Sun Zechang#	4	2	3	2	75%	100%
Mr. Zhang Jie (resigned on 14 June 2019)	1	1	0	0	0%	0%
Mr. Chen Hui (resigned on 14 June 2019)	1	1	1	1	100%	100%

Independent non-executive director

CORPORATE GOVERNANCE REPORT

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 the relevant information to each Board member monthly, which shall include the development of the major investment projects 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 their 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 organised 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 FY2019:

Director	Reading Materials	Briefings
Mr. Zhou Zhiyan	✔	✔
Mr. Xiao Yuman	✔	✔
Dr.-Ing. Gou Jianhui	✔	✔
Mr. Zhang Mingjie	✔	✔
Mr. Si Wenpei	✔	✔
Mr. Dong Yeshun	✔	✔
Mr. Ling Hong	✔	✔
Mr. Chan Oi Fat	✔	✔
Mr. Sun Zechang	✔	✔

Insurance of the Directors

During FY2019, the Company has arranged sufficient and proper insurances for the directors to ensure they perform their responsibilities and risk aversion well.

Chairman and President

Mr. Zhou Zhiyan and Dr.-Ing. Gou Jianhui are the Chairman and the Chief Executive Officer (總經理) of the Company respectively in FY2019 and they have executed their respective duties according to the Articles of Association of the Company.

Pursuant to the provision A.2.1 of the Corporate Governance code roles of the chairman and the president should be segregated and should not be performed by the same individual. The chairman of the Board is responsible for ensuring that the directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The chairman is also responsible for initiating a culture of open forum and facilitating directors (especially non-executive directors) to make contribution to the Board. Due to personnel adjustment, from 1 April 2020, Mr. Zhou Zhiyan serves as the Chairman and the President of the Company. The Board believes that the functions of the chairman and the president undertaken by the same person, which can facilitate the Company to execute plans and business strategies in an efficient and effective manner. The Board considers that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive directors.

CORPORATE GOVERNANCE REPORT

Tenure of the Fifth Session of the Board of Directors and Supervisors

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

The Company was informed that members of the fifth session of the board of Directors, comprising Mr. Zhou Zhiyan, Mr. Zhang Mingjie, Mr. Si Wenpei, Mr. Xiao Yuman as Executive Directors, Mr. Dong Yeshun as Non-executive Directors, and Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang as Independent Non-executive Directors, will offer themselves for re-election at the annual general meeting. In addition, the nomination committee of the Board recommended Mr. Xia Sicheng as an Executive Directors of the Company. Accordingly, the Board by way of a resolution dated 27 March 2020 has approved their nominations for election by the Shareholders at the forthcoming annual general meeting of the Company to be convened on 19 June 2020.

The Company was informed that all members of the fifth session of the board of Supervisors comprising Ms. Zhang Yan, Ms. Lu Haixing and Mr. Yu Yun, will offer themselves for re-election at the annual general meeting. Accordingly, the board of Supervisors by way of a resolution dated 27 March 2020 has approved Ms. Zhang Yan's and Ms. Lu Haixing's nominations for election by the Shareholders at the forthcoming annual general meeting of the Company to be convened on 19 June 2020. In addition, the current employee representative Supervisor, Mr. Yu Yun, will be subject to election at the joint employee representative meeting of the Company as a member of next-term Supervisory Committee for a term of three years in accordance with the Articles of Association.

Tenure of Non-Executive Directors

The current non-executive directors of the Company were appointed with tenure of three years and can be re-elected and re-appointed with tenure not exceeding three years after the tenure expires.

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 of directors 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 re-elected as the independent non- executive directors of the Company and Mr. Dong Yeshun was re-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 FY2019 and the attendance is summarised as follows:

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

During FY2019, the remuneration committee reviewed and approved the proposal adopted from the FY2018 Incentive Scheme, submitted the 2019 remuneration proposal for directors and supervisors of the Company to the shareholders' general meeting for approval and ratified the proposal regarding the remuneration paid to directors and supervisors for 2018. The remuneration of directors and senior management is determined with reference to the business 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 FY2019 is set out on page 206 of this annual report.

CORPORATE GOVERNANCE REPORT

Audit Committee

The major responsibility of the audit committee 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 relevant laws and regulations by the Group 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. Sun Zechang. Mr. Chan Oi Fat has been appointed as the chairman of the audit committee. Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Sun Zechang were re-elected as the independent non-executive directors of the Company at the annual general meeting held on 23 June 2017, Mr. Ling Hong and Mr. Chan Oi Fat were appointed by the Board as members of the audit committee after their appointments were approved by the annual general meeting held on 23 June 2017, while Mr. Sun Zechang were appointed by the Board as a member of the audit committee on 14 June 2019. All of them 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 FY2019 and the attendance is summarised as follows:

Member	Number of meetings	Actual attendance
Mr. Chan Oi Fat (Chairman)	3	3
Mr. Ling Hong	3	3
Mr. Sun Zechang (appointed on 14 June 2019)	2	1
Mr. Dong Yeshun (resigned on 14 June 2019)	1	1

In FY2019, the audit committee reviewed and approved the proposal regarding the appointment of auditors of the Company for FY2019 and the interim financial report of 2019. 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 policies and practices and reviewed findings regarding internal control discovered during the engagement. The annual results for FY2019 have been reviewed by the audit committee.

Nomination Committee

The key responsibility of the nomination committee 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. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang. Mr. Zhou Zhiyan has been appointed as the chairman of the nomination committee. All the members of the nomination committee were re-elected as directors of the Company at the annual general meeting held on 23 June 2017, and were appointed by the Board as members of the nomination committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

The nomination committee held one meeting in FY2019 and the attendance is summarised as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Xiao Yuman	1	0
Mr. Ling Hong	1	1
Mr. Chan Oi Fat	1	1
Mr. Sun Zechang	1	1

In FY2019, the nomination committee has reviewed the size, diversity and composition of the Board, evaluated the independence of independent non-executive directors, suggested to formulate the nomination policy for directorship and board diversity policy of the Company, and approved the proposal regarding the nomination of Dr.-Ing. Gou Jianhui and Mr. Si Wenpei as candidate for the executive director of the Company.

CORPORATE GOVERNANCE REPORT

Strategy Committee

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

As at the date of this report, the strategy committee comprises five members, namely Mr. Zhou Zhiyan, Dr.-Ing. Gou Jianhui, Mr. Zhang Mingjie, Mr. Dong Yeshun and Mr. Sun Zechang. Mr. Zhou Zhiyan has been appointed as the chairman of the strategy committee. Mr. Zhou Zhiyan, 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, Mr. Zhang Mingjie was elected as the executive director of the Company at the annual general meeting held on 8 June 2018, while Dr.-Ing. Gou Jianhui was elected as the executive director of the Company at the annual general meeting held on 14 June 2019. All of them 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 FY2019 and the attendance is summarised as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Dr.-Ing. Gou Jianhui (appointed on 14 June 2019)	1	1
Mr. Zhang Mingjie	1	1
Mr. Dong Yeshun	1	1
Mr. Sun Zechang	1	1
Mr. Zhang Jie (resigned on 14 June 2019)	0	0
Mr. Chen Hui (resigned on 14 June 2019)	0	0

In FY2019, the strategy committee has reviewed the report of 2025 strategic plan of the Company.

Risk Management Committee

The risk management committee is a specialised unit established by the Board and mainly responsible for the risk management of the Company.

As at the date of this report, the risk management committee comprises six members, namely Mr. Zhou Zhiyan, Mr. Xiao Yuman, Dr.-Ing. Gou Jianhui, Mr. Si Wenpei, Mr. Ling Hong and Mr. Chan Oi Fat. Mr. Zhou Zhiyan has been appointed as the chairman of the risk management committee. Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Ling Hong and Mr. Chan Oi Fat were re-elected as directors of the Company at the annual general meeting held on 23 June 2017, while Dr.-Ing. Gou Jianhui and Mr. Si Wenpei were elected as the executive directors of the Company at the annual general meeting held on 14 June 2019. All of them 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 FY2019 and the attendance is summarised as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Xiao Yuman	1	0
Dr.-Ing. Gou Jianhui (appointed on 14 June 2019)	0	0
Mr. Si Wenpei (appointed on 14 June 2019)	0	0
Mr. Ling Hong	1	1
Mr. Chan Oi Fat	1	1
Mr. Zhang Jie (resigned on 14 June 2019)	1	0

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 FY2019. 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.

CORPORATE GOVERNANCE REPORT

- 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 FY2019, 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.

CORPORATE GOVERNANCE REPORT

INDEPENDENT AUDITORS' REMUNERATION

In FY2019, 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	8.19
Non-audit services	1.61

Non-audit services mainly include (i) advisory services provided in connection with the preparation of the Company's Environmental, Social and Governance Report (for a fee of RMB0.23 million); and (ii) a review of the effectiveness of the Group's internal control over financial reporting (for a fee of RMB1.30 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 FY2019, 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 84 to 86.

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.

CORPORATE GOVERNANCE REPORT

PROGRESS OF RISK MANAGEMENT AND INTERNAL CONTROL

Based on the national laws and regulations, as well as the industry features, business model and characteristics of its own business, the Company has established a complete set of internal control system integrating in all aspects of daily business management activities. The Company will conduct internal control self-assessment at least once a year to carry out self-assessment of internal control and update, enhance risk prevention capabilities and promote healthy and sustainable business growth of the Group.

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 FY2019, 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 FY2019, 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 FY2019, 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
Zhou Zhiyan
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
29 March 2020

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 2019, 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 Securities and Futures Ordinance, Hong Kong ("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
Shanghai Electric Hongkong Co. 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	51,738,985	(4)	Approved lending agent	Long Position	5.67	3.00
		51,738,985	(4)	Approved lending agent	Lending Pool	5.67	3.00

OTHER INFORMATION

Notes:

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

- Shanghai Electric Group Company Limited is 59.18% owned by Shanghai Electric (Group) Corporation ; and

- Shanghai Electric (Group) Corporation 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 of the Company, Shanghai Electric Group Company Limited held interest in 814,291,420 domestic shares of the Company.

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

(3) Shanghai Electric (Group) Corporation held interest in 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 76,658,400 H shares of the Company.

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

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 2019 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

OTHER INFORMATION

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

As at 31 December 2019, the interests or short positions of directors, supervisors or chief executives 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

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 2019, 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 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, summary financial report (where applicable), interim report and 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

OTHER INFORMATION

Use of Proceeds

On 7 December 2018, the Company completed a rights issue (the "Rights Issue") comprising of 151,942,000 H shares of the Company ("H Rights Shares") at HKD1.30 per H Rights Share and 135,715,236 domestic shares of the Company ("Domestic Rights Shares") at RMB1.07 per Domestic Rights Share. The net proceeds raised from the Rights Issue (after deducting all incidental expenses) were approximately HKD355 million (Note 1). The utilisation of net proceeds from the Rights Issue is set out below:

Intended Use of Net Proceeds	Allocation of net proceeds (Note 1)	Net Proceeds intended to be applied up to 31 December 2019	Amount of Net Proceeds utilised up to 31 December 2019	Balance of Net Proceeds Unutilised as at 31 December 2019
		(HKD in millions)		
(i) Partial repayment of the shareholder's loan	178	178	178	–
(ii) Investments	142	73	73	69
— capital expenditure	56	56	56	–
— potential investments	86	17	17	69
(iii) General working capital	35	35	35	–

All unutilised net proceeds were placed in deposits with banks. The Company will apply the remaining balance of net proceeds in the manner as set out in the prospectus of the Company dated 16 November 2018 (the "Prospectus"). It is currently estimated that the remaining balance of net proceeds of HKD69 million intended to be used for potential investments will be fully utilised by the end of 2020.

Note:

(1) The net proceeds from the Rights Issue comprises: (i) approximately HKD197.52 million raised from the rights issue of H Rights Shares; and (ii) approximately RMB145.22 million (equivalent to approximately HKD165.15 million adopting the exchange rate as of 7 December 2018, being the date of completion of the Rights Issue ("Completion") raised from the rights issue of Domestic Rights Shares, and the net proceeds of the Rights Issue and its use were adjusted and expressed in HKD based on the exchange rate on the date of Completion.

Environmental, Social and Governance Report

About the report

Reporting standard

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 31 of this document.

Reporting period

FY2019 (From 1 January 2019 to 31 December 2019).

Reporting scope

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

Domestic entities: mainly including Wuxi Turbine Blade Co., Ltd., Shanghai Prime Biaowu High Tensile Fasteners Co., Ltd., Shanghai Tool Works Company Limited, Shanghai United Bearing Company Limited, Shanghai Zhenhua Bearing Works Company Limited, Shanghai Tian An Bearing Co., Ltd. and Shanghai Tianhong Miniature Bearing Co. Ltd. The sales in this range accounted for more than 90% sales in Shanghai Prime Machinery Company Limited.

Overseas entities: mainly including Koninklijke Nedschroef Holding B.V., the only overseas group company of Shanghai Prime Machinery Company Limited, 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 & Beckingen).

For convenience of statement and reading, "Shanghai Prime Machinery Company Limited" and its subsidiaries are referred to as "the Group", or "we", 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 statistical reports, and the summaries and statistics of subsidiaries. The data has not been reviewed by our Group's independent auditor.

Reporting principle

Materiality: The Group uses stakeholders' Right-Interest model, stakeholder participation mechanism and Materiality Evaluation matrix to identify the ESG issues which are highly material, material or relevant to the Group and stakeholders.

Quantitative: The Group reflects the principle of Quantitative by disclosing measurable key performance indicators.

Balance: The Group presents our work in environmental, social and governance aspects fairly and objectively in the report.

Consistency: The Group adopts consistent data disclosure methodologies, comparing the data in the report.

Management approach

ESG governance

The 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 Group'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 management has 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 relevant significant ESG issues identified to thoroughly disclose the Group's fulfillment of its ESG responsibilities during operation based on the principle of Balance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Communication with stakeholders

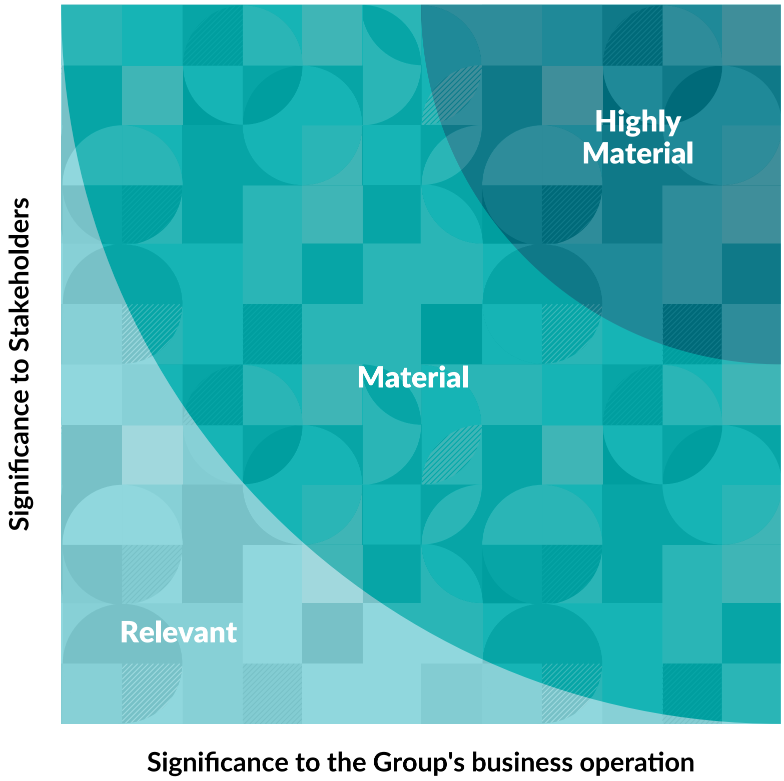
Judging from the characteristics of the business and operation, we categorize major stakeholders as employees, governments/regulatory institutions, investors, communities, NGOs, customers and suppliers. We thoroughly consider the concerns of all stakeholders, with whom we keep formal and informal communications.

Stakeholders	Concerns	Means of Communication
Employees	• Competitive remuneration & welfare • Workplace health & safety • Training & ability development	• Labour union/staff representative meeting • 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 • Accountability for products	• VIP customer forums • Systematic communication • Visits to operating plant areas • Participation in trade organizations • Annual ESG Report
Suppliers	• Supplier admittance management • Supplier evaluation • Assurance of suppliers' rights and interests • Supplier cooperation	• Invitation for bids & seminars • Supplier admittance & evaluation • Field inspections • Executive meetings

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Material ESG issues

This year, we communicated and conducted investigations with the Group's internal and external stakeholders. Based on the feedback collected, we scored and ranked the ESG issues by their influence on the Group'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 as shown below:



Highly Material

Product responsibility
Technological development
Business ethics
Employee safety
Employee development

Material

Supplier management
Energy management
Employee health
Employee assistance
Community investment

Relevant

Wastes management
Water resources management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Accountability for the market

Adhering to the philosophy of win-win cooperation, we have established a cooperation mechanism featuring joint development, mutual trust and mutual benefit together with clients 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 service provider in the machinery component industry.

During FY2019, we had no product sold or shipped to be recalled for safety and health reasons.

Accountability for products

Our products include fasteners, blades, bearings and cutting tools. We highly advocate "Supreme Products, Excellent Services", and devote ourselves to providing high-quality products and services for clients. Our subsidiaries in China have established mature quality management systems and have been certified to ISO9001. In addition, Shanghai United Bearing Company Limited is IATF 16949 certified and also have CRCC certification for railway products.

Overseas, our subsidiaries, Center of Competence Altena, Center of Competence Fraulautern & Berlin & Beckingen, Center of Competence Helmond and Center of Competence Plettenberg are certified to IATF 16949, of which, Center of Competence Altena and Center of Competence Plettenberg also have EN9100 certification.

Quality management

Domestically, strictly following the *Product Quality Law of the People's Republic of China*, we established quality management system standards and relevant quality control procedures, we also established reward and punishment regulations related to product quality. In FY2019, our subsidiaries carried out a series of quality management work: Wuxi Turbine Blade Co., Ltd. cooperated with Rolls-Royce to carry out 12 zero defect projects and improved the management system documents; Shanghai Zhenhua Bearing Works Company Limited has carried out 4 quality improvement projects and conducted 122 product quality audits on gearbox bearings and other products; Shanghai United Bearing Company Limited carried out a quality system audit within the company, and reviewed the effectiveness of the quality management system, in addition, the company conducted the product quality data management on its railway bearings and assessed quality risks and eliminated weaknesses in quality control by using big data analysis; Shanghai Tian An Bearing Co., Ltd. conducted graded training on the quality management system. By sorting out and improving product quality problems, Shanghai Tian An Bearing Co., Ltd. has reduced the product quality loss by 7% compared with last year.

Overseas, Nedschroef following the EU product-related policies. Based on the principle of lean manufacturing (zero safety incident, business growth, flows, and balance), Nedschroef has introduced a lean demand system aiming to increase efficiency and quality while ensuring safe production. Nedschroef fully dedicated to continuous improvement and enhancement from development to delivery to ensure increased operational efficiency and timely delivery of high quality products. Nedschroef has established an assessment system of product quality risk which measures risk probability and risk severity as well as reduces product risk by improving steps that are highly sensitive to risks.

Because of excellent quality management, we were awarded the following honors in FY2019:

- Our subsidiary Wuxi Turbine Blade Co., Ltd. won Trusted to Deliver Excellence Award from Rolls-Royce, GE Gas Power Partnership, 2019 Excellent Service Provider from SIEMENS, and 2019 Best Delivery Award from Aero Engine Corporation of China (AECC).

- Our subsidiary Center of Competence Beckingen won the 2018 Quality Achievement Award from DAF/PACCAR.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer service

We provide high-quality products and efficient high-quality services for clients. Committed to the philosophy of "quality under control, customers in mind", we spare no effort to boost client satisfaction. In addition, we set access to customer documents based on the responsibilities of sales staff to provide maximum protection for our customers' privacy.

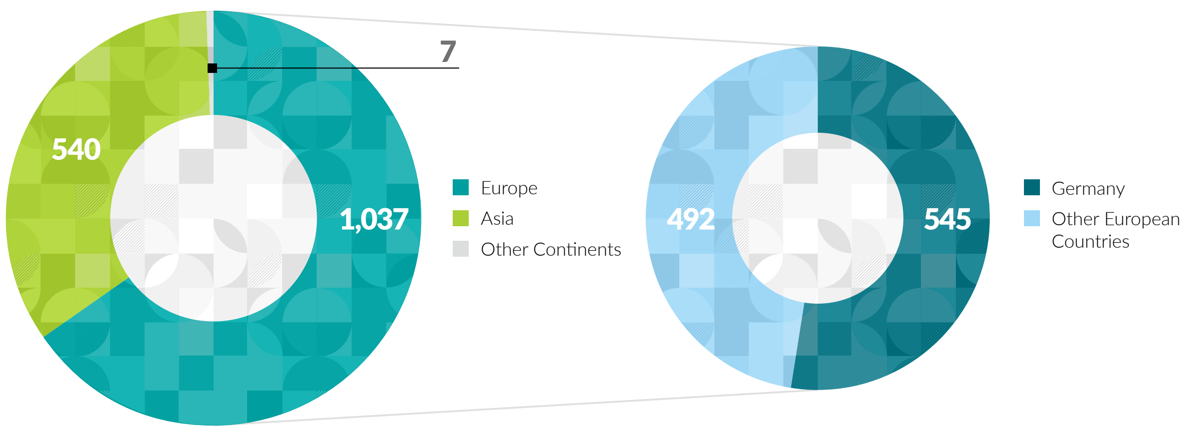
Domestically, in order to better handle and respond to clients' complaints, systems like the *Administrative Measures for Customer Service and Feedback*, the *Rules on After-sales Services* and *the Procedure of Service Management* have been formulated and strictly executed to clarify complaint procedures and department obligations.

Overseas, Nedschroef has established an emergency response mechanism for client feedback, which will transfer all the quality issues to production departments concerned promptly and effectively and instruct them to improve.

Supplier management

When establishing 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, but also boost local economy and create job opportunities.

We cooperate with 1,584 suppliers, our suppliers in Asia mainly distributed in China, suppliers in Europe mainly distributed in Germany.



We have formulated rules and standards including the *Supplier Management Rules* and *the Procurement Management Rules*, and implemented strict and fair supplier admittance procedures, reviews and annual reviews to urge suppliers to guarantee product quality and safety. For better quality control, we share our experience with suppliers to assist them to improve their quality control systems, and encourage them to obtain ISO9001 Quality Management System Certification. In addition, we carry out spot check on suppliers occasionally, and convene suppliers' meetings to further ensure the quality of products procured.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Domestically, we attach great importance to the management of suppliers' environmental and social risks, we have signed the *Honesty and Integrity Procurement Agreement* with suppliers in China to supervise and promote them to strictly comply with Chinese laws and regulations in terms of environmental protection and safety, and ensure that their products are in line with EU environmental standards.

Overseas, Nedschroef adopts a supplier rating system to evaluate the overall performance of suppliers based on the criteria including not only delivery quality and price level, but also other factors such as environmental certification to assess the suppliers' sustainability. Nedschroef establishes work rules with service providers to ensure information safety, work safety and environmental conservation before entering into contracts.

Domestically, the Group held conference on Party working ethics and integrity.

Business ethics

During FY2019, while pursuing market expansion, upgrading and transformation, we consistently stick to morality and integrity to build a positive and healthy business environment and to ensure sound development of the Group.

Domestically, in accordance with the guiding principle of "education-based, institution-focused, supervision-oriented, and accountability-supported", we have established an anti-corruption mechanism and formulated the *Rules on the Management of Integrity Construction*. During FY2019, we held a conference on Party working ethics and integrity of the management of the Group, emphasizing the importance of integrity. There were 86 participants. The Party secretaries of affiliates entered into 2019 Integrity Construction Responsibility Agreement.

Overseas, Nedschroef follows EU anti-corruption policy. Holding fast to its corporate responsibility and in pursuit of sustainable development, Nedschroef has developed the *Employee Code of Conducts* based on the morality and integrity in business conducts. While taking responsibility for its staff and protect their rights, Nedschroef has also set stipulations and requirements on employee conducts, establishing reporting and noticing procedures for violations of corporate rules and standards. Nedschroef established the *Global Compliance System*, and appointed a Compliance Director at group level as well as one Compliance Officer at each subsidiary, supervising and preventing violating behaviors. Also, special reporting procedures and anonymous reporting hotline are provided to encourage employees to report any relevant misconducts violating business ethics.

During FY2019, we have not be involved in any lawsuits relating to corruption, bribery, blackmail, fraud or money laundering conducts.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Technological development

We have been driving business growth while delivering corporate social responsibility. As an industry leader, we hope to promote the technology development of the industry through collaborative R&D and technology sharing. As a national leading producer of machinery parts/components and service provider, we committed to developing advanced manufacturing for basic mechanical parts and manufacturing services, we have set up a quality control systems in line with international standards and put in place advanced inspection equipment, a professional quality control team, and cutting edge technology in various business areas:

- ***Blade:*** As a technology leader in high-end gas turbine blades, we are core technology provider in the energy industry in China and globally.

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

- ***Cutting tools:*** We are a leading Chinese manufacturer of modernized large metal cutting tools.

- ***Fastener:*** We are one of the largest fastener exporters in China and have expanded our presence in the global market by the acquisition of Nedschroef, one of the top-rated automotive parts producers in Europe.

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 and Steel Research Institute and major Chinese universities in multiple national R&D projects regarding the development of blades, bearings and other products. We won several national and provincial (ministerial) prizes for progress in science and technology, and was a supplier of many high-tech projects, boosting the development of China's high-end manufacturing industry.

In FY2019, the R&D and Industrialization of High Bypass Ratio Turbofan Aero-Engine Large Blades project undertaken by Wuxi Turbine Blade Co., Ltd., has been accepted by experts from the Science and Technology Department of Jiangsu Province. The project was granted seven invention patents, three software copyrights, and two provincial (ministerial) prizes for science and technology, and formulated one enterprise standard. In addition, Shanghai Prime Biaowu High Tensile Fasteners Co., Ltd. has also formulated two national standards in FY2019.

We value research and development as well as the protection of intellectual property rights. Domestically, complying with laws and regulations related to intellectual property protection and the requirements of management systems such as ISO9001, we established intellectual property protection system and patent management procedures.

Overseas, Nedschroef's IP Expert Group corporate with external legal counsel, carrying continuous monitoring on the intellectual property protection.

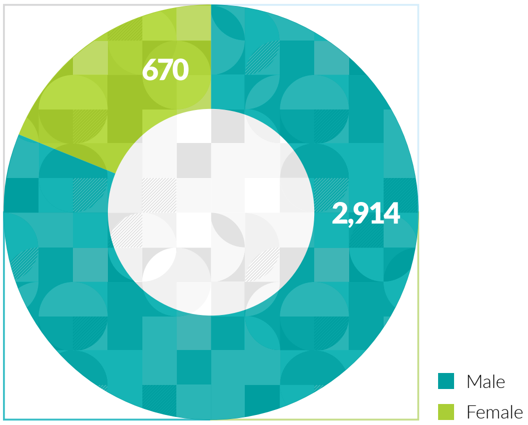
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Accountability for employees

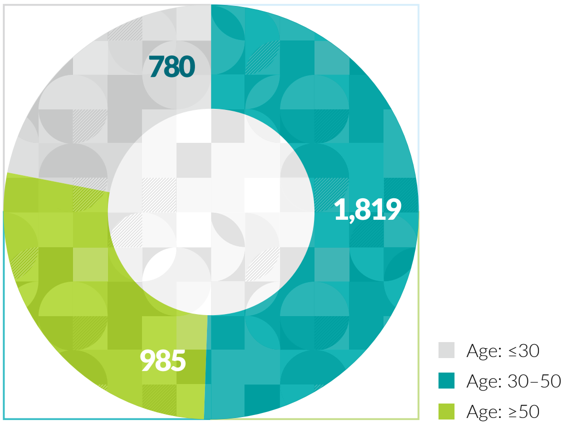
Our employees constitute a precious resource to a company. We provide equal job opportunities to excellent talent, and build inclusive and diversified corporate culture. Employees shall receive fair and transparent compensation, and capable employees are encouraged to obtain more benefits. We place great emphasis on talent development and provide systemic training plans in pursuit of joint growth. 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 FY2019, the total number of employees was 3,584, and the employee's turnover rate was 7.8% in the scope of this ESG Report.

Employee by gender



Employee by age



Rights of employees

Equal employment

We uphold equal employment opportunities, prohibit discrimination in any forms while strictly following the governing laws and regulations on human rights, labour and employment. Domestically, we strictly follow the *Labour Law of the People's Republic of China* and in other jurisdictions, Nedschroef follows EU labour law policy including the *Working Hours Act*, *the General Equal Treatment Act*, *the Anti-Discrimination Law (AGG)*, under supervision by labour unions of the Company. We strictly prohibit child labour and any form of harassment, physical punishment, psychological oppression, language assault, and coercion. We respect the rights and freedom of employees to join associations and labour unions. During FY2019, We were free of any child labour, forced labour, or discrimination cases.

By recruiting employees with different backgrounds, we bring diversified views, values, and vitality to the Group and our employees. We do not discriminate on the grounds of race, skin color, religion, gender, physical disability, or other status. In China, we have established women's committee under the labour union according to the law which will take part in the review and formulation of relevant rules to protect and maximize the rights of female employees, such as the *Protection of Rights of Female Employees*. Overseas, Nedschroef opposes the prerequisite of HIV test for recruiting, training, or promotion, unless it is otherwise provided by the local laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Compensation and benefits

We provide competitive salaries and benefits for our employees. We have already established a relatively complete compensation incentive system which provides a fair and attractive career development channel based on the overall strength of employees' capability, performance and achievements. In compliance with the *Social Insurance Law of the People's Republic of China*, the *Regulations on Management of Housing Provident Fund*, as well as other laws and regulations, we 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 on time. We also buy commercial insurances for them to be more capable in overcoming unexpected difficulties. Besides, Nedschroef also offers competitive compensation and benefits for employees as per outbound labour and compensation policies.

Democratic communication

To better promote the rights and understand the needs of employees, the Group hold employee meetings regularly. In FY2019, Shanghai Prime Machinery Company Limited convened the first meeting of the third session of employee congress and the third meeting of the labour union congress, with 109 employee representatives, where we entered into the 2019 collective bargaining agreement.

Employee 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 plan and wider vocational development platform. Our customized training covers all skills like sales, quality, R&D, know-how, safety and management.

In FY2019, we paid more attention to employee training, the ratio of trained staff reached 80.2%, which was a significant increase compare with 73.4% of FY2018; the average training hours of each employee was 21.5 hours, which increased by 55% comparing with 13.9 hours in FY2018.

Domestically, we have started to build a talent pool composed of four teams since 2017, namely the Scientific and technological talent team, High potential talent team, Craftsmanship talent team, as well as Young college student team. We have a well-organized system to provide holistic, multi-dimensional training to improve staff skills and abilities.

- ***Scientific and technological talent team:*** In FY2019, the Group held the 2020–2021 Technology Talent Evaluation and Employment Conference, hiring a group of excellent talent as project leaders, chief engineers, and special technology engineers. We made full use of our Experts Workstation to develop and promote talent, encouraging them to make technology breakthroughs and commercialize achievements. Meanwhile, we keep improving the performance review for engineering technology professionals and exploring evaluation approaches, in order to provide them with a better platform and opportunities.

- ***High potential talent team:*** In FY2019, the Group reinforced the selection and assignment of talent with great potentials, maintaining and updating the potential talent pool every year, each subsidiary has established a mentor-trainee pairing program for talent development, covering different positions and responsibilities for the purpose of training and selecting professionals with great comprehensive potentials, service capabilities, management skills and leadership.

- ***Craftsmanship talent team:*** In FY2019, the Group set craftsman examples and promoted craftsmanship actively. By training and building a team of skilled professionals through competition, we lead the employees to appreciate the charm of craftsmanship, create an atmosphere for craftsmanship learning as well as improve the professional quality of the workforce, and support company sustainability. Having established a Craftsman Workshop, the Group aims to train technology and management talent with the resources of the Group's platform and finds a new way to train young scientific and technological and management talents.

- ***Young college student team:*** In FY2019, the Group formulated and kept improving the compensation system for college graduates to align with the market to attract talent. To help graduates fit in, we provided on-board training, each subsidiary provided job rotation plans for students with tutors assigned to them and also designated special personnel to follow up. Our subsidiaries fully used the Group's resources, sending certain postgraduates employed this year to cooperative company for a two-year training of know-how, and provided plans for their career development.

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Additionally, in FY2019, the Group held abundant training activities to enhance employees' capabilities. For employees, we carried out skills training and competitions, such as the technology lectures on carbide inserts put on by the subsidiary to strengthen employees' understanding of product parameters and applications. For middle and senior management staff, the group held training courses for leading cadres to broaden their horizons and invited operation mangers from well-known foreign automotive components companies to provide lectures about lean production and help them improve management capabilities.

Our employees are taking skill competition.

Overseas, Nedschroef pays attention to employee training as well, we provide employees with financial, management, IT, and technical training every year. During FY2019, subsidiaries of Nedschroef, Center of Competence Altena and Center of Competence Plettenberg, invested EUR110,000 and EUR 180,000 in employee training respectively.

Besides, Nedschroef carried forward and developed the traditional German apprenticeship culture in its subsidiaries in Germany. We continue to sign apprenticeship contracts with students who finished compulsory education and with an age above the minimum required by law and train them through cooperation with schools. Those apprentices spend two thirds of their time in receiving our training on production activities and technical skills and the rest in learning at school.

Nedschroef signed apprenticeship contracts with students and offered them training on production skills as well as technical knowledge, training technical talents cooperatively and developing apprenticeship culture.

Employee safety

We attach great importance to employee safety. While improving the employee safety management system, we strengthen publicity and education on safety awareness for employees and always take safe production as one of the significant indicators for enterprise operators' economic responsibility evaluation. Most of our domestic subsidiaries including Shanghai Tool Works Company Limited, Wuxi Turbine Blade Co., Ltd., Shanghai United Bearing Company Limited, Shanghai Zhenhua Bearing Works Company Limited, and Shanghai Tian An Bearing Co., Ltd. have acquired OHSAS18001 Occupational Health and Safety Management System Certification. Overseas, Center of Competence Plettenberg has obtained ISO45001 certification, other subsidiaries have completed pre-audits and are expected to obtain certificates in 2021. We were not involved in any serious production accidents during FY2019.

Raising safety awareness

To ensure employee safety and reduce safety accidents, we give priority to raising employees' safety awareness. We undertake various safety training sessions and publicity activities domestically. 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.

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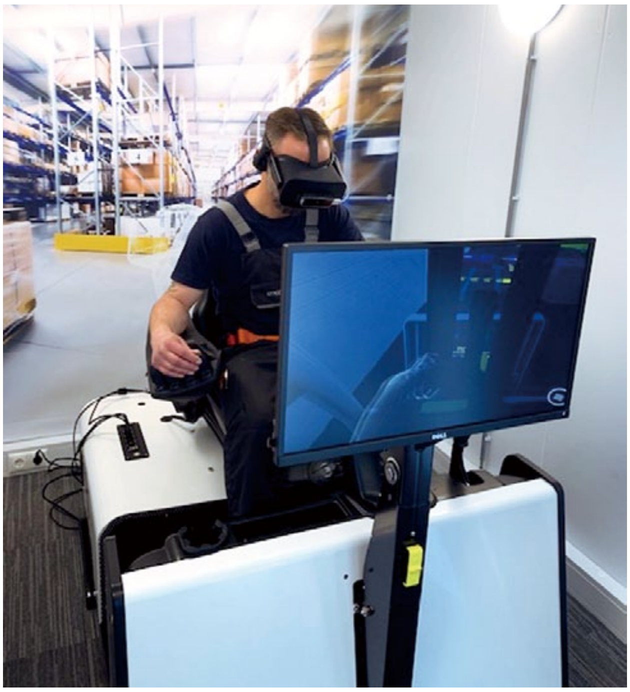
Overseas, Nedschroef has also organized a series of safety training sessions and publicity activities to enhance employees' attention to safety at work. For instance, Center of Competence Helmond puts up safety posters all around the company to warn against potential safety hazards all the time. Center of Competence Helmond and Center of Competence Plettenberg also respectively carry out safety training to employees and management. In order to improve the effectiveness of safety education and motivate employees to participate, Koninklijke Nedschroef Holding B.V. also applied VR technology to employee forklift operation safety training.



Koninklijke Nedschroef Holding B.V. organized VR training for employees.

Significant risk control

We pay attention to safety protection during the production process, domestically, we strictly comply with the *Labour Law of the People's Republic of China*. According to our production process and operation activities, we formulated the *Rules for Safety in Production* and *the Production Safety Accident Reporting, Investigation and Handling System*, in the meantime, in alignment with the standards of the *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 manuals for production safety. Based on the different operation locations and the corresponding risk assessment results, a new risk map is made with updated risks, alarm reporting hotlines and evacuation charts. Risk-informing boards are placed in appropriate areas to remind 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.

Overseas, Nedschroef comply with EU policy on health and safety as well as signed voluntary standards. Center of Competence Altena regularly conducts risk inspections of the working environment to improve the workplace with mechanical injury and electric shock risks. Center of Competence Fraulautern & Berlin has designated internal safety officers and employed an external agency to regularly inspect the hazardous factors of occupational safety, so as to eliminate the hazards.

In FY2019, the number of lost days due to work injuries was 2,211, and the per capita number was 0.62. There was no work-related fatality.

Employee care

We care about employees' health and are committed to creating a healthy work and life environment to best protect their physical and psychological health.

Health

To promote employees' physical and mental health, domestically we strictly comply with the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases*, and provide employees with lectures on occupational health knowledge and regular health checks. In high-temperature seasons, we provide new heat-reduction equipment to improve the working environment. We prepare heatstroke prevention medicine to provide protection for employees working on the frontline against high-temperature.

Overseas, Nedschroef monitors morbidity rate of employees, and engages professional doctors to provide routine occupational health examinations and consultation, 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. In FY2019, Center of Competence Plettenberg, a subsidiary of Nedschroef, also held lectures on healthy diet to help employees develop good eating habits.

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

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Work-life balance

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

Domestically, we organize team-building activities such as flower arrangement training for female employees on Women's Day every year. In FY2019, a series of employee activities were held. Shanghai United Bearing Company Limited organized outward team-building activities for employees. Wuxi Turbine Blade Co., Ltd. organized mountain climbing in spring which was participated by nearly 150 employees and their families. Shanghai Tool Works Company Limited held Chinese Lantern Festival lantern riddles activity and "Shanghai Tool Works Cup" employee badminton competition.

Our female employees participated in the flower arrangement activity.

Our Employees participated in team building activity.

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Overseas, Nedschroef's staff took part in many kinds of sport activities: employees from Center of Competence Fraulautern & Berlin & Beckingen and Center of Competence Plettenberg participated in running events, team from Center of Competence Plettenberg competed in "Pentecost Cup" football competition. In addition, Center of Competence Plettenberg held "Lunch with the Board" activity, employees from different departments talking about their work and having lunch with the Directors, which promoting the communication among employees.

Employees from Center of Competence Fraulautern & Berlin & Beckingen participated in running event.

"Lunch with the Board" activity of Center of Competence Plettenberg.

Employee assistance

We care about our employees and provide financial assistance for the ones in need. In FY2019, we revised the relevant system of employee assistance and employee benefit, increasing assistance effort and expanding assistance scope. For example, we broadened the scope of assistance from employees to employees and their immediate family members.

In FY2019, we carried on One Day Donation event, calling on our employees to donate a total of RMB250,000 to the employee assistance fund, assisting 218 employees.

Epidemic prevention and control

At the beginning of 2020, a new coronavirus pneumonia epidemic broke out in China. Domestically, the Group established the epidemic prevention and control leading group, formulating emergency epidemic prevention plans and organizing epidemic prevention work as soon as possible. We urgently purchased masks, thermometers, disinfection alcohol, disinfectant and other supplies through various channels and coordinated the distribution; we detected and recorded the physical conditions such as the temperature of employees on duty and report timely; we also disinfected office areas and production sites regularly, arranging employees to have meal at different time to avoid inflection so as to ensure the safety of employees' lives.

Employee of Wuxi Turbine Blade Co., Ltd. is disinfecting the production area.

Overseas, Nedschroef developed protocol for new coronavirus pneumonia epidemic, proposing specific measures for epidemic prevention and operation guarantee, such as encouraging employees to work from home, ensuring that the office area is clean for following disinfection. For employees who may appear fever or respiratory discomfort and are at risk of virus exposure, we will isolate the employee and contact local doctor or health authority to take the next step. For employees with business travelling schedule, Nedschroef strongly recommended banning travel and replacing it with virtual meetings.

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Environmental accountability

Domestically, in strict compliance with the *Environmental Protection Law of the People's Republic of China*, we attach great importance to and keep increasing the input into environmental protection to enhance clean production. Most of our domestic subsidiaries have acquired ISO14001 certification for environmental management systems, including Wuxi Turbine Blade Co., Ltd., Shanghai Tool Works Company Limited, Shanghai United Bearing Company Limited, Shanghai Zhenhua Bearing Works Company Limited and Shanghai Tian An Bearing Co., Ltd. Every year we regularly conduct internal and external reviews on enterprise environment to continuously optimize the environmental management system as well as promote the standardization of energy saving and environment protection.

Overseas, Nedschroef complies with EU environmental protection policies. Nedschroef's four subsidiaries have obtained ISO14001 certification for environmental management systems and ISO50001 certification for energy management systems.

We were not involved in any serious environmental pollution incidents during FY2019.

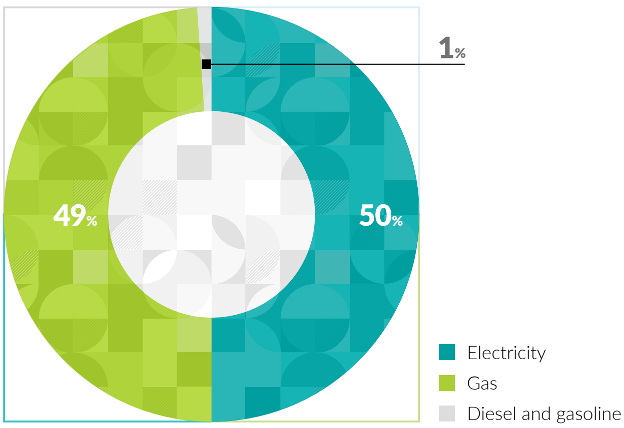
Resources management

In our daily business operations, we mainly consume resources such as electricity, natural gas, water, steel and cardboard, etc. We have established the *Energy and Resources Management Rules* to control the resources we use to enhance the utilization efficiency and lower energy consumption.

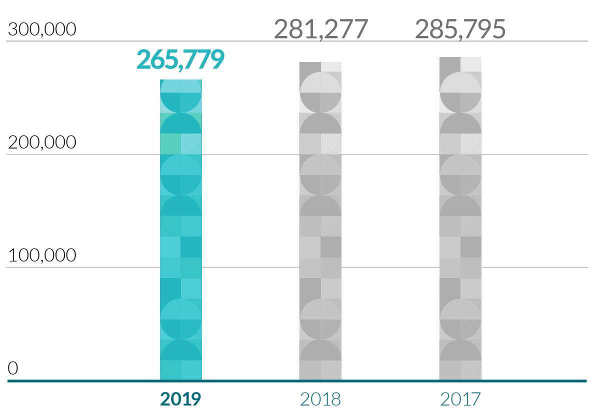
Energy

In FY2019, we consumed a total of 265,779 MWh energy, of which natural gas and electricity accounted for about 99%. Compared with FY 2018, energy consumption has been reduced by about 6% and greenhouse gas (GHG) emissions has been reduced by about 4% accordingly. However, the density of energy consumption and greenhouse gas emissions have increased as compared to the FY2018, which was mainly due to decrease in sales revenue. In daily operation, we focused on saving energy and minimizing greenhouse gas (GHG) emissions to contribute to mitigating global warming.

Proportion of energy consumption (by category)



Energy consumption (MWh)



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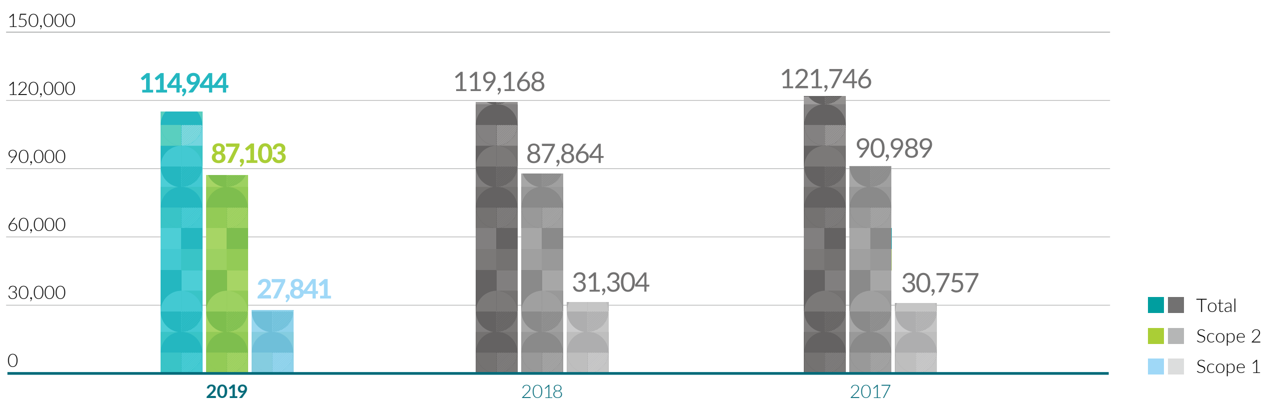
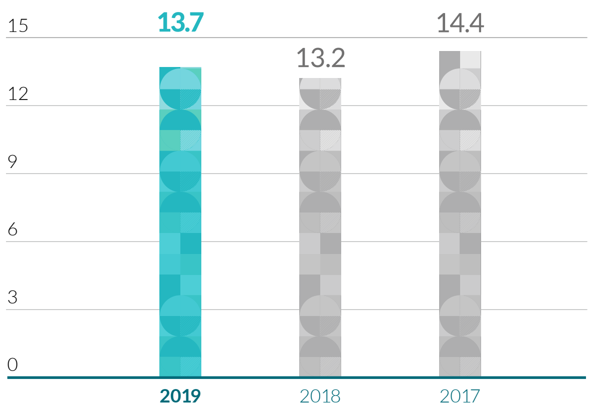
Greenhouse gas emissions (tonnes)



GHG Emissions Density (tonnes/million yuan)



Domestically, to further save energy and reduce consumption, we set energy consumption indicators for the departments with high energy consumption. With monthly evaluation based on such indicators, the departments who fail to meet the standards are required to figure out the causes. Meanwhile, we enhance employees' awareness of energy saving by enhancing publicity. During FY2019, we took the following measures to promote energy saving and emissions reduction:

- Adopt LED energy saving equipment;
- Adopt the optimized and adjusted air conditioning scheme;
- Replace cleaning materials in order to reduce kerosene consumption;
- Use renewable energy for heating in order to replace the original boilers;
- Improve the process, adjust parameters, and effectively reduce the energy consumption per unit product.

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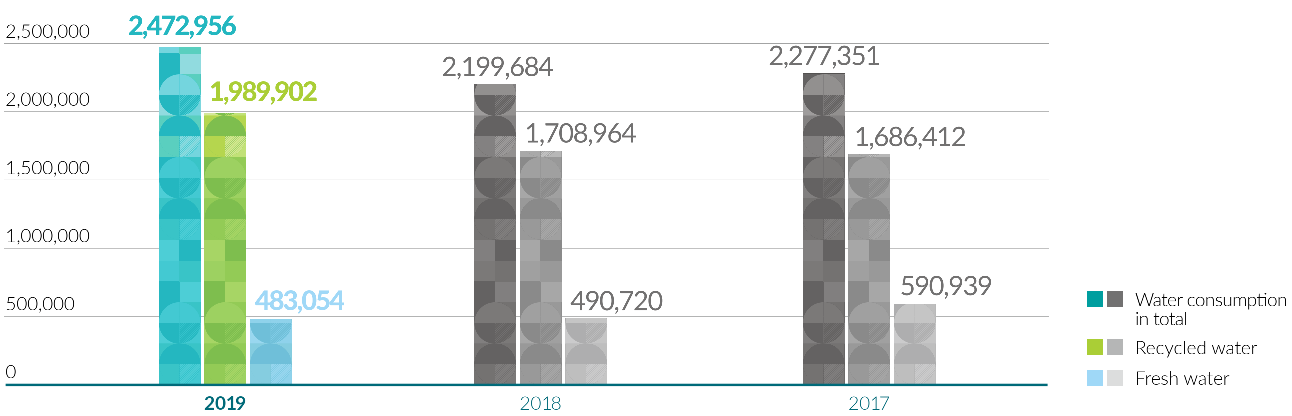
Overseas, Nedschroef measures and assesses factory energy consumption through energy management systems to timely detect deviations and take measures accordingly. To reduce energy consumption, some of Nedschroef's subsidiaries also introduce a series of energy saving projects. For instance, Center of Competence Helmond replaced the ordinary lights with LEDs; Center of Competence Plettenberg invested about EUR2.9 million to renew cleaning equipment to optimize the washing process and reduce the leakage of compressed air, so as to reduce ineffective energy consumption.

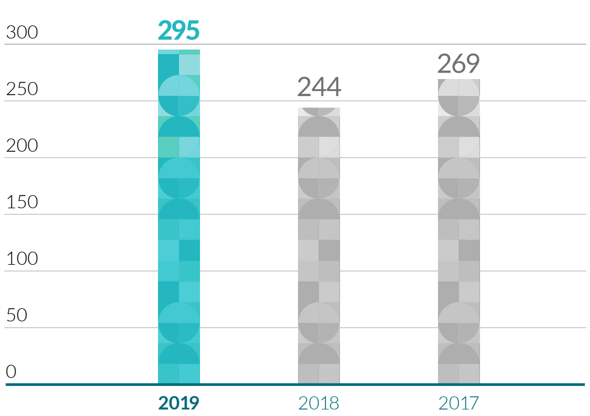
Water resources

The water we use is from the urban water supply system. During FY2019, our total domestic and oversea water demand was 2,472,956 cubic meters, of which the recycling water accounted for 80%. Comparing with 78% in FY2018, the recycling water proportion increased by 2%. The water resources consumption density was 295 cubic meters/million yuan, increasing by 51 cubic meters/million yuan comparing to FY2018, which was mainly due to reduced sales revenue.

Water Consumption (cubic meters)



Water Consumption Density (cubic meters/million yuan)



We formulated and strictly implement the water saving management system to reduce consumption specifically through regular spot inspections and maintenance of water facilities. We also increased propaganda and education for employees to strengthen their water saving. For instance, Shanghai United Bearing Co., Ltd., one of our subsidiaries, strengthened daily maintenance and management of water using equipment. The regular inspections found that the pipeline was aged and had water seepage. Through excavation and installation of quick repair joints, the seepage spots were blocked in time, reducing the consumption of water resources.

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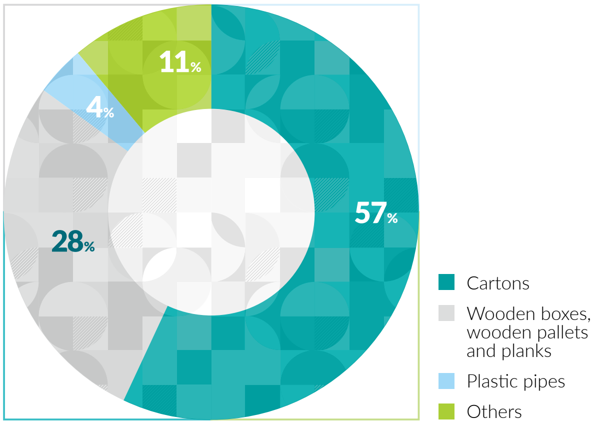
Overseas, some of Nedschroef's subsidiaries improved the utilization efficiency of water by effectively using, updating and optimizing production equipment. The environment working group of Center of Competence Fraulautern & Berlin plan to install new sewage treatment equipment with higher efficiency and stronger sewage treatment capacity, which means more wastewater will be recycled, and it is expected to save about 25% of water.

Packaging materials

We encourage our clients to package with renewable materials to lower the consumption of packaging materials. During FY2019, we used a total of 4,321 tonnes of packaging materials, mainly cartons, wooden boxes, wooden pallets and planks. Overseas, Center of Competence Fraulautern & Berlin, a subsidiary of Nedschroef, used the recoverable KLT (Small Load Carrier) for most clients, and promoted the use of KLT to more clients.

Proportion of Packaging Materials Used (by category)



Wastes management

We identify all kinds of pollution emissions, trace the source, effectively monitor and manage them in time, and formulate reasonable treatment and disposal methods according to the actual situation, so as to minimize the harm to the environment. During FY2019, our total emissions were 55.7 tonnes, mainly industrial waste gas such as particulate matter (PM), nitrogen oxide (NOx), and sulphur oxide (SOx). Hazardous wastes produced were 3,244 tonnes including waste emulsion, waste oil and oil-based mud. Non-hazardous wastes produced were 4,596 tonnes mainly containing domestic wastes, iron scrap, waste steel and discarded packages.

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Waste Gas

Domestically, we strictly control waste gas emissions by formulating the *Waste Gas Emissions Management System* in accordance with the *Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, the Atmospheric Pollutant Emission Standard of the People's Republic of China*, as well as other rules and regulations. We utilize the circulating spray towers for waste gas purification before it is diluted and emitted at high altitude in the air.

In addition, we strive to reduce the emissions of atmospheric pollutants from boilers through constant equipment renovation and upgrade. For instance, Shanghai Tool Works Company Limited, one of our subsidiaries, invested RMB1,000,000 for boiler renovation and upgrading in FY2019, adopting Low NOx Burner and exhaust treatment equipment to ensure the emissions meet national standards, and invested RMB2,000,000 for improving the height and technology of all waste gas outlets to reach 15 meters required by Chinese standards. We entrusted qualified third parties and district environmental protection bureaus to carry out monitoring, and the results were all in line with the emission requirements.

Overseas, Nedschroef reduces waste gas emissions through equipment optimization. For instance, Center of Competence Altena connected electrostatic filters through equipment, reducing air pollution caused by oil mist in the production process. Center of Competence Fraulautern & Berlin purchased more efficient engine vehicles to reduce the consumption of gasoline or diesel, so as to reduce the emissions.

Solid wastes

Domestically, in strict compliance with the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes*, we have issued the *Waste Management Rules, the Hazardous Waste Management Rules and the Implementation Rules for Solid Waste Management*, which stipulate the treatment 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 classify lab wastes into general solid wastes and hazardous wastes, which will be disposed of by qualified third-party professional organizations.

Overseas, we have issued the *Hazardous Waste Treatment System* and the *Non-hazardous Waste Treatment System*, which stipulate the classification, storage and treatment of wastes. Besides, all Nedschroef's subsidiaries recycle hazardous and non-hazardous wastes. For instance, Center of Competence Helmond turned hazardous wastes into energy with a recycling rate of 95%. Center of Competence Fraulautern & Berlin recycled waste cardboards and waste wood and achieved 100% recycling rate.

Liquid wastes

The liquid wastes we produce mainly include waste emulsion, waste oil and wastewater. We have formulated relevant rules including the *Maintenance System of Sewage Treatment Equipment and Facilities, the Rules on Industrial Wastewater Management* and *the Rules on the Management of Waste Oil Well for Heat Treatment* to guide our effective disposal of liquid wastes.

During FY2019, we took a range of measures to reduce the discharge of liquid wastes. For instance, for waste cutting fluid, one of our subsidiaries, Shanghai Tool Works Company Limited, invested RMB500,000 in FY2019 for adding a low temperature evaporation facility of cutting fluid, which effectively reduced the annual disposal volume of waste cutting fluid by nearly 50 tonnes. Overseas, Center of Competence Altena, one of our subsidiaries, effectively utilized oil filters to reduce the waste oil discharge by 6 tonnes in FY2019.

The wastewater we produce mainly include industrial wastewater and domestic sewage. Industrial wastewater is mainly derived from the cooling process during heat treatment. The cooling water produced in the heat treatment process will be recycled. The wastewater during heat treatment with dark appearance or generated in the acid washing process will be handled by qualified third parties after the treatment of facility and removal of salt slag. For instance, Shanghai Tool Works Company Limited, one of our subsidiaries, has renovated its wastewater purification and treatment to ensure zero discharge of wastewater from the heat treatment factory and reuses the treated wastewater. In addition, in order to effectively reduce the pollutant concentration in industrial wastewater, Shanghai United Bearing Company Limited, one of the our subsidiaries, adds PAC, PAM, NaOH, heavy metal chelating agents and other medicaments to remove oil, suspended solids, heavy metals and other pollutants from wastewater through mixed precipitation and air floatation of the flocculation produced from chemical reaction between the medicaments and the pollutants. We ensure up-to-standard wastewater discharge to minimize the impact on rivers, lakes, groundwater, and glaciers.

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Domestic sewage primarily comes from offices, toilets and kitchens, without discharge of poisonous, hazardous substances. To improve sewage treatment efficiency and reduce urban water pollution, we have taken a series of measures. For instance, oily sewage produced in kitchens will be discharged into the municipal sewage pipe network after the solid debris in the sink water are filtered through sink strainers. Wuxi Turbine Blade Co., Ltd., one of our subsidiaries, discharges sanitary wastewater and rainwater separately. Shanghai Zhenhua Bearing Works Company Limited, another subsidiary, has installed intercept valves at rainwater discharge outlets to ensure the wastewater can be intercepted in case of emergency disposal.

We entrust an environmental monitoring station to monitor our wastewater discharge each year in accordance with the *Integrated Wastewater Discharge Standard of the People's Republic of China* to effectively monitor and control our discharge of industrial wastewater and domestic sewage to comply with regulation.

Community responsibility

As part of fulfilling our corporate social responsibility, we have formulated the *Warmth and Assistance Scheme* to establish relationships with communities to help those in need. In FY2019, our subsidiaries including Shanghai Tool Works Company Limited, Shanghai Prime Biaowu High Tensile Fasteners Co., Ltd., Shanghai United Bearing Company Limited and Shanghai Zhenhua Bearing Works Company Limited were honored a Qualified Enterprise with Harmonious Labour Relations in Shanghai and Shanghai Municipal Model Organization.

Community interconnection

We actively communicate with surrounding communities, understand their expectations and needs, and maintain friendly relations by participating in and organizing community activities.

Domestically, in order to reduce the impact on residents' lives, most of our factories were built in suburbs. A community named Nanyang Boshixinju was built near Shanghai United Bearing Company Limited. The company communicates with residents of community regularly, listening to their expectation on our company. The company also carry out care activities for the elderly living alone in the community every year. In addition, they provides the community with a free venue for hosting piano concerts, children's interest salons and other large-scale activities.

The employees of Shanghai United Bearing Company Limited visited the elderly living alone in Nanyang Boshixinju.

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Community development

Domestically, since 2013 we have become paired with Huian Village, a poverty-stricken village in Zhuanghang Town, Fengxian District in Shanghai in poverty lifting. We visited Huian many times to understand the villagers' needs and provided timely help. During FY2019, we donated RMB10,000 to build a Leifeng service station in the village to provide disability assistance, legal aid, and medical services. We held charity sale activities, and donated all the proceeds, RMB3,000 to the women and children's assistance fund of the village. On top of that, we donated RMB40,000 to Huian to improve the environment as well as help the villagers in need.

Overseas, Nedschroef is keen to participate in community development. During FY2019, Center of Competence Plettenberg donated EUR10,000 to the local fire brigade. Center of Competence Beckingen donated EUR1,000 to the local community to improve local living environment.

Education support

Nedschroef focuses on education. In FY2019, Koninklijke Nedschroef Holding B.V. donated EUR750 to the Lux+Louise project, buying music books for local blind children. Center of Competence Plettenberg donated EUR3,600 to the local high school students to improve their diet. Center of Competence Fraulautern & Berlin provided a sponsorship of EUR5,000 to the student team participating in the electric formula racing, helping students gain first-hand experience in project management, marketing and automobile manufacturing; they also allocated EUR2,000 to carry out knowledge lectures, let children complete in projects under the guidance of teachers, and stimulate children's enthusiasm for technology.

Center of Competence Fraulautern & Berlin sponsored the student team participating in the electric formula racing and carried out knowledge lectures.

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ESG data overview

Indicators	FY2019	FY2018	FY2017
Emissions			
Greenhouse gas emissions in total (Scope 1 & 2) (tonnes)	**114,944**	119,168	121,746
Direct greenhouse gas emissions (Scope 1)	**27,841**	31,304	30,757
Indirect greenhouse gas emissions (Scope 2)	**87,103**	87,864	90,989
Greenhouse gas emissions in total per million yuan of sales revenue (tonnes/million yuan)	**13.7**	13.2	14.4
Waste gas emissions in total (tonnes)	**55.7**	42.7	64.5
PM emissions*	**15.0**	15.7	19.6
NOx emissions	**30.8**	20.7	38.7
SOx emissions	**9.9**	6.3	6.2
Hazardous wastes produced in total (tonnes)	**3,244**	3,081	2,809
Hazardous wastes produced per million yuan of sales revenue (tonnes/million yuan)	**0.4**	0.3	0.3
Non-hazardous wastes produced in total (tonnes)	**4,596**	5,978	4,972
Non-hazardous wastes produced in total per million yuan of sales revenue (tonnes/million yuan)	**0.5**	0.7	0.6
Water resources consumption			
Water consumption in total (cubic meters)	**2,472,956**	2,199,684	2,277,351
Fresh water	**483,054**	490,720	590,939
Recycled water	**1,989,902**	1,708,964	1,686,412
Water consumption per million yuan of sales revenue (cubic meters/million yuan)	**295**	244	269
Energy consumption			
Energy consumption in total (MWh)	**265,779**	281,277	285,795
Electricity	**132,656**	138,069	140,530
Gas	**131,011**	140,668	141,997
Diesel and gasoline	**2,112**	2,540	3,268
Energy consumption in total per million yuan of sales revenue (MWh/million yuan)	**31.7**	31.2	33.7
Packaging materials			
Packaging materials in total (tonnes)	**4,321**	4,210	3,892

* The PM emissions of FY2017 and FY2018 are restated to ensure the comparability.

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Indicators	FY2019	FY2018	FY2017
Employment			
Total workforce	**3,584**	3,758	3,891
By gender			
Female	**670**	747	785
Male	**2,914**	3,011	3,106
By age group			
Under 30	**780**	822	902
From 30 to 50	**1,819**	1,929	1,954
Over 50	**985**	1,007	1,035
By region			
China	**2,142**	2,250	2,402
Germany	**1,131**	1,190	1,153
Netherlands	**311**	318	336
Employee turnover ratio	**7.8%**	6.3%	4.6%
By gender			
Female	**11.8%**	7.4%	3.8%
Male	**6.9%**	6.0%	4.8%
By age group			
Under 30	**15.0%**	12.9%	9.4%
From 30 to 50	**4.5%**	3.5%	3.0%
Over 50	**8.1%**	6.2%	2.7%
By region			
China	**8.0%**	7.0%	6.4%
Germany	**7.8%**	5.3%	1.5%
Netherlands	**6.3%**	4.7%	4.0%
Safety			
Number of work-related fatalities	**0**	0	0
Number of lost days due to work injury	**2,211**	1,841	1,853
Average number of working days lost due to work injury	**0.6**	0.5	0.5

Indicators	FY2019	FY2018	FY2017
Development			
The percentage of trained employees	**80.2%**	73.4%	59.1%
By gender			
Female	**80.4%**	70.3%	57.1%
Male	**80.2%**	74.2%	59.6%
By employee type			
Senior management	**78.7%**	66.0%	74.0%
Middle management	**86.8%**	82.0%	68.3%
Staff	**79.7%**	72.8%	59.2%
The average training hours completed per employee	**21.5**	13.9	17.2
By gender			
Female	**19.4**	11.2	17.0
Male	**21.9**	14.6	18.8
By employee type			
Senior management	**23.6**	24.2	34.7
Middle management	**28.9**	26.5	20.8
Staff	**20.7**	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	Resources management; Wastes management
A1.1	The types of emissions and respective emissions data	Wastes management
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Resources management
A1.3	Total hazardous wastes produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Wastes 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)	Wastes management; ESG data overview
A1.5	Description of measures to mitigate emissions and results achieved	Wastes management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Wastes management
Aspect A2: Use of resources		
General disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Environmental accountability
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (in kWh) and intensity (e.g. per unit of production volume, per facility)	Resources management; ESG data overview
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Resources management
A2.3	Description of energy use efficiency initiatives and results achieved	Resources management
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Resources management
A2.5	Total packing material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Resources management
Aspect A3: The environment and natural resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environmental accountability
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Resources management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspect	Description	Location/Remarks
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 employees
B1.1	Total workforce by gender, employment type, age group and geographical region	Accountability for employees; ESG data overview
B1.2	Employee turnover rate by gender, age group and geographical region	Accountability for employees; 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 employees
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 safety; Employee care
Aspect B3: Development and training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities	Employee development
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	Employee development; ESG data overview
Aspect B4: Labour 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 employees
B4.1	Description of measures to review employment practices to avoid child and forced labour	Rights of employees
B4.2	Description of steps taken to eliminate such practices when discovered	Rights of employees
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspect	Description	Location/Remarks
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 the market
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Accountability for the market
B6.2	Number of products and service related complaints received and how they are dealt with	Accountability for products
B6.3	Description of practices relating to observing and protecting intellectual property rights	Technological development
B6.4	Description of quality assurance process and recall procedures	Accountability for products
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Accountability for products
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	Social responsibility
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Social responsibility
B8.2	Resources contributed (e.g. money or time) to the focus area	Social responsibility

Report of the Directors

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 2019 ("FY2019").

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 58 to the financial statements. During FY2019, 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 17
Description of major risks and uncertainties faced by the Company	Page 19
Details of major issues which happened in this fiscal year and had impact on the Company	Pages 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 72
Details of important relationships of the Company and its employees, customers and suppliers	Pages 20 to 21 and 74

Results and Dividends

The Group's profit for FY2019 and the financial positions of the Company and the Group as at 31 December 2019 are set out on pages 87 to 90 of this annual report.

The Board proposed the payment of a final dividend of RMB3.8 cents (FY2018: RMB4.10 cents) per share in respect of FY2019 to shareholders whose names appear on the register of members of the Company on Monday, 6 July 2020. 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 10 August 2020 subject to the approval of the shareholders at the annual general meeting of the Company to be held on 19 June 2020.

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 FY2019 are set out in note 18 to the financial statements.

Share Capital

During FY2019, 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 46 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 FY2019.

REPORT OF THE DIRECTORS

Reserves

Details of movements in the reserves of the Company and the Group during FY2019 are set out in note 47 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB834 million. In addition, the balance of the Company's share premium account, in the amount of RMB720 million, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

Sales to the Group's five largest customers accounted for less than 30% of the total sales of the Group for FY2019. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases of the Group.

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, Dr.-Ing. Gou Jianhui (resigned on 1 April 2020), Mr. Zhang Mingjie, Mr. Si Wenpei, 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 30 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 relevent requirements of 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 FY2019.

REPORT OF THE DIRECTORS

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 FY2019 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 FY2019.

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 15 November 2018, the intended uses of the proceeds raised 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 RMB895 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.

Details of the use of proceeds raised from the rights issue by the Group during FY2019 are set out on page 45 of this annual report.

Directors', Supervisors' and Chief Executives' Interests and Short Positions in Shareholding and Underlying Shares

As at 31 December 2019, details of interests or short positions 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 annual report.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

At no time during FY2019 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 FY2019, the Company has entered into several contracts of significance with its ultimate holding company, Shanghai Electric (Group) Corporation ("SEG"), and its subsidiaries. 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 2019, 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.

REPORT OF THE DIRECTORS

Connected Transactions and Continuing Connected Transactions

During FY2019, 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 FY2019, 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 covered a period of three years from 1 January 2017 to 31 December 2019 and was 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 based on the criteria in order as set out below:

- 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 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.

Revised 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 for the two years ended 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. In view of the business needs, the Company and SEG entered into the framework sales agreements on 18 October 2019 to extend the continuing connected transactions under the 2017 framework sales agreement, so as to continue the existing continuing connected transactions between the Group and SEG and its associates for the period from 1 January 2020 to 31 December 2022. Please refer to the announcement of the Company dated 18 October 2019 for more details.

The proposed annual cap, representing the maximum aggregate sales amount, for FY2019 was RMB506.0 million. The Group's total sales to the Parent Group for FY2019 amounted to RMB159.3 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 covered a period of three years from 1 January 2017 to 31 December 2019 and was renewable upon expiry. Either party may terminate the framework purchase agreement, in part or in whole, by giving at least three months' notice.

REPORT OF THE DIRECTORS

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, spare 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 based on criteria in order as set out below:

- 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 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.

Revised 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 for the two years ended 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. In view of the business needs, the Company and SEG entered into the framework purchase agreements on 18 October 2019 to extend the continuing connected transactions under the 2017 framework purchase agreement, so as to continue the existing continuing connected transactions between the Group and SEG and its associates for the period from 1 January 2020 to 31 December 2022. Please refer to the announcement of the Company dated 18 October 2019 for more details.

The proposed annual cap, representing the maximum aggregate purchase amount, for FY2019 was RMB725.0 million. The Group's total purchases from the Parent Group for FY2019 amounted to RMB nil.

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 in various districts in Shanghai, the PRC from SEG as offices and production plant, with an aggregate gross floor area of approximately 135,104 square meters. The fourth supplemental property lease agreement covered 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 the 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. In view of the business needs, the Company and SEG entered into the framework property leasing agreements on 18 October 2019 to extend the continuing connected transactions under the 2017 framework property leasing agreement, so as to continue the existing continuing connected transactions between the Group and SEG and its associates for the period from 1 January 2020 to 31 December 2022. Please refer to the announcement of the Company dated 18 October 2019 for more details.

The proposed annual cap, representing the maximum aggregate rental payable, for FY2019 was RMB39.0 million. The total rental payable to the Parent Group for FY2019 amounted to RMB23.3 million.

REPORT OF THE DIRECTORS

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 covered a period of three years from 1 January 2017 to 31 December 2019 and was 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 based on the criteria in order as set out below:

- 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 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.

Revised 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 ended 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. In view of the business needs, the Company and SEG entered into the framework comprehensive service agreements on 18 October 2019 to extend the continuing connected transactions under the 2017 framework comprehensive service agreement, so as to continue the existing continuing connected transactions between the Group and SEG and its associates for the period from 1 January 2020 to 31 December 2022. Please refer to the announcement of the Company dated 18 October 2019 for more details.

The proposed annual cap, representing the maximum aggregate comprehensive service fees, for FY2019 was RMB32.0 million. The total comprehensive service fees paid by the Group to the Parent Group for FY2019 amounted to RMB0.8 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 course of business of the Group, on normal commercial terms or better terms, and the transactions have been conducted in accordance with the agreements governing them with fair and reasonable terms and in the interests of the shareholders of the Company as a whole.

REPORT OF THE DIRECTORS

The independent auditor of the Company has conducted review procedures for 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 have not been conducted, 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 causes them to believe that such transactions have exceeded the annual cap determined 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 FY2019.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that 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 Interests in Competing Business

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

Events after the Reporting Period

Details of the events after the reporting period of the Group are set out in note 60 to the financial statements.

Independent Auditors

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

In the past three years, 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
29 March 2020

Report of the Supervisory Committee

Dear Shareholders,

During the year ended 31 December 2019 ("FY2019"), members of the supervisory committee (the "Supervisory Committee") of Shanghai Prime Machinery Company Limited (the "Company") has convened three thematic meetings in accordance with the relevant provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, 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 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 benefits of the Company.

During FY2019, the Supervisory Committee has attended two general meetings and 4 Directors' meetings, and convened meetings of the Supervisory Committee, during which it has completed the review of the interim results, annual financial accounts, financial budgets and profit distribution of the Company, as well as participated in the review of the auditors' report and provided justifiable advice. Members of the Supervisory Committee have capitalised on their business expertise to facilitate performance of all duties of the Supervisory Committee.

With respect to the work progress of the Company in FY2019, 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 and the Company, while all continuing connected transactions have not exceed the approved annual cap during FY2019.

- The Supervisory Committee has supervised the performance of duties by of the Directors and management of the Company, and considered that the Directors, the Chief Executive Officer (總經理) and other senior management of the Company have strictly complied with the principle of diligence and good faith, exercised powers delegated by the shareholders diligently and performed all responsibilities, and no abuse of authority and action that jeopardised our shareholders' interests and the legal rights of our employees has been identified as at the date of this annual report.

In 2020, all members of the Supervisory Committee will continue to comply with the 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
Zhang Yan
Chairman of the Supervisory Committee
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
29 March 2020

Independent Auditor's Report

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 87 to 212, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional 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.

INDEPENDENT AUDITOR'S REPORT

Key audit matters	How our audit addressed the key audit matters
Annual Impairment assessment on goodwill	
Refer to note 22 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 ("CGU"), in particular, business development plan and future revenue growth. In particular, as at 31 December 2019, the carrying amount of goodwill amounted to RMB1,490,841,000 which arose from the acquisition of Nedfast (defined in note 22) in previous year. An annual impairment assessment has been performed by the management, including the assessment of the recoverable amounts in relation to the CGU determined based on a value-in-use calculation. Details of the related accounting policies and carrying value of goodwill are set out in notes 3 and 22 to the consolidated financial statements. As at 31 December 2019, the directors of the Company determined that there were no impairments of any of its CGUs containing goodwill.	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 CGU 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 discount rates and growth rates and comparing earnings before interest and tax ("EBIT") margins and revenue growth against historical performance; and • Involving our internal valuation experts to assess and evaluate the methodology of the model, including inputs used for the cash flow forecast and factors considered in the discount rate.

INDEPENDENT AUDITOR'S REPORT

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 2019, the Group's net trade receivables amounting to approximately RMB1,135,911,000, which represented approximately 12% of total assets of the Group. As disclosed in note 51 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. 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, and those are credit-impaired are assessed for ECL individually. Their allowance amount 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 51 to the consolidated financial statements, the Group recognised an additional amount of RMB35,957,000 of impairment of trade receivables for the year and the Group's lifetime ECL on trade receivables as at 31 December 2019 amounted to approximately RMB137,017,000.	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; • Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2019, 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 28 and 51 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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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

29 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	NOTES	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue			
Contracts with customers	5	**8,394,708**	9,027,535
Cost of sales		**(6,808,810)**	(7,247,401)
Gross profit		**1,585,898**	1,780,134
Other income	7A	**94,310**	71,041
Impairment losses under expected credit loss model, net of reversal	8	**(17,283)**	(48,379)
Other gains and losses	7B	**34,967**	100,048
Selling and distribution expenses		**(392,610)**	(429,799)
Administrative expenses		**(706,257)**	(699,590)
Research expenditure		**(341,268)**	(335,348)
Other expenses	9	**(33,949)**	(1,106)
Share of profits of associates		**9,318**	29,315
Share of profit (loss) of a joint venture		**215**	(198)
Finance costs	10	**(88,103)**	(103,736)
PROFIT BEFORE TAX	13	**145,238**	362,382
Income tax expense	11	**(13,310)**	(85,131)
PROFIT FOR THE YEAR		**131,928**	277,251
Profit (loss) for the year attributable to			
Owners of the Company		**127,371**	280,438
Non-controlling interests		**4,557**	(3,187)
		131,928	277,251

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Other comprehensive (expense) income	12		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plans		**(16,313)**	(900)
Income tax relating to items that will not be reclassified		**4,931**	280
		(11,382)	(620)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(8,365)**	3,585
		(8,365)	3,585
Other comprehensive (expense) income for the year, net of income tax		**(19,747)**	2,965
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**112,181**	280,216
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**107,104**	284,227
Non-controlling interests		**5,077**	(4,011)
		112,181	280,216
EARNINGS PER SHARE	17		
Basic (RMB cents)		**7.48**	19.88
Diluted (RMB cents)		**7.48**	19.86

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	31/12/2019 RMB'000	31/12/2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**2,241,323**	2,302,620
Right-of-use assets	19	**330,657**	–
Prepaid lease payments	20	**–**	132,461
Investment properties	21	**18,290**	–
Goodwill	22	**1,515,852**	1,521,918
Intangible assets	23	**88,690**	33,556
Interests in associates	24	**64,839**	78,378
Interest in a joint venture		**588**	373
Financial assets at fair value through profit or loss ("FVTPL")	25	**3,907**	3,551
Deferred tax assets	26	**148,329**	125,181
		4,412,475	4,198,038
CURRENT ASSETS			
Prepaid lease payments	20	**–**	3,463
Inventories	27	**1,775,498**	1,863,522
Trade receivables	28	**1,135,911**	1,210,677
Debt instruments at fair value through other comprehensive income ("FVTOCI")	29	**545,506**	719,278
Prepayments, deposits and other receivables	30	**273,217**	300,333
Contract assets	31	**38,046**	42,612
Restricted deposits	32	**187,290**	169,715
Bank balances and cash	32	**1,276,341**	1,150,582
		5,231,809	5,460,182
CURRENT LIABILITIES			
Trade payables	33	**1,266,783**	1,424,870
Bills payable	34	**357,030**	408,124
Other payables and accruals	35	**492,766**	464,860
Tax liabilities		**50,418**	72,864
Deferred income — government grants	36	**19,060**	16,498
Contract liabilities	37	**73,895**	75,800
Bank borrowings	38	**294,303**	202,484
Shareholders' loans	39	**781,550**	944,311
Lease liabilities/obligations under finance leases	41, 42	**90,923**	6,368
		3,426,728	3,616,179
NET CURRENT ASSETS		**1,805,081**	1,844,003
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,217,556**	6,042,041

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	31/12/2019 RMB'000	31/12/2018 RMB'000
NON-CURRENT LIABILITIES			
Bank borrowings	38	1,477,005	606,128
Shareholders' loans	39	30,000	814,730
Deferred income — government grants	36	216,757	227,876
Deferred tax liabilities	26	11,490	12,773
Lease liabilities/obligations under finance leases	41, 42	108,574	19,393
Other long-term payables	43	20,222	52,426
Refund liabilities	44	18,393	21,520
Retirement benefit obligations	45	150,760	130,315
		2,033,201	1,885,161
NET ASSETS		4,184,355	4,156,880
CAPITAL AND RESERVES			
Share capital	46	1,725,943	1,725,943
Reserves		2,419,783	2,385,453
Total equity attributable to owners of the Company		4,145,726	4,111,396
Non-controlling interests		38,629	45,484
TOTAL EQUITY		4,184,355	4,156,880

The consolidated financial statements on pages 87 to 212 were approved and authorised for issue by the board of directors on 29 March 2020 and are signed on its behalf by:

DIRECTOR DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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)	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 40) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	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
Adjustments (see note 2)	-	-	-	-	-	-	(7,010)	-	-	-	(7,010)	-	(7,010)
At 1 January 2019 (restated)	1,725,943	729,594	54,884	1,997	380,248	7,915	1,464,727	70,764	(304,645)	(27,041)	4,104,386	45,484	4,149,870
Profit for the year	-	-	-	-	-	-	127,371	-	-	-	127,371	4,557	131,928
Other comprehensive (expense) income for the year	-	-	-	-	-	(11,382)	-	-	(8,885)	-	(20,267)	520	(19,747)
Total comprehensive (expense) income for the year	-	-	-	-	-	(11,382)	127,371	-	(8,885)	-	107,104	5,077	112,181
Proposed final 2019 dividend	-	-	-	-	-	-	(65,586)	65,586	-	-	-	-	-
Appropriation of statutory reserves	-	-	-	-	41,803	-	(41,803)	-	-	-	-	-	-
Recognition of equity-settled share-based payments	-	-	-	1,084	-	-	-	-	-	-	1,084	-	1,084
Dividend paid to non-controlling interests (Note i)	-	-	-	-	-	-	-	-	-	-	-	(6,152)	(6,152)
Final 2018 dividend paid	-	-	-	-	-	-	-	(70,764)	-	-	(70,764)	-	(70,764)
Liquidation of a subsidiary (Note j)	-	-	-	-	-	-	-	-	-	-	-	(1,864)	(1,864)
Equity transaction of Shanghai Tian An Bearing Company Limited and Shanghai Zhenhua Bearing Works Company Limited	-	-	3,916	-	-	-	-	-	-	-	3,916	(3,916)	-
Awarded shares vested	-	859	-	(3,081)	-	-	-	-	-	2,222	-	-	-
At 31 December 2019	1,725,943	730,453	58,800	-	422,051	(3,467)	1,484,709	65,586	(313,530)	(24,819)	4,145,726	38,629	4,184,355

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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	-	-	-	-	-	-	-	(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 48)	-	-	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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

On 30 September 2019, pursuant to a restructuring undertaken by the Group's bearing segment, the Company transferred its entire equity interests in its two wholly-owned subsidiaries, namely Shanghai Tian An Bearing Company Limited and Shanghai Zhenhua Bearing Works Co., Ltd., to United Bearing, its 90%-owned subsidiary. These transactions were accounted for as (i) business combinations under common control; and (ii) a disposal of the Group's partial interests in subsidiaries that does not result in the Group losing control over such subsidiaries. As a result, an adjustment amounting to RMB3,916,000, which represented the excess of the proportionate consideration received over the proportionate share of the net assets of the relevant subsidiaries attributable to the non-controlling interests, was recognized directly in contributed surplus and attributed to owners of the Company against an equal but opposite adjustment made to non-controlling interests.

During the year ended 31 December 2018, Shanghai Electric Bearing was disposed as disclosed in note 48. The Group's contributed surplus represents the difference between 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.

During the year ended 31 December 2017, the Group's contributed surplus represents the difference between the aggregate amount of the paid-up capital of those subsidiaries attributable to the Company and the carrying value of the Company's interest in the associate upon the establishment of the Company.

(c) Surplus reserves

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

(d) Hedging reserve

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

(e) Foreign currency translation difference

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

(f) Distributable reserves

The amount for which the Group can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and the HKFRSs. At the end of the reporting period, the Group had distributable reserves amounting to RMB1,550,295,000 (31 December 2018: RMB1,542,501,000) of which RMB65,586,000 (31 December 2018: RMB70,764,000) 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) The board resolution of Shanghai Premier Tension Control Bolts Company Limited ("SPTCB") to increase SPTCB's share capital from USD1,000,000 (equivalent to RMB6,472,000) to USD2,500,000 (equivalent to RMB16,307,000) was made on 12 November 2017. During the year ended 31 December 2018, Shanghai High Strength Bolt Factory Company Limited made the capital injection amounting to USD855,000 (equivalent to RMB5,606,000) to SPTCB, accounting 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). The transaction was completed on 31 July 2018.

(i) During the year ended 31 December 2019, a dividend amounting to RMB6,152,000 was declared, and RMB500,000 was paid to the non-controlling shareholders of Shanghai United Bearing Company Limited.

(j) During the year ended 31 December 2019, the Company liquidated one of its subsidiaries with RMB1,864,000 paid to its non-controlling shareholder.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
OPERATING ACTIVITIES		
Profit before tax	145,238	362,382
Adjustments for:		
Finance costs	88,103	103,736
Share of (profit) loss of a joint venture	(215)	198
Share of profits of associates	(9,318)	(29,315)
Net foreign exchange losses	3,945	49,405
Gain on settlement of financial instruments	(6,460)	(56,618)
Dividend income from financial instrument at FVPTL	(313)	(29)
Gain on disposal of items of property, plant and equipment	(2,038)	(8,359)
Gain on write-back of long-aged payables	–	(3,748)
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)
Fair value gain on FVTPL	(359)	–
Depreciation of property, plant and equipment	266,248	274,563
Depreciation on investment properties	1,012	–
Depreciation of right-of-use assets	90,514	–
Impairment loss, net of reversal		
— financial assets	17,283	48,379
— property, plant and equipment	–	1,194
Impairment loss recognised on assets classified held-for-sale	3,703	–
Release of prepaid lease payments	–	3,463
Amortisation of intangible assets	10,676	9,028
Allowance for inventories	47,802	51,020
Reversal of allowance for inventories	(19,511)	(26,464)
Release of deferred income related government grants	(19,059)	(20,186)
Recognition of equity-settled share-based payments	1,084	1,757
Operating cash flows before movements in working capital	618,335	754,035
Decrease (increase) in inventories	60,037	(187,150)
Decrease (increase) in trade receivables	60,172	(7,061)
Decrease (increase) in debt instruments at FVTOCI	173,772	(2,424)
Increase in prepayments, deposits and other receivables	(33,676)	(20,078)
Decrease in contract assets	4,566	17,344
Decrease in trade payables	(158,087)	(92,221)
(Decrease) increase in bills payable	(51,094)	44,163
(Decrease) increase in contract liabilities	(1,905)	28,019
(Decrease) increase in refund liabilities	(3,127)	11,322
Increase in other payables and accruals	14,808	46,028
(Decrease) increase in other long-term payables	(28,072)	1,060
Increase in deferred income — government grants	10,502	1,909
Cash generated from operations	666,231	594,946
Income taxes paid	(54,255)	(87,547)
NET CASH FROM OPERATING ACTIVITIES	611,976	507,399

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTE	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
INVESTING ACTIVITIES			
Dividend income from financial assets at FVTPL		313	29
Dividends received from associates		33,140	27,966
Purchase of property, plant and equipment		(275,473)	(287,435)
Proceeds from disposal of property, plant and equipment		16,470	20,212
Proceeds from disposal of a subsidiary	48	–	58,847
Purchases of intangible assets		(65,319)	(9,912)
Proceeds from disposal of an associate		–	74,988
Proceeds from disposal (payments in settlement) of financial instruments		61,243	54,035
Withdrawal of non-restricted deposits with original maturity of over three months		2,000	5,000
Placement of non-restricted deposits with original maturity of over three months		–	(2,000)
Withdrawal of restricted bank deposits		716,095	238,783
Placement of restricted bank deposits		(733,670)	(326,479)
NET CASH USED IN INVESTING ACTIVITIES		(245,201)	(145,966)
FINANCING ACTIVITIES			
Bank borrowings obtained		1,752,301	175,673
Repayment of bank borrowings		(798,437)	(225,068)
Shareholders' loans obtained		–	970,411
Repayment of shareholders' loans		(948,257)	(1,140,258)
Non-controlling shareholders' loan obtained		27,950	–
Repayment of lease liabilities/obligations under finance leases		(98,865)	(7,007)
Repayment of interest arising from lease liabilities/obligation under finance leases		(6,331)	–
Dividends paid		(71,264)	(16)
Capital contribution from a non-controlling shareholder		–	4,229
Liquidation of a subsidiary		(1,864)	–
Proceeds from Rights Issue (as defined in note (g) in consolidated statement of changes in equity)		–	312,465
Interest paid on bank borrowings and shareholders' loan		(91,148)	(100,369)
NET CASH USED IN FINANCING ACTIVITIES		(235,915)	(9,940)
NET INCREASE IN CASH AND CASH EQUIVALENTS		130,860	351,493
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,148,582	799,956
Effect of foreign exchange rate changes		(3,101)	(2,867)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,276,341	1,148,582
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		1,276,341	1,150,582
Less: non-restricted time deposits with original maturity of over three months when acquired		–	2,000
		1,276,341	1,148,582

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 positions and performance 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 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

Applies HKFRS 16.C8(b)(i) transition (lease-by-lease basis)

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 2.66%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.1 HKFRS 16 Leases (Continued)

As a lessee (Continued)

	NOTES	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018		239,484
Lease liabilities discounted at relevant incremental borrowing rates		220,640
Add: Lease liabilities resulting from lease modifications of existing leases	#	34,020
Less: Recognition exemption — short-term leases		(19,334)
Recognition exemption — low value assets (excluding short-term leases of low value leases)		(517)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		234,809
Add: Obligations under finance leases recognised at 31 December 2018	(b)	25,761
Lease liabilities as at 1 January 2019		260,570
Analysed as		
Current		86,764
Non-current		173,806

The Group renewed the leases of several existing leased properties, office equipment by entering into new lease contracts which commence after date of initial application. These new contracts are accounted as lease modifications of the existing contracts upon application of HKFRS 16.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.1 HKFRS 16 Leases (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	NOTES	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		227,799
Reclassified from prepaid lease payments	(a)	135,924
Amounts included in property, plant and equipment under HKAS 17		
— Assets previously under finance leases	(b)	22,072
		385,795

(a) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB3,463,000 and RMB132,461,000 respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB22,072,000 as right- of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB6,368,000 and RMB19,393,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and the directors of the Company conclude that the discounting effect of rental deposits have no material impact at transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.1 HKFRS 16 Leases (Continued)

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right- of-use assets and the directors of the Company conclude that the discounting effect of rental deposits have no material impact at transaction.

Interest in associate

The initial application of HKFRS 16 had no material impact on the carrying amounts of interests in associates.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019 RMB'000
Retained profits	
Impact of transition to HKFRS 16 at 1 January 2019	**(7,010)**

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.1 HKFRS 16 Leases (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current Assets			
Property, plant and equipment	2,302,620	(22,072)	2,280,548
Prepaid lease payments	132,461	(132,461)	–
Right-of-use assets	–	385,795	385,795
Current Assets			
Prepaid lease payments	3,463	(3,463)	–
Capital and Reserves			
Reserves	2,385,453	(7,010)	2,378,443
Current Liabilities			
Lease liabilities	–	86,764	86,764
Obligations under finance leases	6,368	(6,368)	–
Non-current Liabilities			
Lease liabilities	–	173,806	173,806
Obligations under finance leases	19,393	(19,393)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

There is no impact of applying HKFRS 16 as a lessor on the Group's consolidated statement of financial position as at 31 December 2019 and its consolidated statements of profit or loss and other comprehensive income and cash flows for the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.2 Impacts and changes in accounting policies of application of other new and amendments to HKFRSs

Amendments to HKFRSs Annual Improvements to HKFRSs 2015–2017Cycle

The annual improvement packages amended the following four standards.

HKAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

HKAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

HKFRS 3 Business Combinations

The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

HKFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.3 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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

2 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.

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

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

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.

Amendments to HKFRS 3 *Definition of a Business*

The amendments:

- add an optional concentration test that permits a simplified assessment on whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

2.3 New and amendments to HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. Significant Accounting Policies (Continued)

Basis of consolidation (Continued)

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.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant Accounting Policies (Continued)

Business combinations

Acquisitions of businesses, other than business combination under common control 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;

- 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; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 is not allocated to any asset, including goodwill, that 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 HKFRS 9, 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

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 (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 the same 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.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to motor vehicles and office and storage facilities that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. Significant Accounting Policies (Continued)

Leases (Continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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.

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.

3. Significant Accounting Policies (Continued)

Leases (Continued)

Sale and leaseback transactions (prior to 1 January 2019)

The accounting treatment of a sale and leaseback transaction depends on the type of lease involved. The leaseback may be a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the lessee, or it may be an operating lease (in which case, some significant risks and rewards of ownership have been transferred to the purchaser).

The Group as a seller-lessee

For sale and leaseback transactions which are in substance a financing arrangement under HKFRS 9, the Group accounts for the sales proceeds as obligations under finance lease within the scope of HKFRS 9.

Foreign currencies

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

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

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

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

Borrowing costs

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

3. Significant Accounting Policies (Continued)

Government grants

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

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

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

Retirement benefit costs and termination benefits

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 or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

3. Significant Accounting Policies (Continued)

Retirement benefit costs and termination benefits (Continued)

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.

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

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual lease and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

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 40 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 (share-based payments reserve). 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.

3. Significant Accounting Policies (Continued)

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 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.

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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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 to the same taxable entity by the same taxation authority.

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)

Taxation (Continued)

Current tax (Continued)

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

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. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. 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.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

Investment Properties

Investment properties measured using the cost model

Investment properties are properties held to earn rentals and for capital appreciation.

Effective 1 January 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. Significant Accounting Policies (Continued)

Investment Properties (Continued)

Investment properties measured using the cost model (Continued)

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Effective 1 January 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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.

3. Significant Accounting Policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure (Continued)

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.

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these 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 (if any). Intangible assets with indefinite useful lives and 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 property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, 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 of disposal 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.

3. Significant Accounting Policies (Continued)

Impairment on property, plant and equipment, right-of-use assets, contract costs and intangible assets other than goodwill (Continued)

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 a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) 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 a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

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

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.

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

Restructurings

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

3. Significant Accounting Policies (Continued)

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. 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.

Financial assets

Classification and subsequent measurement of financial assets

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 selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/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.

3. Significant Accounting Policies (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (continued)

A financial asset is 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.

(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

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables, deposits and other receivables, restricted deposits and bank balances and debt instruments at FVTOCI and contract assets which are subject to impairment under HKFRS 9. 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, 12-month ECL ("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, contract assets and debt instruments at FVTOCI. The ECL on these assets are assessed individually for debtors with significant balances and credit-impaired and collectively using a provision matrix with internal credit ratings (2018: debtor's aging).

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 (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 (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 (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).
- 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. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

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 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.

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.

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.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 or group of 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 2019 is RMB1,515,852,000 (31 December 2018: RMB1,521,918,000). Details of the recoverable amount calculation are disclosed in note 22.

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 (2018: debtors' aging) 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 2019, the carrying amount of trade receivables was RMB1,135,911,000 (net of allowance for credit losses of RMB137,017,000) (2018: RMB1,210,677,000 (net of allowance of doubtful debts of RMB126,297,000)). The information about the ECL and the Group's trade receivables are disclosed in notes 28 and 51.

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 2019 is RMB50,259,000 (31 December 2018 is RMB36,352,000). The amount of unrecognised tax losses as at 31 December 2019 is RMB195,152,000 (31 December 2018 is RMB192,236,000). Further details are set out in note 26.

5. Revenue

(i) Disaggregation of revenue from contracts with customers

For the year ended 31 December 2019

Segments	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Total RMB'000
	For the year ended 31 December 2019				
Types of goods or service					
Sales of goods and services	797,001	896,903	562,736	6,138,068	8,394,708
Total	797,001	896,903	562,736	6,138,068	8,394,708
Timing of revenue recognition					
A point in time	797,001	896,903	562,736	5,794,663	8,051,303
Over time	–	–	–	343,405	343,405
Total	797,001	896,903	562,736	6,138,068	8,394,708

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
	For the year ended 31 December 2018				
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. Revenue (Continued)

(ii) Performance obligations for contracts with customers (Continued)

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

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 pays 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 customer 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.

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 2019

	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	797,001	896,903	562,736	6,138,068	–	8,394,708
Inter-segment sales	–	–	240	–	–	240
Sub-total	797,001	896,903	562,976	6,138,068	–	8,394,948
Eliminations						(240)
Group revenue						8,394,708
Segment profit	61,379	41,515	102,742	57,113	–	262,749
Interest, dividend income and unallocated gains						41,390
Corporate and other unallocated expenses						(80,331)
Finance costs						(88,103)
Share of profits of an associate	–	–	–	–	9,318	9,318
Share of profit of a joint venture	–	–	–	215	–	215
Profit before tax						145,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. Segment Information (Continued)

Segment revenue and results (Continued)

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, 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

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 2019

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets						
Assets	979,036	2,525,131	711,763	3,925,068	–	8,140,998
Eliminations of inter-segment receivables	(182,993)	(115,838)	(291,553)	(239,806)	(2,671,425)	(3,501,615)
Total segment assets						4,639,383
Interests in an associate	–	–	–	–	64,839	64,839
Interest in a joint venture	–	–	–	588	–	588
Goodwill	25,012	–	–	1,490,840	–	1,515,852
Corporate and other unallocated assets						3,423,622
Consolidated assets						9,644,284
Segment liabilities						
Liabilities	713,285	1,403,518	171,482	4,090,401	–	6,378,686
Eliminations of inter-segment payables	(51,293)	(646,543)	(54,003)	(33,559)	(2,716,217)	(3,501,615)
Total segment liabilities						2,877,071
Corporate and other unallocated liabilities						2,582,858
Consolidated liabilities						5,459,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. Segment Information (Continued)

Segment assets and liabilities (Continued)

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

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 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 2019

	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	19,940	54,319	26,776	250,490	351,525	34,960	386,485
Depreciation and amortisation	39,393	98,406	23,694	195,493	356,986	11,464	368,450
Impairment loss recognised on assets classified as held-for sale	–	–	3,703	–	3,703	–	3,703
Impairment loss on trade and other receivables recognised in profit or loss	4,074	8,847	2,041	2,321	17,283	–	17,283
Loss (gain) on disposal/written-off of property, plant and equipment	534	501	105	(3,178)	(2,038)	–	(2,038)
Allowance for inventories	3,018	12,744	5,459	7,070	28,291	–	28,291
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	1,068	(5,516)	8,024	9,734	13,310	–	13,310

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For the year ended 31 December 2019

6. Segment Information (Continued)

Other Segment information (Continued)

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 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

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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000	31/12/2019 RMB'000	31/12/2018 RMB'000
The PRC	2,266,855	2,465,091	1,487,606	1,498,595
Outside the PRC	6,127,853	6,562,444	2,707,206	2,491,960
	8,394,708	9,027,535	4,194,812	3,990,555

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2019 and 2018.

7A. Other Income

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Interest income from bank balances and deposits	16,041	9,310
Net rental income (Note i)	5,104	1,811
Government grants (Note ii)	42,746	36,721
Compensation income (Note iii)	10,169	4,799
Technology service income	9,880	6,494
Recovery freight and package	2,849	2,896
Commissions	570	2,363
Dividend income from financial assets at FVTPL	313	29
Others	6,638	6,618
	94,310	71,041

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) RMB26,603,000 (2018: RMB19,063,000) 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) RMB16,143,000 (2018: RMB17,658,000) represents subsidies for the acquisition of machinery amortised to profit or loss for the year.

(iii) Compensation income relates to compensation amounting to RMB8,149,000 received from suppliers for losses in respect of certain unqualified raw materials (2018: compensation income mainly included compensation amounting to RMB4,799,000 received from insurance companies for losses incurred on certain items of property, plant and equipment).

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For the year ended 31 December 2019

7B. Other Gains and Losses

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Sales of spare parts, scrap materials and semi-finished goods	**168,465**	162,928
Less: costs related to sales of spare parts, scrap materials and semi-finished goods	**(124,560)**	(113,431)
	43,905	49,497
Gain on disposal of property, plant and equipment	**2,038**	8,359
Gain on settlement of financial instruments (Note i)	**6,460**	56,618
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
Fair value gain on financial assets at FVTPL	**359**	–
Impairment loss recognised in respect of property, plant and equipment	**–**	(1,194)
Net foreign exchange losses	**(14,092)**	(23,351)
Gain on write-back of long-aged payables	**–**	3,748
Impairment recognised on assets classified as held-for-sale (Note ii)	**(3,703)**	–
	34,967	100,048

Notes:

(i) The amount represents the gain on the settlement of foreign currency forward contracts amounting to RMB6,460,000 (2018: gain of RMB56,618,000).

(ii) During the year ended 31 December 2019, the directors of the Company resolved to dispose the entire 40% equity interest of S.U. Machine Tool (Shanghai) Company Limited ("S.U. Machine Tool") and obtained a purchase commitment amounted to RMB8,344,000 from the controlling shareholder of S.U. Machine Tool. The investment had been classified as an asset held-for-sale on 1 January 2019, and recognised the impairment amounting to RMB3,703,000. The disposal transaction was completed on 15 November 2019.

8. Impairment Losses Under Expected Credit Loss Model, Net of Reversal

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Impairment losses recognised on:		
— Trade receivables	**14,635**	48,356
— Other receivables	**2,648**	23
	17,283	48,379

Details of impairment assessment for the year ended 31 December 2019 and 31 December 2018 are set out in note 51.

9. Other Expenses

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Restructuring expense (Note)	**33,232**	–
Compensations and penalties	**411**	829
Donations	**277**	199
Others	**29**	78
	33,949	1,106

Note: Restructuring expense includes mainly severance amounting to RMB31,262,000 in relation to the close-down of the Group's Berlin plant.

10. Finance Costs

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Interests on bank borrowings	**55,875**	50,227
Interests on shareholders' loans	**25,642**	53,233
Interest on lease liabilities/obligation under finance lease	**6,331**	–
Other interest expenses	**255**	276
	88,103	103,736

11. Income Tax Expense

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**36,717**	43,715
Other jurisdictions	**1,277**	54,730
	37,994	98,445
(Over) under provision in prior years:		
PRC EIT	**(6,269)**	(7,278)
Other jurisdictions	**–**	1,882
	(6,269)	(5,396)
Deferred tax (Note 26):		
Current year	**(18,415)**	(7,918)
	(18,415)	(7,918)
	13,310	85,131

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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Profit before tax	**145,238**	362,382
Tax at the domestic income tax rate of 25% (2018: 25%) (Note)	**36,310**	90,596
Tax effect of share of profits of associates	**(2,330)**	(7,329)
Tax effect of share of (profit) loss of a joint venture	**(54)**	50
Income tax on concessionary rate	**(5,133)**	(3,584)
Tax effect of expenses not deductible for tax purpose	**15,640**	21,843
Tax effect of income not taxable for tax purpose	**(486)**	(358)
Tax effect of tax losses and deductible temporary differences not recognised	**3,799**	5,764
Recognition of tax losses and deductible temporary differences previously not recognised	**(13,959)**	(10,476)
Utilisation of tax losses previously not recognised	**(1,682)**	(16,425)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,887**	15,424
Effect of tax exemptions	**(15,413)**	(4,978)
Over provision in respect of prior years	**(6,269)**	(5,396)
Income tax expense	**13,310**	85,131

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.

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12. Other Comprehensive (Expense) Income

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Other comprehensive (expense) income includes:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plans	**(16,313)**	(900)
Income tax relating to items that will not be reclassified	**4,931**	280
	(11,382)	(620)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(8,365)**	3,585
	(8,365)	3,585
Other comprehensive (expense) income for the year, net of income tax	**(19,747)**	2,965

Income tax effect relating to other comprehensive (expense) income

	Year ended 31/12/2019			Year ended 31/12/2018		
	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000
Items that will not be reclassified to profit or loss:						
Remeasurement of defined benefit pension plans	**(16,313)**	**4,931**	**(11,382)**	(900)	280	(620)
Items that may be reclassified subsequently to profit or loss:						
Exchange differences on translation of foreign operations	**(8,365)**	**–**	**(8,365)**	3,585	–	3,585
	(24,678)	**4,931**	**(19,747)**	2,685	280	2,965

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For the year ended 31 December 2019

13. Profit before Tax

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

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Cost of inventories recognised as expenses	**6,787,492**	7,239,852
Cost of services provided	**21,318**	7,549
Depreciation of property, plant and equipment	**266,248**	274,563
Depreciation of investment properties	**1,012**	–
Depreciation of right-of-use assets	**90,514**	–
Release of prepaid lease payments (recognised in administrative expenses)	**–**	3,463
Amortisation of intangible assets (recognised in administrative expenses and cost of sales)	**10,676**	9,028
Total depreciation and amortisation	**368,450**	287,054
Capitalised in inventories	**(44,477)**	(40,282)
	323,973	246,772
Auditor's remuneration		
Audit services	**8,193**	6,822
Non-audit services	**1,614**	574
	9,807	7,396
Research expenditure recognised as an expense	**341,268**	335,348
Gross rental income from investment properties	**5,936**	–
Less: direct operating expenses incurred for investment properties that generated rental income during the year	**(1,012)**	–
Gross rental income except investment properties	**2,794**	5,326
Less: direct operating expenses except investment properties	**(2,614)**	(3,515)
	5,104	1,811
Operating leasing payments in respect of property, plant and equipment	**19,851**	120,773
Directors' emoluments (Note 14)	**6,571**	5,371
Other staff costs	**1,631,744**	1,673,112
Retirement benefits for other staff	**63,051**	67,612
Total staff costs	**1,701,366**	1,746,095
Capitalised in inventories	**(187,993)**	(187,038)
	1,513,373	1,559,057

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 2019				
Executive directors:				
Zhou Zhiyan (Note i)	–	809	49	858
Xiao Yuman	–	766	49	815
Gou Jianhui (Note viii)	–	1,476	24	1,500
Chen Hui (Note iii)	–	361	25	386
Zhang Mingjie (Note vi)	–	–	–	–
Zhang Jie (Notes iii, vi)	–	–	–	–
Si Wenpei (Note vi, vii)	–	–	–	–
	–	3,412	147	3,559
Independent non-executive directors:				
Chan Oi fat	152	–	–	152
Ling Hong	157	–	–	157
Sun Zechang	157	–	–	157
	466	–	–	466
Non-executive director:				
Dong Yeshun	157	–	–	157
	157	–	–	157
Supervisors:				
Xu Jianguo (Notes iii, vi)	–	–	–	–
Zhang Yan (Note ii, vi)	–	–	–	–
Yu Yun	–	403	49	452
Lu Haixing (Note ii)	–	181	24	205
	–	584	73	657
	623	3,996	220	4,839

14. Directors', Chief Executive's and Supervisors' Emoluments (Continued)

(b) Except the basic emoluments, the Directors, chief executive and supervisors are also entitled to incentive bonus based on the group's performance. according to Incentive Scheme approved by the Shareholder entity, the Directors, chief executive:

	Shares award RMB'000	Cash instalments RMB'000	Subtotal of Incentive Scheme RMB'000
Year ended 31 December 2019			
Executive directors:			
Zhou Zhiyan (Note i)	73	624	697
Xiao Yuman	–	437	437
Gou Jianhui (Note viii)	–	–	–
Chen Hui (Note iii)	41	498	539
Zhang Mingjie (Note vi)	–	–	–
Zhang Jie (Notes iii, vi)	–	–	–
Si Wenpei (Note vi, vii)	–	–	–
	114	1,559	1,673
Independent non-executive directors:			
Chan Oi Fat	–	–	–
Ling Hong	–	–	–
Sun Zechang	–	–	–
	–	–	–
Non-executive director:			
Dong Yeshun	–	–	–
	–	–	–
Supervisors:			
Xu Jianguo (Notes iii, vi)	–	–	–
Zhang Yan (Note ii, vi)	–	–	–
Yu Yun	–	34	34
Lu Haixing (Note ii)	–	25	25
	–	59	59
	114	1,618	1,732

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For the year ended 31 December 2019

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 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)	–	–	–	–
Gou Jianhui (Note viii)	–	–	–	–
	–	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 (Note vi)	–	–	–	–
	–	414	50	464
	601	2,863	200	3,664

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 40 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)	–	–	–
Gou Jianhui (Note viii)	–	–	–
	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 (Note vi)	–	–	–
	–	7	7
	200	1,507	1,707

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. The emoluments disclosed above include those services rendered by him as chief executive officer.

(ii) Appointed on 14 June 2019.

(iii) Resigned on 14 June 2019.

(iv) Resigned on 19 April 2018.

(v) Appointed on 8 June 2018.

(vi) These directors' and supervisors' emoluments for the years ended 31 December 2019 and 2018 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 2019 and 2018.

(vii) Mr. Si Wenpei resigned as supervisor on 14 June 2019 and was appointed as executive officer on 14 June 2019.

(viii) Mr. Gou Jianhui was appointed as the chief executive officer of the Group on 25 September 2018, and was appointed as executive director on 14 June 2019.

No awarded shares granted to the directors, chief executive and supervisors remained unvested as at 31 December 2019 (31 December 2018: 244,600 shares).

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2018: 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 (2018: nil). Details of the remuneration for the year of the five (2018: five) highest paid employees who are neither directors nor chief executive of the Company are as follows:

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Salaries and other benefits	**31,105**	15,096
Performance-related bonuses	**3,619**	7,283
Pension scheme contributions	**363**	379
	35,087	22,758

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 31/12/2019 No. of employees	Year ended 31/12/2018 No. of employees
Hong Kong dollars ("HKD") nil to HKD2,000,000	2	–
HKD2,000,001 to HKD2,500,000	1	1
HKD2,500,001 to HKD3,000,000	–	1
HKD3,500,001 to HKD4,000,000	–	1
HKD4,000,001 to HKD4,500,000	1	–
HKD6,000,001 to HKD6,500,000	–	1
HKD11,000,001 to HKD11,500,000	–	1
HKD25,000,001 to HKD30,000,000	1	–
	5	5

16. Dividend

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Dividend for ordinary shareholders of the Company recognised as distribution during the year:		
Proposed 2019 Final — 2019 final RMB3.80 cents (2018: 2018 final: RMB4.10 cents)	65,586	70,764

Subsequent to the end of this reporting period, a final dividend in respect of the year ended 31 December 2019 of RMB3.80 cents (the year ended 31 December 2018: RMB4.10 cents) has been proposed by the directors of the Company.

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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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Profit for the year attributable to owners of the Company	127,371	280,438
Earnings for the purpose of basic and diluted earnings per share	127,371	280,438

	31/12/2019 in '000	31/12/2018 in '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,701,765	1,410,464
Effect of dilutive potential ordinary shares in respect of shares awarded under the Incentive Scheme — unvested	–	1,935
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,701,765	1,412,399

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 2018	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 48)	–	(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
Adjustments upon application of HKFRS 16	–	(25,150)	–	–	–	–	(25,150)
At 1 January 2019 (restated)	952,421	2,854,321	29,284	177,432	166,627	117,513	4,297,598
Additions	6,411	32,164	3,002	15,840	203,371	3,557	264,345
Disposals	(4,646)	(26,988)	(2,910)	(767)	–	–	(35,311)
Transfer amongst property, plant and equipment	6,637	177,036	387	8,931	(193,283)	292	–
Transfer to investment properties	(20,229)	–	–	–	–	–	(20,229)
Exchange adjustments	(1,754)	(5,382)	(94)	(958)	(147)	–	(8,335)
At 31 December 2019	938,840	3,031,151	29,669	200,478	176,568	121,362	4,498,068
DEPRECIATION AND IMPAIRMENT							
At 1 January 2018	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 48)	–	(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
Adjustment upon application of HKFRS 16	–	(3,078)	–	–	–	–	(3,078)
At 1 January 2019 (restated)	182,072	1,622,643	14,517	98,076	831	98,911	2,017,050
Provided for the year	29,855	193,294	2,665	29,608	–	10,826	266,248
Eliminated on disposals	(1,545)	(16,180)	(2,487)	(667)	–	–	(20,879)
Transfer to investment properties	(927)	–	–	–	–	–	(927)
Exchange adjustments	(643)	(3,472)	(48)	(584)	–	–	(4,747)
At 31 December 2019	208,812	1,796,285	14,647	126,433	831	109,737	2,256,745
CARRYING VALUES							
At 31 December 2019	730,028	1,234,866	15,022	74,045	175,737	11,625	2,241,323
At 31 December 2018	770,349	1,253,750	14,767	79,356	165,796	18,602	2,302,620

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 RMB185,619,000 (31 December 2018: RMB207,314,000) 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 2019, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB661,000 (31 December 2018: RMB772,000).

At 31 December 2019, certain of the Group's property amounting to RMB53,916,000 has been pledged as security for bank borrowings (31 December 2018: RMB49,150,000).

As at 31 December 2018, the directors conducted an impairment review of the Group's property, plant and equipment and determined to recognised an impairment of RMB1,194,000.

19. Right-Of-Use Assets

	Leasehold lands RMB'000	Leased properties RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Total RMB'000
As at 1 January 2019						
Carrying amount	135,924	100,473	10,376	129,056	9,966	385,795
As at 31 December 2019						
Carrying amount	132,461	67,124	12,821	110,624	7,627	330,657
For the year ended 31 December 2019						
Depreciation charge	3,463	44,560	5,462	32,890	4,139	90,514
Expense relating to short-term leases and other leases with lease terms ending within 12 months of the date of initial application of HKFRS 16						19,334
Expense relating to leases of low-value assets, excluding short-term leases of low value assets						517
Total cash outflow for leases (Note 1)						125,047
Additions to right-of-use assets						36,593

Note 1: The amount includes payments of principal and interest portion of lease liabilities, short-term leases, low value assets. These amounts could be presented in operating or financing cash flows.

For both years, the Group leases leasehold land and buildings, machinery and equipment, motor vehicles and office and other equipment for its operations. Lease contracts are entered into for a fixed term of 12 months to 10 years. Certain leases of equipment were accounted for as finance leases during the years ended 31 December 2019 and 2018 and carried interest ranging from 2.5% to 5.3%. Lease terms are negotiated on an individual basis. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Leases committed

As at 31 December 2019, the Group entered into new leases for several leased properties that have not yet commenced, with an average non-cancellable period of 1 year with no extension options. The total future undiscounted cash flows over the non-cancellable period amounted to RMB6,602,000.

20. 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
Analysed as	
Current portion	3,463
Non-current portion	132,461
	135,924

21. Investment Properties

The Group leases out certain of its buildings under operating lease with rentals payable semi-annually. The lease typically runs for an initial period of 5 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangement, as the lease is denominated in the functional currency of the respective group entity. The lease contract does not contain any residual value guarantee or lessee's option to purchase the property at the end of lease term.

	Buildings RMB'000
COST	
At 31 December 2018	–
Transfer from property, plant and equipment	20,229
At 31 December 2019	20,229
DEPRECIATION AND IMPAIRMENT	
At 31 December 2018	–
Transfer from property, plant and equipment	927
Provided for the year	1,012
At 31 December 2019	1,939
CARRYING VALUES	
At 31 December 2019	18,290
At 31 December 2018	–

The fair value of the Group's investment properties at 31 December 2019 was RMB43,580,000. The fair value has been arrived at based on a valuation carried out by independent valuers not connected with the Group.

21. Investment Properties (Continued)

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follows:

	2019	
	Carrying amount RMB'000	At Level 3 of the fair value hierarchy RMB'000
Buildings located in the PRC	18,290	43,580

The above investment property is depreciated over its estimated useful life on a straight-line basis at the following rates per annum:

Land and buildings	5%

As at 31 December 2019, none of the Group's investment property has been pledged to secure any banking facilities granted to the Group.

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22. Goodwill

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2018	1,513,334
Exchange adjustments	8,584
At 31 December 2018	1,521,918
Exchange adjustments	(6,066)
At 31 December 2019	1,515,852

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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Fastener — Nedfast Investment B.V. ("Nedfast")	**1,490,841**	1,496,907
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
	1,515,852	1,521,918

As at 31 December 2019 and 2018, 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 is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations include discount rates and growth rates 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 8% (2018: 10.5%) per annum. The decrease of the discount rate is in line with the decrease of risk free rate following the London Inter Bank Offered Rate. The cash flows beyond the five-year period are extrapolated using a 1.5% (2018: 1.0%) growth rate per annum. The increase of the growth rate is based on industry growth forecast and does not exceed the average long-term growth rate for the industry.

22. Goodwill (Continued)

Impairment testing on goodwill (Continued)

Nedfast (Continued)

Sensitivity analysis has been performed by the directors of the Company to measure the impact on the recoverable amount of Nedfast. If the discount rate was increased from 8.0% to 8.9%, while other parameters remain constant, the recoverable amount of Nedfast still exceeds its carrying amount by approximately 15.8% as of 31 December 2019. If the terminal growth rate was decreased from 1.50% to 1.07%, while other parameters remain constant, the recoverable amount of Nedfast still exceeds its carrying amount by approximately 25.8% as of 31 December 2019. The directors of the Company believe that any other reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

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% (2018: 14.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2018: 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 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% (2018: 13.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2018: 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 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.

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23. 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 2018	60,031	5,024	28,376	11,249	104,680
Additions	–	50	–	9,862	9,912
Exchange adjustments	34	–	–	252	286
At 1 January 2019	60,065	5,074	28,376	21,363	114,878
Additions	4,975	–	49,240	11,104	65,319
Transfer amongst intangible assets	13,987	–	–	(13,987)	–
Exchange adjustments	191	–	544	(197)	538
At 31 December 2019	79,218	5,074	78,160	18,283	180,735
AMORTISATION					
At 1 January 2018	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
Provided for the year	8,096	48	2,532	–	10,676
Exchange adjustments	12	–	35	–	47
At 31 December 2019	63,686	4,360	23,999	–	92,045
CARRYING VALUES					
At 31 December 2019	15,532	714	54,161	18,283	88,690
At 31 December 2018	4,487	762	6,944	21,363	33,556

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 20 years after being transferred to deferred development costs

Note: During the year ended 31 December 2019, development expenditure in progress amounting to RMB13,987,000 was completed and transferred to deferred development costs (31 December 2018: nil). As at 31 December 2019, development expenditure in progress amounting to RMB18,283,000 (31 December 2018: RMB21,363,000) was under development and will be transferred to deferred development costs upon completion and amortised over 3 to 20 years.

24. Interests in Associates

	31/12/2019 RMB'000	31/12/2018 RMB'000
Cost of investment in associates	**46,746**	60,919
Share of post-acquisition profits and other comprehensive income, net of dividend received	**18,093**	17,459
	64,839	78,378

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 2019 and 2018 (in '000)	Proportion of ownership interest held by the Group		Principal activities
			2019	2018	
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* (Notes 1 & 3)	The PRC	EUR3,685	**–**	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 2019.

USD United States dollars
EUR Euro

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

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24. Interests in Associates (Continued)

Morgan Advanced Materials

	31/12/2019 RMB'000	31/12/2018 RMB'000
Current assets	**244,839**	242,963
Non-current assets	**90,509**	90,208
Current liabilities	**(117,453)**	(110,265)
Non-current liabilities	**(1,765)**	(1,800)

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	**310,508**	313,250
Profit for the year	**31,061**	34,000
Total comprehensive income for the year	**31,061**	34,000
Dividends received or receivable from the associate during the year	**10,811**	5,638

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Net assets	**216,130**	221,106
Proportion of the Group's ownership interest	**30%**	30%
Carrying amount of the Group's interest	**64,839**	66,331

S.U. Machine Tool

	31/12/2019 RMB'000	31/12/2018 RMB'000
Current assets	**n/a**	23,041
Non-current assets	**n/a**	30,532
Current liabilities	**n/a**	(23,456)

24. Interests in Associates (Continued)

S.U. Machine Tool (Continued)

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Revenue	–	15,567
Loss for the year	–	(10,127)
Total comprehensive expense for the year	–	(10,127)

Note: On 1 January 2019, the directors of the Company resolved to dispose the entire 40% equity interest of S.U. Machine Tool and obtained a purchase commitment from S.U. America Inc, the controlling shareholder of the associate. Thus, the investment had been classified as assets held-for-sale on 1 January 2019. The disposal of the assets classified held-for-sale was completed in November 2019.

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Net assets	n/a	30,117
Proportion of the Group's ownership interest	n/a	40%
Carrying amount of the Group's interest	n/a	12,047

During the year ended 31 December 2019, the Group disposed of its entire 40% equity interest in S.U. Machine Tool for a cash consideration of RMB8,344,000.

	RMB'000
Proceeds from disposal of assets classified as held-for-sale	8,344
Less: carrying amount of the 40% investment upon classification as held-for-sale	(12,047)
Impairment on assets classified as held-for-sale	(3,703)

25. Financial Assets at FVTPL

Financial assets mandatorily measured at FVTPL	31/12/2019 RMB'000	31/12/2018 RMB'000
Unlisted equity investments	3,907	3,551

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

26. Deferred Taxation

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Deferred tax assets	**148,329**	125,181
Deferred tax liabilities	**(11,490)**	(12,773)
	136,839	112,408

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	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 2018	32,718	9,196	8,886	(11,765)	28,454	17,916	8,959	9,600	103,964
Credit/(charge) 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
Credit/(charge) to profit or loss	13,959	3,383	2,099	(4,851)	2,143	5,810	(4,068)	(60)	18,415
Charge to equity for the year	-	-	-	-	-	4,931	-	-	4,931
Exchange differences	(52)	(31)	(92)	(87)	436	417	410	84	1,085
At 31 December 2019	50,259	6,685	26,155	(26,306)	35,104	34,374	1,302	9,266	136,839

At 31 December 2019, the Group has unused tax losses of RMB396,172,000 (31 December 2018: RMB333,315,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such losses of RMB201,020,000 (31 December 2018: RMB141,079,000). No deferred tax asset has been recognised in respect of the remaining RMB195,152,000 (31 December 2018: RMB192,236,000) due to the unpredictability of future profits streams.

26. Deferred Taxation (Continued)

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
2019	–	14,915
2020	25,599	25,518
2021	23,423	24,010
2022	23,000	24,790
2023	176	4,572
2024	12,061	–
Due between 2024 and 2035	4,042	–
No due date	106,851	98,431
	195,152	192,236

At 31 December 2019, the Group had unrecognised deductible temporary differences of RMB162,837,000 (31 December 2018: RMB172,210,000). 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.

27. Inventories

	31/12/2019 RMB'000	31/12/2018 RMB'000
Raw materials and consumables	571,586	645,498
Work in progress	441,824	406,682
Finished goods	762,088	811,342
	1,775,498	1,863,522

During the year, allowance for inventories amounting to RMB49,228,000 (2018: RMB51,020,000) was recognised and included in cost of sales.

During the year, a reversal of allowance for inventories of RMB20,937,000 (2018: RMB26,464,000) 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.

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28. Trade Receivables

	31/12/2019 RMB'000	31/12/2018 RMB'000
Trade receivables — contract with customers	**1,272,928**	1,336,974
Less: allowance for credit losses	**(137,017)**	(126,297)
	1,135,911	1,210,677

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Within 3 months	**700,213**	894,956
Over 3 months but within 6 months	**248,356**	181,658
Over 6 months but within 1 year	**155,103**	106,928
Over 1 year but within 2 years	**32,239**	27,135
	1,135,911	1,210,677

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB786,612,000 (31 December 2018: RMB723,504,000) which are past due as at the reporting date. Out of the past due balances, RMB404,491,000 (31 December 2018: 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.

Details of impairment assessment of trade receivables as at 31 December 2019 and 31 December 2018 are set out in note 51.

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Due from SEG Group	**96,371**	145,084

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.

29. Debt Instruments at FVTOCI

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Within 3 months	211,943	334,754
Over 3 months but within 6 months	191,695	230,972
Over 6 months but within 1 year	141,868	153,552
	545,506	719,278

Debt instruments at FVTOCI represent bills receivable at 31 December 2019 and 31 December 2018. Included in debt instruments at FVTOCI are bills endorsed and transferred from SEG Group amounting to RMB87,434,000 as at 31 December 2019 (31 December 2018: RMB114,444,000).

As at 31 December 2019, debt instruments at FVTOCI amounting to RMB164,811,000 have been pledged to banks as security for issuance of bills payable (31 December 2018: RMB249,399,000).

Details of impairment assessment of debt instruments at FVTOCI as at ended 31 December 2019 and 31 December 2018 are set out in note 51.

30. Prepayments, Deposits and Other Receivables

	31/12/2019 RMB'000	31/12/2018 RMB'000
Prepayments for purchase of raw materials	117,997	117,744
Value-added tax recoverable	110,919	50,174
Discounts receivable from suppliers	7,901	5,887
Deposits (note)	5,986	15,000
Prepayments related to Defined Benefit Plan (as defined in note 45)	4,895	3,430
Prepayments for rental expense	–	1,078
Receivables on settlement of financial instruments	–	54,783
Dividends receivable	–	22,329
Others	25,519	29,908
	273,217	300,333

Note: Deposits mainly include deposits paid for project bidding amounting to RMB3,468,000 (31 December 2018: RMB7,963,000).

Detail of impairment assessment of deposits and other receivables as at 31 December 2019 and 31 December 2018 are set out in note 51.

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31. Contract Assets

	31/12/2019 RMB'000	31/12/2018 RMB'000
Contract assets incurred plus recognised profits less recognised losses	**65,963**	70,423
Less: progress billings	**(28,919)**	(28,888)
Exchange differences	**1,002**	1,077
Gross amounts due from contract customers	**38,046**	42,612

At 31 December 2019, advances received from customers for contract work included in the balances of contract liabilities as set out in note 37 amounted to RMB14,282,000 (31 December 2018: RMB36,528,000).

32. 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 2018: nil to 1.75%) per annum, which have been pledged to secure the Group's issuance of letters of credit, short term bills payable and letters of guarantee for bidding and are therefore classified as current assets. The restricted deposits will be released upon the settlement of relevant transactions and short term bills.

Bank balances and cash

As at 31 December 2019, the bank balances carried interest at prevailing market rates ranging from nil to 1.75% (31 December 2018: nil to 1.75%).

As at 31 December 2018, bank balance included non-restricted time deposits with original maturity of over three months when acquired amounting to RMB2,000,000, which carried interest at prevailing market rates of 1.75%.

33. Trade Payables

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Within 3 months	**1,099,489**	1,205,902
Over 3 months but within 6 months	**97,428**	162,237
Over 6 months but within 1 year	**55,449**	33,605
Over 1 year but within 2 years	**11,539**	19,904
Over 2 years	**2,878**	3,222
	1,266,783	1,424,870

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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Due to SEG Group	**809**	670

34. Bills Payable

The maturity profile of the bills payable are as follows:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Within 3 months	**148,957**	141,701
Over 3 months but within 6 months	**124,765**	151,421
Over 6 months but within 1 year	**83,308**	115,002
	357,030	408,124

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35. Other Payables and Accruals

	31/12/2019 RMB'000	31/12/2018 RMB'000
Payroll payable (note i)	**271,614**	263,476
Other tax payable	**37,196**	17,632
Sales rebate	**30,800**	34,040
Non-controlling shareholders' loans (note ii)	**27,950**	–
Payable for purchases of property, plant and equipment	**27,074**	38,202
Professional fees payable	**12,396**	17,467
Subcontracting costs payable	**7,657**	7,000
Defined Benefit Plan (as defined in note 45)	**6,478**	6,123
Accruals for utilities	**6,390**	6,082
Dividend payable	**5,652**	–
Interest payable	**4,209**	13,585
Due to SEG Group	**1,100**	2
Others (note iii)	**54,250**	61,251
	492,766	464,860

Notes:

(i) As at 31 December 2019, payroll payable included severance amounting to RMB31,262,000 in relation to the close-down of the Group's Berlin plant.

(ii) As at 31 December 2019, the non-controlling shareholders' loans are unsecured, bear interest at 3.92% to 4.35% per annum. Interest has been paid to lenders on time.

(iii) As at 31 December 2019, 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 (31 December 2018: RMB20,000,000).

36. Deferred Income — Government Grants

	31/12/2019 RMB'000	31/12/2018 RMB'000
Analysed for reporting purpose as:		
Current liabilities	**19,060**	16,498
Non-current liabilities	**216,757**	227,876
	235,817	244,374

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.

37. Contract Liabilities

	31/12/2019 RMB'000	31/12/2018 RMB'000
Sales of goods	**73,895**	75,800
Current	**73,895**	75,800

As at 1 January 2018, contract liabilities amounted to RMB47,781,000.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Sales of goods RMB'000
For the year ended 31 December 2019	
Revenue recognised that was included in the contract liability balance at the beginning of the year	75,800

	Sales of goods RMB'000
For the year ended 31 December 2018	
Revenue recognised that was included in the contract liability balance at the beginning of the year	47,781

Typical payment terms which impact on the amount of contract liabilities recognised are sales of goods.

38. Bank Borrowings

	31/12/2019 RMB'000	31/12/2018 RMB'000
Bank borrowings	**1,771,308**	808,612

	31/12/2019 RMB'000	31/12/2018 RMB'000
Unguaranteed and secured by equity interest of subsidiaries	**–**	736,020
Unguaranteed and secured by properties	**50,758**	52,592
	50,758	788,612
Unsecured and unguaranteed	**1,720,550**	20,000
	1,771,308	808,612
Less: Amounts shown under current liabilities	**(294,303)**	(202,484)
Amounts shown under non-current liabilities	**1,477,005**	606,128

38. Bank Borrowings (Continued)

	31/12/2019 RMB'000	31/12/2018 RMB'000
The carrying amounts of the above borrowings are repayable:		
Within one year	294,303	202,484
More than one year but not exceeding two years	72,277	457,065
More than two years but not exceeding five years	1,374,369	110,107
More than five years	30,359	38,956
	1,771,308	808,612

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Fixed-rate borrowings repayable*:		
— expiring within one year	5,808	2,118
— expiring beyond one year	46,689	50,474
Variable-rate borrowings repayable*:		
— expiring within one year	288,495	200,366
— expiring beyond one year	1,430,316	555,654

* The amounts due are based on scheduled repayment dates set out in the relevant loan agreements.

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 2019	2.70% to 5.44%	3-month Euro Interbank Offered Rate ("EURIBOR") plus 1.25%–1.3% and 6-month EURIBOR plus 1.5%
31 December 2018	2.70%	3-month EURIBOR plus 1.6% to 2.25%; and interest rate released by the People's Bank of China deducted by 5 basis points

39. Shareholders' Loans

The shareholders' loans are unsecured, bear interest at 0.12% to 2,00% (31 December 2018: 0.12% to 3.915%) per annum, and denominated in RMB and EUR, of which RMB781,550,000 (31 December 2018: RMB944,311,000) is due within one year, nil (31 December 2018: RMB784,730,000) is due in more than one year but not exceeding two years, RMB30,000,000 (31 December 2018: RMB30,000,000) is due in more than two years but not exceeding five years. Interest has been paid to lenders on time.

40. 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 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.

40. 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 2019, there were in total 22,244,000 (31 December 2018: 22,244,000) unawarded shares amounting to HKD31,586,000 (31 December 2018: HKD31,586,000) 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 2019	**1,935**
Vested during current year	**(1,935)**
Outstanding at 31 December 2019	**–**

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 RMB1,084,000 (2018: RMB1,757,000) 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 2019.

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.

40. Incentive Scheme (Continued)

Cash Instalments

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 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 RMB498,000 (2018: RMB1,243,000) 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 2019.

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 RMB2,520,000 (2018: RMB11,592,000) was recognised as an expense and included in the staff costs for the year ended 31 December 2019.

On 15 March 2019, a total of cash instalments of RMB17,510,000 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 RMB13,424,000 (2018: nil) was recognised as an expense for the ended 31 December 2019.

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41. Lease Liabilities

	31/12/2019 RMB'000
Lease liabilities payable:	
Within one year	90,923
Within a period of more than one year but not more than two years	50,973
Within a period of more than two years but not more than five years	51,305
Within a period of more than five years	6,296
	199,497
Less: Amount due for settlement within 12 months shown under current liabilities	(90,923)
Amount due for settlement after 12 months shown under non-current liabilities	108,574

42. Obligations under Finance Leases

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

42. Obligations under Finance Leases (Continued)

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

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

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

43. Other Long-Term Payables

As at 31 December 2019, the balance of other long-term payables mainly comprises provision for environmental protection amounting to RMB12,309,000 (31 December 2018: RMB6,989,000). As at 31 December 2018, the balance included performance bonus payable to certain senior management of a subsidiary of the Group amounting to RMB37,101,000.

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For the year ended 31 December 2019

44. Refund Liabilities

	31/12/2019 RMB'000	31/12/2018 RMB'000
Refund liabilities		
Deposits	18,393	21,520
	18,393	21,520

At 31 December 2019 and 31 December 2018, refund liabilities represented deposits received from suppliers in respect of quality guarantee.

45. 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.

45. 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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Non-current liability	150,760	130,315
Current liability	6,478	6,123
	157,238	136,438

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For the year ended 31 December 2019

45. Retirement Benefit Obligations (Continued)

Defined benefit plan (Continued)

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

	31/12/2019	31/12/2018
Discount rate	1.30%	2.02%
Expected rate of future pension cost increases	1.75%	1.75%
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:

	31/12/2019 RMB'000	31/12/2018 RMB'000
Service cost:		
Current service cost	7,149	13,462
Net interest expense	2,628	2,389
Expected return on plan assets	(217)	(167)
Components of defined benefit costs recognised in profit or loss	9,560	15,684
Remeasurement on the net defined benefit liability:		
Actuarial losses on obligation	16,538	923
Actuarial gains on plan assets	(225)	(23)
Components of defined benefit costs recognised in other comprehensive expense	16,313	900
Total	25,873	16,584

45. Retirement Benefit Obligations (Continued)

Defined benefit plan (Continued)

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

	2019 RMB'000	2018 RMB'000
Opening defined benefit obligation	**147,471**	144,018
Current service cost	**7,149**	13,462
Interest expense	**2,628**	2,389
Actuarial losses (gains) on obligation	**16,538**	923
Benefits paid	**(6,497)**	(5,122)
Exchange differences on foreign plans	**1,520**	(8,199)
Closing defined benefit obligation	**168,809**	147,471

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

	2019 RMB'000	2018 RMB'000
Opening fair value of plan assets	**11,033**	10,830
Expected return	**217**	167
Actuarial gains (losses) on plan assets	**225**	23
Contributions from the employer and plan participants	**265**	51
Benefits paid	**(128)**	(102)
Exchange differences on foreign plans	**(41)**	64
Closing fair value of plan assets	**11,571**	11,033

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

	31/12/2019 RMB'000	31/12/2018 RMB'000
Funds invested by insurance companies	**11,571**	11,033
Total	**11,571**	11,033

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46. Share Capital

	31/12/2019 Number of shares	31/12/2019 Amount RMB'000	31/12/2018 Number of shares	31/12/2018 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**	814,291,420	814,291
H ordinary shares of RMB1.00 each	**911,652,000**	**911,652**	911,652,000	911,652
	1,725,943,420	**1,725,943**	1,725,943,420	1,725,943

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 2019, 22,244,000 (31 December 2018: 24,179,000) shares of the Company were held in custody by the trustee for the Incentive Scheme, out of which no outstanding shares (31 December 2018: 1,935,000 shares) were granted to but have not yet become vested in the participants. Further details are set out in note 40.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. Statement of Financial Position and Reserves of the Company

	NOTE	31/12/2019 RMB'000	31/12/2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		22,611	44,203
Right-of-use assets		30,187	–
Investment properties		18,290	–
Prepaid lease payments		–	28,526
Intangible assets		16,073	7,269
Investments in subsidiaries		2,337,375	2,290,372
Interests in associates		65,427	66,331
Amounts due from subsidiaries		200,000	–
		2,689,963	2,436,701
CURRENT ASSETS			
Prepaid lease payments		–	677
Trade receivables		80,711	96,021
Debt instruments at FVTOCI		–	1,000
Prepayments, deposits and other receivables		15,575	64,844
Amounts due from subsidiaries		841,583	788,433
Dividends receivable		168,753	167,199
Bank balances and cash		916,011	863,894
		2,022,633	1,982,068
CURRENT LIABILITIES			
Trade payables		51,789	230,687
Other payables and accruals		89,412	128,662
Amounts due to subsidiaries		999,060	662,415
Tax liabilities		12,560	7,181
Lease liabilities		718	–
Contract liabilities		17,335	12,169
Government grants		384	–
		1,171,258	1,041,114
NET CURRENT ASSETS		851,375	940,954
TOTAL ASSETS LESS CURRENT LIABILITIES		3,541,338	3,377,655
NON-CURRENT LIABILITIES			
Government grants		1,325	1,744
Lease liabilities		997	–
Refund liabilities		7,249	8,253
		9,571	9,997
NET ASSETS		3,531,767	3,367,658
CAPITAL AND RESERVES			
Share capital	46	1,725,943	1,725,943
Reserves		1,805,824	1,641,715
TOTAL EQUITY		3,531,767	3,367,658

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. 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 2018	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 b)	24,808	–	–	–	–	–	–	24,808
Disposal of Shanghai Electric Bearing (Note 48)	–	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
Profit for the year	–	–	–	–	233,789	–	–	233,789
Final 2018 dividend paid	–	–	–	–	–	(70,764)	–	(70,764)
Proposed final 2019 dividend	–	–	–	–	(65,586)	65,586	–	–
Appropriation of statutory reserves	–	–	–	23,379	(23,379)	–	–	–
Awarded shares vested	859	–	(3,081)	–	–	–	2,222	–
Recognition of equity-settled share-based payments	–	–	1,084	–	–	–	–	1,084
At 31 December 2019	720,061	39,939	–	170,713	834,344	65,586	(24,819)	1,805,824

Notes:

a. The capital reserve account balance as at 31 December 2019 represented the Company's share premium and the non-distributable reserves of RMB720,061,000 (31 December 2018: RMB719,202,000).

b. 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.

48. Disposal of a Subsidiary

During the year ended 31 December 2018, 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.

49. Transfer of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2019, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB63,008,000 (31 December 2018: RMB57,296,000) 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 2019, the Group endorsed certain bills receivable accepted by banks in the PRC to certain suppliers amounting to RMB114,227,000 (31 December 2018: RMB110,030,000) (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 difference between the fair values and the carrying amount of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2019 and 31 December 2018, 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.

50. 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 38 and shareholders' loans disclosed in note 39, 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.

51. Financial Instruments

(a) Categories of financial instruments

	THE GROUP	
	31/12/2019 RMB'000	31/12/2018 RMB'000
Financial assets		
Financial assets at FVTPL	3,907	3,551
Financial assets at amortised cost	2,673,988	2,699,036
Debt instruments at FVTOCI	545,506	719,278
	3,223,401	3,421,865
Financial liabilities		
Amortised cost	4,643,421	4,628,761
	4,643,421	4,628,761

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, debt instruments at FVTOCI, trade receivables, deposit and other receivables, restricted deposits and bank balances and cash, trade payables, bills payable, other payables, bank borrowings, shareholders' loans and lease liabilities/obligations under finance lease. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate 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.

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51. 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.

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	
	31/12/2019 RMB'000	31/12/2018 RMB'000	31/12/2019 RMB'000	31/12/2018 RMB'000
Trade receivables	235,107	217,180	–	–
Bank balances and cash	140,235	14,631	23,447	187,436
Total assets	375,342	231,811	23,447	187,436
Trade payables	1,849	1,324	–	–
Other payables and accruals	–	2,057	–	–
Long-term borrowings	–	940,258	–	–
Total liabilities	1,849	943,639	–	–

51. 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% (2018: 5%) increase and decrease in USD and HKD against the relevant 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% (2018: 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% (2018: 5%) against the relevant 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	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Profit or loss	14,006	(26,694)	879	7,029
Equity	14,006	(26,517)	879	7,029

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, shareholders' loans and lease liabilities (see notes 38, 39 and 41 for details).

The Group is also exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings (see notes 32 and 38 for details) due to the fluctuation of the prevailing market interest rates.

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For the year ended 31 December 2019

51. Financial Instruments (Continued)

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

Market risk (Continued)

(ii) Interest rate risk (Continued)

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

During the year ended 2019, 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.

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

	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Financial assets at amortised cost	16,041	9,310

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 2018: 10 basis-point) or decrease in variable-rate bank balances and a 10 basis point (31 December 2018: 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 (2018: 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 2019 would decrease/increase by RMB443,000 (2018: decrease/increase by RMB4,934,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and shareholders' loans.

51. Financial Instruments (Continued)

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

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, contract assets, restricted bank deposits, bank balances, other receivables and deposits and debt instruments at FVTOCI. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables and contract assets arising from contracts with customers

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. The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 73.79% (at 31 December 2018: 76.94%) of the total trade receivables as at 31 December 2019.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix grouped by internal credit rating (2018: debtors' aging). Impairment of RMB23,515,000 (2018: RMB57,211,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

Restricted bank deposits/bank balances

Credit risk on restricted bank deposits/bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by credit agencies. The Group assessed 12m ECL for restricted bank deposits/bank balance by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies.

Other receivables

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. For the years ended 31 December 2019 and 31 December 2018, the Group's impairment on other receivables of RMB2,713,000 (2018: RMB210,000) was recognised during the year. Details of the quantitative disclosures are set out below in this note.

Debt instruments at FVTOCI

The Group's debt instruments at FVTOCI mainly comprise note receivables, which are endorsed by reputable banks with high credit ratings assigned by credit agencies and therefore are considered to be low credit risk investments. During the year ended 31 December 2019, the Group assessed the ECL for debt instruments at FVTOCI were insignificant and thus no loss allowance was recognised.

51. Financial Instruments (Continued)

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

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 in full	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

51. 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	Notes	Internal credit rating	12-month or lifetime ECL	2019 Gross carrying amount RMB'000	RMB'000	2018 Gross carrying amount RMB'000	RMB'000
Debt instruments at FVTOCI							
Bills receivable	29	Low risk (Note 2)	Lifetime ECL	545,506	545,506	719,278	719,278
Financial assets at amortised cost							
Restricted deposits	32	Low risk	12-month ECL	187,290	187,290	169,715	169,715
Bank balances	32	Low risk	12-month ECL	1,263,289	1,263,289	1,150,168	1,150,168
Other receivables	30	(Note 1)	12-month ECL	36,400		125,450	
			Credit-impaired	13,312	49,712	10,803	136,253
Trade receivables	28	(Note 2)	Lifetime ECL (provision matrix)	912,356		1,028,757	
		Low risk	Lifetime ECL	164,620		166,302	
		Watch list	Lifetime ECL	79,267		93,841	
		Loss	Credit-impaired	116,685	1,272,928	48,074	1,336,974
Contract assets	31	Low risk	Lifetime ECL	38,046	38,046	42,612	42,612

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.

2019	Past Due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Other receivables	13,312	36,400	49,712

2018	Past Due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
Other receivables	10,803	125,450	136,253

2. For trade receivables and bills 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 past due status.

51. Financial Instruments (Continued)

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

During the year ended 31 December 2019

Provision matrix — internal credit rating

As part of the Group's credit risk management, trade receivables and contract assets have been grouped based on a systematic internal credit rating with reference to a matrix of factors including the customer's nature, ageing analysis, recent financial performance of the customer and historical credit loss experience. Each group consists of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Debtors with significant outstanding balances or credit-impaired with gross carrying amounts of RMB243,887,000 and RMB116,685,000 respectively as at 31 December 2019 were assessed individually. When assessing the internal credit rating of the customers, the rank and size of customers, the financial performance are considered. The following table provides information about the exposure to credit risk and ECL for trade receivables and contract assets which are assessed collectively based on provision matrix as at 31 December 2019 within lifetime ECL (not credit impaired).

Gross carrying amount

Internal credit rating	Average loss rate	2019 Trade receivables RMB'000	Contract assets RMB'000
Low risk	0.49%	895,308	38,046
Watch list	22.94%	12,552	–
Doubtful	67.88%	4,496	–
		912,356	38,046

51. Financial Instruments (Continued)

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

During the year ended 31 December 2018

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 for trade receivables which are assessed collectively based on provision matrix within lifetime ECL (not credit-impaired). 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

	2018		
	Average loss rate	Trade receivables RMB'000	Contract Assets RMB'000
Current (not past due)	–	314,615	42,612
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	42,612

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 2019, there was a reversal of impairment losses of RMB8,880,000 (2018: RMB8,855,000) on trade receivables based on the provision matrix. Impairment losses of RMB3,837,000 (2018: RMB9,892,000) and RMB18,354,000 (2018: RMB47,319,000) were recognised on trade receivables with significant balances and credit-impaired, respectively.

51. Financial Instruments (Continued)

(b) Financial risk management objectives and policies (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 1 January 2018	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
— Impairment losses recognised	**187**	**23,328**	**23,515**
— Impairment losses reversed	**(683)**	**(8,197)**	**(8,880)**
— Write offs	**–**	**(3,873)**	**(3,873)**
Exchange adjustments	**(42)**	**–**	**(42)**
As at 31 December 2019	**10,291**	**126,726**	**137,017**

51. Financial Instruments (Continued)

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

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

	2019 Increase/(decrease) in lifetime ECL		2018 Increase/(decrease) in lifetime ECL	
	Not credit-impaired RMB'000	Credit-impaired RMB'000	Not credit-impaired RMB'000	Credit-impaired RMB'000
18 (2018: 9) trade debtors with a gross carrying amount of RMB18,355,000 (2018: RMB48,074,000) defaulted and were considered credit-impaired	–	18,355	–	47,319
Settlement in full of trade debtors with a gross carrying amount of RMB5,180,000 (2018: Nil)	–	5,180	–	–

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.

The following table shows the movement in 12-month ECL that has been recognised for other receivables under the simplified approach.

	12m ECL (not credit-impaired) RMB'000	12m ECL (credit-impaired) RMB'000	**Total** RMB'000
As at 1 January 2018			
Changes due to financial instruments recognised as at I January 2018:	10,780	–	10,780
— Impairment losses recognised	210	–	210
— Impairment losses reversed	(187)	–	(187)
As at 31 December 2018	10,803	–	10,803
— Transfer to credit impaired	(10,621)	10,621	–
— Impairment losses recognised	325	2,388	2,713
— Impairment losses reversed	(35)	(30)	(65)
— Write-offs	–	(139)	(139)
As at 31 December 2019	472	12,840	13,312

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For the year ended 31 December 2019

51. 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 built 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 matching the maturity profiles of financial assets and liabilities.

At 31 December 2018, the Group had available financing facilities amounting to RMB3,654,633,000 (31 December 2018: RMB4,003,160,000) of which RMB1,870,846,000 (31 December 2018: RMB2,728,184,000) 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.

	Weighted average effective interest rate %	On demand or less than 3 months 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 2019							
Non-derivative financial liabilities							
Trade payables		1,266,783	-	-	-	1,266,783	1,266,783
Bills payables		148,957	208,073	-	-	357,030	357,030
Other payables		209,912	-	-	-	209,912	209,912
Other long-term payables		-	-	-	8,948	8,948	8,948
Lease liabilities	2.66%	23,336	70,006	110,659	7,370	211,371	199,497
Refund liabilities		-	-	-	18,393	18,393	18,393
Bank borrowings							
– Fixed rate	2.79%	-	5,970	17,736	35,811	59,517	52,497
– Variable rate	2.19%	-	294,803	1,526,204	-	1,821,007	1,718,811
Shareholder's loan							
– Fixed rate	2.01%	-	797,262	31,846	-	829,108	811,550
		1,648,988	1,376,114	1,686,445	70,522	4,782,069	4,643,421

51. 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 months 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

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.

51. 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 2019 RMB'000	31 December 2018 RMB'000		
Debt instruments at FVTOCI	Asset 545,506	Asset 719,278	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 3,907	Asset 3,551	Level 3	Market approach.
Retirement benefit assets	Asset 11,571	Asset 11,033	Level 3	Market approach.
Investment properties	Asset 43,580	N/A	Level 3	Income 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 2019 and 2018 recorded at amortised cost in the consolidated financial statements approximate their fair values.

52. Operating Leases

As lessor

All of the properties and machines held for rental purpose have committed leases for the next 3 and 4 years respectively.

Minimum lease payments receivable on leases are as follows:

	31/12/2019 RMB'000
Within one year	**8,346**
In the second year	**6,610**
In the third year	**6,610**
In the fourth year	**116**
	21,682

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
Within one year	1,391
In the second to fifth year inclusive	1,842
After five years	–
	3,233

As lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31/12/2018 RMB'000
Within one year	90,446
In the second to fifth year inclusive	133,939
After five years	15,099
	239,484

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 and rentals are fixed upon the signing of the lease agreements.

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53. Capital Commitments

	31/12/2019 RMB'000	31/12/2018 RMB'000
Capital commitments contracted but not provided for in the consolidated financial statements in respect of:		
— Plant and machinery	**19,048**	83,370
— Land and buildings	**15**	228
— Intangible assets	**51,635**	–
	70,698	83,598

54. Contingent Liabilities

At the end of the reporting period, the Group had no significant contingent liabilities (2018: nil).

55. 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	Lease liabilities/ 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 31 December 2018	808,612	25,761	1,755,141	3,900	13,585	–	2,606,999
Adjustment upon application of IFRS 16	–	234,809	–	–	–	–	234,809
At 1 January 2019	808,612	260,570	1,755,141	3,900	13,585	–	2,841,808
Financing cash flows	953,864	(98,865)	(944,357)	24,050	(97,479)	–	(162,787)
Proposed dividend	–	–	–	–	–	76,916	76,916
New lease entered/lease modified	–	36,593	–	–	–	–	36,593
Foreign exchange translation	8,832	1,199	766	–	–	–	10,797
Finance costs	–	–	–	–	88,103	–	88,103
Dividends paid	–	–	–	–	–	(71,264)	(71,264)
At 31 December 2019	1,771,308	199,497	811,550	27,950	4,209	5,652	2,820,166

55. 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

56. 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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
SEG Group and its associates including SEC and its subsidiaries	Sales of goods (Note i)	**159,261**	279,036
	Comprehensive services charges incurred	**823**	264
	Interest expense on lease liabilities	**1,558**	–
	Lease liabilities (Note ii)	**36,556**	–
	Rental expense (Note iii)	**–**	23,935
	Interest expense on shareholders' loans	**23,924**	53,091
	Rendering of comprehensive services	**129**	175

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

Note (ii): During the year ended 31 December 2019, the Group entered into several new lease agreements for the use of leased properties with SEG for 1 to 4 years. The Group has recognised right-of-use assets and lease liabilities of RMB36,556,000 and RMB36,556,000 respectively, upon the application of HKFRS16.

Note (iii): During the year ended 31 December 2018, the Group entered into several new lease agreements for the use of leased properties with holding company for 1 to 4 years.

56. Related Party Disclosures (Continued)

(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 28, 29, 33 and 35.

(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 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Fees	**623**	601
Short-term employee benefits	**5,728**	4,570
Retirement benefit	**220**	200
	6,571	5,371

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.

57. Major Non-cash Transactions

During the year ended 31 December 2019, the Group entered into new lease agreements for the use of leased properties, motor vehicles, machinery and office equipment for 3 years. On the lease commencement, the Group recognised RMB36,593,000 of right-of-use assets and RMB36,593,000 lease liability.

During the year ended 31 December 2019, the Group entered into a lease agreement to lease out certain of its buildings and transferred it from property, plant and equipment to investment properties accounted for under the cost model, with a net book value of RMB19,302,000. Details of the transfer are set out in note 18.

58. 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 31/12/2019	Attributable equity interest held by the Company 31/12/2018	Principal activity
Directly owned					
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
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 High Strength Bolt Factory Company Limited* 上海高強度螺栓廠有限公司	PRC	RMB30,000	100%	100%	Production and sale of high strength bolts
Shanghai Fastener and Welding Material Technology Research Centre Company Limited* 上海市緊固件和焊接材料技術研究所有限公司	PRC	RMB5,000	100%	100%	Research and development, provision of services of expertise and quality testing for fasteners and related equipment
Shanghai Prime (HK) Investment Management Company Limited	Hong Kong	HKD789,684	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* 上海集優標五高強度緊固件有限公司	PRC	RMB100,000	100%	100%	Production and sale of high tensile fasteners and related equipment

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For the year ended 31 December 2019

58. 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 31/12/2019	Attributable equity interest held by the Company 31/12/2018	Principal activity
Indirectly owned					
Shanghai Tian An Bearing Company Limited* 上海天安軸承有限公司	PRC	RMB159,389	90%	100%	Production and sale of precision and other bearings and ancillary appliances
Shanghai Zhenhua Bearing Works Company Limited* 上海振華軸承總廠有限公司	PRC	RMB54,500	90%	100%	Production and sale of bearings and related specific equipment
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	EUR5	100%	100%	Investment holding and financing
Nedfast	Netherlands	EUR1,038	100%	100%	Investment holding and financing
Nedfast Holding B.V.	Netherlands	EUR20	100%	100%	Investment holding and financing
Nedschroef Helmond B.V.	Netherlands	EUR2,725	100%	100%	Manufacture of fasteners
Nedschroef Altena GmbH	Deutschland	EUR25	100%	100%	Manufacture of fasteners
Nedschroef Fraulautern GmbH	Deutschland	EUR1,023	100%	100%	Manufacture of fasteners
Nedschroef Plettenberg GmbH	Deutschland	EUR1,000	100%	100%	Manufacture of fasteners
Nedschroef Herentals N.V.	Belgium	EUR2,042	100%	100%	Manufacture of machines
Nedschroef Fasteners S.A.S.	France	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	DKK295	100%	100%	Manufacture of fasteners

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

58. 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 31/12/2019	31/12/2018	Principal activity
Nedschroef Fasteners Spain S.A.	Spain	EUR260	100%	100%	Trading of fasteners
Nedschroef Barcelona SAU	Spain	EUR1,000	100%	100%	Manufacture of fasteners
Nedschroef Beckingen GmbH	Deutschland	EUR25	100%	100%	Manufacture of fasteners
Nedschroef Schrozberg GmbH	Deutschland	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.

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For the year ended 31 December 2019

58. 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	
		31/12/2019	31/12/2018	31/12/2019 RMB'000	31/12/2018 RMB'000	31/12/2019 RMB'000	31/12/2018 RMB'000
United Bearing	PRC	**10%**	10%	**2,022**	1,727	**25,592**	63,491
Shanghai Tianhong	PRC	**30%**	30%	**3,056**	(3,285)	**11,403**	8,348
Total				**5,078**	(1,558)	**36,995**	71,839

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.

	31/12/2019 United Bearing RMB'000	31/12/2018 United Bearing RMB'000	31/12/2019 Shanghai Tianhong RMB'000	31/12/2018 Shanghai Tianhong RMB'000
Current assets	**798,021**	871,634	**53,206**	50,422
Non-current assets	**137,816**	133,225	**16,771**	17,433
Current liabilities	**(668,013)**	(358,545)	**(31,966)**	(40,030)
Non-current liabilities	**(11,905)**	(11,403)	**–**	–
Equity attributable to owners of the Company	**230,327**	571,420	**26,608**	19,477
Non-controlling interests	**25,592**	63,491	**11,403**	8,348

58. Particulars of Principal Subsidiaries of the Company (Continued)

	Year ended 31/12/2019 United Bearing RMB'000	Year ended 31/12/2018 United Bearing RMB'000	Year ended 31/12/2019 Shanghai Tianhong RMB'000	Year ended 31/12/2018 Shanghai Tianhong RMB'000
Revenue	**817,855**	822,799	**41,485**	35,094
Expenses	**(769,636)**	(785,229)	**(31,299)**	(46,043)
Profit (loss) for the year	**48,219**	37,570	**10,186**	(10,949)
Profit (loss) attributable to owners of the Company	**45,884**	35,843	**7,130**	(7,664)
Profit (loss) attributable to non-controlling interests	**2,022**	1,727	**3,056**	(3,285)
Profit (loss) for the year	**47,906**	37,570	**10,186**	(10,949)
Total comprehensive income (expense) attributable to owners of the Company	**45,884**	35,843	**7,130**	(7,664)
Total comprehensive income (expense) attributable to non-controlling interests	**2,022**	1,727	**3,056**	(3,285)
Total comprehensive income (expense) for the year	**47,906**	37,570	**10,186**	(10,949)
Dividends paid to non-controlling interests	**6,152**	500	**–**	–
Dividends paid to owners of the Company	**83,059**	28,860	**–**	–
Net cash inflow from operating activities	**35,380**	96,023	**16,857**	11,574
Net cash outflow from investing activities	**(304,395)**	(36,138)	**(1,053)**	(4)
Net cash inflow (outflow) from financing activities	**265,869**	(60,107)	**(17,049)**	(111)
Net cash (outflow) inflow	**(3,146)**	(222)	**(1,245)**	11,458

59. Change in ownership in subsidiaries

On 30 September 2019, pursuant to a restructuring undertaken by the Group's bearing segment, the Company transferred its entire equity interests in its two wholly-owned subsidiaries, namely Shanghai Tian An Bearing Company Limited and Shanghai Zhenhua Bearing Works Co., Ltd., to United Bearing, its 90%-owned subsidiary. These transactions were accounted for as (i) business combinations under common control; and (ii) a disposal of the Group's partial interests in subsidiaries that does not result in the Group losing control over such subsidiaries. As a result, an adjustment amounting to RMB3,916,000, which represented the excess of the proportionate consideration received over the proportionate share of the net assets of the relevant subsidiaries attributable to the non-controlling interests, was recognized directly in contributed surplus and attributed to owners of the Company against an equal but opposite adjustment made to non-controlling interests.

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60. Events after the reporting period

The COVID-19 outbreak in China in early 2020 inevitably had a negative impact on the Group's Chinese operations. The Group's plants in China were shut down in early February 2020 as part of a broad range of measures implemented by the Chinese government to combat COVID-19. Operations in those plants gradually resumed from mid-February 2020 onwards as the epidemic situation began to ease.

COVID-19, however, has continued to wreaked havoc in the rest of the world and Europe has been the hardest-hit region outside China. Governments across Europe have taken various measures since the start of March 2020 to contain the spread of COVID-19, and the Group's European operations are beginning to feel the impact of those measures.

As at the date of these financial statements, the directors of the Company are in the process of assessing the impact of COVID-19 on the consolidated results of the Group for the first half and the rest of 2020.

61. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation, which in the opinion of the directors, provides for better presentation of the consolidated financial statements.

62. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2020.

上海集优
SHANGHAI PRIME