上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- **Revenue for FY2019 decreased by 7.0% to RMB8,395 million.**
- **Gross profit for FY2019 decreased by 10.9% to RMB1,586 million with gross profit margin reduced to 18.9%, comparing with 19.7% in FY2018**
- **EBITDA for FY2019 was RMB584 million, down 13.3%. EBITDA to revenue margin was 7.0%.**
- **Profit attributable to owners of the Company for FY2019 was RMB127 million, down 54.6%.**
- **During FY2019, the Group has incurred certain non-recurrent or non-operating expenses totaled RMB75.9 million as previously disclosed. Adjusting for these items, the Group's underlying net profit amounted to RMB187 million for FY2019.**
- **The Group's share of profits of associates for FY2019 reduced significantly. During the fourth quarter of 2018, the Group disposed of its entire 40% equity interest in an associate, which contributed approximately RMB30.9 million (of which, RMB7.7 million was disposal gain) to the Group's net profit in FY2018.**
- **The Board recommended the payment of a final dividend of RMB3.8 cents per share (FY2018: RMB4.1 cents per share) for FY2019.**

Annual results announcement for the year ended 31 December 2019

The board of directors (the "**Board**") of Shanghai Prime Machinery Company Limited (the "**Company**") announces the annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019 ("**FY2019**"), together with the comparative figures for the year ended 31 December 2018 ("**FY2018**"), which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of Hong Kong Companies Ordinance. The Group's FY2019 annual results have been audited by Deloitte Touche Tohmatsu.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	**Year ended 31/12/2019** *RMB'000*	Year ended 31/12/2018 *RMB'000*
Revenue			
Contracts with customers	*3*	**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	*4A*	**94,310**	71,041
Impairment losses under expected credit loss model, net of reversal	*5*	**(17,283)**	(48,379)
Other gains and losses	*4B*	**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		**(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		**(88,103)**	(103,736)
PROFIT BEFORE TAX	*8*	**145,238**	362,382
Income tax expense	*7*	**(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

	NOTES	Year ended 31/12/2019 RMB'000	Year ended 31/12/2018 RMB'000
Other comprehensive (expense) income			
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	*10*		
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		**2,241,323**	2,302,620
Right-of-use assets		**330,657**	–
Prepaid lease payments		**–**	132,461
Investment properties		**18,290**	–
Goodwill	*11*	**1,515,852**	1,521,918
Intangible assets		**88,690**	33,556
Interests in associates		**64,839**	78,378
Interest in a joint venture		**588**	373
Financial assets at fair value through profit or loss ("FVTPL")		**3,907**	3,551
Deferred tax assets		**148,329**	125,181
		4,412,475	4,198,038
CURRENT ASSETS			
Prepaid lease payments		**–**	3,463
Inventories		**1,775,498**	1,863,522
Trade receivables	*12*	**1,135,911**	1,210,677
Debt instruments at fair value through other comprehensive income ("FVTOCI")		**545,506**	719,278
Prepayments, deposits and other receivables		**273,217**	300,333
Contract assets		**38,046**	42,612
Restricted deposits		**187,290**	169,715
Bank balances and cash		**1,276,341**	1,150,582
		5,231,809	5,460,182

	NOTES	**31/12/2019**	31/12/2018
		RMB'000	*RMB'000*
CURRENT LIABILITIES			
Trade payables	*13*	**1,266,783**	1,424,870
Bills payable		**357,030**	408,124
Other payables and accruals		**492,766**	464,860
Tax liabilities		**50,418**	72,864
Deferred income — government grants		**19,060**	16,498
Contract liabilities		**73,895**	75,800
Bank borrowings	*14*	**294,303**	202,484
Shareholders' loans	*15*	**781,550**	944,311
Lease liabilities/obligations under finance leases		**90,923**	6,368
		3,426,728	3,616,179
NET CURRENT ASSETS		**1,805,081**	1,844,003
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,217,566**	6,042,041
NON-CURRENT LIABILITIES			
Bank borrowings	*14*	**1,477,005**	606,128
Shareholders' loans	*15*	**30,000**	814,730
Deferred income — government grants		**216,757**	227,876
Deferred tax liabilities		**11,490**	12,773
Lease liabilities/obligations under finance leases		**108,574**	19,393
Other long-term payables		**20,222**	52,426
Refund liabilities		**18,393**	21,520
Retirement benefit obligations		**150,760**	130,315
		2,033,201	1,885,161
NET ASSETS		**4,184,355**	4,156,880
CAPITAL AND RESERVES			
Share capital	*17*	**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

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.

2.1 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%.

2.2 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.

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. REVENUE

(i) Disaggregation of revenue from contracts with customers

For the year ended 31 December 2019

		For the year ended 31 December 2019			
Segments	**Bearing**	**Turbine blade**	**Cutting tool**	**Fastener**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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

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

(ii) Performance obligations for contracts with customers

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

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

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

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

The normal credit term is 30 to 180 days. When end customer or distributor 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.

4A. 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	**6,669**	6,618
	94,310	71,041

Notes:

(i) Gross rental income is disclosed in note 8.

(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) represents 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).

4B. OTHER GAINS AND LOSSES

	Year ended 31/12/2019	Year ended 31/12/2018
	RMB'000	*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.

5. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, (NET OF REVERSAL)

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

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.

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	Turbine blade	Cutting tool	Fastener	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	**61,329**	**41,515**	**102,742**	**57,113**	**–**	**262,699**
Interest, dividend income and unallocated gains						**36,340**
Corporate and other unallocated expenses						**(75,231)**
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**

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 to the consolidated financial statements as included in the annual report. Segment profit represents the profit earned by each segment without allocation of interest and dividend income and unallocated gains, which mainly include exchange gains, while corporate and other unallocated expenses mainly include administrative expenses of the head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

At 31 December 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)**	**(2,716,215)**	**(3,501,615)**
Total segment liabilities						**2,877,071**
Corporate and other unallocated liabilities						**2,582,858**
Consolidated liabilities						**5,459,929**

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.

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 (reversal of 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**

For the year ended 31 December 2018

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Segment Subtotal *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets	12,434	48,053	9,195	211,569	281,251	26,094	307,345
Depreciation and amortisation	28,230	99,050	21,139	127,241	275,660	11,394	287,054
Impairment loss on trade and other receivables recognised in profit or loss	24,109	8,708	3,385	12,177	48,379	–	48,379
Loss (gain) on disposal/ written-off of property, plant and equipment	178	(1,177)	(1,419)	(5,941)	(8,359)	–	(8,359)
Allowance for (reversal of allowance for) inventories	10,344	10,974	1,170	2,068	24,556	–	24,556
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Income tax expense	(10,964)	(2,070)	12,952	85,213	85,131	–	85,131

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.

7. 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.

8. 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	**368,451**	283,591
Capitalised in inventories	**(44,477)**	(40,282)
	323,974	243,309
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 19)*	**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

9. 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.

10. 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

11. 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.

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 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.

12. TRADE RECEIVABLES

	31/12/2019	31/12/2018
	RMB'000	*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	31/12/2018
	RMB'000	*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.

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

	31/12/2019	31/12/2018
	RMB'000	*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.

13. 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	31/12/2018
	RMB'000	*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	31/12/2018
	RMB'000	*RMB'000*
Due to SEG Group	**809**	670

14. BANK BORROWINGS

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

	31/12/2019	31/12/2018
	RMB'000	*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

	31/12/2019	31/12/2018
	RMB'000	*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	31/12/2018
	RMB'000	*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

15. 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.

16. 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.

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.

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.

17. SHARE CAPITAL

	31/12/2019 Number of shares	**Amount** *RMB'000*	31/12/2018 Number of shares	Amount *RMB'000*
Registered, issued and fully paid:				
Domestic ordinary shares of RMB1.00 each, currently not listed				
— State-owned ordinary shares	**814,291,420**	**814,291**	814,291,420	814,291
H ordinary shares of RMB1.00 each	**911,652,000**	**911,562**	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 16.

18. 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

19. 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.

(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 13.

(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

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.

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 points 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 of equity-accounted entities.

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%		

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.

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.

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.

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 8.6% 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 0.9% year-on-year to RMB706 million (FY2018: RMB700 million), mainly due to the increase in certain one-off professional and consultancy fees, depreciation and amortization, 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).

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 17.7% 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.

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 14 and 15 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 announcement, the Group has not formulated any financial plan and fund-raising activities for the provision of capital commitments and repayment of outstanding debts.

Restricted Deposits

As at 31 December 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.

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.

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.

SIGNIFICANT EVENT

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 annual general meeting for the year 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 annual general meeting for the year 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 wishes 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 intends 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 be and are hereby approved, confirmed and ratified; and any one director of the Company is 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.

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 RMB nil can be used for the adjusted incentive scheme of the Group, and RMB nil 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 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 and will actively promote the reform of mixed ownership in other business segments. 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.

CORPORATE GOVERNANCE CODE

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

The Board believes that the Company has complied with the requirements set out in Appendix 14 of the Corporate Governance Code (the "**CG Code**") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**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 code provision D.3.1 of the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted and implemented the Model Code for Securities Transactions by Directors of Listed Issuers (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 Group. All directors and supervisors of the Company confirmed that they have complied with the Model Code throughout FY2019.

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 announcement, the remuneration committee currently consists of three members, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Dong Yeshun. Mr. Ling Hong has been appointed as the chairman of the remuneration committee. Mr. Ling Hong and Mr. Chan Oi Fat were 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.

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.

Audit Committee

The major responsibility of the audit committee is to oversee the relationship with the external auditors, to review the Group's unaudited interim and audited annual financial statements, to monitor the compliance with 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 announcement, 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. Chan Oi Fat and Mr. Ling Hong 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.

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 announcement, 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.

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.

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 announcement, 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.

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 announcement, 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 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.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company's audit committee has reviewed the accounting principles and practices adopted by the Group and the annual consolidated financial statements and results announcement for FY2019.

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.

DIVIDENDS

The Board proposed the payment of a final dividend of RMB3.80 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.

FINAL DIVIDEND INCOME TAX WITHHOLDING AND PAYMENT

Enterprise income tax withholding and payment of non-resident enterprise shareholders

In accordance with "the Enterprise Income Tax Law of the People's Republic of China" (the "**Enterprise Income Tax Law**") and its implementation regulations and "The Notice on the Issues Concerning Enterprise Income Tax Withholding and Payment of Dividends Paid to Overseas Non-resident Enterprise Shareholders of H shares by Resident Enterprise in the PRC" (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008] 897號)) issued by the State Administration of Taxation of the PRC, the Company shall be obligated to withhold and pay 10% enterprise income tax before it distributes the final dividends to non-resident enterprise shareholders as listed on the Company's register of members of H shares (the "**Register of Members of H Shares**") on Monday, 6 July 2020 (the "**Record Date**"). Any H shares registered in the name of non-individual shareholders are deemed as held by the non-resident enterprise shareholders. As such, the enterprise income tax shall be deducted from the dividend thereof. The non-resident enterprise shareholders shall apply to relevant tax authorities for refund in according to applicable tax arrangements (if any).

After the legal opinion is provided by the resident enterprise shareholders within the stipulated time frame and upon the Company's confirmation of such opinion, the Company will not withhold and pay any enterprise income tax when it distributes the final dividends to resident enterprise shareholders of H shares as listed on the Company's Register of Members of H Shares on the Record Date. If any resident enterprise (the same meanings as defined in the Enterprise Income Tax Law) listed on the Register of Members of H Shares which is duly incorporated in the PRC or under the laws of a foreign country (region) but with a PRC-based de facto management body, does not desire the Company to withhold and pay the aforesaid 10% enterprise income tax, a legal opinion, issued by a PRC qualified lawyer (inscribed with the seal of the applicable law firm), that verifies its resident enterprise status shall be lodged at the Company's H Share Registrar in Hong Kong, Tricor Investor Services Limited, at 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 1 July 2020.

Individual income tax withholding and payment of overseas resident individual shareholders

"The Notice on the Issues Concerning Tax on the Earnings from Transfer of Stocks (Stock Rights) and on the Income Tax from Dividends Received by Enterprises with Foreign Investment, Foreign Enterprises and Individual Foreigners" (Guo Shui Fa [1993] No. 045) (《關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》(國稅發 [1993] 045號)) (the "**93 Notice**") issued by the State Administration of Taxation of the PRC, where individual foreigners holding H Shares are exempted from paying individual income tax for dividends (bonuses) obtained from companies incorporated in the PRC that issue H Shares, was repealed under "The Announcement on the List of Fully and Partially Invalidated and Repealed Tax Regulatory Documents" (《關於公佈全文失效廢止、部分條款失效廢止的稅收規範性文件目錄的公告》) issued by the State Administration of Taxation of the PRC on 4 January 2011. On 28 June 2011, the State Administration of Taxation of the PRC issued "The Notice on the Issues Concerning the Collection and Administration of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045" (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發 [1993] 045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011] 348號)) (the "**2011 Notice**"). The 2011 Notice has clarified the issues concerning the collection of individual income tax arising from H share dividends received by individual foreigners following the repeal of the 93 Notice.

Due to the recent change in the tax regulations of the PRC as mentioned above, a company, as the withholding agents, should withhold and pay the individual income tax for the overseas resident individual shareholders on the dividends income (bonus) of the shares issued in Hong Kong by the mainland enterprises with non-foreign investment under the item of "interests, dividend and bonus income" in accordance with the laws. After the Company's repeated consultation with competent tax authorities, they confirmed that the Company should withhold and pay the individual income tax for the dividends or bonus income received by the overseas resident individual shareholders of the Company. However, the overseas resident individual shareholders holding the shares of the Company may be entitled to the relevant favourable tax treatments pursuant to the provisions in the tax treaties between the country(ies) in which they are domiciled and the PRC, and the tax arrangements between the mainland China and Hong Kong (Macau). As such, the Company will withhold and pay individual income tax for H share individual shareholders in accordance with the following rules:

- for the H share individual shareholders who are Hong Kong or Macau residents or whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders in the distribution of final dividend;

- for the H share individual shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10% on behalf of such shareholders in the distribution of final dividend, while such shareholders may apply for rebate of the additional payment to the tax authorities in accordance with the actual tax rate under such tax treaties;

- for the H share individual shareholders whose country (region) of domicile is a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty in the distribution of final dividend;

- for the H share individual shareholders whose country (region) of domicile is a country (region) which has not entered into any tax treaties with the PRC, or a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, the Company will withhold and pay individual income tax at the rate of 20% on behalf of such shareholders in the distribution of final dividend.

If a H share individual shareholder considers that his/her individual income tax withheld by the Company does not comply with the tax rate stipulated by the tax treaties between country(ies) or region(s) in which he/she is domiciled and the PRC, he/she should file a timely authorisation letter together with the reporting materials relating to him/her being a resident of the related country or region, to Tricor Investor Services Limited, the Company's H Share Registrar in Hong Kong by no later than 4:30 p.m. on Wednesday, 1 July 2020. The materials will be submitted to the competent tax authority by the Company, for subsequent taxation handling.

Non-resident enterprise shareholders or overseas resident individual shareholders of the Company may seek advice from their tax advisor in relation to the tax impact of the mainland China, Hong Kong and other countries (regions) involved in owning and disposing of H shares of the Company if they have any doubts on the above arrangements.

CLOSURE OF BOOKS

For the purpose of determining who is entitled to attend the annual general meeting of the Company to be held on Friday, 19 June 2020, the Company's register of members will be closed from Thursday, 21 May 2020 to Friday, 19 June 2020 (both dates inclusive), during which no transfer of shares will be registered. In order to be eligible to attend and vote at the aforesaid annual general meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged at the Company's H Share Registrar, Tricor Investor Services Limited at 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 20 May 2020.

In addition, the Company's register of members will be closed from Friday, 26 June 2020 to Monday, 6 July 2020 (both dates inclusive) for the purpose of ascertaining the shareholders' entitlement to the proposed final dividend of the Company. In order to be qualified for the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged at the Company's H Share Registrars, Tricor Investor Services Limited at 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, 25 June 2020.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

In accordance with the requirements under the Listing Rules, this announcement is posted on the Company's website (http://www.pmcsh.com) and the website of the Stock Exchange (http://www.hkexnews.hk) respectively. 2019 annual report containing all information about the Company set out in this preliminary announcement of results for the year ended 31 December 2019 will be posted on the Company's website and the website of the Stock Exchange and despatched to the shareholders of the Company on or before 30 April 2020.

DIRECTORS

As at the date of this announcement, the Board consists of Executive Directors, namely Mr. Zhou Zhiyan, Mr. Xiao Yuman, Dr.-Ing. Gou Jianhui, Mr. Zhang Mingjie and 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.

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

Shanghai, the PRC
29 March 2020