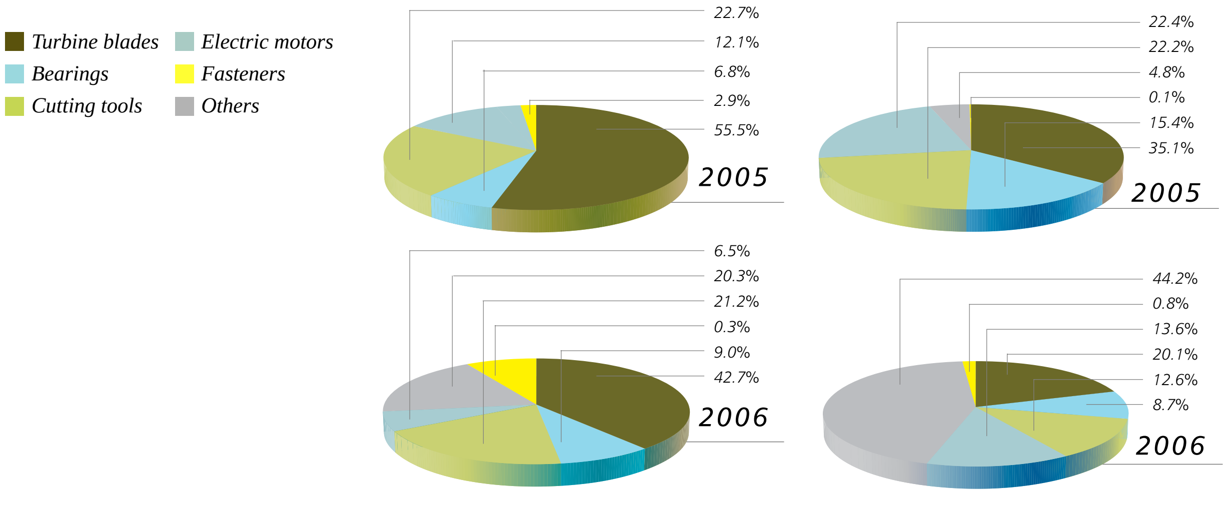


Segment Results *Revenue*

Management Discussion and Analysis

Segment Results of Major Business Divisions

Set out below are the revenue and segment results for each individual business division:

RMB(Million)	**Revenue** 2006	**Revenue** 2005	**Segment results** 2006	**Segment results** 2005
Turbine blade	576	501	137	115
Percentage of total	20.1%	35.1%	42.7%	55.5%
Bearing	248	220	29	14
Percentage of total	8.7%	15.4%	9.0%	6.8%
Cutting tool	362	316	68	47
Percentage of total	12.6%	22.2%	21.2%	22.7%
Electric motor	390	319	21	25
Percentage of total	13.6%	22.4%	6.5%	12.1%
Fastener	1,268	68	65	6
Percentage of total	44.2%	4.8%	20.3%	2.9%
Others *(inter-group transactions eliminated)*	23	1	1	-
Percentage of total	0.8%	0.1%	0.3%	-
Total	2,867	1,425	321	207

The Group's revenue for the year ended 31 December 2006 was RMB 2,867 million (2005: RMB 1,425 million), representing an increase of 101% over last year. Profit attributable to equity holders of the Company for the year 2006 was RMB 231 million (2005: RMB 135 million), representing an increase of 71% over last year. Basic earnings per share were RMB 18.98 cents (2005: RMB 18.04 cents).

As at 31 December 2006, the total assets of the Group were RMB 3,266 million (2005: RMB 1,799 million) while total liabilities amounted to RMB 837 million (2005: RMB 985 million). The total equity was RMB 2,429 million (2005: RMB 815 million), of which RMB 2,357 million (2005: 744 million) was attributable to equity holders of the Company.

The Group achieved satisfactory results in the year 2006, mainly due to a rapid growth of its turbine blade business, bearing business and fastener business.

TURBINE BLADE BUSINESS

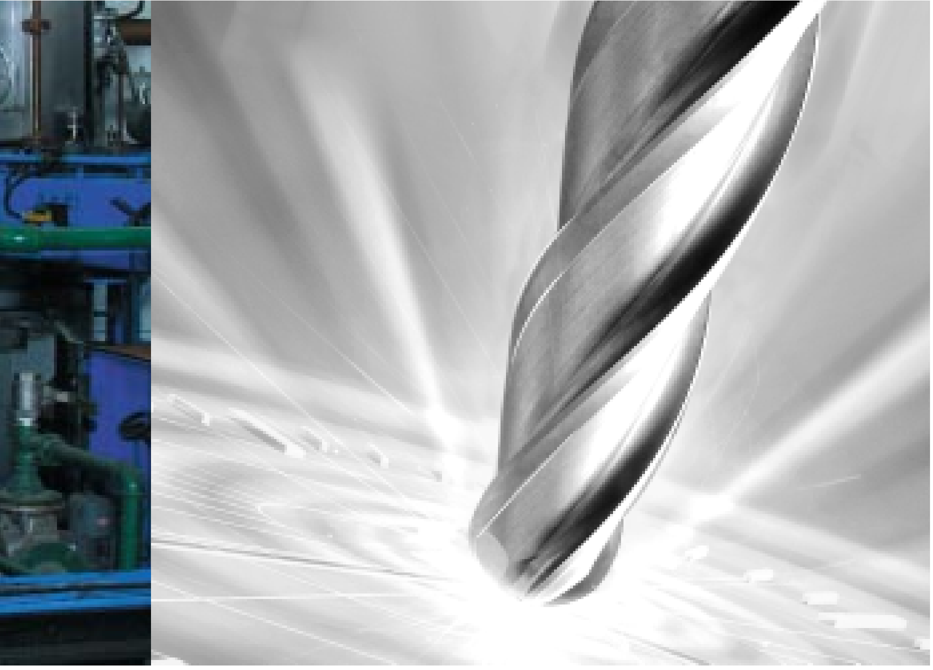
Being a leading specialized provider of turbine blades for power station turbines in the PRC, the Group is primarily engaged, through one of its wholly owned subsidiary, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blades"), in the manufacturing of long turbine blades and precision turbine blades, which require higher level of technical sophistication compared to other turbine blade products. For 2006, revenue of turbine blade business amounted to RMB 576 million (2005: RMB 501 million), representing an increase of 15% over last year. The gross profit margin was 33% (2005: 32%), representing a slight increase as compared to last year. While maintaining a steady growth in the domestic market, the Group has adjusted its product portfolio in 2006 with a view to further exploring the overseas market. In 2006, export sales amounted to RMB 102 million (2005: RMB 38 million), representing an increase of 168% as compared to last year, and accounted for 18% (2005: 8%) of the total sales.

Management Discussion and Analysis

BEARING BUSINESS

The Company manufactures and sells a broad variety of bearings applied in a wide range of industries including railway transportation, automobiles, freight carriages, electric motors, electric appliances and aviation and navigation equipment. For 2006, the total revenue of bearing business was RMB 248 million (2005: RMB 220 million), representing an increase of 13% over last year. The segment result was RMB 29 million (2005: RMB 14 million), representing an increase of 107% over last year. The gross profit margin of bearing business this year was 25% (2005: 21%).

The Company conducts its bearing business through a number of its investees, the largest of which is Shanghai Tian An Bearing Company Limited ("Tian An Bearings"). During the year of 2006, the revenue of Tian An Bearings was RMB 138 million, of which, sales on high technology and high value-added precision aviation bearings reached RMB 36 million (2005: RMB 32 million), representing an increase of 13% over last year. The revenue contributed from Shanghai United Bearings Company Limited ("United Bearings"), a jointly controlled entity through which the Company conducts its bearing business in 2006, to the Group reached RMB 110 million (2005: RMB 88 million), with the main drive being the boost of sales from the new speed-lifting railway bearings for heavy cargo trains, of which sales of railway bearings amounted to RMB 72 million (2005: RMB 43 million), representing an increase of 67% compared to last year.



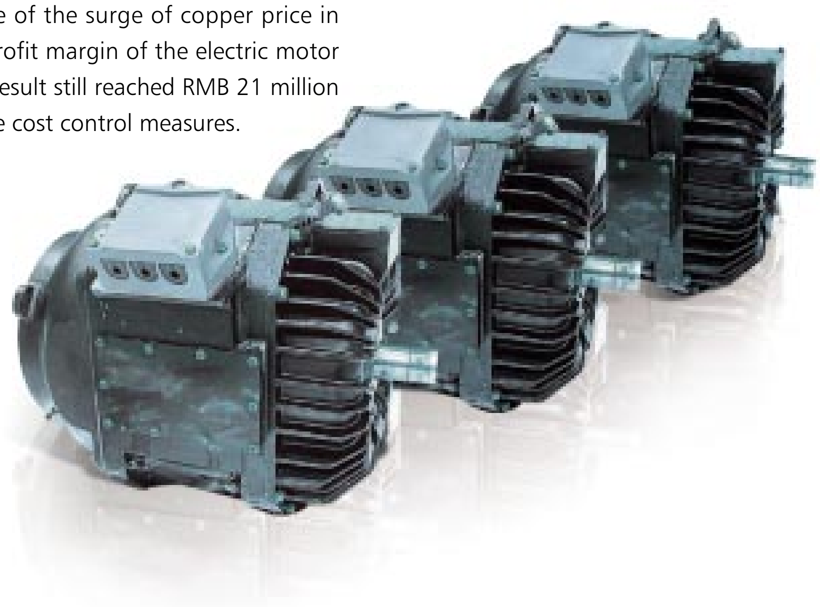
CUTTING TOOL BUSINESS

Through two of its subsidiaries, Shanghai Tool Works Company Limited ("Shanghai Tools") and Shanghai Tool Works Sales Company Limited, the Group manufactures a wide variety of cutting tools under the " Shanggong" brand (" 上☆工 ") using high speed steel, carbide and polycrystalline diamond ("PCD"), which are widely applied in the mechanical processes for the manufacturing of automobiles, electric appliances, moulds, aeronautics and astronautics equipment, and electronic and communication equipment. In 2006, the Group successfully improved the performance of its high value-added cutting tool business by focusing on enhancement of operating efficiency and quality requirements. The Group further expanded its market network by increasing the number of distributors from approximately 70 in 2005 to over 100 in 2006. Operating profit of the cutting tool business enjoyed a further growth after " Shanggong" ("上☆工") branded digital cutting tool was awarded "Chinese Famous Brandname" in September 2006 as a result of our" Building a Famous Chinese Brandname" campaign. During the year of 2006, the revenue of the cutting tool business was RMB 362 million (2005: RMB 316 million), representing an increase of 15% over last year. The segment result increased by 45% to RMB 68 million (2005: RMB 47 million), including a gain from debt restructuring of RMB 22 million, while the gross profit margin was 26% (2005: 27%).

Management Discussion and Analysis

ELECTRIC MOTOR BUSINESS

The Company manufactures small-to-medium sized electric motors including DC electric motors and AC inverter-fed motors used in a wide variety of heavy equipment through one of its non-wholly owned subsidiaries, Shanghai Nanyang Electric Motor Company Limited. For 2006, the revenue of electric motor business increased by 22% to RMB 390 million (2005: RMB 319 million) due to the expansion of production capacity, the establishment of specialized production line for elevator electric motor and hoist electric motor and the improvement of operating efficiency which were introduced by the management of the Company to meet growing market demand. Mass production of railway traction electric motors has commenced and resulted in a revenue of RMB 18 million for the electric motor business in 2006. Despite of the surge of copper price in 2006, which resulted in a decline of gross profit margin of the electric motor business to 15% (2005: 21%), the segment result still reached RMB 21 million (2005: RMB 25 million) as a result of effective cost control measures.



FASTENER BUSINESS

Through Shanghai Biaowu High Tensile Fasteners Company Limited, the Company is engaged in the processing of heat treatment, cold forming and coating, as well as packing and delivery and other logistics relating to the import and export trading of various types of standard and special fasteners. The year of 2006 marks a significant year for the Company's fastener business. For 2006, the revenue of fastener business amounted to RMB 1,268 million (2005: RMB 68 million), with the main drive being the competitive advantages of the Group including reliable product quality, faster delivery and diversified product portfolio. The segment result amounted to RMB 65 million (2005: RMB 6 million) and the gross profit margin was 9% (2005: 11%). In 2006, the Group put great efforts in further expanding its overseas market, improving the logistics system and enhancing customer relationships with terminal distributors. Therefore,the Company has successfully established its presence in East Europe, America, Oceania, Africa and other emerging markets. As a result, the export sales amounted to RMB 1,110 million, representing 88% of the total revenue.

Management Discussion and Analysis

Share of Profits and Losses of Associates
During the year 2006, the Group's share of profits of associates was RMB 12 million (2005: RMB 9 million), representing an increase of 33% over last year.

Finance Costs
Finance costs for the year 2006 were RMB 19 million (2005: RMB 17 million), representing an increase of 12% over last year.

Profit Attributable to Equity Holders of the Company
According to the foregoing information, profit attributable to equity holders of the Company for 2006 increased by 71% from last year to RMB 231 million (2005: RMB 135 million). Basic earnings per share was RMB 18.98 cents (2005: RMB 18.04 cents).

Cash Flow
As at 31 December 2006, the Group's cash and bank balances were RMB 1,187 million (2005: RMB 179 million), of which RMB 660 million (2005: RMB 14 million) were restricted deposits, representing an increase of RMB 646 million from the beginning of the year. For 2006, the Group had a net cash inflow from operating activities of RMB 36 million (2005: RMB 123 million), a net cash outflow from investing activities of RMB 1,004 million (2005: RMB 322 million), and a net cash inflow from financing activities of RMB 1,198 million (2005: RMB 246 million).

Cash inflow from financing activities represents primarily the proceeds from the listing of H shares in the Stock Exchange on 27 April 2006. The net proceeds amounted to RMB 1,382 million after deducting certain expenses and payments in respect of the listing.

Assets and Liabilities
As at 31 December 2006, the Group had total assets of RMB 3,266 million (2005: RMB 1,799 million), representing an increase of RMB 1,467 million or 82% compared with the beginning of the year, of which total current assets amounted to RMB 2,249 million (2005: RMB 954 million), or 69% of the total assets, representing an increase of RMB 1,295 million compared with the beginning of the year. Total non-current assets were RMB 1, 017 million (2005: RMB 845 million), accounting for 31% of total assets and representing an increase of RMB 172 million compared with the beginning of the year.

As at 31 December 2006, the total liabilities of the Group were RMB 837 million (2005: RMB 985 million), representing a decrease of RMB 148 million, or 15%, compared with the beginning of the year, of which total current liabilities amounted to RMB 776 million (2005: RMB 933 million), or 93% of total liabilities, representing a decrease of RMB 157 million as compared with the beginning of the year. Total non-current liabilities amounted to RMB 61 million (2005: RMB 52 million), representing 7% of total liabilities and an increase of RMB 9 million compared with the beginning of the year.

As at 31 December 2006, the net current assets of the Group were RMB 1,473 million (2005: RMB 21 million), representing an increase of RMB 1,452 million, or 6,914%, compared with the beginning of the year whereas current ratio increased from 1.02 to 2.90.

Source of Funding and Indebtedness
As at 31 December 2006, the Group had an aggregate bank and other borrowings of RMB 107 million (2005: RMB 325 million), representing a decrease of RMB 218 million, or 67%, compared with the beginning of the

year. Borrowings repayable by the Group within one year were RMB 90 million (2005:RMB 307 million), a decrease of RMB 217 from the beginning of the year whereas borrowings repayable after one year were RMB 17 million (2005:RMB 18 million), a decrease of RMB 1 million from the beginning of the year.

As at 31 December 2006, all bank and other borrowings of the Group were interest-bearing at fixed rates.

Gearing Ratio

As at 31 December 2006, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 5% (2005: 44%).

Pledges of Assets

As at 31 December 2006, bank deposits of RMB 7 million (2005: RMB 7 million) of the Group were pledged to banks. In addition, certain bank loans of the Group were secured by mortgages over certain of the Group's land use rights, buildings and machineries, which had an aggregate net book value of approximately RMB 120 million (2005:RMB 19 million) as at 31 December 2006.

Contingent Liabilities

As at 31 December 2006, the Group had total contingent liabilities of RMB 56 million (2005: RMB 65 million). During the year, the Group provided an additional RMB 56 million guarantee to associates and a jointly controlled entity in connection with the banking facilities granted to and utilised by the associates and a jointly controlled entity.

Capital Expenditure

The total capital expenditure of the Group for the year was approximately RMB 230 million (2005: RMB 296 million), which was principally invested in the upgrading of production technologies and equipment, and the expansion of production capacity.

Risk of Foreign Exchange

The Group uses RMB as the reporting currency. General view of the market expects that the measurements adopted by the PRC government may cause faster growth in exchange rate in the future. Appreciation of RMB will result in higher prices of export products, and may lead to a negative influence on the Group's export sales but a positive influence on the Group's import materials and equipments.

As at 31 December 2006, the Group's deposits comprised HKD 697 million, USD 1 million and JPY 1 million. Save as disclosed above, the Group was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Events

The details of the Company entered into an equity purchase agreement on 9 August 2006 are set out in note 43 to the financial statements. Upon completion of the acquisition, United Bearings becomes a 90% non-wholly owned subsidiary of the Company.

Save as disclosed above, the Group did not have any other significant events that required disclosure during the year or since the end of the financial year.

Employees

As at 31 December 2006, the Group had approximately 4,182 employees (2005: 4,275). The Company has employee incentive programs to encourage employee performance and a range of training programs for the development of its staff.