京西重工國際有限公司

BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

Stock Code : 2339

ANNUAL REPORT

2018

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

EXECUTIVE COMMITTEE

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

AUDIT COMMITTEE

Tam King Ching, Kenny *(Chairman)*
Yip Kin Man, Raymond
Chan Pat Lam

NOMINATION COMMITTEE

Jiang Yunan *(Chairman)*
Zhang Yaochun
Tam King Ching, Kenny
Yip Kin Man, Raymond
Chan Pat Lam

REMUNERATION COMMITTEE

Yip Kin Man, Raymond *(Chairman)*
Jiang Yunan
Tam King Ching, Kenny
Chan Pat Lam

COMPANY SECRETARY

Cheng Chun Shing

AUDITOR

Ernst & Young

SHARE REGISTRAR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

2339

WEBSITE

www.bwi-intl.com.hk

DIRECTORS' BIOGRAPHIES

Mr. Jiang Yunan, aged 57, engineer and senior economist. He holds a master's degree in business administration from Tsinghua University and a master's degree in applied accounting and finance from Hong Kong Baptist University. Mr. Jiang was appointed an Executive Director and the Managing Director of the Company in July 2014 and was appointed as the Chairman of the board of directors of the Company (the "Board") in June 2016. He ceased to act as the Managing Director of the Company from September 2016. Mr. Jiang is also the chairman of the Executive Committee and the Nomination Committee as well as a member of the Remuneration Committee of the Company. He joined Shougang Group Co., Ltd. (formerly known as Shougang Corporation) ("Shougang Group") in 1992 and thereafter held various senior positions in the group companies of Shougang Group and Shougang Concord International Enterprises Company Limited ("Shougang International", a Hong Kong listed company and an associate (within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited)) of Shougang Group. Mr. Jiang was appointed a director of BeijingWest Industries Co., Ltd. (北京京西重工有限公司) ("BWI"), a subsidiary of Shougang Group, in June 2014 and currently is the chairman and president of BWI. He is also a director of BWI Company Limited ("BWI HK"), a wholly-owned subsidiary of BWI. Each of Shougang Group, BWI and BWI HK is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Jiang has extensive experiences in management.

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

Mr. Chen Zhouping, aged 53, graduated from the School of Economics and Management, Tsinghua University and is a member of the Chinese Institute of Certified Public Accountants. Mr. Chen was appointed as an Executive Director and the Managing Director of the Company in September 2016 and is a member of the Executive Committee of the Company. He joined Shougang Group in 1988 and held various senior positions in the group companies of Shougang Group. Mr. Chen was appointed as a director of BWI, a subsidiary of Shougang Group, in June 2017. He is also a director of BWI HK (a wholly-owned subsidiary of BWI) and certain other wholly-owned subsidiaries of BWI. Each of Shougang Group, BWI and BWI HK is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chen was a director of Shougang International from November 2002 to September 2014 and a director of Shougang Fushan Resources Group Limited ("Shougang Resources") from January 2009 to September 2014. Both Shougang International and Shougang Resources are Hong Kong listed companies. Mr. Chen was also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange, from January 2009 to April 2014. He has extensive experience in steel industry, engineering design, human resources and management.

A service agreement was entered into between Mr. Chen and the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Chen is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For the financial years 2018 and 2019, Mr. Chen's salary is HK$2,073,600 per annum and HK$2,136,000 per annum respectively. Such salaries were determined by the Remuneration Committee with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Chen's individual performance.

Mr. Li Shaofeng, aged 52, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director of the Company in January 2014 and is a member of the Executive Committee of the Company. He joined Shougang Group, a substantial shareholder of the Company within the meaning of Part XV of the SFO, in 1989, and he held many senior positions in the group companies of Shougang Group. Mr. Li is the vice chairman of Shougang International and the managing director of Shougang Resources. He is also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Li was the chairman of Shougang Concord Century Holdings Limited ("Shougang Century") from March 2000 to January 2018, the chairman of each of Shougang Concord Grand (Group) Limited ("Shougang Grand") and Global Digital Creations Holdings Limited ("GDC") from May 2010 to June 2017 and a director of China Dynamics (Holdings) Limited ("China Dynamics") from October 2007 to November 2015. All of Shougang International, Shougang Resources, Shougang Century, Shougang Grand, GDC and China Dynamics are Hong Kong listed companies. Mr. Li has extensive experience in management of, and investments in, listed companies and capital operation.

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

DIRECTORS' BIOGRAPHIES

Mr. Thomas P Gold, aged 60, graduated with Bachelor's degree in Mechanical Engineering from General Motors Institute (currently known as Kettering University), United States in 1981. Mr. Gold was appointed as an Executive Director of the Company in September 2016 and is a member of the Executive Committee of the Company. Since 1981, Mr. Gold has worked in the automotive components business with General Motors, Delphi Corporation and BWI respectively. BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO. During the period from 1981 to 1990, Mr. Gold was product development engineer and supervisor in anti-vibration devices department of General Motors. From 1990 to 1992, Mr. Gold was manufacturing general supervisor in brake components department of General Motors. From 1992 to 1998, Mr. Gold served as manufacturing engineering manager and later became manufacturing operations manager in anti-vibration devices department of General Motors. From 1998 to 2008, Mr. Gold served as global product line executive in Delphi Energy and Chassis Systems, and he was responsible for multiple product lines within the chassis business unit including electronic suspensions, anti-vibration devices, chassis components, and Liteflex springs. From 2009 to 2012, Mr. Gold served as global purchasing director in BWI, and he was responsible for the direct and indirect material procurement of global business in six manufacturing facilities and three major technology centers. From 2012 to 2015, Mr. Gold served as assistant president and doubled as global purchasing director in BWI. Mr. Gold currently is vice president of operations in BWI, and he holds directorships in certain wholly-owned subsidiaries of BWI.

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

Mr. Zhang Yaochun, aged 61, holds a bachelor degree in law by correspondence from the Party School of the Central Committee of the Communist Party of China. Mr. Zhang was appointed a Non-executive Director of the Company in January 2014 and is a member of the Nomination Committee of the Company. He is the deputy chairman of BWI, a substantial shareholder of the Company within the meaning of Part XV of the SFO, and the chairman of its labor union. Mr. Zhang also holds directorships in certain wholly-owned subsidiaries of BWI. Mr. Zhang had been involved in the cement business of the Fangshan district of Beijing since 1979, and he was the chairman and the general manager of Beijing City Fangshan District General Company.

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

DIRECTORS' BIOGRAPHIES

Mr. Tam King Ching, Kenny, aged 69, holds a bachelor's degree in commerce from Concordia University, Canada. Mr. Tam was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Audit Committee as well as a member of each of the Nomination Committee and the Remuneration Committee of the Company. He is a practising Certified Public Accountant in Hong Kong. Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada (formerly named as the Institute of Chartered Accountants of Ontario, Canada). He is serving as a member of the Restructuring and Insolvency Faculty Executive Committee of the Hong Kong Institute of Certified Public Accountants. Mr. Tam is a Past President of The Society of Chinese Accountants and Auditors. He also serves as an independent non-executive director of certain listed companies on the main board of The Stock Exchange of Hong Kong Limited, namely, Shougang Grand, CCT Fortis Holdings Limited, Greater Bay Area Investments Group Holdings Limited (formerly known as CCT Land Holdings Limited), Hong Kong Shanghai Alliance Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited, West China Cement Limited and Wisdom Education International Holdings Company Limited.

An engagement letter was entered into with Mr. Tam for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Tam is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Tam is HK$240,000 per annum. Such director's fee was determined with reference to Mr. Tam's experience and duties as well as the then prevailing market conditions.

Mr. Yip Kin Man, Raymond, aged 72, holds a bachelor's degree in arts with honours from the University of Hong Kong. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2014 and currently is the chairman of the Remuneration Committee as well as a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Yip was appointed as the chairman of the Remuneration Committee of the Company in November 2018. He is also an independent non-executive director of each of Shougang Grand and Shougang Century, both are Hong Kong listed companies. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC. He has extensive experience in legal profession.

An engagement letter was entered into with Mr. Yip for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Yip is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Yip is HK$240,000 per annum. Such director's fee was determined with reference to Mr. Yip's experience and duties as well as the then prevailing market conditions.

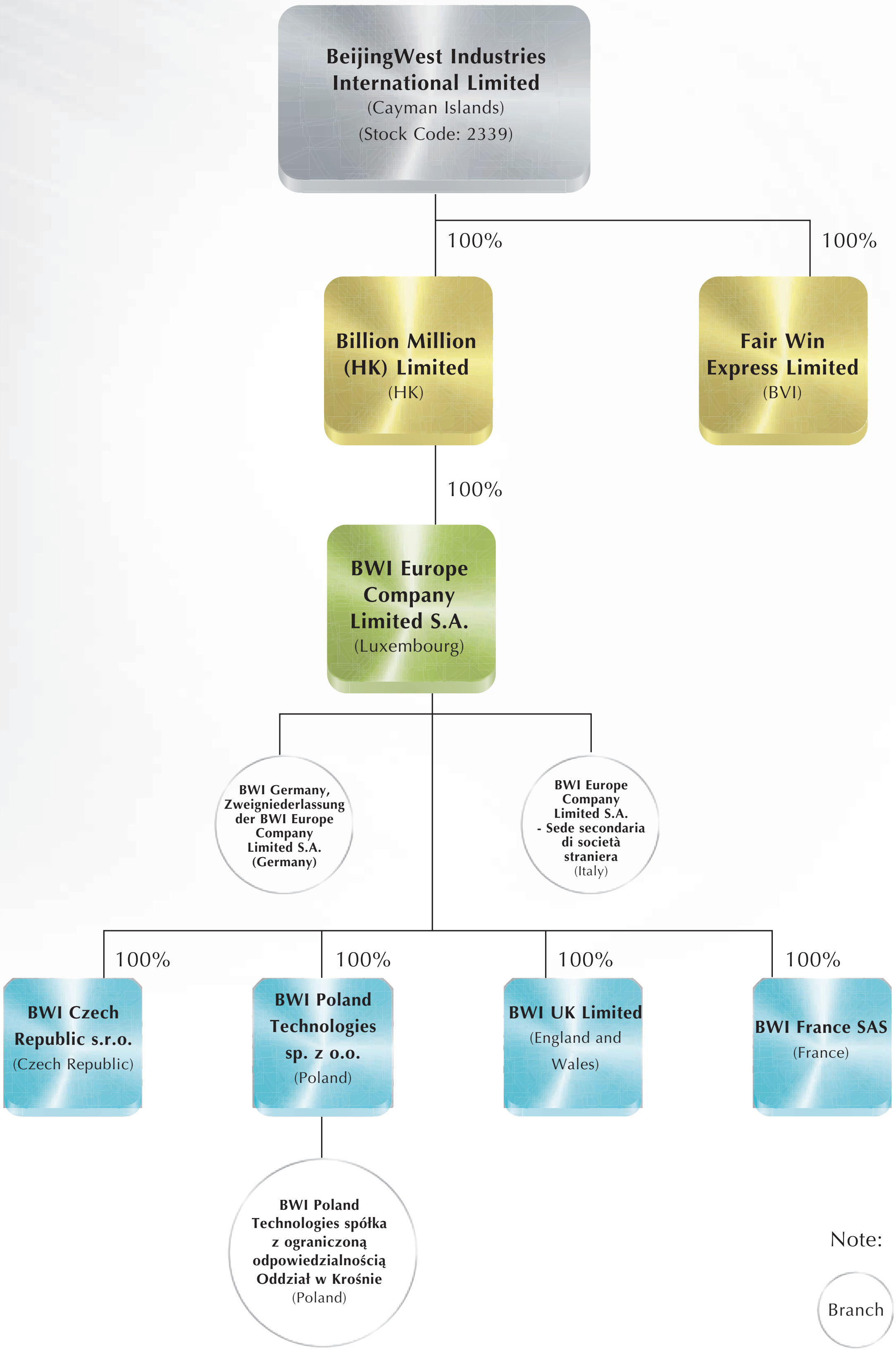
DIRECTORS' BIOGRAPHIES

Mr. Chan Pat Lam, aged 70. Mr. Chan was appointed an Independent Non-executive Director of the Company in November 2018 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of Shougang Resources, a Hong Kong listed company. Mr. Chan is the consultant of a private company which is an international container shipping agency in the Western region of Pearl River Delta. He is also a partner of Chan Kai Wing & Brothers Limited, a private company which is engaged in trading and wholesaling of grocery items. Mr. Chan has extensive experience in the field of international banking industry in Hong Kong, Macau and California.

An engagement letter was entered into with Mr. Chan for a term commencing on 16 November 2018 and ending on 31 December 2019, subject to renewal. Under the engagement letter, Mr. Chan is entitled to a director's fee as may be determined by the Board from time to time. For the financial year 2018, the director's fee received by Mr. Chan was HK$30,000 in aggregate. For the financial year 2019, the director's fee of Mr. Chan is HK$240,000 per annum. Such director's fee was determined with reference to Mr. Chan's experience and duties as well as the then prevailing market conditions.

GROUP STRUCTURE

As at 31 December 2018



CHAIRMAN'S STATEMENT

On behalf of the board of directors of BeijingWest Industries International Limited (the "Company"), I am pleased to present the annual report and the financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Reviewed Year").

FINANCIAL PERFORMANCE

In the Reviewed Year, due to the overwhelming change in the Chinese market, the Group's brake business kept recording an operating loss. In order to mitigate its dragging effect on the Group's performance and better concentrate our resources to develop the suspension business, the Group completed the disposal of the brake business in August 2018. Relatively speaking, our suspension business maintained a healthy development and made a reasonable profit in spite of increase in the price of the raw materials. However, our new plant in Czech was still at the stage of production ramp-up. Though its orders and revenue increased substantially, there was still a distance from reaching the break-even point. Therefore, it was still a negative factor to the Group's performance. Overall, for the year ended 31 December 2018, the revenue of the Group was HK$3,418.28 million, decreased by 12.43% as compared to that of 2017; however, it managed to realize a turnaround, with the profit reaching up to HK$93.53 million.

As a result of the completion of the disposal of the brake business in August 2018, the Group's overall gross profit slipped to HK$622.69 million. Since the Group took greater effort to control its production cost and improve its production efficiency, the Group procured the profit margin to stay steady at 18.22%.

It's worth attention that the Group maintains a healthy financial condition in the long run. As at 31 December 2018, the Group maintained a cash and bank balance at HK$727.91 million, with an increase by 11.51% year on year. The gearing ratio (measured as total borrowings over total assets) moved down further to 16.12%, a drop by 4.00% year on year.

CHAIRMAN'S STATEMENT

DIVIDEND

The board of directors recommended the declaration of a final dividend of HK$0.02 and a special dividend of HK$0.04 per share for the year ended 31 December 2018. The payment of the final dividend and special dividend shall be subject to the approval of the shareholders at the forthcoming annual general meeting to be held in May 2019.

OUTLOOK

Looking ahead in 2019, there are plenty of challenges to the global economy. First of all, the uprising of the trade protectionism throughout the world has made an impact to the free trade market, which would probably affect the Group's global business. Secondly, the risk of Hard Brexit is increasing. In the event of no-deal Brexit, the automotive industry in the UK would suffer a blow and some of the global auto makers might re-adjust their development strategies in the UK, which possibly has an impact on our business in UK accordingly. Lastly, in the backdrop of the global economy slowdown, there is a possibility that the global auto consumption would shrink in further and the trend of growth in the European market might go to an end. Therefore, the Group anticipates that the macro-economic environment can hardly be optimistic in 2019 and more uncertainties remains.

Facing the possible challenges in the future, the Group takes no ignorance. The Group will well devote our effort in market researches and risk addressing preparation to minimize the possible negative impact. Moreover, the Group will continue to improve the operational efficiency and cost control of our plants, so as to further strengthen the Group's core competiveness. For the new plant in Czech, we expect that its capacity will be unleashing and this business segment will further reduce its dragging effect on the Group's performance.

In order to ensure the sustainable development of the Group, we persist in adopting the market-oriented and customer-oriented approaches and making advanced and reliable products to capture the market. On one hand, the Group makes good partnerships with automakers. By working closely, we join hands to exploit the requirements of the customers, and develop and produce products satisfied to the customers. On the other hand, the Group consistently values quality of our products and research of advanced technology. We emphasize not only making enhancement on the technology and quality improvement of the existing products, but also developing new products and technologies by devoting a sizable amount of human resources and capital. The Group has an international research and development ("R&D") team which is highly professional and it focuses on R&D and innovation in the R&D centers located in different parts of the world. Precious accumulation has been achieved in terms of new technologies and patents, which provides a strong support to the long-term development of the Group.

CHAIRMAN'S STATEMENT

To continuously generate a better return to the shareholders, the Group will suitably review and optimize the operation and business structure of the Group, and will improve the synergies and growth potentials of business units. The Group will also act consciously to continue exploring the potential acquisition possibilities in China and abroad, in order to capture a higher market share and improved profitability through extending development.

Overall, I am pleased that the Group performed quite well in the Reviewed Year despite of so many unfavorable factors. In the meanwhile, I am confident that, with our joint effort, we can keep our business on track and create long-term return for the shareholders.

INVESTOR RELATIONS AND COMMUNICATION

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

APPRECIATION

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

Jiang Yunan
Chairman

29 March 2019

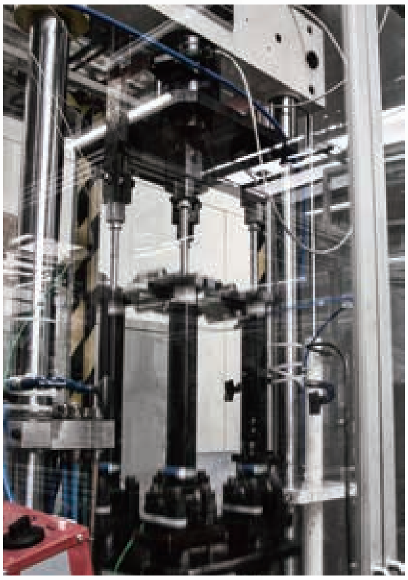
MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

During the year ended 31 December 2018, the Group involved in the manufacture and sale of automotive parts and components and the trading of automotive parts and components. The core products of the Group were suspension products and brake products.

Suspension products

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



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

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

Brake products

The brake products of the Group had broad applications in both sedans and full-size sport utility vehicles. The Group was one of the leading suppliers in the People's Republic of China ("PRC") of automobile brake components and systems. Our customers included some of the world's largest automobile manufacturers with operations in the PRC as well as domestic automobile manufacturers.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group acquired 51% equity interest in BWI (Shanghai) Co., Ltd. and took control of its brake business in December 2016. Since acquisition of the control of the brake business, owing to changes in market conditions and consumers' demand which were not anticipated at the time of the acquisition, the domestic automobile manufacturers in the PRC experienced severe competitions from import products from overseas manufacturers and joint venture automobile manufacturers, resulting in certain major customers of the brake business postponed or reduced their purchases due to unsatisfactory sales performance of certain automobile models. The downturn in the sales resulted in the brake business recording operation loss in 2017 as well as in 2018. The adverse market condition would continue with no sight of recovery in the near future.

As the brake business was loss-making, discussions were held with BeijingWest Industries Co., Ltd. ("BWI"), the controlling shareholder of the Company, on the proposal of disposing of the 51% interests in the brake business (the "Disposal") to BWI in May 2018. The Disposal would serve to streamline the Group's operation and enable the Group to focus on other sectors in the automobile parts and components market that offer a better return on investment. The Disposal constituted a major and connected transaction for the Company under the Listing Rules, and it was approved by the independent shareholders of the Company at the extraordinary general meeting held on 26 July 2018. The Disposal was completed on 28 August 2018. Details of the Disposal are disclosed in the Company's circular dated 10 July 2018 and announcements dated 26 July 2018 and 28 August 2018.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group recorded revenue of HK$3,418.28 million from manufacture and sales of suspension and brake products (year ended 31 December 2017: HK$3,903.65 million), which decreased when comparing to that for the year ended 31 December 2017 mainly due to decrease in the revenue contributed from the manufacturing and sales of brake products as a result of the Disposal. Upon completion of the Disposal, the Group no longer had any interest in BWI (Shanghai) Co., Ltd. and it ceased to be a subsidiary of the Company on 28 August 2018 (the "Completion"). The revenue of BWI (Shanghai) Co., Ltd. from the date of Completion onwards would not be consolidated and this mainly accounted for the decrease in the revenue contributed from the manufacturing and sales of brake products. However, the revenue from the manufacture and sales of suspension products only slightly increased and offset a portion of the decrease in revenue from the manufacture and sales of brake products.

For the year ended 31 December 2018, the Group also recorded HK$145.70 million in provision of technical services (year ended 31 December 2017: HK$176.59 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

For the year ended 31 December 2018, the gross profit and gross profit margin for the suspension and brake products were HK$622.69 million and 18.22% respectively (year ended 31 December 2017: HK$747.22 million and 19.14% respectively). The gross profit decreased mainly due to the Disposal. The gross profits of BWI (Shanghai) Co., Ltd. from the date of Completion onwards would not be consolidated and this mainly accounted for the decrease in the gross profit. Since the Group took greater effort to control its production cost and improve its production efficiency, the overall gross profit margin remained steady at 18.22%. A lower profit margin was observed from our new plant in the Czech Republic at its commencement stage; however, this only had a slight impact on the overall gross profit margin. The Group expects the plant in the Czech Republic will be able to achieve a higher gross profit margin in the coming future when the production volume ramps up and the utilization of raw materials and production efficiency improve due to economy of scale.

Other income

Other income of the Group for the year ended 31 December 2018 increased by 129.47% to HK$173.77 million (year ended 31 December 2017: HK$75.73 million), which was mainly due to a disposal gain of HK$86.28 million realized upon the Disposal.

Selling and distribution expenses

Selling and distribution expenses of the Group for the year ended 31 December 2018 decreased by 30.46% to HK$34.22 million (year ended 31 December 2017: HK$49.20 million) mainly due to tighten cost control, and the decline was also in line with the decrease in revenue as a result of the Disposal. Selling and distribution expenses mainly consisted of delivery expenses, salary and welfare for sales personnel and warranty expenses.

Administrative expenses

Administrative expenses of the Group for the year ended 31 December 2018 slightly decreased by 3.49% to HK$228.05 million (year ended 31 December 2017: HK$236.29 million) mainly due to the Disposal. Administrative expenses mainly consisted of salaries for administrative staff and management service fee charged by related companies.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses

Research and development expenses of the Group for the year ended 31 December 2018 decreased by 21.15% to HK$386.82 million (year ended 31 December 2017: HK$490.59 million) mainly due to tighten cost control and the adoption of Hong Kong Financial Reporting Standard 15. During the year ended 31 December 2018, HK$68.44 million of pre-production cost previously included in the research and development expenses was capitalised as contract cost under other non-current assets as a result of the adoption of Hong Kong Financial Reporting Standard 15. These pre-production activities were mainly carried out for uncompleted sales orders received in previous years, and the respective products were expected to be launched in near future. Research and development expenses in the income statement mainly consisted of salaries for technical staff and service fee charged by related companies.

Finance costs

Finance costs of the Group for the year ended 31 December 2018 decreased slightly by 1.26% to HK$13.55 million (year ended 31 December 2017: HK$13.72 million) attributed to repayment of short term bank borrowings during the year. Finance costs mainly represented interest on bank loans obtained by subsidiaries in Europe and in Hong Kong.

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

For the year ended 31 December 2018, profit for the year attributable to equity owners of the Company approximately to HK$120.88 million (year ended 31 December 2017: loss for year attributable to equity owners of the Company approximately to HK$8.57 million). The turnaround from profit to loss was mainly attributed to the decrease in the research and development expenses and the gain from the Disposal.

Liquidity and Financial Resources

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

The Group was operating in a net cash inflow position for the year ended 31 December 2018, with net cash flows from operating activities amounted to HK$222.86 million (year ended 31 December 2017: net cash flows used in operating activities of HK$63.43 million). As at 31 December 2018, the Group maintained cash and bank balances of HK$727.91 million (as at 31 December 2017: HK$652.77 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Indebtedness

As at 31 December 2018, the Group had bank borrowings of HK$349.37 million, in which HK$124.97 million obtained by subsidiaries in Europe were denominated in Euro ("EUR") with an interest of 1 Month EURIBOR plus 2.20% per annum, United States Dollar (US$) with an interest of 1 Month LIBOR plus 2.20% per annum and Polish Zloty ("PLN") with an interest of 1 Month WIBOR plus 2.00% per annum; and the remaining bank borrowings of HK$224.40 million obtained by a subsidiary in Hong Kong were denominated in EUR with an interest of 1 Month EURIBOR plus 1.20% per annum.

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

The Group's gearing ratio (measured as total bank borrowings over total assets) as at 31 December 2018 was 16.12% (as at 31 December 2017: 20.12%). The Company would keep monitoring the financial and liquidity position of the Group closely, and make appropriate financing strategy for the Group in accordance with the change of the financial market from time to time.

Pledge of Assets

As at 31 December 2018 and 2017, there were no assets being pledged.

Foreign Exchange Exposure

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

Capital and other commitments

Save as disclosed in note 32 in the notes to financial statements, the Group and the Company had no other commitments as at 31 December 2018 and 2017.

Contingent Liabilities

As at 31 December 2018, the Group and the Company did not have any significant contingent liabilities.

OTHER INFORMATION

Environmental, Health and Safety

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

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

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

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

Review and Prospects

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

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

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

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

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

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

Employees and Remuneration Policy

As at 31 December 2018, the Group had approximately 880 full-time employees (as at 31 December 2017: 1,500 full-time employees). During the year ended 31 December 2018, the total employees' cost was HK$557.18 million (year ended 31 December 2017: HK$616.46 million). Remuneration packages of the employees are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by the management with reference to market conditions and individual performance. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group has defined benefit pension plans covering substantially all of its qualified employees in Poland, France and Germany. The Group has also adopted a mandatory provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2018.

BOARD OF DIRECTORS

(a) Composition

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

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

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

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

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

BOARD OF DIRECTORS (continued)

(a) Composition (continued)

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

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

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

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

(b) Role and function of the Board and the management

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

BOARD OF DIRECTORS (continued)

(c) Board meetings

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

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

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

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

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

BOARD OF DIRECTORS (continued)

(c) Board meetings (continued)

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

(d) Attendance records

During the financial year ended 31 December 2018, the Directors have made active contribution to the affairs of the Group and five physical Board meetings were held to consider various projects contemplated by the Group, to review and approve the interim results and final results of the Group, as well as to approve the adoption of the Nomination Policy and Dividend Policy.

Details of the Directors' attendances in 2018 are as follows:

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

* *Appointed as Director with effect from 16 November 2018.*

** *Resigned as Director with effect from 16 November 2018.*

BOARD OF DIRECTORS (continued)

(e) Access to information

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

(f) Board diversity

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

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

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

BOARD OF DIRECTORS (continued)

(g) Nomination, appointment and re-election of Directors

Recommendation of candidates for directorship of the Company is a matter for consideration by the Nomination Committee. The Company adopted a director nomination policy (the "Nomination Policy") on 11 December 2018 which sets out the nomination procedures and the process and the criteria to select and recommend candidates for directorship.

In evaluating and selecting any candidate for directorship, the Nomination Committee and/or the Board should consider the certain criteria including but not limited to:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy, as well as diversity aspects under the Board Diversity Policy of the Company;
- any potential contributions that the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity; and
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

As regards the nomination process, the Nomination Committee should review the biographical information of the candidate and evaluate such candidate based on the criteria as set out in the Nomination Policy to determine whether such candidate is qualified for directorship. If the process yields one or more desirable candidates, the Nomination Committee should rank them by order of preference based on the needs of the Company. After reviewing the suitable candidates, the Nomination Committee should make recommendation to the Board for appointment of the appropriate candidate for directorship.

For re-election of Directors at general meeting, the Nomination Committee will give adequate consideration to the Board Diversity Policy, the Nomination Policy and the relevant requirements of the Listing Rules before making recommendations to the Board.

BOARD OF DIRECTORS (continued)

(g) Nomination, appointment and re-election of Directors (continued)

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

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

(h) Independent Non-executive Directors

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

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

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

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

(i) Insurance for directors' and officers' liability

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

BOARD OF DIRECTORS (continued)

(j) Directors' training and professional development

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

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2018, a summary of which is as follows:

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

Note I:

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

B: Reading newspapers, journals and updates

Note II:

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Management

4: Businesses relating to the Company

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND MANAGING DIRECTOR

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

The responsibilities of the Chairman include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;
- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;
- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;
- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;
- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and
- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

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

BOARD COMMITTEES

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

(a) Executive Committee

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

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

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

The Executive Committee comprises all Executive Directors of the Company.

BOARD COMMITTEES (continued)

(a) Executive Committee (continued)

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

Committee members	Number of meeting(s) attended/ eligible to attend
Jiang Yunan *(chairman of the committee)*	1/1
Chen Zhouping	1/1
Li Shaofeng	1/1
Thomas P Gold	1/1

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

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2017.

(b) Audit Committee

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

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

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system, risk management and internal control systems; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

BOARD COMMITTEES (continued)

(b) Audit Committee (continued)

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

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

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

Committee members	Number of meeting(s) attended/ eligible to attend
Tam King Ching, Kenny *(chairman of the committee)*	3/3
Yip Kin Man, Raymond	3/3
Chan Pat Lam*	1/1
Leung Kai Cheung**	2/2

* *Appointed as committee member with effect from 16 November 2018.*

** *Ceased to be committee member with effect from 16 November 2018.*

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

- reviewing the final results of the Group for the year ended 31 December 2017;
- reviewing the interim results of the Group for the six months ended 30 June 2018; and
- reviewing the reports on the risk management and internal control systems of the Group prepared by an independent advisory firm.

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

BOARD COMMITTEES (continued)

(c) Nomination Committee

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

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;

- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;

- assessing the independence of Independent Non-executive Directors;

- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives; and

- reviewing the Nomination Policy, including to review the nomination procedures and the process and criteria to select and recommend candidates for directorship, as appropriate.

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

The Board Diversity Policy is posted on the website of the Company. For further details of the Nomination Policy, please refer to the sub-section headed "Nomination, appointment and re-election of Directors" under "Board of Directors" section in this report.

BOARD COMMITTEES (continued)

(c) Nomination Committee (continued)

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

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

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

Committee members	Number of meeting(s) attended/ eligible to attend
Jiang Yunan *(chairman of the committee)*	3/3
Zhang Yaochun	3/3
Tam King Ching, Kenny	3/3
Yip Kin Man, Raymond	3/3
Chan Pat Lam*	1/1
Leung Kai Cheung**	1/2

* *Appointed as committee member with effect from 16 November 2018.*

** *Ceased to be committee member with effect from 16 November 2018.*

BOARD COMMITTEES (continued)

(c) Nomination Committee (continued)

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

- assessing the independence of the Independent Non-executive Directors;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting;
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board;
- considering and making recommendations to the Board on the appointment of Mr. Chan Pat Lam as an Independent Non-executive Director; and
- reviewing the proposed Nomination Policy and making recommendations to the Board regarding the adoption of the Nomination Policy.

(d) Remuneration Committee

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

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;

BOARD COMMITTEES (continued)

(d) Remuneration Committee (continued)

- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and

- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

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

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

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

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

Committee members	**Number of meeting(s) attended/ eligible to attend**
Yip Kin Man, Raymond *(chairman of the committee)******	2/2
Jiang Yunan	2/2
Tam King Ching, Kenny	2/2
Chan Pat Lam*	1/1
Leung Kai Cheung**	0/1

* *Appointed as committee member with effect from 16 November 2018.*

** *Ceased to be committee member with effect from 16 November 2018.*

*** *Appointed as chairman of the committee with effect from 16 November 2018.*

BOARD COMMITTEES (continued)

(d) Remuneration Committee (continued)

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

- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2019;
- considering the bonuses of the Executive Directors of the Company for the year 2018;
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2019; and
- making recommendations to the Board on the director's fee of Mr. Chan Pat Lam, the Independent Non-executive Director appointed during the year.

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

COMPANY SECRETARY

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

Risk Management System

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

- Identification: Identify ownership of risks, business objectives and risks that may affect the achievement of objectives.

- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Management System (continued)

Based on the risk assessments conducted in 2018, the details of significant risks and the relevant risk responses are highlighted as follow:

Risk Categories	Risk Title	Risk Descriptions	Risk Responses
Operational risk	Employee retention and recruitment	Lack of awareness and knowledge of current labour market and competitor's behavior may result in non-competitiveness in terms of staff's salary and benefits when comparing to other rivals. The Group may find it is difficult to retain and recruit talented employees.	To mitigate the risk, human resources department conducts a market research annually in order to adjust the remuneration package. In addition, the Group provides on-the-job training to employees so as to increase their competitiveness. Bonus will be awarded according to staff's performance as a motivation. Besides, the management strives for creating a positive working environment and setting up communication channels in order to support employees to voice their opinions and to build up sense of belonging.
Operational risk	Sales staff retention	Inability to retain experienced sales personnel may lead to difficulties in achieving the approved sales targets.	Several measures have been taken by management to mitigate the risk. First, the management can apply the one-time incentive scheme for outstanding employees. Second, human resources department is closely monitoring and conducting regular analysis on employee turnover rate. Third, sales department organizes regular meetings with all sales personnel.
Operational risk	Motivation scheme	Ineffective motivation strategies would result in discouragement and difficulties to retain experienced sales personnel, which would lead to obstacles in achieving sales targets.	For the current practice, one-time incentive scheme has been adopted for rewarding employees who outperform in sales results. Also, the senior management is willing to increase employees' responsibilities instead of motivating in monetary terms. Besides, better motivation and remuneration package will be considered.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Risk Management System (continued)

Risk Categories	Risk Title	Risk Descriptions	Risk Responses
Strategic risk	Market competition	Keen competition and enlarged market share from other rivals in the international dampers markets may result in difficulties for the Group to achieve approved sales targets.	Aiming at enhancing company's competitiveness, the Group is concentrating on improving its product and communication quality in order to reduce the chance of major issue and provide better value to its customers.
Strategic risk	Economic Uncertainties	Uncertainties in the global market economy and political instability may result in a drop of the Group's revenue.	Since the BREXIT is still in progress, the Group can only just accept the risk and it will try its best to explore new business opportunities and minimize its strategic risk. The management is also currently focusing on the measures regarding the additional cost incurring from custom clearance, import duty, value-added tax, export tariff, in-house custom experts, additional inventory requirement due to slow down of supply chain and duty applied for free circulation within United Kingdom.

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

Internal Control Systems

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

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Control Systems (continued)

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

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

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

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

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

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

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

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has reviewed, with the assistance of the Audit Committee, the Group's risk management and internal control systems and is not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal control systems of the Group. Also, based on the internal control reviews conducted in 2018, no significant control deficiency was identified.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal Audit

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

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

Effectiveness of the Risk Management and Internal Control Systems

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

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

CORPORATE GOVERNANCE REPORT

INSIDE INFORMATION DISCLOSURE POLICY

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

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

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2018.

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

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

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

Services rendered	HK$'000
Audit services	2,905
Non-statutory audit services:	
– Interim review	1,355
– Agreed-upon procedures in connection with a major and connected transaction	240
	4,500

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The statement of the auditor of the Company, Ernst & Young, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 86 to 91 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

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

(a) Shareholders' Communication Policy

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

(b) General meetings

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

During the year, two general meetings were held by the Company. One of the general meetings was the annual general meeting of the Company held on 18 May 2018 (the "2018 AGM") and the other one was the extraordinary general meeting held on 26 July 2018 (the "EGM") for approving a major and connected transaction in respect of the disposal of 51% interests in a subsidiary of the Group.

COMMUNICATION WITH SHAREHOLDERS (continued)

(b) General meetings (continued)

The auditor of the Company, Ernst & Young, attended the 2018 AGM. Details of the Directors' attendances at the general meetings held during the year are as follows:

Directors	2018 AGM	EGM
Executive Directors		
Jiang Yunan *(Chairman)*	✓	✓
Chen Zhouping	✓	✓
Li Shaofeng	x	✓
Thomas P Gold	x	✓
Non-executive Director		
Zhang Yaochun	✓	x
Independent Non-executive Directors		
Tam King Ching, Kenny	✓	✓
Yip Kin Man, Raymond	✓	✓
Chan Pat Lam*	N/A	N/A
Leung Kai Cheung**	✓	✓

* *Appointed as Director with effect from 16 November 2018.*

** *Resigned as Director with effect from 16 November 2018.*

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

COMMUNICATION WITH SHAREHOLDERS (continued)

(c) Dividend Policy

The Company adopted a dividend policy (the "Dividend Policy") on 11 December 2018 which set out the principles and guidelines in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

The Company does not have any pre-determined dividend payout ratio. In respect of recommendation or declaration of any dividend, the Board should ensure that the Company can maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value on an ongoing basis.

The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

Save for the factors as set out in the Dividend Policy, the Board must also comply with the Articles and all applicable laws and regulations before declaration and distribution of any dividends to the shareholders of the Company at its discretion.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

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

(b) Shareholders' enquiries

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

CONSTITUTIONAL DOCUMENTS

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

BeijingWest Industries International Limited (the "Company") and its subsidiaries (collectively the "Group" or "We") are pleased to present our environmental, social and governance ("ESG") report. The ESG report summarizes the efforts and achievements made by the Group in corporate social responsibility and sustainable development. As for the information on corporate governance, please refer to the Corporate Governance Report on pages 19 to 46 of this annual report.

1.1 Scope of the Report

The ESG report covers the business segment of the Group, namely, manufacturing and sales of auto parts. The ESG report presents our sustainability approach and performance in the environmental and social aspects of our business for the reporting period from 1 January 2018 to 31 December 2018 (the "Year"). We keep on focusing on the operation of the production facilities in Poland and the United Kingdom (the "UK"), and the technical center in Poland. Starting from the Year, our new production facility in the Czech Republic is included in the scope of the ESG report. As the production facility in Shanghai of the People's Republic of China (the "PRC") was disposed of in the Year, its performance till disposal date is disclosed in the ESG report, unless otherwise stated. The Group continues to strengthen information collection in order to enhance the performance in environmental domains and to disclose relative information of sustainable development.

1.2 Reporting Guideline

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

1.3 Contact Information

We will continue to improve our ESG report in the future, and we welcome your feedback and suggestions on the report and any inquiries. Please contact us at:

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

Tel: (852) 2625 8699

Fax: (852) 2528 2581

Email: info@bwi-intl.com.hk

2. STAKEHOLDER ENGAGEMENT

The Group highly values the communication with its key stakeholders and takes their opinions as the basis for its formulation and implementation of short-term and long-term sustainability strategies. Through different effective communication channels, such as meetings, announcements, company website and emails, we promote our concepts and practices in regard to ESG management to our key stakeholders, and we deepen our relationship with them by understanding their requirements and expectations.

The table below indicates our key stakeholders, their requirements and expectations towards the Group, and the means of communication and response.

Stakeholders	Requirements and Expectations	Means of Communication and Response
Governments and Regulators	• Compliance with national policies, laws and regulations • Support local economic growth • Drive local employment • Pay taxes in full and on time • Ensure production safety	• Report information regularly • Meet the regulators regularly • Dedicated reports • Examinations and inspections
Shareholders	• Returns • Compliant operation • Raise company value • Transparency in information and effective communication	• General meetings • Announcements • Email, telephone communication and company website • Dedicated reports
Business Partners	• Operate with integrity • Equal Rivalry • Performance of contracts • Mutual benefit and win-win result	• Review and appraisal meetings • Business communications • Exchanges and discussions • Engagement and cooperation

2. STAKEHOLDER ENGAGEMENT (continued)

Stakeholders	Requirements and Expectations	Means of Communication and Response
Customers	• Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity	• Customer feedback surveys • Customer communication meetings • Social media platforms • Calling for feedback • Site visits
Environment	• Compliant emission • Energy saving and emission reduction • Ecosystem protection	• Communicate with local environmental department • Communicate with the locals • Reporting • Investigations and inspections
Industry	• Establishment of industry standards • Drive industry development	• Participate in industry forums • Visits and inspections
Employees	• Protection of rights • Occupational health • Remunerations and benefits • Career development • Humanity cares	• Employee communication meetings • House journal and intranet • Email • Training and workshop • Team-building activities
Community and the Public	• Improve community environment • Participation in charity • Transparent information	• Company website

3. ABOUT THE GROUP

During the Year, the Group continues the businesses in the manufacture and sale of automotive parts and components, trading of automotive parts and components and provision of technical services. The Group's automotive suspension products are mainly for premium passenger vehicles, which are manufactured by our plants in Europe. Through developing and maintaining a strong relationship with the major customers, the Group well understands the technical requirements of the customers and has expertise in the manufacturing process for premium passenger vehicles.

Being a responsible enterprise with businesses in different countries, the Group and its employees are subject to the laws and regulations of the countries where it operates, as well as the requirements and standards of the industry.

4. EXCELLENCE IN THE ENVIRONMENT

4.1 Environmental Principles

The role of a responsible corporate citizen is largely defined by the Group's commitment to protecting natural resources and the global environment. The Group strictly abides by the local laws and regulations where it operates regarding environmental protection, including the Act on Environmental Impact Assessment of the Czech Republic, Environmental Protection Law of Poland, Environmental Protection Act 1990 of the UK, and Environmental Protection Law of the PRC. The daily operation of the Group is governed by the environmental principles. To ensure the Group's sustained growth and prosperity while protecting the environment, we keep on reducing solid waste and air pollution, conserving resources and recycling materials by harnessing technologies.

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

4. EXCELLENCE IN THE ENVIRONMENT (continued)

4.1 Environmental Principles (continued)

Aiming at indicating risk factors in business operation, the environmental management system was implemented. According to the system, identification and determination of environmental aspects are conducted by site environmental specialists to control the environmental risks and further lessen the environmental impact. For instance, to reduce the risk of chrome leakage from the container in the production facility in Poland, a new container was replaced as a preventive measure. Our dedication to implementing the environmental management systems can be reflected by the certifications of ISO14001:2015 Environmental Management System Standard obtained by the production facilities in the Czech Republic, Poland, the UK and the PRC.

The Group endeavors to educate, train and motivate employees to carry out tasks in an environmentally responsible manner, so as to raise their awareness on environmental protection. During the Year, environmental trainings were held in the production facilities in the Czech Republic, Poland, the UK and the PRC and the technical center in Poland, in order to broaden employees' environmental protection knowledge. Looking forward, we will conduct an ongoing assessment on the impact of our production facilities and products on the environment and the communities, in an effort to achieve the goal of continuous improvement.

4.2 Minimizing Emissions

Emissions of our business operation are mainly from the manufacturing processes, which are monitored on a regular basis. In order to minimize the emissions from our business operation, modernization has been taken place in the production facility in Poland, including installation of lamella settler for chromium-alkaline wastewater treatment process and upgrade of reagent dosage system, to mitigate the wastewater discharge.

The emissions from production facilities in Poland and the PRC are within the emission limit of relevant standards. As for the production facility in the Czech Republic, it signed agreement with an authorized sewage treatment company, according to the relevant national regulations, by discharging the wastewater that meets contractual requirements to the sewage treatment company. In addition, there is no air pollutant or water pollutant emitted from the production facility in the UK and the technical centre in Poland. The table below shows the emissions of the production facilities in the Czech Republic, Poland and the PRC in the Year.

4. EXCELLENCE IN THE ENVIRONMENT (continued)

4.2 Minimizing Emissions (continued)

Location	Name of Pollutant	Emission Amount	Emission Limit of the Standard
Production facility in the Czech Republic	Air Pollutants: (Relevant Standard: Integrated Permit)		
	Carbon monoxide	2.53 mg/m^3	50 mg/m^3
	Nitrogen dioxide	7.38 mg/m^3	100 mg/m^3
	Volatile Organic Compounds (VOCs)	3.29 mg/m^3	20 mg/m^3
	Water Pollutants: (Relevant Standard: Permitted discharge limit of water pollutants stated on the "Water Supply and Wastewater Collection Agreement" signed with the CHEVAK Cheb, a.s. in the Czech Republic)		
	Aluminium	1.54 mg/L	10 mg/L
	Iron	12.1 mg/L	20 mg/L
	Nickel	0.01 mg/L	0.2 mg/L
	Sulphates	965 mg/L	1600 mg/L
Production facility in Poland	Air Pollutants: (Relevant Standard: Integrated Pollution Prevention and Control Permit)		
	Aliphatic hydrocarbons	<0.04 kg/h	0.14 kg/h
	Aromatic hydrocarbons	<0.01 kg/h	0.093 kg/h
	Chromium	0.001 kg/h	0.100 kg/h
	Nitrogen Oxides (NOx)	0.01 kg/h	0.078 kg/h
	Particulates (PM)	0.001 kg/h	0.100 kg/h
	Water Pollutants: (Relevant Standard: Water permit OS-II.7322.23.2017.DR)		
	Chromium	<0.10 mg/L	0.25 mg/L
	Copper	≦0.01 mg/L	0.25 mg/L
	Nickel	<0.03 mg/L	0.25 mg/L
	Zinc	0.04 ~ 0.21 mg/L	1.00 mg/L
Production facility in Shanghai of the PRC	Air Pollutants: (Relevant Standard: DB31/933-2015 Integrated emission standards of air pollutants)		
	Non-methane Hydrocarbon	0.003 kg/h 0.72 mg/m^3	3.0 kg/h 70 mg/m^3
	Water Pollutants: (Relevant Standard: DB31/445-2009 Discharge Standard For Municipal Sewerage System)		
	pH Value	7.09	6 ~ 9
	Total Suspended Solids (TSS)	172 mg/L	400 mg/L
	Ammonia Nitrogen	8.1 mg/L	40 mg/L
	Biochemical Oxygen Demand (BOD)	29.3 mg/L	300 mg/L
	Chemical Oxygen Demand (COD)	100 mg/L	500 mg/L
	Anionic surfactants (LAS)	0.27 mg/L	15 mg/L
	Animal & Vegetable Oil	7.17 mg/L	100 mg/L

4. EXCELLENCE IN THE ENVIRONMENT (continued)

4.2 Minimizing Emissions (continued)

As for the air emissions from vehicles and stationary combustion in the Year, nitrogen oxides, sulphur dioxide and particulate matter are emitted from production facilities in Poland, the UK and the Czech Republic, and the technical center in Poland only. The details of air emissions from vehicles and stationary combustion are as follows:

Air Emissions	2018	2017[1]
Nitrogen oxides (kg)	**1,473**	1,014
Sulphur dioxide (kg)	**17**	7
Particulate matter (kg)	**9**	7

4.3 Reducing Water Consumption

Driven by our dedication to reducing water consumption in the manufacturing processes of our business operation, we have taken measures to achieve the target. For example, the production facility in the PRC has attempted to increase the volume of outsourcing machining parts, such that the use of machine cooling fluid and water consumption could be reduced accordingly.

Details of water consumption of the Year from the production facilities in the Czech Republic, Poland, the UK and the PRC, and the technical center in Poland are as follows:

Water Consumption	2018	2017[2]
Total water consumption (m^3)	**99,091**	119,818
Water consumption per production machine (m^3/production machine)	**139**	178

1 The air emission from vehicles and stationary combustion in 2017 was only from the production facilities in Poland and the UK, and the technical center in Poland.

2 The total water consumption of 2017 included the water usage of the production facilities in Poland, the UK and the PRC, and the technical center in Poland.

4. EXCELLENCE IN THE ENVIRONMENT (continued)

4.4 Reducing Energy Consumption

Energy-saving initiatives include switching off all working machinery and other electrical devices, as well as the power supply after the entire manufacturing process. During the Year, the production facility in the UK has put a great effort in preventing air leakage in air-conditioned areas and given priority to using LED lighting, thereby reducing the use of electricity. In addition, new lamps with higher voltage have replaced the obsolescence in the production facility in Poland, as a result, the energy consumption decreased along with the reduced number of lamps in use.

During the Year, the energy consumption from the production facilities in the Czech Republic, Poland, the UK and the PRC, and the technical center in Poland is as follows:

Energy Consumption	2018	2017[3]
Total energy consumption (MWh)	**99,459**	65,365
Energy consumption per production machine (MWh/production machine)	**140**	97
Non-renewable fuel consumption (MWh)	**5,981**	9,363
Purchased electricity and heating (MWh)	**93,478**	56,002

4.5 Sorting of Waste

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

Waste sorting system that is applicable to waste like paper, glass, plastic and metal is implemented in the production area. Waste is collected and stored in clearly labeled segregation containers. Mixed storage of hazardous waste and non-hazardous waste or hazardous waste of different types is strictly forbidden. Thus, the containers with hazardous waste and non-hazardous waste are collected and stored separately. After the waste sorting, we cooperate with the authorized waste contractor to collect the waste. The waste is always recycled to the greatest extent, while non-recyclable waste such as municipal waste is disposed of by an external service provider via landfill or incineration.

[3] Data of energy consumption in 2017 was confined to the energy consumed by production facilities in Poland, the UK and the PRC, and the technical center in Poland.

4. EXCELLENCE IN THE ENVIRONMENT (continued)

4.5 Sorting of Waste (continued)

In the Year, the hazardous waste and non-hazardous waste produced by the production facilities in the Czech Republic, Poland, the UK and the PRC, and the technical center in Poland are listed in the table below:

Wastes	2018	2017[4]
Hazardous waste generated (tonnes)	**456**	407
Hazardous waste generated per production machine (tonnes/production machine)	**0.64**	0.67
Total non-hazardous waste generated (tonnes)	**6,555**	7,126
Non-hazardous waste generated per production machine (tonnes/production machine)	**9**	11

To achieve our goal of recycling the waste to the greatest extent, we recycled over 90% of non-hazardous waste, including paper or carton, plastic, wood and metal, in the production facilities in the Czech Republic, Poland, the UK and the PRC, and the technical center in Poland during the Year. By recycling reusable waste, we have minimized the disposal of waste at landfills.

4.6 Minimizing the Use of Natural Resources

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

The Group has adopted measures to reduce paper use, such as encouraging the use of electronic system for information dissemination. For example, we targeted on reducing the use of paper and toner for printers designed to print pay slips in the Year. Through analyzing the possibilities of using electronic information transmission and conducting a program enabling electronic transmission, paper consumption and hazardous waste produced were minimized. Besides, we have taken measures to utilize materials to the greatest extent. To reduce the amount of packaging materials used, we use collective packaging in lieu of individual packaging as well as use returnable packaging in the loop between suppliers and us.

4 The hazardous waste generated in 2017 was confined to the data from production facilities in Poland and the PRC, and the technical center in Poland, while that produced by production facility in the UK was amounted to $128m^3$, with $2m^3$ hazardous waste generated by each of its production machines. As for the data of non-hazardous waste generated in 2017, the sources were production facilities in Poland, the UK and the PRC, and the technical center in Poland.

4. EXCELLENCE IN THE ENVIRONMENT (continued)

4.6 Minimizing the Use of Natural Resources (continued)

In the Year, packaging materials used by the production facilities in the Czech Republic, Poland, the UK and the PRC, and the technical center in Poland are as follows:

Packaging Materials	**2018**	2017[5]
Total packaging materials used (tonnes)	**1,976**	2,000
Packaging materials used per production machine (tonnes/production machine)	**3**	3
Paper or carton (tonnes)	**931**	910
Plastic (tonnes)	**294**	290
Wood (tonnes)	**642**	692
Metal (tonnes)	**109**	108

As a responsible enterprise, the Group understands the importance of contributing to the greenhouse gas emissions reduction. For example, in order to lower the greenhouse gases emissions from the flight taken, our employees are encouraged to take economy class for unavoidable business trips. In the Year, some of our employees from the technical center in Poland participated in a campaign of cycling to work and back home, which was organized by the Municipal Services Department of the City of Kraków, in order to support the promotion of cycling as daily modes of transport for commuting to and from work. The greenhouse gas emissions from the production facilities in the Czech Republic, Poland, the UK and the PRC, and technical center in Poland of the Year are set out in the table below:

Greenhouse Gases	**2018**	2017[6]
Total greenhouse gas emissions (tonnes CO_2e)	**56,683**	39,405
Greenhouse gas emissions per production machine (tonnes CO_2e/production machine)	**80**	59
Scope 1 – Direct Emissions (tonnes CO_2e)	**1,838**	2,739
Scope 2 – Energy Indirect Emissions (tonnes CO_2e)	**54,060**	35,823
Scope 3 – Other indirect emissions (tonnes CO_2e)	**785**	843

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

5 The packaging materials in 2017 were used by the production facilities in Poland, the UK and the PRC, and the technical center in Poland.

6 Data in 2017 indicated the greenhouse gases emissions from the production facilities in Poland, the UK and the PRC, and the technical center in Poland.

5. EXCELLENCE IN OUR WORKPLACE

5.1 Employment and Welfare

Our employees are the most valuable asset to the Group and are the foundation of our development. We continue to comply with national and local labour laws and regulations relating to employment, as well as rights and welfare of employees, including the Labour Code of the Czech Republic, Labour Code of Poland, Employment Rights Act 1996 of the UK, and Labour Law of the PRC.

We believe that the key to success lies in talent attraction and retention. We commenced internal and external hiring process for the relevant vacancy under the principle of fairness. Our employees enjoy equal treatment in the establishment and termination of employment, conditions of employment, promotion and access to professional development trainings, regardless of sex, age, disability, race, religion, nationality and mode of employment, etc. To ensure no child labour is recruited, the dates of birth of all employees are checked during the recruitment process. For departing employees, exit interviews are conducted to understand the reasons of departure, and for our further improvement on business operations.

The working hours are set in accordance to the labour laws and our internal regulations to ensure sufficient rest is provided to employees. Those employees required to work outside normal hours will be offered overtime pay. Employees work within the agreed time frame to avoid forced labour. Apart from the public holidays, employees are entitled to annual leaves subject to their length of service. In order to attract, motivate and retain our talented employees, the Group offers comprehensive and competitive remuneration, retirement scheme and benefit packages to employees. Remuneration packages of the employees are reviewed annually by management with reference to market conditions and individual performance.

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

5. EXCELLENCE IN OUR WORKPLACE (continued)

5.1 Employment and Welfare (continued)

Moreover, the Group emphasizes the importance of employees' work-life balance and encourages employees to join our leisure events. During the Year, the production facility in the UK organized a "Family Fun Day" for its employees and their children as a relaxation activity, at the same time boosting up employees' belongings towards the Group. The staff union of the production facility in the PRC organized various ball games, such as football, basketball and badminton. Its football club participated in the Senlan Cup, 8th Famous Enterprise Football Invitational Tournament of Shanghai.

5.2 Health and Safety

The Group is dedicated to protecting the health and safety of each employee, and closely observes the local health and safety laws and regulations, including the Act on Other Occupational Health and Safety Conditions of the Czech Republic, Labour Code of Poland, Health and Safety at Work Act 1974 of the UK, and Law of the PRC on Work Safety. Employees should comply with all safety rules and policies at each location of the Group. By implementing a management system for health and safety, health and safety risks are identified such that our employees can be protected from foreseeable work hazards. We promote the safety awareness to our employees as they go about the jobs, and managers are delegated to support safe work practices. Our production facilities in Poland and the Czech Republic have been certificated to the OHSAS18001:2007 Occupational Health and Safety Management System Standard.

To ensure safety at work, our employees are allowed to work after undergoing and passing the initial checkup and periodic medical examination. We believe that occupational injuries and illnesses are preventable. For staff working at manufacturing lines, we provide them with protective clothing and work clothing, as well as personal protective equipment and measures for maintaining personal hygiene. As regards prevention of occupational diseases, we arrange prophylactic or sanatorium treatment for employees working in workplaces with potential harms. In order to pursue the ultimate goal of creating an injury and illness free workplace, the Group conducts regular safety trainings for employees in terms of regulations, rules and principles of occupational health and safety, such as general instructions of basic health and safety regulations, safe operations inside workshops, and information of potential risks regarding health and safety, if any.

5. EXCELLENCE IN OUR WORKPLACE (continued)

5.2 Health and Safety (continued)

On the other hand, hazardous material control program and chemical material assessment procedure were adopted for safeguarding employees' health and safety. For example, hazardous and chemical substances must be properly marked, placed in original containers and stored at designated place, so as to prevent leakage of hazardous and chemical substances. At the same time, equipment and tools are kept in order, while materials, products and wastes are placed in specific areas and containers, for the sake of maintaining clean and safe workplace. Clear guidelines for handling emergencies were established to ensure prompt and effective control in case of any accidental situation.

5.3 Development and Training

The Group aims at creating an intellectually stimulating environment which encourages employees to harness their talents and skills in the pursuit of high quality work. A clear career path is provided for every employee. Our merit-based promotion aims to promote outstanding employees to a higher level with regard to our evaluation on employees' performance and level description. Also, the Group provides various trainings to employees in order to enrich their professional technical skills and job-related knowledge, as well as to make continual improvements. New employees are required to participate in the orientation training, which is essential for understanding their duties, practice of a given position and their fundamental rights. Professional trainings are also tailored to the needs of different positions. Upon the completion of trainings, course evaluation will be taken place in order to ensure the effectiveness of trainings.

During the Year, employees in the production facilities in Poland and the PRC and the technical center in Poland participated in various trainings, such as personal skill development courses, cross functional training courses and trainings related to technical knowledge, which are designed to equip employees with necessary knowledge and skills. Professional trainings related to skills and knowledge for each production line were also provided to employees of the production facility in the UK. Examinations are required for verifying the knowledge and skills acquired during the training, subject to the types of courses. On top of providing trainings, the production facility in the PRC organized competitions for employees during the Year by testing their proficiency in using forklifts with prize awarded to the winner.

6. EXCELLENCE IN OUR BUSINESS

6.1 Promoting Integrity

The Group complies with the local laws and regulations in regard to anti-corruption including the Criminal Code of the Czech Republic, Polish Penal Code of Poland, Bribery Act 2010 of the UK, and Criminal Law of the PRC. To maintain our reputation of operation integrity, concrete effort has been made to educate our employees to avoid acts and relationships that violate or conflict with their duties or the interest of the Group. Employees are also required to sign the declaration of acknowledgement. Through our consistent effort in promoting open communication, employees are strongly encouraged to immediately disclose any possible conflict of interest, suspected misconduct and misbehavior committed by individuals on behalf of the Group.

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

6.2 Respecting Intellectual Property

The Group continually strives to maintain our competitive edge in the manufacturing industry and abides by the local relevant laws and regulations, including the Copyright Act of the Czech Republic, Act on Copyright and Related Rights of Poland, Patents Act 1977 of the UK, and Patent Law of the PRC. We respect and protect the intellectual property, such as company patents, trademarks, copyrights, and trade secrets. We will take measures to protect new works of authorship, technological advances or unique solutions to business problems, if there is any suspicion of infringement of company patent, trademark, copyright or trade secret. It is our ongoing effort to safeguard our own confidential information, as well as respecting the proprietary and confidential information of others.

7. EXCELLENCE IN THE MARKETPLACE

7.1 Product Quality

In the manufacture of products, the Group adheres to the local laws and regulations in regard to product quality, including the Act on General Product Safety of the Czech Republic, General Product Safety Act of Poland, The Consumer Protection Act 1987 (Product Liability) (Modification) Order 2000 of the UK, and Product Quality Law of the PRC. On top of regulatory compliance, we strive to communicate with our customers on any potential issues at every step of the product launch, from product design to the provision of service. Moreover, with our customer-oriented operation and enthusiastic attitude, we aim at enhancing customer satisfaction through advanced method and achieving perfection at each step. For consistent improvement of service quality, designated procedures for complaint handling are also implemented to timely address and prevent potential issues.

To provide high-quality products to our customers, the Group has also set up a comprehensive quality management system with rigorous production control plan, for the purpose of implementing and supervising the operating procedures to assure the quality of products. The quality management systems of the production facilities in the Czech Republic, Poland and the UK are certified to the IATF16949:2016 Quality Management System Standard, while the production facility in the PRC and the technical center in Poland hold the certification of IATF16949 Quality Management System and ISO9001:2015 Quality Management System respectively.

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

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

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

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

7. EXCELLENCE IN THE MARKETPLACE (continued)

7.1 Product Quality (continued)

iv. The condition of the materials stored is assessed periodically to ensure no damaged or deteriorated materials are used.

Procedures for handling unsatisfied goods have been implemented as well. To ensure the product quality, all unsatisfied raw materials, finished goods and products are stored separately and not allowed to undergo the next production step without permission. In the case of receiving any complaints from customers, we will first identify the issue regarding the complaint and implement containment as necessary. Internal communication regarding the complaint will be carried out. After that, we will initiate a problem-solving process to deal with the identified issue.

7.2 Fair Treatment of Suppliers

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

Suppliers are selected on the basis of quality and after-sales services with respect to the raw materials and components, so as to ensure the quality of the raw materials will not affect the quality of our products. We also take priority to choose suppliers in the regions and countries where we operate, so as to lower the greenhouse gases emissions from transportation. Suppliers' performance is monitored through their delivered product quality, delivery schedule performance and special status customer notifications related to quality or delivery issues. We will maintain stable and fair relationships with our major suppliers and avoid relying on any single supplier for any given type of raw materials and components.

7.3 Data Protection and Security

In order to secure the privacies of both our clients and the Group, we have strictly obeyed the laws and regulations of data protection, including the Act on the Protection of Personal Data of Czech Republic, Personal Data Protection Act of Poland, Data Protection Law of the UK and Anti-Unfair Competition Law of the PRC.

7. EXCELLENCE IN THE MARKETPLACE (continued)

7.3 Data Protection and Security (continued)

As for suppliers, they are prohibited to manufacture goods for their own use or selling to third parties by using our information, without prior an explicit written consent from our authorized employees. As for employees, stringent procedure is in place to handle and manage internal documentation. Employees should save, store and communicate personal data only via internally authorized information and communications systems. Furthermore, the disclosure of any confidential information to a third party and the use of our computers to browse, download or transmit illegal materials are not allowed. Removal of any materials or items from the working premises without proper prior authorization is also prohibited. At the end of a workday, documents of confidential nature are not allowed to be left on desks or in other generally accessible places. Such documents shall be placed in drawers or special locked file cabinets. To ensure the understanding of employees on the Group's firm practice in terms of confidentiality, relevant trainings are provided to employees in the production facility in Poland.

8. EXCELLENCE IN SOCIETY AND COMMUNITIES

The Group adheres to its commitment to implementing a global philanthropy scheme that benefits the society and community in the pursuit of business growth. As a corporate citizen, our effort on community relations seeks to ensure the presence of brand image in our local communities in such a way that the Group is viewed as a "neighbor of choice". Contributions are tailored to local needs and priorities as well.

Our goal is to help the youth to unearth the greatest possible potential through creating education opportunities and supporting mechanism, with an emphasis on technology education. In the Year, the production facility in the PRC held a career tour to students from a local high school for a better understanding of the operation of automotive industry. Furthermore, our primary focus resides on programs which are in alignment with our business vision and orientation, including ability to measure effectiveness, innovative approach, customer-driven, and global programs that encourage international reach and involvement. During the Year, the senior management of the production facility in the UK was invited by the University of Bedfordshire to become a member of its Industrial Advisory Committee, which aims to provide strategic advice and seek ways to help and improve the performance and reputation of the Engineering School, as well as reviews the requirements of both industry and graduates to improve the Engineering School's teaching and research strategies. As a committee member, the senior management of production facility in the UK acts as one of the ambassadors and assists to raise the Engineering School's profile with national and international bodies.

8. EXCELLENCE IN SOCIETY AND COMMUNITIES (continued)

Apart from the support on education, we supported the employees of the technical center in Poland to participate in various charitable events as well. The events in the Year included the Kraków Business Run, Złombol Charity Rally, Noble Gift, and donations of used clothes. Our employees of the technical center in Poland participated in the Kraków Business Run to support the foundation of taking care of disabled people after limb amputations, as well as the Złombol Charity Rally with money donated to orphanages. For the participation in Noble Gift event, technical center in Poland not only held fundraising for those families in need, but also organized additional sub-events to increase employees' involvement and raise their awareness of how we can contribute to defeat poverty in the society. In the event of donating used clothes, used clothes were collected at dedicated point in the technical center in Poland and sold to less developed countries, in which the earnings were donated to local charity organizations. Donations were also made in the production facility in the UK by selling used furniture to help the people in need.

In addition, the Group cares about its employees. During the Year, the staff union of the production facility in the PRC paid visits to employees with sickness and conducted fundraising event for those need financial support.

REPORT OF THE DIRECTORS

The Board of Directors of the Company (the "Board") herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the financial statements on pages 92 to 195 of this annual report.

The Board recommends a final dividend of HK 2 cents per ordinary share and a special dividend of HK 4 cents per ordinary share for the year ended 31 December 2018 (2017 final dividend and special dividend: Nil) payable to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 31 May 2019. Such dividends are subject to shareholders' approval at the Company's annual general meeting to be held on Thursday, 23 May 2019.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 9 to 11 and pages 12 to 18 of this annual report respectively.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 196 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2018 are set out in note 24 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 28 to the financial statements.

REPORT OF THE DIRECTORS

DONATION

No charitable donation was made by the Group during the year (2017: Nil).

DIRECTORS

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

Jiang Yunan
Chen Zhouping
Li Shaofeng
Thomas P Gold
Zhang Yaochun
Tam King Ching, Kenny*
Yip Kin Man, Raymond*
Chan Pat Lam* *(appointed with effect from 16 November 2018)*
Leung Kai Cheung* *(resigned with effect from 16 November 2018)*

* *Independent Non-executive Directors*

In accordance with clause 84 of the Company's articles of association, Messrs. Jiang Yunan, Chen Zhouping and Thomas P Gold will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. Mr. Chan Pat Lam will be subject to re-election at the forthcoming general meeting of the Company according to clause 83 of the Company's articles of association, and he is eligible and will offer himself for re-election.

DIRECTORS' INDEMNITIES AND INSURANCE

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

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

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2018, none of the Directors or chief executives of the Company, or their respective associates had any personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

Name of Director	**Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group**	**Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group**	**Nature of interest of the Director in the entity**	*Notes*
Jiang Yunan	北京京西重工有限公司 (BeijingWest Industries Co., Ltd*) ("BWI")	Sale of auto parts, machinery and equipment	Director	*1*
Chen Zhouping	BWI	Sale of auto parts, machinery and equipment	Director	*1*
Thomas P Gold	BWI	Sale of auto parts, machinery and equipment	Director	*1, 2*
Zhang Yaochun	BWI	Sale of auto parts, machinery and equipment	Director	*1*

* *For identification purpose only*

Notes:

1. *The relevant information is disclosed on a group basis. The businesses of such entity may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.*

2. *Such director only holds directorship for certain subsidiaries of the entity.*

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2018, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to% of the issued share capital of the Company as at 31.12.2018	*Note*
BWI Company Limited ("BWI HK")	Beneficial owner	301,842,572	52.55%	*1*
BWI	Interests of controlled corporation	301,842,572	52.55%	*1*
北京房山國有資產經營有限責任公司 (Beijing Fangshan State-owned Assets Management Co. Ltd.*) ("Beijing Fangshan")	Interests of controlled corporation	301,842,572	52.55%	*1*
首鋼集團有限公司 (Shougang Group Co., Ltd.*) ("Shougang Group")	Interests of controlled corporation	301,842,572	52.55%	*1*

* *For identification purpose only*

Note:

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

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

REPORT OF THE DIRECTORS

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

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

PUBLIC FLOAT

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

SHARE OPTION SCHEME

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

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

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

SHARE OPTION SCHEME (continued)

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

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

SHARE OPTION SCHEME (continued)

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

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

No share option has been granted under the Scheme since its adoption. Accordingly, as at 31 December 2018, there was no share option outstanding under the Scheme.

PRE-EMPTIVE RIGHTS

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

EQUITY-LINKED AGREEMENTS

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

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

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

DISTRIBUTABLE RESERVES

At the end of the reporting period, the Company had retained profits of approximately HK$52,064,000 available for distribution as calculated in accordance with the relevant provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, of which approximately HK$34,460,000 has been proposed as a final dividend and a special dividend for the year.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 53.5% of the total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the largest customer included therein amounted to approximately 28.1%. Purchases from the Group's five largest suppliers accounted for approximately 23.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 8.4%. None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

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

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

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

(a) Parts and Components Supply Agreement

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(a) Parts and Components Supply Agreement (continued)

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

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

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

(b) Mutual Technical Services Agreement

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(b) Mutual Technical Services Agreement (continued)

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(c) Patent License Agreement

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

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(d) Parts and Components Purchase Agreement

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

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

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(d) Parts and Components Purchase Agreement (continued)

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

II Connected transaction and continuing connected transactions in relation to BWI (Shanghai) Co., Ltd. (京西重工(上海)有限公司) ("BWI Shanghai")

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

On 21 June 2018, Billion Million entered into an agreement with BWI HK whereby Billion Million agreed to sell its 51% interest of BWI Shanghai to BWI HK at a consideration of RMB132,300,000 (the "Disposal"). BWI HK is a wholly owned subsidiary of BWI which in turn is the controlling shareholder of the Company. Thus, BWI HK is a connected person of the Company, and the Disposal constituted a connected transaction for the Company. As BWI Shanghai was loss-making, the Disposal would serve to streamline the Group's operations and enable the Group to focus on other sectors in the automobile parts and components market that offer a better return on investment. Furthermore, given that BWI was interested in 49% of BWI Shanghai and that the sale of the 51% interest of BWI Shanghai to any other purchaser would not be in the interest of BWI. The Disposal was approved, confirmed and ratified by independent shareholders of the Company on 26 July 2018. Details of the Disposal were disclosed in the circular of the Company dated 10 July 2018 and the announcements of the Company dated 26 July 2018 and 28 August 2018.

The Disposal was completed on 28 August 2018 and the Group no longer has any interest in BWI Shanghai upon completion of the Disposal. The transactions under the agreements as set out in (a) to (d) below ceased to be continuing connected transactions for the Company upon completion of the Disposal.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(a) Parts and Components Supply Agreement

The Parts and Components Supply Agreement (the "P&C Supply Agreement II") was entered into between BWI North America Inc. ("BWI North America"), a wholly owned subsidiary of BWI, and BWI Shanghai on 15 April 2016 for a term commencing from the Shanghai Project Completion Date to 31 December 2018. However, the transactions between BWI North America and BWI Shanghai under the P&C Supply Agreement II ceased to be continuing connected transactions for the Company upon completion of the Disposal.

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(b) Parts and Components Purchase Agreement

The Parts and Components Purchase Agreement (the "P&C Purchase Agreement II") was entered into between BWI and BWI Shanghai on 15 April 2016 for a term commencing from the Shanghai Project Completion Date to 31 December 2018. However, the transactions between BWI and BWI Shanghai under the P&C Purchase Agreement II ceased to be continuing connected transactions for the Company upon completion of the Disposal.

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(c) Technology License Agreement

The Technology License Agreement was entered into between BWI as licensor and BWI Shanghai as licensee on 15 April 2016 for a term commencing from the Shanghai Project Completion Date to 31 December 2018. However, the transactions between BWI and BWI Shanghai under the Technology License Agreement ceased to be continuing connected transactions for the Company upon completion of the Disposal.

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

(d) Technology Development Agreement

The Technology Development Agreement was entered into between BWI North America and BWI Shanghai on 15 April 2016 for a term commencing from the Shanghai Project Completion Date to 31 December 2018. However, the transactions between BWI North America and BWI Shanghai under the Technology Development Agreement ceased to be continuing connected transactions for the Company upon completion of the Disposal.

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

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

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

(2) on normal commercial terms or better; and

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

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

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

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

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS (continued)

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

NON-COMPETITION UNDERTAKING WITH CONTROLLING SHAREHOLDERS

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

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

The Company has received annual written declaration from the Controlling Shareholders on their compliance with the undertakings under the Deed. Based on the declaration, the Independent Non-executive Directors of the Company considered that the Controlling Shareholders had complied with the terms set out in the Deed during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 19 to 46 of this annual report.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2018 are set out in the Environmental, Social and Governance Report on pages 47 to 64 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Group after 31 December 2018 and up to the date of this annual report.

AUDITOR

ZHONGHUI ANDA CPA Limited ("ANDA") was appointed as auditor of the Company on 28 August 2013. ANDA resigned on 30 January 2015 and Ernst & Young ("EY") has been appointed as auditor of the Company with effect from 30 January 2015 to fill the vacancy following the resignation of ANDA.

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

By Order of the Board
Chen Zhouping
Managing Director

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of BeijingWest Industries International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 92 to 195, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

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

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of inventories	
As of 31 December 2018, the Group's inventories were stated at HK$171,789,000, including raw materials, work in progress and finished goods, and were carried at the lower of cost and net realisable value. As disclosed in Note 18 to the financial statements, the net impairment of inventory was HK$9,983,000. The determination of net realisable value is highly dependent on management's estimation, such as assumptions of the expected sales prices and costs to be incurred until completion and sale. The assumptions adopted in the valuation are affected by expectations of future market or economic conditions.	Our audit procedures included obtaining an understanding of and assessing the design, implementation, and operating effectiveness of management's key internal controls relating to making impairment provisions for inventories, assessing the methods and assumptions used to determine the provision, discussing with management about the slow moving, excess or obsolete items, and evaluating the estimated sales prices and manufacturing costs to be incurred, as well as selling expenses on a sample basis. We also assessed the adequacy of the disclosures.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of trade and bills receivables As of 31 December 2018, the carrying amount of trade and bills receivables was HK$387,696,000. The Group adopts HKFRS 9 from 1 January 2018, which has changed the Group's accounting for impairment losses for financial assets with a forward-looking expected credit loss (ECL) approach. The Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses of trade and bills receivables. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Significant estimation is required in establishing provision matrix, including assessing the current creditworthiness, the past collection history of the customers and the forward-looking factors specific to the debtors. The Group's disclosures about the impairment of trade and bills receivables are included in note 3.1(b) and note 19 to the consolidated financial statements.	Our audit procedures included but not limited to obtain an understanding of the Group's credit policy and accounting policy for impairment, assessing recoverability of trade and bills receivables by verifying the assumptions and basis used to establish provision matrix, checking the creditworthiness and past collection history and subsequent settlement of selected customers and recalculating the impairment schedule. We also assessed the adequacy of the disclosures.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	6	**3,418,281**	3,903,650
Cost of sales		**(2,795,592)**	(3,156,431)
Gross profit		**622,689**	747,219
Other income and gains, net	6	**173,769**	75,726
Selling and distribution expenses		**(34,216)**	(49,201)
Administrative expenses		**(228,050)**	(236,289)
Research and development expenses		**(386,815)**	(490,587)
Other operating expenses, net		**(391)**	(27,366)
Finance costs	8	**(13,546)**	(13,719)
PROFIT BEFORE TAX	7	**133,440**	5,783
Income tax expense	11	**(39,908)**	(37,296)
PROFIT/(LOSS) FOR THE YEAR		**93,532**	(31,513)
Attributable to:			
Owners of the Company		**120,879**	(8,572)
Non-controlling interests		**(27,347)**	(22,941)
		93,532	(31,513)
PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents per share)	12	**21.05**	(1.49)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
PROFIT/(LOSS) FOR THE YEAR	**93,532**	(31,513)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(43,733)**	131,440
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on defined benefit plans	**(3,596)**	(72)
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF INCOME TAX	**(47,329)**	131,368
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**46,203**	99,855
Attributable to:		
Owners of the Company	**71,060**	114,562
Non-controlling interests	**(24,857)**	(14,707)
	46,203	99,855

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**474,595**	680,029
Prepaid land lease payments	15	**9,590**	10,590
Goodwill	16	**4,455**	4,681
Deferred tax assets	27	**32,105**	48,007
Other non-current assets	17	**146,411**	33,853
Total non-current assets		**667,156**	777,160
CURRENT ASSETS			
Inventories	18	**171,789**	284,978
Trade and bills receivables	19	**387,696**	951,779
Prepayments, other receivables and other assets	20	**212,790**	149,043
Cash and cash equivalents	21	**727,912**	652,768
Total current assets		**1,500,187**	2,038,568
CURRENT LIABILITIES			
Trade payables	22	**383,379**	725,060
Other payables and accruals	23	**193,538**	312,060
Income tax payables		**42,669**	40,407
Bank borrowings	24	**349,366**	566,664
Defined benefit obligations	25	**2,888**	2,894
Provision	26	**16,543**	44,411
Total current liabilities		**988,383**	1,691,496
NET CURRENT ASSETS		**511,804**	347,072
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,178,960**	1,124,232

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	23	**38,664**	13,903
Defined benefit obligations	25	**85,872**	86,506
Deferred tax liabilities	27	**34,617**	10,039
Loan from a holding company	36(c)	**448**	469
Total non-current liabilities		**159,601**	110,917
NET ASSETS		**1,019,359**	1,013,315
EQUITY			
Equity attributable to owners of the Company			
Issued capital	28	**57,434**	57,434
Reserves	29	**961,925**	834,838
		1,019,359	892,272
Non-controlling interests		**–**	121,043
Total equity		**1,019,359**	1,013,315

Jiang Yunan
Director

Chen Zhouping
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company									
	Issued capital HK$'000 (note 28)	Share premium account HK$'000 (note 29(ii))	Merger reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	57,434	1,037,745	(772,332)	(16,527)	(211,315)	44,132	650,060	789,197	135,750	924,947
Loss for the year	–	–	–	–	–	–	(8,572)	(8,572)	(22,941)	(31,513)
Other comprehensive income for the year:										
Exchange differences related to foreign operations	–	–	–	–	123,206	–	–	123,206	8,234	131,440
Remeasurement loss on defined benefit plans	–	–	–	(72)	–	–	–	(72)	–	(72)
Total comprehensive income/(loss) for the year	–	–	–	(72)	123,206	–	(8,572)	114,562	(14,707)	99,855
Dividend declared	–	–	–	–	–	–	(11,487)	(11,487)	–	(11,487)
At 31 December 2017	57,434	1,037,745*	(772,332)*	(16,599)*	(88,109)*	44,132*	630,001*	892,272	121,043	1,013,315

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company									
	Issued capital HK$'000 (note 28)	Share premium account HK$'000 (note 29(ii))	Merger reserve HK$'000	Defined benefit plan reserve HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017	57,434	1,037,745	(772,332)	(16,599)	(88,109)	44,132	630,001	892,272	121,043	1,013,315
Effect of adoption of HKFRS 9	–	–	–	–	–	–	(2,273)	(2,273)	(181)	(2,454)
Effect of adoption of HKFRS 15	–	–	–	–	4,748	–	53,552	58,300	2,243	60,543
At 1 January 2018 (restated)	57,434	1,037,745	(772,332)	(16,599)	(83,361)	44,132	681,280	948,299	123,105	1,071,404
Profit for the year	–	–	–	–	–	–	120,879	120,879	(27,347)	93,532
Other comprehensive income for the year:										
Exchange differences related to foreign operations	–	–	–	–	(46,223)	–	–	(46,223)	2,490	(43,733)
Remeasurement loss on defined benefit plans	–	–	–	(3,596)	–	–	–	(3,596)	–	(3,596)
Total comprehensive income/(loss) for the year	–	–	–	(3,596)	(46,223)	–	120,879	71,060	(24,857)	46,203
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	7,021	7,021
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(105,269)	(105,269)
At 31 December 2018	57,434	1,037,745*	(772,332)*	(20,195)*	(129,584)*	44,132*	802,159*	1,019,359	–	1,019,359

* The reserve accounts comprise the consolidated reserves of HK$961,925,000 (2017: HK$834,838,000) in the consolidated statement of financial position as at 31 December 2018.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**133,440**	5,783
Adjustments for:			
Finance costs		**13,546**	13,719
Interest income	6	**(7,334)**	(2,934)
Disposal of a subsidiary	6	**(86,278)**	–
Gain on disposal of items of property, plant and equipment	6	**(1,429)**	(4,021)
Depreciation	7	**103,643**	107,817
Amortisation of prepaid land lease payments	7	**327**	311
Impairment of items of property, plant and equipment	7	**–**	1,779
Accrual/(reversal) of impairment of trade and bills receivables	7	**5,972**	(785)
Provision against obsolete inventories	7	**943**	4,212
		162,830	125,881
Decrease in inventories		**26,017**	1,981
Decrease/(increase) in trade and bills receivables		**286,216**	(74,588)
Increase in prepayments, other receivables and other assets		**(34,366)**	(43,695)
Increase in amounts due from fellow subsidiaries		**(10,075)**	(2,224)
(Increase)/decrease in amounts due from holding companies		**(25,901)**	27,576
(Decrease)/increase in trade payables		**(107,246)**	6,475
Increase in other payables and accruals		**28,154**	43,564
Decrease in amounts due to fellow subsidiaries		**(17,109)**	(34,098)
Decrease in defined benefit obligations		**(244)**	(340)
Decrease in amounts due to a holding company		**(22,088)**	(83,678)
Decrease in warranty provision		**(15,943)**	(6,591)
Cash generated from/(used in) operations		**270,245**	(39,737)
Income tax paid		**(47,386)**	(23,689)
Net cash flows from/(used in) operating activities		**222,859**	(63,426)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**7,334**	2,934
Purchases of items of property, plant and equipment		**(167,271)**	(199,811)
Proceeds from disposal of items of property, plant and equipment		**38,158**	54,178
Disposal of a subsidiary	30	**101,911**	–
Net cash flows used in investing activities		**(19,868)**	(142,699)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**118,519**	544,988
Repayment of bank and other loans		**(190,803)**	(210,545)
Dividend paid to shareholders		**–**	(58,770)
Interest paid		**(12,533)**	(13,719)
Capital injection from non-controlling interests		**7,021**	–
Net cash flows (used in)/from financing activities		**(77,796)**	261,954
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**125,195**	55,829
Cash and cash equivalents at beginning of year		**652,768**	517,674
Effect of foreign exchange rate changes, net		**(50,051)**	79,265
CASH AND CASH EQUIVALENTS AT END OF YEAR		**727,912**	652,768

1. CORPORATE AND GROUP INFORMATION

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

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

As at 31 December 2018 and the date of approval of these financial statements, the immediate holding company of the Company is BWI Company Limited ("BWI (HK)"), which is incorporated in Hong Kong with limited liability. In the opinion of the directors of the Company (the "Directors"), the ultimate holding company is Shougang Group Co., Ltd. (formerly known as "Shougang Corporation"), which is a state-owned enterprise established in the People's Republic of China ("PRC") and is supervised by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality.

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

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

Name	Date, place of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BWI France S.A.S.	France 13 August 2009	EUR2,002,500	–	100	Provision of research and technical services
BWI UK Limited	United Kingdom 16 June 2009	GBP5,938,975	–	100	Manufacture and sale of automotive parts and components
BWI Poland Technologies sp.z.o.o	Poland 12 March 2009	PLN55,538,150	–	100	Manufacture and sale of automotive parts and components
BWI Czech Republic s.r.o	Czech 20 May 2015	CZK140,000,000	–	100	Manufacture and sale of automotive parts and components
BWI (Shanghai) Co., Ltd. ("BWI Shanghai")*	PRC/Mainland China 26 June 2009	RMB114,285,714	–	51	Manufacture and sale of automotive parts and components

* As at 28 August 2018, the Group disposed of BWI Shanghai to BWI (HK), the immediate holding company of the Company. Further details of this disposal are included in note 30.

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

2. BASIS OF PREPARATION

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

Pursuant to the agreement for the sale and purchase of shares of BWI Shanghai dated 21 June 2018 entered into between BWI (HK) and Billion Million (HK) Limited ("Billion Million", a wholly-owned subsidiary of the Company), Billion Million had completed the disposal of a 51% equity interest in BWI Shanghai ("BWI Shanghai Disposal") on 28 August 2018 for a consideration of RMB132,300,000 (approximately HK$151,587,000), which was satisfied by cash payment.

In addition, the Group was entitled to the profit after taxes of BWI Shanghai for the period from 1 January 2018 to the last day of the calendar month immediately preceding the completion date of the BWI Shanghai Disposal.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and Annual Improvements to HKFRSs 2014-2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement					HKFRS 9 measurement	
	Category	Amount	Re-classification	ECL	Other	Amount	Category
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	
Trade and bills receivables	L&R[1]	951,779	–	(2,140)	–	949,639	AC[2]
Financial assets included in Prepayments, other receivables and other assets	L&R	22,178	–	–	–	22,178	AC
Due from a fellow subsidiary	L&R	23,312	–	(105)	–	23,207	AC
Due from holding companies	L&R	41,755	–	(209)	–	41,546	AC
Cash and cash equivalents	L&R	652,768	–	–	–	652,768	AC
Total		1,691,792	–	(2,454)	–	1,689,338	
Trade and bills payables	AC	725,060	–	–	–	725,060	AC
Financial liabilities included in other payables and accruals	AC	92,288	–	–	–	92,288	AC
Interest-bearing bank and other borrowings	AC	566,664	–	–	–	566,664	AC
Loan from a holding company	AC	469	–	–	–	469	AC
Due to the a holding company	AC	33,875	–	–	–	33,875	AC
Due to fellow subsidiaries	AC	51,209	–	–	–	51,209	AC
Dividends payable to BWI	AC	43,000	–	–	–	43,000	AC
Total		1,512,565	–	–	–	1,512,565	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in note 19 to the financial statements.

	Impairment allowances under HKAS 39 31 December 2017	Remeasurement	ECL allowances under HKFRS 9 1 January 2018
	HK$'000	HK$'000	HK$'000
Trade receivables	10,068	2,140	12,208
Financial assets included in prepayments, other receivables and other assets	–	314	314
Total	10,068	2,454	12,522

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impact on retained profits

The impact of transition to HKFRS 9 on retained profits is as follows:

	Retained profits HK$'000
Balance as at 31 December 2017 under HKAS 39	630,001
Recognition of expected credit losses for trade receivables under HKFRS 9	(1,959)
Recognition of expected credit losses for financial assets included in prepayments, other receivables and other assets under HKFRS 9	(314)
Balance as at 1 January 2018 under HKFRS 9	627,728

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 4 and 6 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 3.3 to the financial statements.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

The Group has adopted HKFRS 15 using the modified retrospective approach. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Notes	**Increase/ (decrease)** HK$'000
Assets		
Other non-current assets (including current portion)	(ii)	88,983
Deferred tax assets	(v)	1,151
		90,134
Liabilities		
Other payables and accruals	(i),(iii)	(1,669)
Contract liabilities (including current portion)	(iii)	14,505
Deferred tax liabilities	(v)	16,755
		29,591
Equity		
Retained profits	(i),(ii),(v)	53,552
Exchange fluctuation reserve		4,748
Non-controlling interests		2,243
		60,543

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		HKFRS 15	**HKFRS**	**(decrease)**
	Notes	HK$'000	HK$'000	HK$'000
Revenue	(i)	3,418,281	3,465,040	(46,759)
Research and development expenses	(ii)	386,815	455,250	(68,435)
Profit before tax		133,440	111,764	21,676
Income tax credit	(v)	39,908	34,581	5,327
Profit for the year		93,532	77,183	16,349
Attributable to:				
Owners of the Company		120,879	105,383	15,496
Non-controlling interests		(27,347)	(28,200)	853
Earnings per share attributable to ordinary equity holders of the parent		21.05	18.35	2.70
Basic and diluted				
– For profit for the year		21.05	18.35	2.70

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under HKFRS 15 HK$'000	Previous HKFRS HK$'000	Increase/ (decrease) HK$'000
Assets				
Other non-current assets				
(including current portion)	(ii)	161,205	26,457	134,748
Deferred tax assets	(v)	32,105	22,682	9,423
		193,310	49,139	144,171
Liabilities				
Contract liabilities				
(including current portion)	(i),(iii)	57,025	–	57,025
Deferred tax liabilities	(v)	34,617	9,015	25,602
		91,642	9,015	82,627
Equity				
Retained profits	(i),(ii),(iv),(v)	802,159	733,111	69,048
Exchange fluctuation reserve		(129,584)	(123,675)	(5,909)
		672,575	609,436	63,139

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

Notes:

(i) Sales of automotive parts and the provision of technical services

Currently, the Group entered into contracts with customers for the sale of automotive parts and the provision of technical services, such as engineering services, respectively. In prior years, revenue from sale of automotive parts was recognised when goods were delivered, title had passed and the significant risks and rewards of ownership had been transferred to the buyer, and revenue from technical services was recognised when services were completed, provided that the Group maintained neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Upon the adoption of HKFRS 15, the Group has assessed and concluded that technical services contracts and contracts for the sale of automotive parts shall be combined when 1) the contracts are negotiated with a single commercial objective; 2) the amount of consideration in one contract depends on the price or performance of the other contract; and 3) the goods or services promised are a single performance obligation. Revenue from technical services is deferred and recognised as revenue over the period of related sales of automotive parts.

(ii) Contract fulfilment costs

The Group incurs pre-production costs for design, testing, tooling and improving processes systems before production. Those costs were expensed as incurred in prior years. Upon adoption of HKFRS 15, the Group has assessed those costs and considers that pre-production cost shall be considered as contract fulfilment costs when 1) they relate directly to a specifically identifiable sales contract which has been confirmed by customers; 2) they generate or enhance resources that will be used in satisfying the sales contract; and 3) they are expected to be covered by future sales contract. Capitalised pre-production cost is amortised over the sales period to which such capitalised costs relate. Upon application of HKFRS 15, the pre-production costs related to uncompleted contracts as of 1 January 2018 were credited to retained earnings.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Notes: (continued)

(iii) Advances received from customers

The Group receives advanced payments from customers related to services and the sale of automotive parts. Prior to the adoption of HKFRS 15, the Group presented these advances in other payables and accruals in the statement of financial position. Upon adoption of HKFRS 15, the Group recognised contract liabilities for the advances from customers for services or sale of automotive parts yet to be rendered or sold.

(iv) Presentation and disclosure

As required for the consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

(v) Other adjustment

In addition to the adjustments described above, upon adoption of HKFRS 15, deferred taxes associated with the above adjustments were also adjusted accordingly.

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently accessing the impact of HKFRS 16 upon adoption.

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

Fair value measurement

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

Impairment of non-financial assets

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Intangible assets (other than goodwill)

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

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

Leases

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

***Subsequent measurement** (continued)*

Loans and receivables

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

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

***General approach** (continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Assets carried at cost

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

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

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

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products occurring during the warranty period. Provisions for product these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

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

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

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

(a) Sale of automotive parts and components

Revenue from the sale of automotive parts and components is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the automotive parts and components.

(b) Provision of technical service

The Group recognises technical services revenue when it transfers control of the services to the customers, which can occur over time or at a point in time. If the technical service is distinct, the Group accounts for the technical service separately from the production of automobile parts and recognises revenue when service is delivered to the customer. Revenue shall be recognised over the production period if the service is not distinct and considered to be combined with the production.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

Other income

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

Revenue recognition (applicable before 1 January 2018)

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

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

(b) from the rendering of services, on the percentage of completion basis as further explained in the accounting policy for contracts for services applicable before 1 January 2018 below;

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Contracts for services (applicable before 1 January 2018)

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (applicable before 1 January 2018) (continued)

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

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

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

Employee benefits

Defined contribution plans

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plans

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

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

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

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and

- net interest expense or income.

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

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs.

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

Termination benefits

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Transfer of construction in progress to property, plant and equipment

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

Estimation uncertainty

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

Capitalisation of pre-production costs

The Group capitalises pre-production costs when those costs are related to the contract with customers, generated or enhanced the resources used to satisfy performance obligation and are expected to be recovered.

The Group's managements need to judge and estimate whether such capitalised cost can be recovered, based on experience, historical data and estimation of the profitability of the contract.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 27 to the financial statements.

Defined benefit plan

The Group has recognised the defined benefit pension plan as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rates of the benefits and other factors. The deviation from the actual result and the actuarial result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amounts of employee pension benefit obligations. Further details are set out in note 25 to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade and bills receivables. The provision rates are based on the days past due for various customer segments with similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., the fluctuation of the unit price of steels and restriction policy in motor industries) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 19 to the financial statements, respectively.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of the reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of the reporting period. Further details are set out in note 18 to the financial statements.

Provision for warranties

Provision for product warranties granted by the Group is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Further details are set out in note 26 to the financial statements.

5. OPERATING SEGMENT INFORMATION

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

Products and services

Revenue from external customers

	2018 HK$'000	2017 HK$'000
Sale of goods	**3,272,577**	3,727,058
Technical service income	**145,704**	176,592
	3,418,281	3,903,650

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
United Kingdom	**1,266,688**	1,212,016
Germany	**615,901**	623,217
United States	**264,742**	257,945
Mainland China	**536,468**	988,139
Other countries	**734,482**	822,333
	3,418,281	3,903,650

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

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2018	2017
	HK$'000	HK$'000
Poland	**374,564**	283,967
Czech	**160,579**	143,870
United Kingdom	**87,419**	74,050
Mainland China	**–**	218,143
Other countries	**12,489**	9,123
	635,051	729,153

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

Information about major customers

During the reporting period, the revenues which were generated from two (2017: one) of the Group's customers and were individually accounted for more than 10% of the Group's total revenue are as follows:

	2018	2017
	HK$'000	HK$'000
Customer A	**961,225**	870,838
Customer B	**350,310**	346,378
	1,311,535	1,217,216

6. REVENUE, OTHER INCOME AND GAINS

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

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

	2018	2017
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of goods	**3,272,577**	3,727,058
Technical service income	**145,704**	176,592
	3,418,281	3,903,650
Other income		
Bank interest income	**7,334**	2,934
Profit from sale of scrap materials	**50,416**	54,733
Foreign exchange differences, net	**9,387**	–
Others	**9,582**	5,998
	76,719	63,665
Gains		
Disposal of a subsidiary	**86,278**	–
Gain on disposal of items of property, plant and equipment	**1,429**	4,021
Government grants	**9,343**	8,040
	97,050	12,061
Other income and gains, net	**173,769**	75,726

NOTES TO FINANCIAL STATEMENTS

31 December 2018

7. PROFIT BEFORE TAX

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

	Notes	**2018** **HK$'000**	2017 HK$'000
Cost of inventories sold and services provided		**2,795,592**	3,156,431
Depreciation	14	**103,643**	107,817
Amortisation of prepaid land lease payments	15	**327**	311
Minimum lease payments under operating leases		**48,242**	58,625
Auditors' remuneration		**4,500**	3,930
Employee benefit expense (including directors' remuneration):			
Wages, salaries and benefits		**554,973**	614,708
Defined benefit obligation expenses	25	**2,202**	1,753
		557,175	616,461
Research and development costs		**386,815**	490,587
Less: Staff costs included in research and development costs		**(145,523)**	(186,674)
Research and development costs, net of staff costs		**241,292**	303,913
Gain on disposal of items of property, plant and equipment	6	**(1,429)**	(4,021)
Accrual/(reversal) of impairment of trade and bills receivables, net*	19	**5,972**	(785)
Accrual of impairment of prepayment, other receivables and other assets, net*	20	**495**	–
Impairment of items of property, plant and equipment	14	**–**	1,779
Provision against obsolete inventories**	18	**943**	4,212
Provision for warranties, net	26	**42**	13,510
Foreign exchange differences, net***		**(9,387)**	24,119

7. PROFIT BEFORE TAX (continued)

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

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

*** Foreign exchange gain of approximately HK$9,387,000 is included in "other income and gains" in the consolidated statement of profit or loss for the year ended 31 December 2018, and foreign exchange loss of approximately HK$24,119,000 was included in "other operating expense" in the consolidated statement of profit or loss for the year ended 31 December 2017.

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank loans and other loans wholly repayable within one year derived from:		
– bank loans	**13,546**	13,719

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2018 **HK$'000**	2017 HK$'000
Fees	**720**	720
Other emoluments:		
Salaries, allowances and benefits in kind	**2,074**	2,074
Pension scheme contributions	**104**	104
	2,898	2,898

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

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

(a) Independent non-executive directors

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

	2018	2017
	HK$'000	HK$'000
Mr. Tam King Ching, Kenny	**240**	240
Mr. Leung Kai Cheung (resigned with effect from 16 November 2018)	**210**	240
Mr. Yip Kin Man, Raymond	**240**	240
Mr. Chan Pat Lam (appointed with effect from 16 November 2018)	**30**	–
	720	720

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

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

(b) Salaries, allowances and benefits in kind

	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2018			
Executive directors:			
Mr. Jiang Yunan	–	–	–
Mr. Chen Zhouping (chief executive)	2,074	104	2,178
Mr. Li Shaofeng	–	–	–
Mr. Thomas P Gold	–	–	–
	2,074	104	2,178
Non-executive director:			
Mr. Zhang Yaochun	–	–	–
	2,074	104	2,178

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

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

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2018 (year ended 31 December 2017: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2017: one), details of the remuneration for the year of the remaining four (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	**6,630**	5,765
Performance related bonuses	**487**	21
	7,117	5,786

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

	Number of employees	
	2018	2017
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**2**	1
	4	4

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2018 as the Group did not generate any assessable profits arising in Hong Kong during the year (year ended 31 December 2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The rates of tax prevailing in the countries in which the Group operates include:

	2018	2017
	(%)	(%)
Luxembourg	**26.01**	27.08
Poland	**19.00**	19.00
United Kingdom	**19.00**	19.25
France	**28.00**	33.33
Germany	**15.83**	15.00
Italy	**27.90**	27.90
Mainland China (Note (i))	**15.00**	15.00
Czech	**19.00**	19.00

Note:

(i) In accordance with the relevant tax laws in the PRC, the subsidiary located in Mainland China is entitled to a preferential corporate income tax rate of 15% on its taxable income for the years ended 31 December 2018 and 2017.

	2018	2017
	HK$'000	HK$'000
Current – elsewhere	**49,648**	45,421
Deferred tax (Note 27)	**(9,740)**	(8,125)
Total tax charge for the year	**39,908**	37,296

11. INCOME TAX (continued)

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

	2018		2017	
	HK$'000	**%**	HK$'000	%
Profit before tax	**133,440**		**5,783**	
Income tax charge at the Company's statutory tax rate of 16.5%	**22,018**	**16.5**	954	16.5
Effect of different income tax rates for foreign operations	**11,016**	**8.3**	4,295	74.3
Income not subject to tax	**(17,489)**	**(13.1)**	–	–
Expenses not deductible for tax purposes	**9,116**	**6.8**	6,738	116.5
Tax losses not recognised as deferred tax assets	**15,761**	**11.8**	14,560	251.8
Adjustment for the current income tax of the previous period	**–**	**–**	11,584	200.3
Additional deduction of research and development expenses	**(3,145)**	**(2.4)**	(4,113)	(71.1)
Withholding tax	**1,078**	**0.8**	2,513	43.5
Others	**1,553**	**1.2**	765	13.2
Tax charge at the effective rate	**39,908**	**29.9**	37,296	644.9

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

The calculation of the basic profit/loss per share amount is based on the profit/loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 574,339,068 (2017: 574,339,068) in issue during the year.

No adjustment has been made to the profit/loss per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group did not have any potential ordinary shares in issue during the years ended 31 December 2018 and 2017.

13. DIVIDEND

	2018 **HK$'000**	2017 HK$'000
Proposed final dividend and special dividend	**34,460**	–

The board of directors of the Company proposed, on 29 March 2019, the payment of a final dividend of HK$0.02 per share and a special dividend of HK$0.04 per share in respect of the year ended 31 December 2018 (2017: final dividend and special dividend of nil) based on the issued share capital of the Company of 574,339,068 shares. The proposed final dividend and special dividend are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Special tools HK$'000	Computer equipment and others HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	30,384	853,127	9,414	164,644	135,619	85,398	1,278,586
Accumulated depreciation and impairment	(13,555)	(363,412)	(5,775)	(119,165)	(96,650)	–	(598,557)
Net carrying amount	16,829	489,715	3,639	45,479	38,969	85,398	680,029
At 1 January 2018, net of accumulated depreciation and impairment	16,829	489,715	3,639	45,479	38,969	85,398	680,029
Additions	–	13,139	2,502	11,538	14,942	125,150	167,271
Disposal of a subsidiary (Note 30)	–	(120,359)	(3,853)	(27,713)	(20,660)	(34,463)	(207,048)
Depreciation provided during the year (Note 7)	(1,829)	(69,513)	(1,002)	(19,279)	(12,020)	–	(103,643)
Disposals	–	(20,731)	–	(489)	(1,217)	(14,293)	(36,730)
Impairment (Note 7)	–	–	–	–	–	–	–
Transfers	5,806	46,740	1,199	5,387	17,425	(76,557)	–
Exchange realignment	(1,169)	(25,041)	(336)	(1,272)	(3,732)	6,266	(25,284)
At 31 December 2018, net of accumulated depreciation and impairment	19,637	313,950	2,149	13,651	33,707	91,501	474,595
At 31 December 2018:							
Cost	34,127	523,808	6,795	32,921	86,874	91,501	776,026
Accumulated depreciation and impairment	(14,490)	(209,858)	(4,646)	(19,270)	(53,167)	–	(301,431)
Net carrying amount	19,637	313,950	2,149	13,651	33,707	91,501	474,595

14. PROPERTY, PLANT AND EQUIPMENT (continued)

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

No fixed assets of the Group were held under finance leases at 31 December 2018 (31 December 2017: Nil).

15. PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Carrying amount at beginning of the year	**10,590**	9,556
Amortisation (Note 7)	**(327)**	(311)
Exchange realignment	**(673)**	1,345
	9,590	10,590

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

16. GOODWILL

	2018 HK$'000	2017 HK$'000
Cost and net carrying amount at 1 January 2018	**4,681**	4,437
Exchange realignment	**(226)**	244
Cost and net carrying amount at 31 December 2018	**4,455**	4,681

Impairment testing of goodwill

Goodwill acquired through business combinations from the acquisition in 2009 has been allocated to the relevant cash-generating units ("CGU"), mainly representing by the product lines of automotive parts and components, and technical services for impairment testing. The recoverable amounts of the CGUs have been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections as at 31 December 2018 was 13% which is based on the weighted average cost of capital, and cash flows beyond the five-year period was extrapolated using a growth rate of 2%.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculation of the CGU of product lines of automotive parts and components at 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

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

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

17. OTHER NON-CURRENT ASSETS

	2018 HK$'000	2017 HK$'000
Contract fulfilment cost	26,457	33,853
Pre-production cost	134,748	–
	161,205	33,853
Within one year (Note 20)	(14,794)	–
	146,411	33,853

18. INVENTORIES

	2018	2017
	HK$'000	HK$'000
Raw materials	**129,590**	199,825
Work in progress	**20,020**	30,295
Finished goods	**32,162**	73,920
	181,772	304,040
Provision for impairment	**(9,983)**	(19,062)
	171,789	284,978

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

	2018	2017
	HK$'000	HK$'000
At beginning of the year	**(19,062)**	(13,472)
Impairment losses recognised, net (Note 7)	**(943)**	(4,212)
Disposal of a subsidiary	**9,292**	–
Exchange realignment	**730**	(1,378)
At end of the year	**(9,983)**	(19,062)

19. TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade and bills receivables	**390,739**	961,847
Impairment	**(3,043)**	(10,068)
Total	**387,696**	951,779

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

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

	2018 HK$'000	2017 HK$'000
Within 3 months	**386,619**	934,053
3 months to 1 year	**1,077**	17,726
	387,696	951,779

19. TRADE AND BILLS RECEIVABLES (continued)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 HK$'000	2017 HK$'000
At beginning of the year	**(10,068)**	(12,134)
Effect of adoption of HKFRS 9	**(2,140)**	–
Impairment losses (recognised)/reversed, net (Note 7)	**(5,972)**	785
Amount written off as uncollectable	**–**	2,428
Exchange realignment	**1,212**	(1,147)
Disposal of a subsidiary	**13,925**	–
At end of the year	**(3,043)**	(10,068)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss pattens. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	In Due	Over Due	Total
Expected credit loss rate	0.5%	74.15%	0.78%
Carrying amount (HK$'000)	389,260	1,479	390,739
Expected credit losses (HK$'000)	1,946	1,097	3,043

19. TRADE AND BILLS RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of HK$10,068,000 with an aggregate carrying amount before provision of HK$351,393,000. The individually impaired trade receivables relate to customers that were in unexpected financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

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

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

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

20. PREPAYMENT, OTHER RECEIVABLES AND OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Prepayments	**24,102**	23,516
Deposits, other receivables and others	**73,346**	60,460
Preproduction cost – current (Note 17)	**14,794**	–
Due from fellow subsidiaries (Note 36(c)(i))	**33,387**	23,312
Due from holding companies (Note 36(c)(ii))	**67,656**	41,755
	213,285	149,043
Impairment (Note 7)	**(495)**	–
	212,790	149,043

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	In Due	Over Due	Total
Expected credit loss rate	0.5%	–	0.5%
Adjusted carrying amount* (HK$'000)	101,043	–	101,043
Expected credit losses (HK$'000)	495	–	495

Note:

* The adjusted carrying amount represents the gross carrying amount excluding prepayments, deposits, other receivables and others and current preproduction cost with no default risk.

21. CASH AND CASH EQUIVALENTS

	2018	2017
	HK$'000	HK$'000
Cash and bank balances denominated in:		
Euro ("EUR")	**325,226**	270,242
Hong Kong Dollar	**6,720**	25,271
United States Dollar ("USD")	**375,938**	248,789
British Pound Sterling ("GBP")	**18,460**	11,558
Polish Zloty ("PLN")	**1,414**	2,110
Czech Koruna ("CZK")	**107**	1,473
Renminbi ("RMB")	**35**	92,921
Singarpore Dollar	**12**	12
Taiwan Dollar	**–**	392
	727,912	652,768

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. There was no restricted cash as at 31 December 2018 and 2017.

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

22. TRADE PAYABLES

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

	2018 HK$'000	2017 HK$'000
Within 3 months	**381,100**	686,184
3 to 6 months	**1,121**	15,217
6 to 12 months	**23**	5,498
Over 12 months	**1,135**	18,161
	383,379	725,060

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

23. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Contract liabilities (Note (a))	**57,025**	–
Other payables and accruals (Note (b))	**58,547**	105,555
Other tax payables	**39,946**	50,219
Accrued salaries, wages and benefits	**30,797**	42,105
Due to fellow subsidiaries (Note 36(c)(iii))	**34,100**	51,209
Due to a holding company (Note 36(c)(iv))	**11,787**	33,875
Dividends payable to BWI	**–**	43,000
	232,202	325,963
Portion classified as current liabilities	**(193,538)**	(312,060)
Non-current portion	**38,664**	13,903

23. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 HK$'000	1 January 2018 HK$'000
Short-term advances received from customers	–	1,669
Engineering technical service fees	57,025	12,836
Total contract liabilities	57,025	14,505

Contract liabilities include short-term advances received to deliver manufactured automatic products and technical services.

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

24. BANK BORROWINGS

	Notes	2018 HK$'000	2017 HK$'000
Bank loans, unsecured	(b)	349,366	566,664
Analysed into, repayable:			
Within one year		349,366	566,664
Total bank borrowings	(a)	349,366	566,664
Portion classified as current liabilities		(349,366)	(566,664)
Non-current portion		–	–

24. BANK BORROWINGS (continued)

Notes:

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

	Notes	2018 HK$'000	2017 HK$'000
EUR	(i)	**269,183**	328,299
RMB	(ii)	**–**	217,345
PLN	(iii)	**43,764**	20,933
USD	(iv)	**36,419**	87
		349,366	566,664

(i) The bank loan denominated in EUR as at 31 December 2018 bore interest at a rate of 1 month EURIBOR plus 1.20% per annum or 1 month EURIBOR plus 2.20% per annum (31 December 2017: 1 month EURIBOR plus 1.20% per annum or 1 month EURIBOR plus 2.20% per annum).

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

(iii) The bank loan denominated in PLN as at 31 December 2018 bore interest at a rate of 1 month WIBOR plus 2.00% per annum (31 December 2017: 1 month WIBOR plus 2.20% per annum).

(iv) The bank loan denominated in USD as at 31 December 2018 bore interest at a rate of 1 month LIBOR plus 2.20% per annum (31 December 2017: 1 month LIBOR plus 2.20% per annum).

(b) Certain interest-bearing bank loans of the Group in an aggregate amount of HK$ 224,396,374 as at 31 December 2018 (31 December 2017: HK$234,327,000) were supported by a letter of comfort issued by Shougang Group Co., Ltd.

25. DEFINED BENEFIT OBLIGATIONS

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

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

25. DEFINED BENEFIT OBLIGATIONS (continued)

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

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

	2018	2017
	HK$'000	HK$'000
Present value of unfunded obligations	**88,760**	89,400
Portion classified as current liabilities	**(2,888)**	(2,894)
Non-current portion	**85,872**	86,506

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

	2018	2017
	HK$'000	HK$'000
At beginning of the year	**89,400**	78,744
Current service costs	**633**	(142)
Interest cost on benefit obligations	**1,569**	1,895
Benefits paid during the year	**(2,446)**	(2,093)
Remeasurement losses/(income) recognised in other comprehensive income*	**4,528**	(2,869)
Exchange realignment	**(4,924)**	13,865
At end of the year	**88,760**	89,400

* Deferred tax assets of HK$932,000 (31 December 2017: HK$2,941,000) were recognised for the remeasurement losses (note 27). The remeasurement income after deferred tax amounted to HK$3,596,000 (31 December 2017: HK$72,000), which was recognised in other comprehensive income.

25. DEFINED BENEFIT OBLIGATIONS (continued)

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

	2018 HK$'000	2017 HK$'000
Current service costs	**633**	(142)
Interest cost on benefit obligations	**1,569**	1,895
Net benefit expenses	**2,202**	1,753

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

	2018		
	Germany %	**Poland** %	**France** %
Discount rate	**1.80**	**3.40**	1.50
Rate of salary increases	**3.00**	**3.50/4.00**	2.30/2.50
Rate of price inflation	**2.00**	**2.50**	1.80/2.00
Rate of social security increases	**2.25**	**N/A**	N/A
Pension increase rate	**2.00**	**N/A**	N/A

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

25. DEFINED BENEFIT OBLIGATIONS (continued)

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

	2018		
	Germany	**Poland**	**France**
	Years	**Years**	**Years**
Average life expectancy			
Plan 1	**16**	**17**	10
Plan 2	**6**	**12**	N/A

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

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

	2018		2017	
	Increase in rate	**Decrease in provisions for defined benefits**	Increase in rate	Decrease in provisions for defined benefits
	%	**HK$'000**	%	HK$'000
Discount rate	**1**	**(7,118)**	1	(7,904)

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

26. PROVISION

	2018 HK$'000	2017 HK$'000
Product warranties:		
At beginning of the year	**44,411**	51,788
Additional provision (note 7)	**42**	13,510
Amounts utilised during the year	**(14,932)**	(20,101)
Exchange realignment	**(1,839)**	(786)
Disposal of a subsidiary	**(11,139)**	–
At end of the year	**16,543**	44,411

The Group provides warranties of certain periods to its customers on certain products, and warranties ranging from one to five years to its customers for construction services for general repairs of defects occurring during the warranty period. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

27. DEFERRED TAX

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

2018

Deferred tax liabilities

	Contract assets HK$'000	Depreciation allowance in excess of related depreciation HK$'000	Fair value adjustments arising from business combination HK$'000	Total HK$'000
At 1 January 2018	–	(672)	(9,367)	(10,039)
Effect of adoption of HKFRS 15	(16,755)	–	–	(16,755)
At 1 January 2018 (restated)	(16,755)	(672)	(9,367)	(26,794)
Deferred tax charged/(credited) to profit or loss during the year	(12,725)	604	(692)	(12,813)
Decrease due to disposal of a subsidiary	2,590	(3,488)	3,987	3,089
Exchange realignment	1,288	242	371	1,901
At 31 December 2018	(25,602)	(3,314)	(5,701)	(34,617)

27. DEFERRED TAX (continued)

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

2018 (continued)

Deferred tax assets

	Contract liabilities HK$'000	Warranty provision HK$'000	Defined benefit pension plans HK$'000	Accruals HK$'000	Deductible loss HK$'000	Total HK$'000
At 1 January 2018	–	11,143	8,180	19,876	8,808	48,007
Effect of adoption of HKFRS 15	1,151	–	–	–	–	1,151
At 1 January 2018 (restated)	1,151	11,143	8,180	19,876	8,808	49,158
Deferred tax charged/(credited) to profit or loss during the year	8,675	(288)	849	3,178	10,139	22,553
Deferred tax charged to other comprehensive income during the year	–	–	932	–	–	932
Decrease due to disposal of a subsidiary	–	(1,744)	–	(17,941)	(18,947)	(38,632)
Exchange realignment	(403)	(216)	(968)	(319)	–	(1,906)
At 31 December 2018	9,423	8,895	8,993	4,794	–	32,105

27. DEFERRED TAX (continued)

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

2017

Deferred tax liabilities

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

Deferred tax assets

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

As at 31 December 2018, tax losses of the Group were HK$237,413,000 (31 December 2017: HK$153,172,000), which had not been recognised as deferred tax assets, as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

28. ISSUED CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each (2017: 2,000,000,000 ordinary shares of HK$0.10 each)	**200,000**	200,000
Issued and fully paid:		
574,339,068 ordinary shares of HK$0.10 each (2017: 574,339,068 ordinary shares of HK$0.10 each)	**57,434**	57,434

A summary of the movements in the Company's issued share capital during the years ended 31 December 2018 and 2017 is as follows:

	Number of ordinary shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017	574,339,068	57,434	1,037,745	1,095,179
At 31 December 2017 and 1 January 2018	574,339,068	57,434	1,037,745	1,095,179
At 31 December 2018	574,339,068	57,434	1,037,745	1,095,179

29. RESERVES

(i) The amounts of the Group's reserves and the movements therein for the years ended 31 December 2018 and 2017 are presented in the consolidated statement of changes in equity.

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

30. DISPOSAL OF A SUBSIDIARY

	2018 HK$'000
Net assets disposed of:	
Property, plant and equipment	207,048
Cash and bank balances	49,676
Trade receivables	262,596
Inventories	85,499
Other current assets	25,717
Prepayments and other receivables	9,621
Deferred tax assets	38,632
Trade payables	(234,435)
Bank borrowings	(120,645)
Accruals and other payables	(150,042)
Deferred tax liabilities	(3,089)
Non-controlling interests	(105,269)
	65,309
Gain on disposal of a subsidiary	86,278
Satisfied by:	
Cash	151,587

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

	2018 HK$'000
Cash consideration	151,587
Cash and bank balances disposed of	(49,676)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	101,911

31. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its property, plant and equipment under operating lease arrangements, with leases negotiated for terms ranging from one to fourteen years (2017: one to fifteen years).

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**33,467**	26,358
In the second to fifth years, inclusive	**63,074**	87,334
After five years	**81,225**	90,045
	177,766	203,737

32. COMMITMENTS

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

	2018	2017
	HK$'000	HK$'000
Contracted, but not provided for:		
Plant and machinery	**52,566**	88,210

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank borrowings HK$'000	Loan from a holding company HK$'000
At 1 January 2018	**566,664**	**469**
Changes from financing cash flows	**(72,284)**	**–**
Disposal of a subsidiary	**(120,645)**	**–**
Exchange realignment	**(24,369)**	**(21)**
At 31 December 2018	**349,366**	**448**

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

34. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

35. LITIGATIONS

We were involved in a litigation against the Group in December 2010, and the Directors are of view that it shall not have any material adverse effect on the Group and no provision was made in respect thereof in the Group's consolidated financial statements for the year ended 31 December 2018.

36. RELATED PARTY DISCLOSURES

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

Name of the related companies	Relationship with the Group
Shougang Group Co., Ltd.	the ultimate holding company
BWI	the intermediate holding company
BWI (HK)	the immediate holding company
BWI North America Inc.	a fellow subsidiary
BWI Indiana Inc.	a fellow subsidiary
BWI Company Limited S.A.	a fellow subsidiary
Beijing Shougang Automation Information Technology Co., Ltd. ("Shougang Automation")	a fellow subsidiary
Shougang Concord International Enterprises Company Limited ("Shougang Concord International")	an associate of the ultimate holding company
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V	a fellow subsidiary
BWI (Shanghai) Co., Ltd.	a fellow subsidiary
Vehicle Stability Technology, S.A. de C.V.	a fellow subsidiary

36. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties

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

	2018 HK$'000	2017 HK$'000
Sales of goods to:		
BWI North America Inc.	**14,333**	13,387
BWI	**2,935**	1,487
BWI (HK)	**1,608**	507
BWI Indiana Inc.	**425**	10
	19,301	15,391
Technical services provided to:		
BWI North America Inc.	**60,559**	85,387
BWI	**24,879**	26,324
BWI Indiana Inc.	**19,562**	8,373
BWI (HK)	**374**	583
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V	**110**	–
Vehicle Stability Technology, S.A. de C.V.	**93**	–
BWI (Shanghai) Co., Ltd.	**39**	–
	105,616	120,667

36. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties (continued)

	2018 HK$'000	2017 HK$'000
Purchases of goods from:		
BWI	**6,646**	4,071
BWI (HK)	**8**	–
BWI North America Inc.	**264**	499
	6,918	4,570
Management and technical services provided by:		
BWI North America Inc.	**180,438**	229,609
BWI	**17,293**	16,791
Shougang Automation	**63**	6,085
	197,794	252,485
Royalty provided by:		
BWI	**11,042**	9,666
Company secretary service fee paid to:		
Shougang Concord International	**350**	1,200

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

(b) Other transactions with related parties:

During the year ended 31 December 2018, Shougang Group Co., Ltd issued a letter of comfort to facilitate the Group to obtain interest-bearing bank loans in an aggregate amount of HK$224,396,374 (2017: HK$234,327,000).

36. RELATED PARTY DISCLOSURES (continued)

(c) Balances with related parties

	Notes	2018 HK$'000	2017 HK$'000
Amounts due from fellow subsidiaries:	(i)		
BWI North America Inc.		**19,826**	21,005
BWI Company Limited S.A.		**1,983**	2,076
BWI (Shanghai) Co., Ltd.		**989**	–
BWI Indiana Inc.		**10,589**	231
		33,387	23,312
Amounts due from holding companies:	(ii)		
BWI		**66,788**	41,755
BWI (HK)		**868**	–
		67,656	41,755
Amounts due to fellow subsidiaries:	(iii)		
BWI North America Inc.		**34,041**	49,302
BWI Vehicle Dynamics Sales and Service, S.DE R.L.DE C.V		**59**	–
Shougang Automation		**–**	1,907
		34,100	51,209
Amount due to a holding company:	(iv)		
BWI		**11,787**	33,875
Long term loan due to a holding company:	(v)		
BWI (HK)		**448**	469
Dividend payable due to a holding company:			
BWI		**–**	43,000

36. RELATED PARTY DISCLOSURES (continued)

(c) Balances with related parties (continued)

Notes:

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

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

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

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

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

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

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

	2018	2017
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,630**	5,765
Performance related bonuses	**487**	21
	7,117	5,786

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group as at 31 December 2018 and 2017 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial assets				
Trade and bills receivables	**387,696**	951,779	**387,696**	951,779
Financial assets included in Prepayments, other receivables and other assets	**6,410**	22,178	**6,410**	22,178
Due from fellow subsidiaries	**33,387**	23,312	**33,387**	23,312
Due from holding companies	**67,656**	41,755	**67,656**	41,755
Cash and cash equivalents	**727,912**	652,768	**727,912**	652,768
	1,223,061	1,691,792	**1,223,061**	1,691,792
Financial liabilities				
Trade payables	**(383,379)**	(725,060)	**(383,379)**	(725,060)
Financial liabilities included in other payables and accruals	**(58,547)**	(92,288)	**(58,547)**	(92,288)
Due to fellow subsidiaries	**(34,100)**	(51,209)	**(34,100)**	(51,209)
Due to a holding company	**(11,787)**	(33,875)	**(11,787)**	(33,875)
Dividends payable to BWI	**–**	(43,000)	**–**	(43,000)
Bank borrowings	**(349,366)**	(566,664)	**(349,366)**	(566,664)
Long term loan from a holding company	**(448)**	(469)	**(448)**	(469)
	(837,627)	(1,512,565)	**(837,627)**	(1,512,565)
	385,434	179,227	**385,434**	179,227

38. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Management has assessed that the fair values of the above short term financial instruments approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the long term financial instruments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk as at 31 December 2018 and 2017 was assessed to be insignificant.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing borrowings and cash and bank balances. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are recognised below.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from transactions in currencies other than the units' functional currency. The Group does not enter into any hedging transactions in order to reduce the Group's exposure to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR, USD and GBP exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). In the opinion of the Directors, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group's equity, the relative sensitivity is not disclosed.

	Increase/ (decrease) in foreign exchange rate	**Increase/(decrease) in profit before tax**	
		2018	2017
		HK$'000	HK$'000
If HK$ strengthens against EUR	10%	**(17,753)**	(6,663)
If HK$ weakens against EUR	(10%)	**17,753**	6,663
If HK$ strengthens against USD	10%	**(40,767)**	(28,467)
If HK$ weakens against USD	(10%)	**40,767**	28,467
If HK$ strengthens against GBP	10%	**5,375**	10,456
If HK$ weakens against GBP	(10%)	**(5,375)**	(10,456)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade and bills receivables, other receivables, and contract performance deposits arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from customers. Concentrations of credit risk are managed by analysis by customer.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 19 to the financial statements.

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at the end of reporting period based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	Within 1 year HK$'000	1 to 3 years HK$'000	Over 3 years HK$'000	Total HK$'000
31 December 2018				
Trade payables	**383,379**	**–**	**–**	**383,379**
Financial liabilities included in other payables and accruals	**58,547**	**–**	**–**	**58,547**
Due to fellow subsidiaries	**34,100**	**–**	**–**	**34,100**
Due to a holding company	**11,787**	**–**	**–**	**11,787**
Dividends payable to BWI	**–**	**–**	**–**	**–**
Bank borrowings	**350,836**	**–**	**–**	**350,836**
Long term loan from a holding company	**–**	**–**	**448**	**448**
	838,649	**–**	**448**	**839,097**

	Within 1 year HK$'000	1 to 3 years HK$'000	Over 3 years HK$'000	Total HK$'000
31 December 2017				
Trade payables	725,060	–	–	725,060
Financial liabilities included in other payables and accruals	92,288	–	–	92,288
Due to fellow subsidiaries	51,209	–	–	51,209
Due to a holding company	33,875	–	–	33,875
Dividends payable to BWI	43,000	–	–	43,000
Bank borrowings	570,406	–	–	570,406
Long term loan from a holding company	–	–	469	469
	1,515,838	–	469	1,516,307

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new ordinary shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the year ended 31 December 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of trade payables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries, amounts due to a holding company, dividends payable to BWI, a long term loan from a holding company and bank borrowings, less cash and cash equivalents. Capital includes equity attributable to owners of the Company.

	2018 **HK$'000**	2017 HK$'000
Trade payables	**383,379**	725,060
Financial liabilities included in other payables and accruals	**58,547**	92,288
Due to fellow subsidiaries	**34,100**	51,209
Due to a holding company	**11,787**	33,875
Dividends payable to BWI	**–**	43,000
Long term loan from a holding company	**448**	469
Bank borrowings	**349,366**	566,664
Less: Cash and cash equivalents	**(727,912)**	(652,768)
Net debt	**109,715**	859,797
Equity	**1,019,359**	1,013,315
Net debt and equity	**1,129,074**	1,873,112
Gearing ratio	**9.72%**	45.90%

40. EVENTS AFTER THE REPORTING PERIOD

There is no material event after 31 December 2018.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
Non-current assets:		
Interests in subsidiaries	**586,154**	586,154
Total non-current assets	**586,154**	586,154
Current assets:		
Prepayments, other receivables and other assets	**152**	145
Due from subsidiaries	**600,709**	527,522
Cash and cash equivalents	**5,823**	23,884
Total current assets	**606,684**	551,551
TOTAL ASSETS	**1,192,838**	1,137,705
Current liabilities:		
Other payables and accruals	**1,463**	1,008
Total current liabilities	**1,463**	1,008
Net current assets	**1,191,375**	1,136,697
NET ASSETS	**1,191,375**	1,136,697
EQUITY		
Equity attributable to owners of the Company		
Share capital	**57,434**	57,434
Reserves (Note 29)	**1,133,941**	1,079,263
Total equity	**1,191,375**	1,136,697

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: A summary of the Company's reserves is as follows:

	Share premium HK$'000	Capital reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1 January 2018	**1,037,745**	**44,132**	**(2,614)**	**1,079,263**
Profit and total comprehensive income for the year	**–**	**–**	**54,678**	**54,678**
At 31 December 2018	**1,037,745**	**44,132**	**52,064**	**1,133,941**

	Share premium HK$'000	Capital reserve HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
At 1 January 2017	1,037,745	44,132	14,147	1,096,024
Loss and total comprehensive loss for the year	–	–	(5,274)	(5,274)
Final dividend	–	–	(11,487)	(11,487)
At 31 December 2017	1,037,745	44,132	(2,614)	1,079,263

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2018	2017	2016	2015	2014*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	(restated)
RESULTS					
Revenue	**3,418,281**	3,903,650	4,354,676	4,774,239	5,214,442
Profit before tax	**133,440**	5,783	190,291	203,612	429,198
Income tax expense	**(39,908)**	(37,296)	(44,895)	(34,297)	(46,987)
Profit/(loss) for the year	**93,532**	(31,513)	145,396	169,315	382,211
Profit/(loss) for the year attributable to:					
Owners of the Company	**120,879**	(8,572)	107,910	134,067	344,461
Non-controlling interests	**(27,347)**	(22,941)	37,486	35,248	37,750
	93,532	(31,513)	145,396	169,315	382,211

	As at 31 December				
	2018	2017	2016	2015	2014*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				(restated)	(restated)
ASSETS AND LIABILITIES					
Total assets	**2,167,343**	2,815,728	2,454,258	2,779,311	2,592,049
Total liabilities	**(1,147,984)**	(1,802,413)	(1,529,311)	(1,812,427)	(2,156,168)
Net assets	**1,019,359**	1,013,315	924,947	966,884	435,881
Equity attributable to owners of the Company	**1,019,359**	892,272	789,197	860,624	298,118
Non-controlling interests	**–**	121,043	135,750	106,260	137,763
Total equity	**1,019,359**	1,013,315	924,947	966,884	435,881

* The financial summary was presented since BWI obtained control over the Company on 23 January 2014.