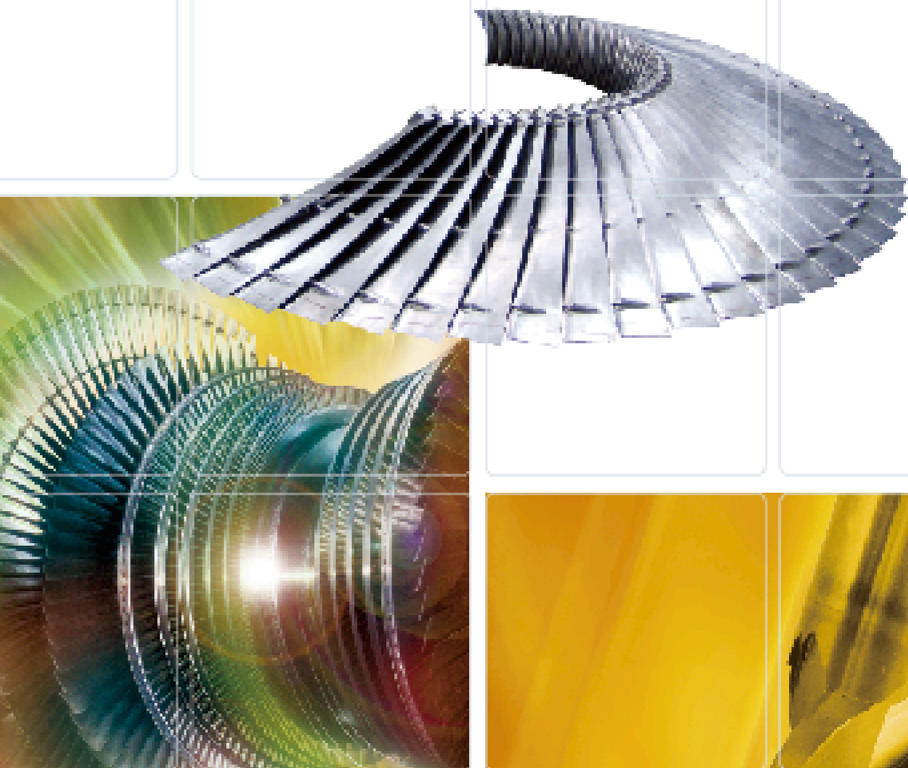
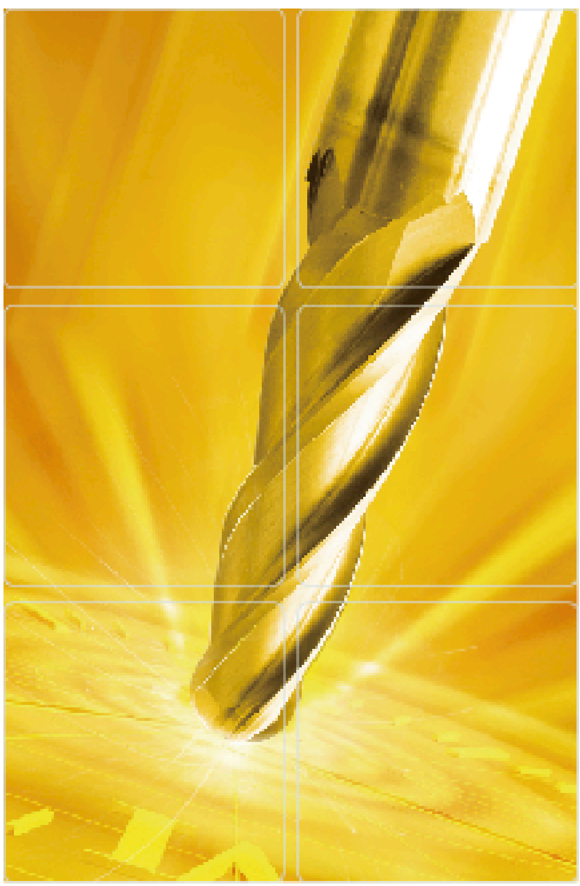
上海集优
SHANGHAI PRIME

Annual Report 2008

SHANGHAI PRIME MACHINERY COMPANY LIMITED

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





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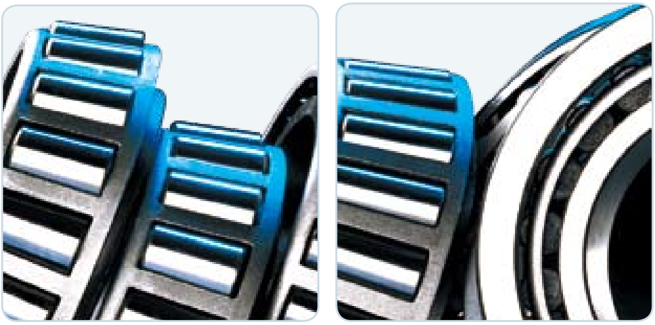

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Corporate Information

Executive Directors

(Re-elected/Appointed on 10 October 2008)

Liu Zhenduo
Zhu Weiming
Hu Kang
Ye Fucai
Zhu Xi
Deng Yuntian

(Resigned on 10 October 2008)

Yan Qi
Chen Hui
Xia Sicheng
Huang Wennong

Independent Non-Executive Directors

(Re-elected/Appointed on 10 October 2008)

Chan Chun Hong (Thomas)
Zhou Feida
Liu Huangsong

Supervisors

(Re-elected/Appointed on 10 October 2008)

Chen Jiaming
Hu Peiming
Zhang Jianping

(Resigned on 10 October 2008)

Lin Guanhong

Company Secretary

Li Wai Chung *(Certified Public Accountant)*

Audit Committee

Chan Chun Hong (Thomas)
Zhou Feida
Liu Huangsong

Remuneration Committee

Zhou Feida
Chan Chun Hong (Thomas)
Liu Huangsong

Authorized Representatives

Zhu Weiming
Hu Kang

Alternative Authorized Representatives

Chan Chun Hong (Thomas)
Li Wai Chung

Qualified Accountant

Li Wai Chung *(Certified Public Accountant)*

International Auditors

Ernst & Young

Legal Advisers

As to Hong Kong, New York U.S. Federal Law

Freshfields Bruckhaus Deringer

As to PRC Law

Jun He Law Offices

H-share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong

Investor and Media Relations Consultant

iPR Ogilvy Ltd

Principal Bankers

China Construction Bank
Bank of Communications

Statutory Chinese Name

上海集優機械股份有限公司

Statutory English Name

Shanghai Prime Machinery Company Limited

Registered Address

Room 1501, Jidian Edifice, 600 Heng Feng Road,
Shanghai, the People's Republic of China
Postal Code: 200070

Principal Place of Business in Hong Kong

2901, 29th Floor, Tower One, Lippo Centre,
89 Queensway, Hong Kong

Stock Exchange on which H shares are listed:
The Stock Exchange of Hong Kong Limited
Abbreviation of H shares: Shanghai Prime
H share stock code: 02345
Website: www.pmcsh.com
Email: pmcservice@pmcsh.com
Telephone: +86 (21) 6472 9900
Fax: +86 (21) 6472 9889

Financial Summary

RMB(Million)	2004	2005	2006	2007*	2008
Revenue and Profit					
Revenue	851	1,425	2,867	2,900	3,250
Profit before tax	92	201	336	331	308
Tax	(27)	(56)	(98)	(111)	(65)
Profit for the year	65	145	238	232	243
Attributable to:					
Equity holders of the Company	64	135	231	225	241
Minority interests	1	10	7	7	2
Dividends - Proposed final	-	-	58	56	60
Earnings per share attributable to equity holders of the Company					
-Basic (RMB cents)	8.52	18.04	18.98	15.65	16.74
Assets and Liabilities					
Non-current assets	684	845	1,017	1,241	1,410
Current assets	539	954	2,249	2,048	2,066
Current liabilities	601	933	776	701	701
Net current assets/(liabilities)	(62)	21	1,473	1,347	1,365
Total assets less current liabilities	622	866	2,490	2,588	2,775
Non-current liabilities	328	51	61	49	48
Net assets	294	815	2,429	2,539	2,727
Equity attributable to equity holders of the Company	253	744	2,357	2,527	2,713
Minority interests	41	71	72	12	14

* Revenue, profit before tax and tax of 2007 disclosed above do not include those figures of a discontinued operation, which have been separately disclosed in note 12 to the financial statements.

Performance Highlights

Revenue from continuing operations for the year ended 31 December 2008 (the "Year") was RMB3,250 million, representing an increase of 12% over last year.

Profit attributable to equity holders for the Year was RMB241 million, representing an increase of 7% over last year.

Basic earnings per share for the Year was RMB16.74 cents. The Board of Directors proposed a final dividend for 2008 of RMB4.18 cents per share.

Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") further increased its investment in the research and development of turbine blade. During the Year, sales of the 1,000 MW ultra-super-critical power generation turbine blades saw a continuing growth and reached RMB50 million by the end of 2008, representing an increase of 92% over last year.

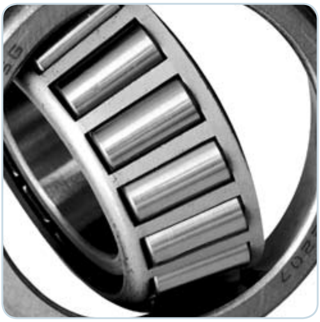
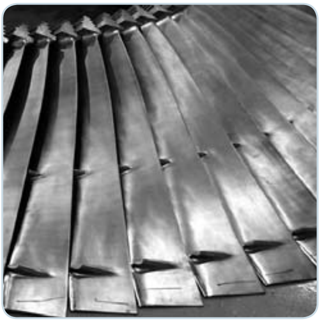
Benefiting from the Chinese government's support for the infrastructure construction, the demand for the Group's railway bearing business maintained stable. Sales for the year reached RMB239 million, representing an increase of 21% over last year.

Corporate Structure

Shanghai Prime Machinery Company Limited

Turbine Blade Business	Wuxi Turbine Blade Company Limited	100%
Bearing Business	Shanghai Tian An Bearing Company Limited	99%
	Shanghai United Bearings Company Limited	90%
	Shanghai General Bearing Company Limited	40%
	Shanghai Bearing Import & Export Company Limited	30%
	Shanghai Electric Bearings Company Limited	100%
Cutting Tool Business	Shanghai Tool Works Company Limited	100%
Fastener Business	Shanghai Biaowu High Tensile Fasteners Company Limited	100%
Other Business	Shanghai Morgan Carbon Crucible Company Limited	30%
	Shanghai Morganite Electrical Carbon Company Limited	30%



Chairman's Statement

Liu Zhenduo Chairman

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008 (the "Year"). The Group's annual results have been audited by Ernst & Young.

Business Review

2008 witnessed intense volatility of the macro economy and increased risks in the external business environment. In view of the imported inflation in the first half of the Year and deflation in the second half of the Year triggered by the global financial crisis, policies of the government of the People's Republic of China (the "PRC") during the Year have been shifted from "double prevention" in the beginning of the Year (that is to prevent the overheating of economic growth and to prevent the structural rise in prices from turning into a significant inflation) to striking a delicate growth-inflation balance in the middle of the Year through sustaining stable economic growth and implementing effective control on prices overheating, and, by the end of the Year, to maintaining growth with all efforts. During the Year, the Group withstood multiple challenges and hardships arising from the macroeconomic environment, such as the rapid rise and subsequent fall of raw material prices, reduction in export tax rebate, increase in labor costs and the impact of the global financial crisis in the fourth quarter. Business of the Group maintained stable growth in the first three quarters through a number of measures, namely expanding markets and sales, managing cash flow and mitigating exchange losses as well as adjusting product portfolio and raising added value of our products. Despite a decline in the operating results in the fourth quarter due to the effect of the global financial crisis, the Group achieved a growth in terms of its annual results compared with last year.

Benefiting from the policies of the PRC government that support the nuclear power and aviation industries as well as infrastructure construction, demand for the turbine blade and railway bearing businesses of the Group grew steadily with an annual sales of turbine blades of RMB797 million, and a sales of railway bearings of RMB239 million, representing an increase of 24% and 21% respectively over last year. The Group further increased its investment in the research and development of turbine blade. During the Year, sales of the 1,000MW ultra-super-critical power generation turbine blades saw a continuing growth and reached RMB50 million by the end of 2008 and representing an increase of 92% over last year. With various steps taken such as adjustment in the quotation system, production cost control, centralized material purchasing and the use of financial instruments, the Group's fastener business successfully overcame the adverse effect of fluctuation in raw material prices and exchange loss, and achieved a gross profit margin of 10% for the Year, thereby increased the earnings of the Group.

Turnover from continuing operations of the Group for 2008 was RMB3,250 million (2007: RMB2,900 million), representing an increase of 12% over last year. Profit attributable to the shareholders was RMB241 million (2007: RMB225 million), representing an increase of 7% over last year. Basic earnings per share amounted to RMB16.74 cents (2007: RMB15.65 cents).

As at 31 December 2008, total assets of the Group amounted to RMB3,476 million (31 December 2007: RMB3,289 million), while total liabilities amounted to RMB749 million (31 December 2007: RMB750 million). Total equity of the Group was RMB2,727 million (31 December 2007: RMB2,539 million), of which RMB2,713 million (31 December 2007: RMB2,527 million) was attributable to the equity holders of the Company.

Outlook and Prospects

In 2009, it is believed that the Group will encounter a more complicated and erratic macro economic environment. The impact of the deepening global financial crisis on the real economy of the PRC is unpredictable. The annual economic growth rate has been adjusted downwards to 8% due to deflation risk of the PRC's economy. The operations of the Group have been adversely affected to various extents. The management is evaluating such effect and will implement active measures with a view to mitigate the impact. However, guided by the government's policy of maintaining growth, expanding domestic consumption and adjusting structures and with all the steps designed to mitigate the impact of global financial crisis, such as boosting domestic demand and increasing investment being put into place, it still has opportunity for the Group to maintain a sustainable growth. In particular, the recent RMB4 trillion investment plan announced by the PRC government, together with the fact that the parts and components industry was listed the first time as one of the four key development industries in the Plan of Restructuring and Reviving the Equipment Manufacturing Industry issued by the State Council, will provide new opportunities to the Group's development.

Facing the hard economic environment in 2009, the Group will improve the management and operating efficiency of the Group and the competitiveness of the Group's products with an aim to strengthen the Group's immunity from market downturns. The Group contemplated the following efforts in order to reinforce its operating structure and systems and turn the crisis into opportunities and maintain continuous growth:

Adjust market focus and increase domestic sales of fasteners. In view of the impact of the Council Regulation announced by the Council of European Union and the shrinking overseas market of the fastener business, more effort will be made in expanding domestic sales in 2009 with focuses centered on end users and high-end products. Supply chain management, information and e-commerce technologies will be introduced to diversify the Group's business to both upper and lower-stream markets. Marketing, purchasing, logistics, brand management, research and development as well as testing functions will be strengthened in order to provide one-stop centralized purchasing, distribution and quality control services of fasteners to end users.

Adjust product portfolio and develop products with high technology and high added value. In 2009, the Group will further implement its investment projects with proceeds raised from the initial public offering of the H share of the Company and allocate more resources to research and development. Besides, the Group will spare no effort for developing new products and improving the technologies such as the implementation of the project of building the manufacturing base for 1,000 MW extra large nuclear power generation turbine blades and technology upgrades for manufacturing aviation blade forgings. The Group will also focus on the research and production of technologically advanced and high value-added new products such as blades for engines of jumbo jets, hard alloy series milling cutters, wind power bearings and dental drill bearing series in order to increase the competitiveness of our products in the market.

Strengthen management and reduce operating costs. The Group will implement the following cost control measures in 2009: use internet purchasing platform to reduce purchasing cost by comparing prices of bulk raw materials such as steel; reduce selling, general & administrative costs, implement target cost management, optimize production management, adjust, abandon, transfer or out-source various high energy consuming or non-key manufacturing processes and improve the extent of automation and utilization rate of equipment to further reduce manufacturing cost. Through the measures above, the Group will achieve energy-saving and waste reduction objectives and increase product gross profit margins.

Corporate Development Strategies

Guided by the Scientific Outlook on Development and the Group's 5-year rolling development plan, the Group will further improve the control and management systems of the Group. We will speed up the progress of product and business portfolio adjustments by developing a series of new middle to high-end products in order to upgrade its main products. The Manufacturing service industry will be expanded as one of the principle activities of the Group. To conclude, the healthy and stable development of the Group's business will be secured by our capital investments in product upgrade and business restructuring, and effort will be taken to build up the Group as one of the leading industrial parts & components manufacturing group in the PRC.

Turbine Blade Business: Through the implementation of the project of building the manufacturing base for 1,000 MW extra large nuclear power generation turbine blades and technology upgrades for manufacturing aviation blade forgings, Wuxi Turbine Blade Company Limited will achieve equipment and technology upgrade as well as the business restructuring. Furthermore, by expanding our share in the high-end market, the Group will strive to excel in supplying turbine blades and precision forgings, thereby eventually becoming an international leading top-quality turbine blades and high-end precision forgings supplier.

Bearing business: By concentrating on the production of high-end products such as quality railway bearings, wind energy bearings, aviation bearings and precision bearings, optimizing export product portfolio, and gradually acquiring other bearing companies, the bearing business aims at taking the lead in the PRC bearing industry and becoming a professional manufacturer of high-end bearings in the PRC.

Cutting tool business: This business will seek to build up itself as a leading modern metallic cutting tools manufacturer in the PRC and the globe as it will develop numerically-controlled cutting tools so as to develop its integrated capacity in offering hard metal materials, numerically-controlled cutting tools, numerically-controlled arbors and measuring tools, launch research on the applied technology of cutting tools to strengthen its core technologies in manufacturing cutting tools, and improve the marketing network by implementing a brand strategy.

Fastener business: Aiming at becoming the top service provider of fastener industry in the PRC, this business will boost its domestic sales through establishing one-stop supply chain management service by offering standardized sales services package and machinery components E-commerce platform.

Finally, I would like to take this opportunity to thank all the directors, supervisors, members of the management and the entire staff for their contributions and devotion to the Group, and all shareholders and investors for their support and encouragement. In the coming year, the Group is confident that it will achieve stable results and deliver value to shareholders despite the extreme external conditions.

Liu Zhenduo
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
10 April 2009

Management Discussion and Analysis

Business Review

For the year ended 31 December 2008 (the "Year") , the sales from continuing operations of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") amounted to RMB3,250 million (2007: RMB2,900 million), representing an increase of 12% over last year. Profit attributable to the equity holders of the Company was RMB241 million in 2008 (2007: RMB225 million), representing an increase of 7% over last year. Basic earnings per share was RMB16.74 cents (2007: RMB15.65 cents).

As at 31 December 2008, total assets of the Group amounted to RMB3,476 million (31 December 2007: RMB3,289 million) while total liabilities amounted to RMB749 million (31 December 2007: RMB750 million). Total equity of the Group was RMB2,727 million (31 December 2007: RMB2,539 million), of which RMB2,713 million (31 December 2007: RMB2,527 million) was attributable to the equity holders of the Company.

Operation Analysis

Strengthened technology improvements and achieved significant results in respect of products upgrade. As at the reporting date, four IPO proceeds investment projects, namely the project of increase export and upgrade high precision turbine blades, phase I of project of the technology upgrades for the production and development of numerically-controlled cutting tools, project of technology upgrades for logistic systems and expansion in production capacity as well as the project of technology upgrades for its speed-lifting railway bearings for 80-ton heavy cargo trains, were substantially completed and commercial production has been commenced. In addition, the Group has successfully developed certain new products, which require high level of technical sophistication and have bright prospects in the market, and adjusted its product portfolio by increasing its effort on the research and development of new products and technology upgrades. During the Year, we have achieved breakthrough in the area of extra large bearings for wind power generators and have started bulk delivery of 1,000 MW long turbine blades, while the titanium high-temperature alloy specialized mills produced by our cutting tool business has been applied in the aviation industry.

Emphasized on research and development and built High and New Technology Enterprises. The Group continued to focus on the cooperation with products research institutions and recruit talents, and at the same time further enhanced its proprietary innovative capability and core competitiveness through the implementation of technology developments of certain major equipment. The Group has also put much emphasis on the registration of intellectual properties. During the Year, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") has obtained three utility patents and one software copyright registration and has been recognized as one of the "Top Ten Innovative Technology Enterprises in Wuxi City" and "Model Enterprise in respect of Intellectual Properties" of Wuxi city in 2009. Shanghai Tian An Bearing Company Limited ("Tian An Bearing") was named as "Little Technology Giant Enterprise in Shanghai". In addition, Shanghai Tool Works Company Limited ("Shanghai Tool Works") has accomplished thirteen national standard projects. Above all have laid a solid foundation for the implementation of technological strategies of the Group.

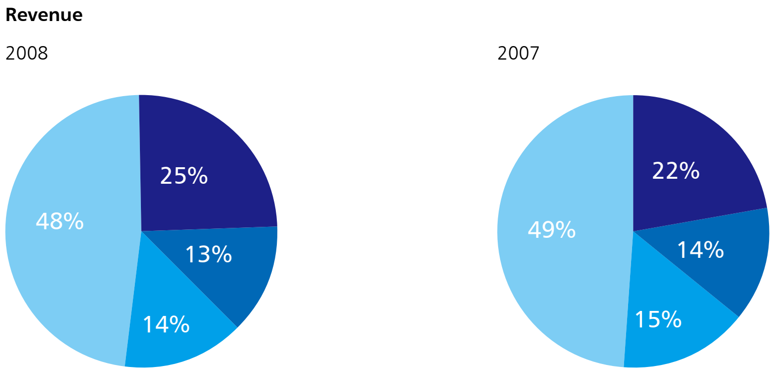
In 2008, three subsidiaries of the Group, namely Shanghai Tool Works, Shanghai United Bearings Company Limited ("United Bearing") and Tian An Bearing were recognized as "High and New Technology Enterprises in Shanghai" and were entitled to a preferential income tax rate of 15% during the years from 2008 to 2010.

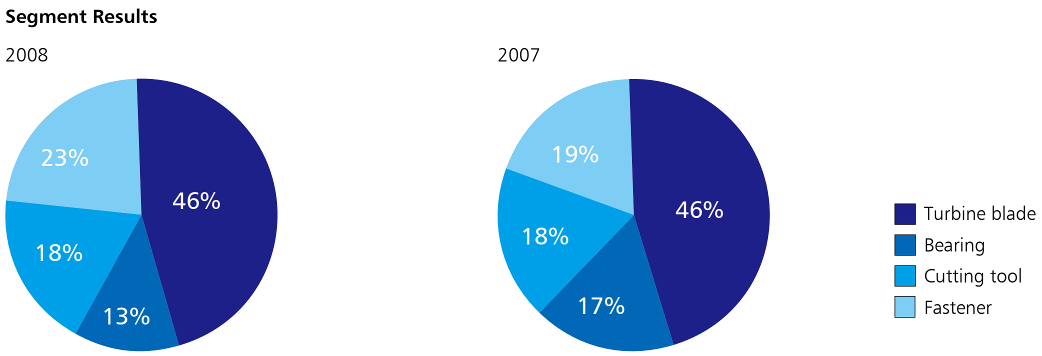
Enhanced corporate governance and improved overall operating efficiency. During the Year, the Group has amended the "Rules of Information Disclosure", "Rules of IPO Proceeds Management" and "Rules of Cash Pool Management" of the Company and modified the "Rules of Short-term Investment", "Rules of Comprehensive Budget Preparation" and the "Standard of Internal Control Procedures". Through the implementation of such internal control measures, the Group has enhanced its cost control, capital management and follow-up evaluation of investment projects, and has improved the overall efficiency of the Company. In light of the surge and subsequent fall of steel prices in 2008, the Group has entered into strategic negotiations with raw material suppliers and formulated long term purchasing strategies in order to alleviate the impact of the fluctuation of raw material prices.

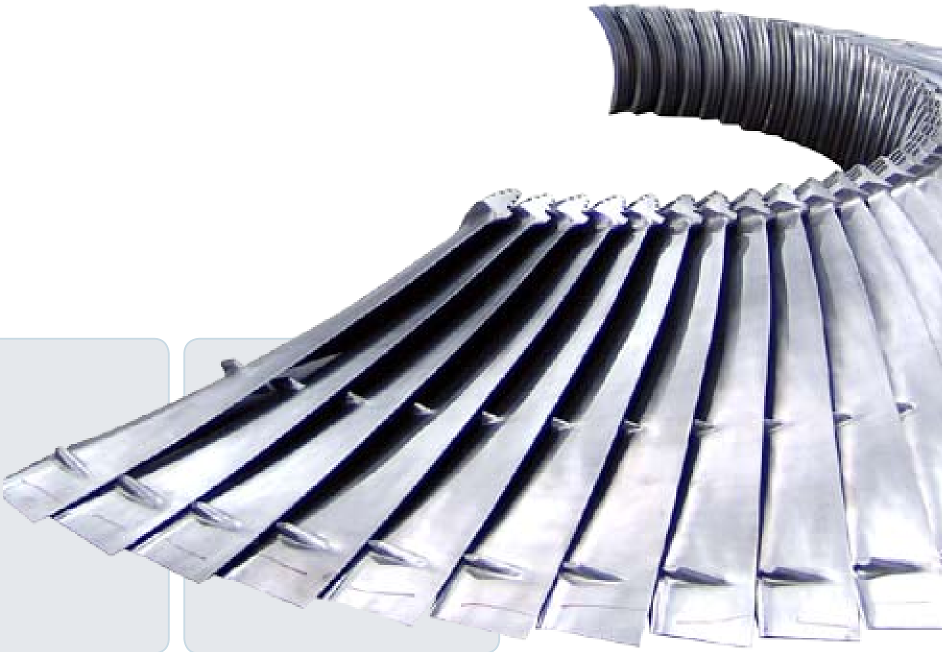
Management Discussion and Analysis

Set out below are the Revenue and Segment Results of each business segment:

RMB(Million)	Revenue 2008	Revenue 2007	Segment Results 2008	Segment Results 2007
Turbine blade	797	643	140	147
Percentage of total	25%	22%	46%	46%
Bearing	429	394	40	55
Percentage of total	13%	14%	13%	17%
Cutting tool	471	446	57	59
Percentage of total	14%	15%	18%	18%
Fastener	1,553	1,417	70	62
Percentage of total	48%	49%	23%	19%
Total	3,250	2,900	307	323







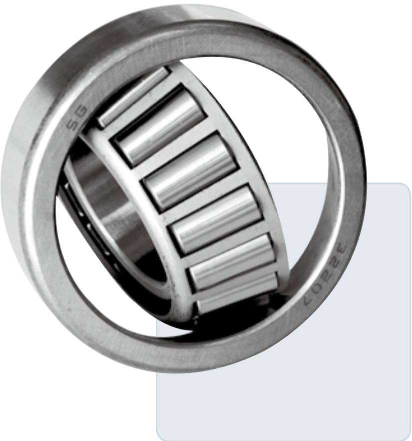
TURBINE BLADE BUSINESS

The Group is a major supplier of turbine blades for power station turbines in the People's Republic of China (the "PRC") and is primarily engaged in the manufacturing of large turbine blades and precision turbine blades, which require higher level of technical sophistication compared to other turbine blade products. During the Year, the Group has allocated more resources to the development of certain key products, such as MW-capacity large nuclear power generation turbine blades and 1,000 MW ultra-super-critical large last stage steam turbine blades, and specially set up project team to ensure the effective implementation of the above project so that our products could meet new market demand. In addition, the Group has also entered the domestic market of aviation blade forgings. The Group was engaged in the trial production of large blades for engines of aircraft and has successfully delivered the first unit during the year. Besides, we have also made progress on the development of blade for engines of aircraft and this could be a new impetus for the development of the Group's business.

During the Year, the Group has initiated the project of building the manufacturing base for 1,000 MW extra large nuclear power generation turbine blades and aviation blade forgings in order to upgrade the technology level and production capacity of high-end turbine blades of the Group. Wuxi Turbine Blade, a wholly-owned subsidiary of the Group, has entered into an agreement with the Committee of Wuxi Huishan Economic Development Zone on 25 January 2008 to acquire a parcel of land in the economic development zone at a consideration of RMB65 million to accommodate the plant of Wuxi Turbine Blade and newly acquired machinery and equipment. On 1 August 2008, Wuxi Turbine Blade entered into several machinery purchasing agreements with China National Machinery of Equipment Import & Export Corporation, a PRC company established in 1978, and SMS Meer GmbH, a company incorporated in Germany with limited liability to acquire a 35,500 tonnes clutch spire-pressure machine and its components, which would be used to manufacture large-scaled ultra-super-critical power generation turbine blades and nuclear power generation turbine blades, at a consideration of approximately EUR29 million (approximately RMB280 million).

In 2008, turnover of the turbine blade business was RMB797 million (2007: RMB643 million), representing an increase of 24% over last year. The segment results amounted to RMB140 million (2007: RMB147 million). Research and development costs for the Year was RMB35 million, an increase of RMB10 million over last year. The gross profit margin of the turbine blade business decreased slightly to 29% (2007: 34%) as compared with the previous year due to an adjustment to the Group's turbine blade product portfolio caused by an increase in demand for blade forgings during the year. In 2008, export sales amounted to RMB117 million (2007: RMB97 million), representing 15% (2007: 15%) of total sales generated from the turbine blade business.

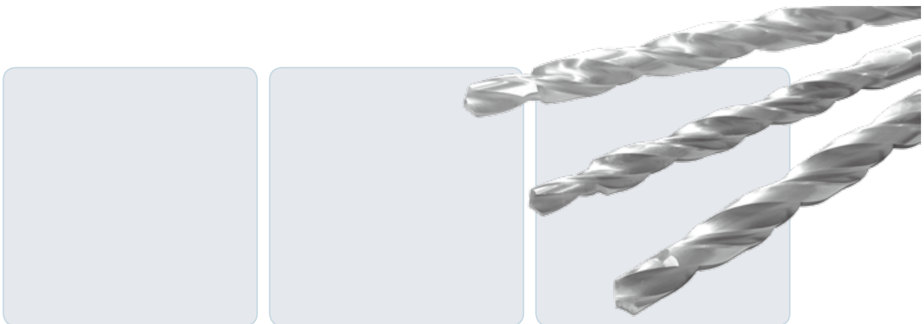
Management Discussion and Analysis



BEARING BUSINESS

The Group is a professional manufacturer of miniature bearing in the PRC as well as one of the bearing and related repairing and maintenance services suppliers designated by the Ministry of Railways. In 2008, the Group grabbed the opportunity offered by the development of the railway bearing market and focused on increasing the production volume of high-tech products such as speed-lifting railway bearings for heavy cargo trains. The Group has also adhered to the principle of sustainable development and has been actively developing environmental friendly energy products. During the Year, the Group has also achieved encouraging results on the research, development and manufacturing of wind power generator bearings and have succeeded in small-scale trial production.

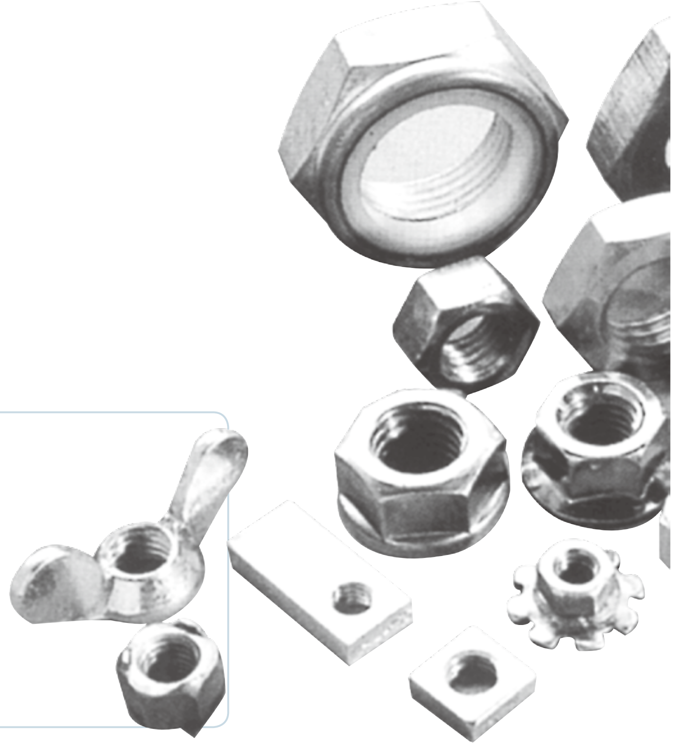
In 2008, turnover of the bearing business was RMB429 million (2007: RMB394 million), representing an increase of 9% over last year, of which railway bearings recorded a turnover of RMB239 million (2007: RMB197 million). Due to an increase in research and development costs and an upward adjustment of the staff's wages etc., the segment results of the bearing business amounted to RMB40 million (2007: RMB55 million). Gross profit margin of the bearing business was 23% (2007:23%). During the Year, export sales amounted to RMB54 million (2007: RMB72 million), represented 13% (2007: 18%) of total sales generated from the bearing business.



CUTTING TOOL BUSINESS

The Group is a leading enterprise in the PRC cutting tool industry with more than 50 years of experience. On the basis of the introduction and application of new technologies and techniques, the Group has launched successive research and innovation projects of proprietary technologies in 2008. During the Year, the Group has further enhanced the market competitiveness of its cutting tool business as the Group has developed six new products, including titanium high-temperature specialized mill and whole hard aluminum alloy deep bore drills, to satisfy the need of the high-end users in the aviation, automobile and machinery industries. The Group has established a nationwide sales network that "position provincial level cities as centers, regional level cities as focuses and county level cities as foundation" and have set up over 100 franchised retail stores in different regions, including the Yangtze River Delta, Pearl River Delta, Bohai Rim Economic Region, the old industrial base of Northeast China as well as Northern, Northwestern and Southwestern China.

In 2008, turnover of the cutting tool business was RMB471 million (2007: RMB446 million), representing an increase of 6% over last year. The segment results amounted to RMB57 million (2007: RMB59 million). Gross profit margin of the cutting tool business was 23% (2007:25%). In 2008, export sales amounted to RMB67 million (2007: RMB77 million), representing 14% (2007: 17%) of total sales generated from the cutting tool business.



FASTENER BUSINESS

The Group is one of the largest professional manufacturing and export companies of fasteners in the PRC and are mainly engaged in the processing of semi-finished fastener products and the import and export of various standard and specialized fasteners. In 2008, the Group has raised the overall gross profit margin through the implementation of real-time price adjustment, shortening of delivery lead time and timely monitoring of orders. The Group has also established an automatic logistics system, with a view to lowering the overall inventory level of our supply chain. Such measures have facilitated the implementation of the Group's strategic transformation, which is to "transform from an enterprise which solely focuses on supplying products to a professional fastener services provider".

The Company and Shanghai Biaowu High Tensile Fasteners Company Limited ("Biaowu Fasteners"), a wholly-owned subsidiary of the Company, was involved in an anti-dumping investigation on Chinese companies manufacturing carbon steel fasteners initiated by the European Commission on 9 November 2007. On 31 January 2009, the council of the European Union (the "Council") announced a Council Regulation dated 26 January 2009 (the "Council Regulation"), imposing a definitive anti-dumping duty on imports of certain iron or steel fasteners originating in the PRC. Based on the Council Regulation, the anti-dumping duty rate of 69.9% is imposed on imports of certain iron or steel fasteners produced by Biaowu Fasteners and the Company with effect from 1 February 2009. Among the continuing operations, the fastener business and non-fastener businesses accounted for approximately 48% and 52% (2007: approximately 49% and 51%, respectively) of the total revenue of the Group for the Year, respectively. During the Year, the export of fasteners to Europe which were subject to the Council Regulation accounted for 13% and 8% (2007: approximately 14% and 8%, respectively) of the revenue and segment result of the Group among the continuing operations, respectively. The Group will reduce its export volume of fasteners covered by the Council Regulation to European countries and endeavor to develop other non-European markets to reduce the impact of the Council Regulation on the operation and profitability of the Group.

In 2008, turnover of the fastener business reached RMB1,553 million (2007: RMB1,417 million), representing an increase of 10% over last year. The segment results amounted to RMB70 million (2007: RMB62 million). Gross profit margin of the fastener business was 10% (2007:8%). During the Year, export sales of the business amounted to RMB1,390 million (2007: RMB1,271 million), accounting for 90% (2007: 90%) of total turnover generated from the fastener business.

Review of Financial Position

Share of Profits and Losses of Associates
During the year 2008, the Group's share of profits and losses of associates was RMB16 million (2007: RMB16 million).

Finance Costs
Finance costs for the year 2008 were RMB5 million (2007: RMB4 million), representing an increase of 25% over last year.

Management Discussion and Analysis

Profit Attributable to Equity Holders of the Company

Based on the above information, profit attributable to the equity holders of the Company was RMB241 million in 2008 (2007: RMB225 million), up 7% over last year. Basic earnings per share was RMB16.74 cents (2007: RMB15.65 cents).

Cash Flow

As at 31 December 2008, the Group's cash and bank balances were RMB864 million (31 December 2007: RMB882 million), of which RMB64 million (31 December 2007: RMB19 million) were restricted deposits, representing an increase of RMB45 million in restricted deposit from the beginning of the year. During the Year, the Group had a net cash inflow from operating activities of RMB184 million (2007: RMB180 million), a net cash outflow from investing activities of RMB481 million (2007: net cash inflow of RMB361 million), and a net cash outflow from financing activities of RMB46 million (2007: RMB17 million).

Assets and Liabilities

As at 31 December 2008, the Group had total assets of RMB3,476 million (31 December 2007: RMB3,289 million), representing an increase of RMB187 million or 6% as compared with the beginning of the year, of which total current assets amounted to RMB2,066 million (31 December 2007: RMB2,048 million), accounting for 59% of the total assets, representing an increase of RMB18 million as compared with the beginning of the year. Total non-current assets were RMB1,410 million (31 December 2007: RMB1,241 million), accounting for 41% of the total assets and representing an increase of RMB169 million as compared with the beginning of the year.

As at 31 December 2008, the total liabilities of the Group were RMB749 million (31 December 2007: RMB750 million), of which total current liabilities amounted to RMB701 million (31 December 2007: RMB701 million), accounting for 94% of total liabilities. Total non-current liabilities amounted to RMB48 million (31 December 2007: RMB49 million), accounting for 6% of total liabilities.

As at 31 December 2008, the net current assets of the Group were RMB1,365 million (31 December 2007: RMB1,347 million), representing an increase of RMB18 million or 1% as compared with the beginning of the year whereas current ratio increased from 2.92 to 2.95.

Sources of Funding and Indebtedness

As at 31 December 2008, the Group had an aggregate bank and other borrowings of RMB107 million (31 December 2007: RMB92 million), representing an increase of RMB15 million or 16% as compared with the beginning of the year. Borrowings repayable by the Group within one year were RMB90 million (31 December 2007: RMB75 million), representing an increase of RMB15 million from the beginning of the year, whereas borrowings repayable after one year were RMB17 million (31 December 2007: RMB17 million).

As at 31 December 2008, all bank and other borrowings of the Group were interest bearing at fixed rates.

Gearing Ratio

As at 31 December 2008, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 4% (31 December 2007: 4%).

Pledges of Assets

As at 31 December 2008, bank deposits of RMB64 million (2007: RMB19 million) of the Group were pledged to banks.

Contingent Liabilities

As at 31 December 2008, the Group had total contingent liabilities of RMB1 million (2007: RMB2 million).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB265 million (2007: RMB535 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 Renminbi ("RMB") as the reporting currency. Notwithstanding a slowdown in the appreciation of RMB against USD since the beginning of 2009, RMB may still strengthen against other major currencies.

Appreciation of RMB will result in higher prices for products of the Group which are exported to overseas market, and may result in a negative impact on the Group's export sales but a positive influence on import of the Group's materials and equipments. In addition, as at 31 December 2008, the Group's deposits comprised US$2.0 million and EUR0.1 million. Save as disclosed above, the Group was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Events

Wuxi Turbine Blade, a wholly-owned subsidiary of the Group, has entered into an agreement with the Committee of Wuxi Huishan Economic Development Zone on 25 January 2008 to acquire a parcel of land in the economic development zone at a consideration of RMB65 million to accommodate the plant of Wuxi Turbine Blade and newly acquired machinery and equipment. On 1 August 2008, Wuxi Turbine Blade entered into several machinery purchasing agreements with China National Machinery of Equipment Import & Export Corporation, a PRC company established in 1978, and SMS Meer GmbH, a company incorporated in Germany with limited liability, to acquire a 35,500 tonnes clutch spire-pressure machine and its components, which would be used to manufacture large-scaled ultra-super-critical power generation turbine blades and nuclear power generation turbine blades, at a consideration of approximately EUR29 million (approximately RMB280 million).

Save as disclosed above, the Group did not have any other significant disclosable events or litigation during the year.

Employees

As at 31 December 2008, the Group had approximately 3,317 employees (2007: 3,307). The Group has implemented all statutory pension schemes required by the PRC government as well as incentive schemes and training programs to stimulate staff and assist them in their self-development.

Biographical Details of Directors, Supervisors & Senior Management

The following table sets forth certain information concerning our Directors, Supervisors and Senior Management.

There are no family relationships between any Director, Supervisor or Senior Management of the Company.

Name	Age	Position
Liu Zhenduo	61	Executive Director and Chairman
Zhu Weiming	38	Executive Director and Vice Chairman
Hu Kang	45	Executive Director and Chief Executive Officer
Ye Fucai	58	Executive Director
Zhu Xi	45	Executive Director
Deng Yuntian	36	Executive Director
Chan Chun Hong (Thomas)	45	Independent Non-executive Director
Zhou Feida	69	Independent Non-executive Director
Liu Huangsong	40	Independent Non-executive Director
Chen Jiaming	47	Supervisor and Chairman of the Supervisory Committee
Hu Peiming	51	Supervisor
Zhang Jianping	51	Supervisor
Yan Qi	43	Vice President
Chen Hui	40	Vice President
Xia Sicheng	45	Vice President
Huang Wennong	60	Vice President
Wang Pin	35	Chief Financial Officer
Li Wai Chung	31	Qualified Accountant and Company Secretary

Directors

Liu Zhenduo, aged 61, is a senior economist. He was appointed as Executive Director and Chairman of Shanghai Prime Machinery Company Limited (the "Company") in 2007. Mr. Liu joined Shanghai Electric (Group) Corporation in 1986 and has been Vice President of Shanghai Electric (Group) Corporation since 1997 as well as general manager and director of Shanghai Mechanical & Electrical Industry Company Limited since 2005. From 2007 to May 2008, Mr. Liu acted as president of Shanghai Electric Assets Management Company Limited. Mr. Liu graduated from East China Normal University Postgraduate School in 2000. He also holds a master degree of Business Administration conferred by Asia International Open University (Macau) in 2003.

Zhu Weiming, aged 38, is an engineer. He was appointed as Executive Director and Vice Chairman of the Company in 2008. From 1999 to 2003, Mr. Zhu was assistant to the general manager of Shanghai Li Da Pressing Machines Company Limited as well as deputy head of the company's punching and shearing machine factory and then its vice president. From 2003 to 2007, Mr. Zhu was vice president and then director of Shanghai Ri Yong-JEA Gate Electric Co., Ltd.. Mr. Zhu graduated from Shanghai Polytechnic University in 1993 with a bachelor degree in machine design and manufacturing. He also obtained the qualification of First Class Chinese Professional Managers in 2005. And in 2008, he obtained a doctorate degree in business administration from West Coast University in the United States.

Hu Kang, aged 45, is a senior economist. He was appointed as Executive Director and Chief Executive Officer of the Company in 2005. He joined Shanghai Electric (Group) Corporation in 1982. Since 1996, he has been factory director of Shanghai Zhenhua Bearing Head Works, vice president of Shanghai Bearing (Group) Co., Ltd., president of Shanghai Shangling Electric Company, Ltd., all of which are part of Shanghai Electric (Group) Corporation, and president of the second management department of Shanghai Electric Assets Management Company Limited, one of our promoters. Mr. Hu graduated from Shanghai University of Finance & Economics in 1988 with a degree in statistics, and graduated from the Shanghai College of the Chinese Communist Party in 1998 majoring in management. In 2001, he obtained a MBA degree from Macau University of Science and Technology.

Ye Fucai, aged 58, is a senior economist. He was appointed as Executive Director of the Company in 2008. Mr. Ye worked in Shanghai Electrical Appliances Mated Plant from 1979 to 1998. From 1997 to 1998, he also acted as chairman of Siemens Switch Co., Ltd., a Sino-German joint venture. He was head of the general machinery department of Shanghai Electric (Group) Corporation, and general manager of Shanghai General Machinery (Group) Corporation respectively from 2001 to 2004. From 2004 to 2008, he was deputy head of the industrial development department of Shanghai Electric Group Company Limited, and was standing deputy head of the strategic planning department of Shanghai Electric (Group) Corporation from 2007 to 2008. Mr. Ye is currently head of the strategic planning department of Shanghai Electric (Group) Corporation. Mr. Ye graduated from the business management department of PLAAF Political Academy.

Zhu Xi, aged 45, is a senior accountant. She was appointed as Executive Director of the Company in 2008. From 1986 to 1995, she served at the financial department of Shanghai Mechanical and Electrical Industry Administration Bureau. From 1996 to 2004, she was deputy head of the funding and planning department of Shanghai Electric (Group) Corporation and director of Shanghai Electric (Group) Corporation Heng Lian Enterprise Development Limited respectively. In 2004, she was head of budget department of Shanghai Electric (Group) Corporation. She served as deputy head of the asset finance department of Shanghai Electric Assets Management Company Limited from 2004 to 2005. Ms. Zhu is now deputy head of financial budget department of Shanghai Electric (Group) Corporation as well as head of assets management department of Shanghai Electric Assets Management Company Limited. Ms. Zhu graduated from the Department of Business Management of the Adult Education College, East China Normal University.

Deng Yuntian, aged 36, is an engineer. He was appointed as Executive Director of the Company in 2008. He began his career in 1997 and held middle-management positions in Shanghai Boiler Works Co., Ltd and Shanghai Heavy Machinery Plant Co., Ltd., subsidiaries of Shanghai Electric (Group) Corporation. He joined Shanghai Electric (Group) Corporation in 2002 and served as director of public relations and manager of the Office of Significant Projects for the company. In 2004, he was manager of the industrial development department of Shanghai Electric Group Company Limited. Between 2004 and 2006, he was general manager of SEC-IHI Power Generation Environment Protection Engineering Co., Ltd., and served concurrently as chairman from 2003 to 2004, and has been director since 2004. From 2006 to December 2008, he was deputy head of the investment management department of Shanghai Electric Assets Management Company Limited, and has been vice president of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. since January 2009. Mr. Deng graduated from Jiangsu University with a master degree.

Chan Chun Hong (Thomas), aged 45, is a qualified accountant and a fellow of The Association of Chartered Certified Accountants. He was appointed as an Independent Non-executive Director of the Company in 2005. Mr. Chan holds directorships in various companies listed in Hong Kong and is currently managing director of Wang On Group Limited and Wai Yuen Tong Medicine Holdings Limited as well as the chairman of Leroi Holdings Limited and China Agri-Products Exchange Limited, where he is responsible for the overall corporate management and supervision of the Wang On Group, Wai Yuen Tong Group, Leroi Group and China Agri-Products Exchange Group. Mr. Chan graduated from Hong Kong Polytechnic University with a bachelor degree.

Zhou Feida, aged 69, is an engineer. He was appointed as Independent Non-executive Director of the Company in 2005. Mr. Zhou was factory director of Shanghai Turbine Works Company Limited from 1985 to 1994, and chief executive officer of Shanghai Electric (Group) Corporation from 1994 to 2001. Mr. Zhou graduated from Xi'an Jiao Tong University with a bachelor degree in July 1963 and later with a master degree in 1966, both in mechanical engineering.

Liu Huangsong, aged 40, was appointed as Independent Non-executive Director of the Company in 2005. Between 1996 and 2001, he held the position of deputy manager of Shanghai Worldbest Group Co., Ltd., assistant to the chief executive officer of China Worldbest Group Co., Ltd., director of Changzhou Worldbest Radici Co., Ltd. and counselor of the Shanghai Economic Review. He has been financial consultant of the Pudong New Area Trade Union since 2003. Mr. Liu is currently serving at the Shanghai Academy of Social Sciences as director and researching professor of Research Centre for Economic Prosperity, as well as standing counselor of the Shanghai alumni association of Fudan University, counselor of Shanghai investment society and counselor of Shanghai association of quantitative economics. Mr. Liu has been independent non-executive director of Shanghai Xinyu Hengdeli Holdings Limited. Mr. Liu graduated from Fudan University in 1989 with a bachelor degree in management, and later obtained a doctorate degree in the School of Economics of Fudan University in 2005.

Supervisors

Chen Jiaming, aged 47, is a senior engineer. He was appointed as Supervisor and Chairman of the supervisory committee of the Company in 2005. Mr. Chen was deputy head of the heavy machinery department of Shanghai Electric (Group) Corporation from 2001 to 2004 and chairman of Shanghai Construction Road and Bridge Mechanical Equipment Co., Ltd., which is a subsidiary of Shanghai Electric (Group) Corporation, from 2002 to 2004. Mr. Chen is currently general manager of the first management department of Shanghai Electric Assets Management Company Limited, one of our promoters. Mr. Chen currently also serves as department head of the reorganization department of Shanghai Electric Assets Management Company Limited. Mr. Chen graduated from Tongji University in 1988 specializing in automation.

Hu Peiming, aged 51, was appointed as Supervisor of the Company in 2005. Ms. Hu was vice president and chairwoman of the employee committee of Shanghai Standard Component Import and Export Company Limited, which is a subsidiary of the Shanghai Electric (Group) Corporation, from 1988 to 2005. Ms. Hu graduated from the Shanghai College of Electromechanics of the Chinese Communist Party in 1986, specializing in politics and management.

Zhang Jianping, aged 51, is a political affair officer. He was appointed as Supervisor of the Company in 2008. He worked in Shanghai Tool Works Company Limited ("Shanghai Tool Works") from 1984 to 2003 during which Year he was chairman of the equipment automation labour union as well as deputy head of workshop one. From 2003 to 2005, he served as vice chairman of the labour union of Shanghai Tool Works. Since 2005, he has been chairman of the labour union of Shanghai Tool Works. Mr. Zhang graduated from the East China University of Political Science and Law majored in business laws.

Senior Management

Yan Qi, aged 43, is a senior engineer. He was appointed as Vice President of the Company in 2005. He served as deputy factory director of Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade"), one of our key subsidiaries, since 1997 and was promoted to the position of factory director in 2001. He was president and executive director of Wuxi Turbine Blade since 2005, and was elected as representative of the Wuxi People's Congress in 2003. Mr. Yan graduated from Beijing Institute of Technology in 1988 with a degree in mechanical engineering and from Fudan University of Shanghai in 2000 with a MBA degree. He graduated with a doctorate degree in management from Southeast University in the PRC.

Chen Hui, aged 40, is an engineer and a senior economist. He was appointed as Vice President and Board Secretary of the Company in 2005. He joined Shanghai Electric (Group) Corporation in July 1987. From 2002 to 2004, he was factory director and was responsible for the management of the bearing business division of Shanghai Electric (Group) Corporation prior to the reorganization. Mr. Chen was also president of Shanghai Electric Bearings Company Limited, a holding company of our bearing subsidiaries prior to the reorganization, from 2004 to 2005. Mr. Chen graduated from Shanghai University with a degree specializing in mechanical automation in October 1996, and graduated from the Central College of the Communist Party in 2001 with a bachelor degree in management, and obtained a master degree from Macau University of Science and Technology in 2002.

Xia Sicheng, aged 45, was appointed as Vice President of the Company in 2005. He joined Shanghai Electric (Group) Corporation in 1982. From 2000 to 2003, he was factory director and was responsible for the management of the cutting tool business of Shanghai Electric (Group) Corporation prior to its reorganization. Since 2003, Mr. Xia has been director and president of Shanghai Tool Works, one of our key subsidiaries. Mr. Xia graduated from the Central College of the Communist Party in 2002 with a bachelor degree in economics and management.

Huang Wennong, aged 60, is a senior economist. He was appointed as Vice President of the Company in 2005. He joined the Shanghai Electric (Group) Corporation in November 1968 and since 1991, served as vice president of Shanghai Standard Component Corporation, president of Shanghai Shang Biao (Group) Co., Ltd, president of Shanghai Standard Component Import and Export Company Limited, a subsidiary of Shanghai Electric (Group) Corporation, the entire business of which was subsequently transferred to one of our key subsidiaries, Shanghai Biaowu High Tensile Fasteners Company Limited. Mr. Huang graduated from Shanghai Jiao Tong University in 1985 with a bachelor degree in enterprise management.

Wang Pin, aged 35, is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants. He was appointed as Chief Financial Officer of the Company in 2006. Mr. Wang joined Shanghai Gong Xin Zhong Nan Accounting Firm since 1996 and took the role of lead auditor in auditing annual accounts for our bearing subsidiaries in 2001. Mr. Wang graduated from Shanghai University in 1996 with a bachelor degree in management.

Li Wai Chung, aged 31, is a member of Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Institute of Chartered Accountants in England and Wales. He was appointed as Certified Public Accountant and Company Secretary of the Company in 2006. Prior to joining the Company, Mr. Li worked as auditing manager in Deloitte Touche Tohmatsu Huayong Certified Public Accountants and Deloitte Touche Tohmatsu in Hong Kong. Mr. Li graduated from the University of Hong Kong with a bachelor degree in business administration (majoring in finance and accounting).

Corporate Governance Report

Corporate Governance Practices

The Board of Directors (the"Board") of Shanghai Prime Machinery Company Limited (the "Company") believes that good corporate governance is fundamental to the success of the Company. The Company has accordingly adopted various measures to emphasize a high quality Board, effective internal control, strict compliance with relevant regulatory requirements and operation transparency.

From 1 January 2008 to 31 December 2008 (the "Year"), the Board believes that the Company was fully compliant with all code provisions of the Code on Corporate Governance Practices (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 "Listing Rules").

The Board reviews and monitors the corporate governance practices on a regular manner with the aim of promoting a good standard of corporate governance practices.

Model Code for Securities Transactions by Directors

The Board adopted the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 of the Listing Rules (the "Model Code") in force throughout the Year as the code of conduct for Directors' securities transactions of the Company and its subsidiaries (collectively referred to as the "Group"). All directors and supervisors of the Company confirmed that they complied with the Model Code in their securities transactions throughout the Year covered by this annual report.

The Board

The Board is responsible for formulating the overall development strategy of the Group, monitoring its financial performance and overseeing the management of the business. The Board aims at maximising shareholders' value in the process of discharging its duties and responsibilities. When determining the Group's business objectives and development direction, the Board takes into account the latest economic and market situations. Daily operations and management of the Group are entrusted to the management team. The division of power and responsibilities between the Board and senior management is in strict compliance with the Articles of Association of the Company. Other duties of the Board include deciding on the Group's investment scheme, preparing the Group's profit distribution and loss recovery proposals, formulating the Group's capital operation proposals, and implementing resolutions approved at shareholders' meeting.

On 10 October 2008, the Company held an extraordinary general meeting to elect a new session of the Board. The new Board comprises Mr. Liu Zhenduo, Mr. Zhu Weiming, Mr. Hu Kang, Mr. Ye Fucai, Ms. Zhu Xi, Mr. Deng Yuntian, Mr. Chan Chun Hong (Thomas), Mr. Zhou Feida and Mr. Liu Huangsong. Among them, Mr. Liu Zhenduo and Mr. Zhu Weiming were appointed as Chairman and Vice Chairman of the Board respectively. Mr. Yan Qi, Mr. Chen Hui, Mr. Xia Sicheng and Mr. Huang Wennong resigned as Executive Directors of the Company on 10 October 2008. As at the date of this annual report, the new Board consists of nine directors, including six Executive Directors and three Independent Non-executive Directors. There is no financial, business, family or other relationship between the members of the Board.

All Independent Non-executive Director have confirmed their independence to the Company as required under Rule 3.13 of Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent in accordance with the terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

Existing Executive Directors:

Mr. Liu Zhenduo (Chairman)
Mr. Zhu Weiming
Mr. Hu Kang
Mr. Ye Fucai
Ms. Zhu Xi
Mr. Deng Yuntian

Existing Independent Non-executive Directors:

Mr. Chan Chun Hong (Thomas)
Mr. Zhou Feida
Mr. Liu Huangsong

The Board convened four Board meetings during the Year. The attendance of each Director is summarized as follows:

Name	Number of meetings	Actual attendance
Mr. Liu Zhenduo	4	4
Mr. Zhu Weiming	1	1
Mr. Hu Kang	4	4
Mr. Ye Fucai	1	1
Ms. Zhu Xi	1	1
Mr. Deng Yuntian	1	1
Mr. Chan Chun Hong (Thomas)*	4	4
Mr. Zhou Feida*	4	4
Mr. Liu Huangsong*	4	4
Mr. Yan Qi**	3	3
Mr. Chen Hui**	3	3
Mr. Xia Sicheng**	3	3
Mr. Huang Wennong**	3	3

* Independent Non-executive Director

** Directors who have resigned as Executive Directors of the Company with effect from 10 October 2008

Each Board member is offered to submit resolution proposals before the regular Board meeting. The Board meeting notification is sent out to all the directors at least 14 days before the regular meeting, which gives them sufficient time to review the resolution proposals. Draft and final versions of minutes of the Board meetings shall be sent to all the directors in a timely manner for their comments and records respectively after the meeting is held.

Each Board member has the right to inspect minutes of the Board meetings, to consult the Company Secretary on regulatory and compliance matters and to seek external professional advice when necessary. The Company Secretary continuously advises all Directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

Nomination of Directors

As of the date of this annual report, the Company has not established a Nomination Committee. Before the Nomination Committee is established, the Board is responsible for the nomination of new directors and the re-election of existing directors. All nominations need to be approved by general meeting of Shareholders.

During the Year, the Company held an extraordinary general meeting to elect the new session of the Board, details of which are disclosed in the above section concerning the Board.

Chairman and Chief Executive Officer

Pursuant to the CG Code provision A2.1, roles of the chairman and chief executive officer should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Chairman of the Board is responsible for ensuring that the directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The Chairman is also responsible for conducting interview individually with each Independent Non-executive Director to understand his opinion and advice on the operation of the Group and the duties of the Board. At present, Mr. Liu Zhenduo is the Chairman of the Board. Mr. Hu Kang is the Chief Executive Officer of the Company, who is fully responsible for the day-to-day operations of the Group and execution of instructions from the Board. The Company is of the opinion that duties and responsibilities between the Board and the management team have been well separated and there exists no problem of over-centralization of management power on any particular person.

Tenure of Independent Non-Executive Directors

All current Independent Non-executive Directors of the Company were appointed and elected by the extraordinary general meeting held on 10 October 2008 with tenure of three years, and can be re-elected and re-appointed with office tenure extended accordingly.

Remuneration of Directors

With written terms of reference as suggested under the CG Code, the Remuneration Committee of the Company is mainly responsible for determining the policies in relation to the overall compensation policy and structure for Directors, Supervisors and Senior Management of the Company, evaluating the performance of Executive Directors and approving the terms of service contracts of Executive Directors. Executive Directors, however, do not participate in determination relating to their own remuneration. Pursuant to the Articles of Association of the Company, the remuneration package must be approved by General Meeting of Shareholders.

The committee currently consists of three Independent Non-executive Directors. It is chaired by Mr. Zhou Feida and with Mr. Chan Chun Hong (Thomas) and Mr. Liu Huangsong as members. All of them were re-elected as the Independent Non-executive Directors of the Company and were re-appointed as members of the Remuneration Committee at the extraordinary general meeting held on 10 October 2008.

The committee convened one meeting during 2008. The attendance of each member is summarized as follows:

Name	Number of meetings	Actual attendance
Mr. Zhou Feida	1	1
Mr. Chan Chun Hong (Thomas)	1	1
Mr. Liu Huangsong	1	1

During the Year, Remuneration Committee reviewed and approved the proposed 2008 remuneration package of Board members and key management personnel of the Company. The remuneration of Directors and senior executives is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other domestic and international companies and prevailing market conditions.

Audit Committee

The major responsibility of the Audit Committee is to oversee the relationship with the external auditors, to review the Group's reviewed interim and audited annual financial statements, to monitor compliance with statutory requirements, and to review the scope, extent and effectiveness of the Group's internal control function.

Audit Committee currently comprises three members, namely Mr. Chan Chun Hong (Thomas) as the chairman, Mr. Zhou Feida and Mr. Liu Huangsong. All of them were re-elected as Independent Non-executive Directors at the extraordinary general meeting held on 10 October 2008. The Audit Committee held two meetings during the Year with 100% attendance.

Name	Number of meetings	Actual attendance
Mr. Chan Chun Hong (Thomas)	2	2
Mr. Zhou Feida	2	2
Mr. Liu Huangsong	2	2

During the two meetings, the Audit Committee approved the audited consolidated financial statements of 2007 and unaudited interim condensed consolidated financial statements of 2008 of the Group, discussed with external auditors regarding the legitimacy of the applied accounting principles and practices and reviewed the list of the internal control findings discovered during the engagement.

Corporate Governance Report

Independent Auditors' Remuneration

During the Year, remuneration to the independent auditors of the Company, Ernst & Young and its affiliate, is summarized as follows:

For services provided	Amount paid/payable (RMB in million)
Auditing Service	4.6

Directors' Responsibilities for Accounts

The Directors acknowledge their responsibilities for the preparation of accounts for each financial Year which gives a true and fair view of the state of affairs of the Group and of the operating results and cash flows for that Year. In preparing these accounts for the year ended 31 December 2008, the Directors have selected suitable accounting policies and applied them consistently; have made judgements and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis. The Directors are responsible for keeping proper accounting records with reasonable accuracy at any time.

Independent Auditors' Reporting Responsibilities

The responsibilities of the independent auditors are set out on page 35.

Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and the assessment and management of the risks.

In meeting its responsibility, the Board has set up an internal control department underneath the Audit Committee to help to monitor and improve the internal control policies and procedures put in place for risk identification, elusion and management. The Group's system of internal control including a defined management and organizational structure with operating policies and procedures, limits of responsibility and delegated authority, is designed to safeguard corporate assets, to maintain proper accounting records, to ensure the compliance with relevant laws and regulations or to manage and control various risks of the Group. Rather than to completely eliminate the risk of failure in operations and achievements of the business objectives of the Group, the system is designed to provide reasonable, but not absolute assurance against material misstatement of the operating results, financial information, losses or fraud.

The Board, through the Audit Committee, has conducted an annual review of the effectiveness of the system of the internal control of the Group. During the Year, the Company has formulated various internal control procedures, which focus on the four different areas of control environment, risk assessment, control activities and ongoing monitoring with reference to the structure of the COSO Internal Control Framework Model. With respect to control environment, the Company has prepared the "Annual Personal Declaration Statement", which regulates the occupational ethics of mid-class and senior management staffs of the headquarters and subsidiaries. In light of the rapid changes in the external business environment during the Year, the Company has conducted comprehensive risk assessments on the five subsidiaries and raised the awareness of operation risk among management through the circular of assessment reports. With reference to the "Standard of Internal Control Procedures" formulated in 2007, the Company has continued to conduct compliance inspections on the business processes of the seven control areas of its subsidiaries (including sales, purchasing, inventory, fixed assets, investment, human resources and financial reporting) and has further amended the "Standard of Internal Control Procedures" at the end of 2008. The Company monitored the remedial measures taken by subsidiaries in response to management recommendations through on-site inspection annually and would urge the management of the concerning subsidiaries to take proactive stance to improve if weaknesses were discovered. In addition, the internal control system, which emphasizes on upper-lower interaction, has been reinforced during the Year, while the subsidiaries have commenced to function independently under the guidance of the Company and worked closely with the Company to ensure the effective monitoring of daily operation. As a result, the Board is aware of the current condition of the internal control of the Group and believes that the internal control is effective at the date of this annual report.

Information Disclosure and Investor Relationship

The Company has endeavored to keep the transparency of the Group on a high level and has regularly communicated with investors and shareholders through different channels since the initial public offerings.

Through Company's website (http://www.pmcsh.com), the investors can obtain the latest news regarding Company's development, announcements and press releases.

An investor relationship team has been established to handle the phone inquiry, meeting and factory visit from the investors, it also organised annual investment conferences and road shows abroad. During the Year, the involvement of the senior management allows investors to have a better understanding of Company's strategy and development plans.

In the future, the Company will strive to provide better service for investment industry by enhancing current investor relation activities.

By order of the Board
Liu Zhenduo
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, PRC
10 April 2009

Other Information

Share Capital Structure

	Number of shares	Approximate percentage of issued share capital (%)
Domestic Shares	678,576,184	47.18
H Shares	759,710,000	52.82
Total	1,438,286,184	100

Disclosure of Interests

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2008, the interests or short positions of the substantial shareholders who were entitled to exercise or control the exercise of 5% or more of the voting rights at any general meeting of Shanghai Prime Machinery Company Limited (the "Company") (other than the directors, chief executives and supervisors of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") and to the knowledge of the directors of the Company were as follows:

Name of substantial shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interest	Percentage of total number of Domestic/H shares in issue (%)	Percentage of total number of shares in issue (%)
Shanghai Electric (Group) Corporation	Domestic	652,328,857		Beneficial owner	Long position	96.13	45.36
	Domestic	26,247,327	(1)	Interest of controlled corporation	Long position	3.87	1.82
		678,576,184				100.00	47.18
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
Templeton Asset Management Ltd.	H	145,282,000		Investment manager	Long position	19.12	10.10
Atlantis Investment Management Ltd	H	76,000,000		Investment manager	Long position	10.00	5.28
Government of Singapore Investment Corporation Pte Ltd	H	68,354,000		Investment manager	Long position	9.00	4.75
The Capital Group Companies, Inc.	H	38,960,000	(2)	Investment manager	Long position	5.13	2.71

Notes:

(1) Shanghai Electric (Group) Corporation held interests in 26,247,327 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	No. of shares
Shanghai Electric Industrial Corporation	100	23,519,451
Shanghai Electric Assets Management Company Limited	100	909,292
Shanghai Electric Group Assets Operation Company Limited	100	909,292
Shanghai General Machinery (Group) Corporation	100	909,292

Shanghai Electric (Group) Corporation was wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and its interests in 678,576,184 shares of the Company were deemed to be the interests of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(2) The Capital Group Companies, Inc. was deemed to be interested in the 38,960,000 shares held by Capital Group International Inc. ("CGII") by virtue of its holding of entire issued capital of CGII. CGII was interested in the same block of shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	No. of shares
Capital Guardian Trust Company	100	2,574,000
Capital International, Inc	100	31,974,000
Capital International Limited	100	4,412,000

Save as disclosed above, the Company is not aware of any other person (other than the directors, chief executives and supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2008 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors' and Supervisors' Interests and Short Positions and Underlying Shares

As at 31 December 2008, none of the directors, supervisors or chief executives of the Company and their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors, supervisors or chief executives to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. As at 31 December 2008, none of the directors, supervisors or chief executives of the Company or their respective associates were granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Report of the Directors

The Board of Directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company") present the report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008 (the "Year") .

Principal Activities

The principal activities of the Group are the design, manufacturing and sale of turbine blades, bearings, cutting tools, fasteners and others, the provision of related technical services, domestic trade, the provision of manpower service, industrial investment, entrepot trade of goods and technical services. Details of the principal activities of the subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the Group's principal activities during the Year.

Results and Dividends

The Group's profit for the year ended 31 December 2008 and the financial positions of the Company and the Group at that date are set out in the financial statements on pages 36 to 109.

The Directors proposed the payment of a final dividend of RMB4.18 cents per ordinary share in respect of the Year to shareholders whose name appears on the register of members as at the date of the Company's Annual General Meeting for the Year 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Use of Proceeds from the Company's Initial Public Offering

The proceeds from the Company's issues of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in April 2006, after deduction of related issuance expenses, amounted to approximately RMB1.4 billion. The proceeds of approximately RMB768 million have been applied during the years ended 31 December 2006, 2007 and 2008 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- approximately RMB196 million was used for the turbine blade business for expansion of overseas markets and technology upgrades of high precision turbine blades;
- approximately RMB120 million was used for the cutting tool business for technology upgrades of manufacturing facilities of numerically-controlled carbide and PCD cuttings tools;
- approximately RMB94 million was used for the bearing business for the acquisition of 40% equity interests in Shanghai United Bearings Company Limited and the entire equity interest in Shanghai Electric Bearings Company Limited , as well as technology upgrades of production facilities;
- approximately RMB195 million was used for the fastener business for upgrades of logistic system and facilities and improvement of productivity;
- approximately RMB3 million was used to reform and upgrade the management and control systems; and
- approximately RMB160 million was applied as additional working capital of the Group.

The remaining net proceeds of RMB553 million as at 31 December 2008 (net of foreign exchange loss of RMB61 million) were placed as interest-bearing bank deposits. The Company shall apply the remaining proceeds to the intended uses as set out in the listing prospectus.

Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 3 of this report. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 15 to the financial statements, respectively.

Share Capital

There were no movements in either the Company's authorised or issued share capital during the Year, the details of which are set out in note 34 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the laws of the People's Republic of China ("PRC") or the Company's Articles of Association which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

Reserves

Details of movements in the reserves of the Company and the Group during the Year are set out in note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB263 million, of which RMB60 million has been proposed as a final dividend for the Year. In addition, the Company's share premium account, in the amount of RMB691 million, may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the Year, the Group made charitable contributions totalling RMB2 million.

Major Customers and Suppliers

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

Directors

As at the reporting date, the Directors of the Company include Mr. Liu Zhenduo, Mr. Zhu Weiming, Mr. Hu Kang, Mr. Ye Fucai, Ms. Zhu Xi, Mr. Deng Yuntian as Executive Directors and Mr. Chan Chun Hong (Thomas), Mr. Zhou Feida, Mr. Liu Huangsong as Independent Non-executive Directors. Mr. Yan Qi, Mr. Chen Hui, Mr. Xia Sicheng and Mr. Huang Wennong resigned as Executive Directors of the Company on 10 October 2008. On the same date, Mr. Zhu Weiming, Mr. Ye Fucai, Ms. Zhu Xi and Mr. Deng Yuntian were appointed as Executive Directors of the Company.

The Independent Non-executive Directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Mr. Zhou Feida, Mr. Chan Chun Hong (Thomas) and Mr. Liu Huangsong, and as at the date of this report, the Company still considers them to be independent.

Directors', Supervisors' and Senior Management's Biographies

Biographical details of the Directors, Supervisors and Senior Management of the Company are set out on pages 16 to 18 of this report.

Directors' Service Contracts

Each Executive Director of the Company has entered into a service contract with the Company on 10 October 2008. According to the terms of the service contracts, each of the Executive Directors agreed to be appointed as the Company's Executive Director for a term of three years and to be subject to re-election upon the expiry of the term. These contracts are renewable in accordance with the Company's Articles of Association and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") and terminable at the option of the Company and the Executive Directors by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Apart from the foregoing, no Director has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

Directors' and Supervisors' Remuneration

The Directors' and Supervisors' fees are determined and resolved by the Remuneration Committee subject to shareholders' approval at general meetings. Other emoluments are determined by the Remuneration Committee of the Company with reference to Directors' and Supervisors' duties, responsibilities and performance and the results of the Group.

Directors' and Supervisors' Interests in Contracts

No Director or Supervisor had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

Directors' and Supervisors' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2008, none of the Directors and Supervisors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' and Supervisors' Rights to Acquire Shares or Debentures

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director and Supervisor or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and Supervisors to acquire such rights in any other body corporate.

Contract of Significance

The Company has entered into various contracts of significance with its holding company, Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), and the subsidiaries of Shanghai Electric Corporation. Further details of the transactions are set out in the section "Continuing Connected Transactions" below.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 31 December 2008, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's total issued share capital	Category of shares
Shanghai Electric Corporation	Directly beneficially owned	678,576,184	47.18	Domestic
Templeton Asset Management Ltd.	Directly beneficially owned	145,282,000	10.10	H
Atlantis Investment Management Ltd	Directly beneficially owned	76,000,000	5.28	H

Save as disclosed above, as at 31 December 2008, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Continuing Connected Transactions

During the Year, the Company and the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing Connected Transactions

Wuxi Land Lease Agreement

On 31 March 2006, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") entered into a land lease agreement with Shanghai Electric Corporation. Under the Wuxi land lease agreement, Shanghai Electric Corporation agrees to sub-lease a parcel of land that it leases from the Wuxi government with a total area of approximately 106,121.6 square meters to Wuxi Turbine Blade for industrial use. The term of the sub-lease is 10 years, which is the same as the term of the lease between the Wuxi government and Shanghai Electric Corporation. The annual cap, representing the agreed maximum rental payable to Shanghai Electric Corporation, is RMB3.7 million per year for the first three years of the agreement and is to be reviewed every three years, taking into account market conditions, and should not be higher than the rent applicable to a third party tenant. The rental payment term is also the same as the lease between the Wuxi government and Shanghai Electric Corporation.

In 2006, Wuxi Turbine Blade obtained an approval from the Wuxi government for a waiver of the rental for three years starting from November 2005 and a 50% reduction in the rental for two years thereafter (the "Waiver"). Shanghai Electric Corporation has agreed on the Waiver and accordingly, no rental payment was payable by Wuxi Turbine Blade to Shanghai Electric Corporation during the waiver periods. In the financial statements for the year ended 31 December 2008, Wuxi Turbine Blade has recognised rental expense payable to Shanghai Electric Corporation of RMB2.2 million, which is the apportionment of total rental payable evenly throughout the 10-year lease period.

On 25 April 2008, Wuxi Turbine Blade entered into the Supplemental Wuxi Land Lease Agreement with Shanghai Electric Corporation, pursuant to which Wuxi Turbine Blade and Shanghai Electric Corporation agreed to amend the Wuxi Land Lease Agreement to allow for the readjustment of rental every three years for the said land under the Wuxi Land Lease Agreement. Upon the agreement by both parties on the new rental charges, the adjusted rental will apply from 1 January 2009 until 31 December 2011, and thereafter Wuxi Turbine Blade will renegotiate with Shanghai Electric Corporation for the new rental charges.

The relevant annual caps, representing the maximum aggregate rental payable as agreed between the parties for the years of 2008, 2009 and 2010 are RMB3.7 million, RMB3.7 million and RMB3.7 million, respectively. The pricing basis of lease rental was based on the quoted market price as reported by real estate agencies, as well as to land of similar nature, conditions and size within the same geographical region.

Framework Property Lease Agreement

On 31 March 2006, the Company entered into a framework property lease agreement with Shanghai Electric Corporation, pursuant to which Shanghai Electric Corporation agreed to lease (either by itself or through its subsidiaries, excluding the Group and Shanghai Electric Group Company Limited ("Shanghai Electric Company") and its subsidiaries, collectively referred to as "Parent Group") certain properties with a total area of approximately 89,115 square meters to the Group. The term of each lease granted under the framework property lease agreement is 20 years. Under the agreement, the Company has the right, at its discretion, to terminate the lease term of any premises at any time prior to its expiry. The rental payable under the framework property lease agreement is to be reviewed every three years, taking into account market conditions, and should not be higher than the rent applicable to a third party tenant.

On 25 April 2008, the Company entered into the supplemental framework property lease agreement with Shanghai Electric Corporation, pursuant to which the Company and Shanghai Electric Corporation agreed to amend the framework property lease agreement to allow for the readjustment of rental every three years for the said properties under the framework property lease agreement. Upon the agreement by both parties on the new rental charges, the adjusted rental will apply from 1 January 2009 until 31 December 2011, and thereafter the Company will renegotiate with Shanghai Electric Corporation for the new rental charges.

The relevant annual caps, representing the maximum aggregate rental payable as agreed between the parties for the years of 2008, 2009 and 2010 are RMB30.0 million, RMB33.0 million and RMB36.3 million, respectively. The pricing basis of the lease rental was based on the quoted market price as reported by real estate agencies, as well as to properties of similar nature, condition and size within the same geographical region. The actual rental payable to the Parent Group for the year ended 31 December 2008 was RMB18.6 million.

Framework Processing Agreement with Shanghai Electric Corporation
On 25 April 2008, the Company entered into a framework processing agreement with Shanghai Electric Corporation, pursuant to which the Group agreed to procure certain processing services of fasteners and other products, on a non-exclusive basis, from the Parent Group.

Pursuant to the framework processing agreement, the Group will provide the raw materials for certain fasteners and other products to the Parent Group for processing and receiving finished products from the Parent Group.

The fees payable by the Group under the framework processing agreement shall be:
- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not exceeding market price; and if there is no market price for a particular type of service,
- an agreed price consisting of the actual or reasonable cost incurred there of plus a reasonable profit margin.

The framework processing agreement entered into between the Company and Shanghai Electric Corporation will extend the existing framework processing agreement and shall cover a period of three years up to the financial year ending 31 December 2011. The framework processing agreement is renewable at the option of the Company for another term of three years by giving at least three months' notice prior to its expiry of the term. Either party may terminate the framework processing agreement at any time by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate processing fees payable as agreed between the parties for the years of 2008, 2009 and 2010 are RMB10.1 million, RMB27.6 million and RMB28.6 million, respectively. There was no processing fee payable to the Parent Group incurred for the year ended 31 December 2008.

Framework Sales Agreement with Shanghai Electric Corporation
The Company entered into a framework sales agreement dated 25 April 2008 with Shanghai Electric Corporation, pursuant to which the Group agreed to sell, on a non-exclusive basis, certain bearings, turbine blades, cutting tools, fasteners and related components to the Parent Group.

The prices of the products sold to the Parent Group under the framework sales agreement shall be:
- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not less than market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred there of plus a reasonable profit margin.

The framework sales agreement entered into between the Company and Shanghai Electric Corporation will extend the existing framework sales agreement and shall cover a period of three years up to the financial year ending 31 December 2011. The framework sales agreement is renewable at the option of the Company for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party can terminate the framework sales agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate sales amount as agreed between the parties for the years of 2008, 2009 and 2010 are RMB50.8 million, RMB42.5 million and RMB70.5 million, respectively. The Group's actual sales to the Parent Group for the year ended 31 December 2008 amounted to RMB0.6 million.

Framework Purchase Agreement with Shanghai Electric Corporation
The Company entered into a framework purchase agreement dated 25 April 2008 with Shanghai Electric Corporation, pursuant to which the Group agreed to buy certain bearing balls (including high precision bearing balls), cutting tool products and component parts, on a non-exclusive basis, from the Parent Group.

The prices of raw materials and components supplied under the framework purchase agreement shall be:
- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not exceeding market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred there of plus a reasonable profit margin.

The framework purchase agreement entered into between the Company and Shanghai Electric Corporation will extend the existing framework purchase agreement and shall cover a period of three years up to the financial year ending 31 December 2011. The framework purchase agreement is renewable at the option of the Company for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate purchase price as agreed between the parties for the years of 2008, 2009 and 2010 are RMB64.4 million, RMB17.2 million and RMB28.2 million, respectively. The Group's actual purchases from the Parent Group for the year ended 31 December 2008 amounted to RMB1.6 million.

Framework Sales Agreement with Shanghai Electric Company
The Company entered into a framework sales agreement dated 25 April 2008 with Shanghai Electric Company, pursuant to which the Group has agreed to sell certain of bearings, turbine blades, cutting tools, fasteners and related components, on a non-exclusive basis, to Shanghai Electric Company and its subsidiaries (collectively referred to as "Shanghai Electric Companies").

The prices of the products sold to Shanghai Electric Companies under the framework sales agreement shall be:
- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not less than market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred there of plus a reasonable profit margin.

The framework sales agreement entered into between the Company and Shanghai Electric Company will extend the existing framework sales agreement and shall cover a period of three years up to the financial year ending 31 December 2011. The framework sales agreement is renewable at the option of either party for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party may terminate the framework sales agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate sales amount as agreed between the parties for the years of 2008, 2009 and 2010 are RMB390.7 million, RMB417.2 million and RMB534.8 million, respectively. The Group's actual sales to Shanghai Electric Companies for the year ended 31 December 2008 amounted to RMB212.9 million.

Framework Purchase Agreement with Shanghai Electric Company
The Company entered into a Framework Purchase Agreement with Shanghai Electric Company dated 25 April 2008, pursuant to which the Group agreed to buy certain raw materials (including special steel for railway bearing products) and component parts, on a non-exclusive basis, from Shanghai Electric Companies.

The prices of raw materials and components supplied under the framework purchase agreement shall be:
- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not exceeding market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred there of plus a reasonable profit margin.

The framework purchase agreement entered into between the Company and Shanghai Electric Company will extend the existing framework purchase agreement and shall cover a period of three years up to the financial year ending 31 December 2011. The framework purchase agreement is renewable at the option of either party for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate purchase price as agreed between the parties for the years of 2008, 2009 and 2010 are RMB1.0 million, RMB4.5 million and RMB6.5 million, respectively. The Group's actual purchases from Shanghai Electric Companies for the year ended 31 December 2008 amounted to RMB0.6 million.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 41 to the financial statements and have confirmed that these continuing connected transactions were entered into:
1. in the ordinary and usual course of business of the Group;
2. on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
3. in accordance with 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.

Sufficiency of public float
Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Post balance sheet events
Details of the post balance sheet events of the Group are set out in note 44 to the financial statements.

Independent Auditors
Ernst & Young will retire according to the Company's Articles of Association and a resolution for their reappointment as the independent auditors of the Company will be proposed at the forthcoming annual general meeting. In the past three years, the Company has not changed auditors.

By order of the Board
Liu Zhenduo
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
10 April 2009

Report of the Supervisory Committee

Dear Shareholders,

During the reporting period, the Supervisory Committee of Shanghai Prime Machinery Company Limited (the "Company") elected the second session Supervisory Committee members of the Company at the extraordinary general meeting held on 10 October 2008 in accordance with relevant provisions of the Company Law of the People's Republic of China (the "PRC"), Securities Law of the PRC, Articles of Association of the Company and the Rules Governing the Listing of Securities on the Stock Exchange of the Hong Kong Limited (the "Listing Rules").

During the reporting period of the Supervisory Committee, the Supervisory Committee has actively and effectively performed its duties in compliance with the Company's Standing Order of the Supervisory Committee. The committee has carried out all its duties with diligence and prudence, and has supervised all operating and management activities of the Company in a legal, timely and effective manner, practically protected the interests of our shareholders and the Company.

During the reporting period, the Supervisory Committee reviewed the interim results, financial accounts, financial budgets and profit distribution of the Company, as well as participated in the review of the auditor's report and proposed reasonable advice through attending two general meetings and four Board meetings, conducting on-the-spot inspections and convening meetings of the Supervisory Committee. The members of the Supervisory Committee has made use of their business expertise in their due performance of the duties of the Supervisory Committee.

With respect to annual progress of the Company in 2008, the Supervisory Committee has the following views:

- The Supervisory Committee has examined details of the implementation of financial management system and financial reports of the Company. It confirms that the budget report, financial report and annual report, interim report are true and reliable and the auditing opinions presented by the auditors engaged by the Company produced objective and fair opinions.
- The Supervisory Committee has supervised the operating activities of the Company. It believes that the Company has established a relatively mature internal control system and an internal control management structure, and has made great efforts to improve and execute the system and structure, such as revised and finalized the "Rules of Information Disclosure", "Standard of Internal Control Procedures" , "Rules of Cash Pool Management", "Rules of IPO Proceeds Management", and published "Rules of Short-term Investment", "Rules of Comprehensive Budget Preparation" and interim procedures for completion and acceptance of investment projects, which mitigated various operating risks of the Company.
- The Supervisory Committee has examined the use of proceeds of the Company. It confirms that the use of proceeds of the Company is in concert with those disclosed in the listing prospectus of the Company. The projects are substantially completed.
- The Supervisory Committee has supervised the connected transactions of the Company. It believes that the connected transactions between the Company and Shanghai Electric (Group) Corporation, its controlling shareholder, and Shanghai Electric Company Limited during the reporting period are fair and impartial without prejudice to the interests of other shareholders and the Company, while in 2008, all connected transactions have not exceeded the exempted annual cap.
- The Supervisory Committee has supervised duty fulfillment of the directors and management of the Company. It confirms that the directors, chief executive officer and other senior management have exercised every right granted by shareholders and discharged every duty in strict compliance with the principle of diligence and good faith. The Committee is not aware of any abuse of authority which impairs our shareholders' interests and the legitimate rights of our employees until the date hereof.

Report of the Supervisory Committee

In 2009, all members of the Supervisory Committee will continue to comply with relevant provisions of the Company law of the PRC, the Company's Articles of Association and the Listing Rules. With dedication to protect the interests of the Company and its shareholders, the Committee will endeavor to perform its supervising duties for the benefits of all shareholders.

By order of the Supervisory Committee
Chen Jiaming
Chairman of the Supervisory Committee
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
10 April 2009

Independent Auditors' Report

To the shareholders of Shanghai Prime Machinery Company Limited

(Incorporated in the People's Republic of China as a joint stock company with limited liability)

We have audited the financial statements of Shanghai Prime Machinery Company Limited set out on pages 36 to 109, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
10 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CONTINUING OPERATIONS			
REVENUE	5	3,250,181	2,900,397
Cost of sales		(2,659,448)	(2,362,416)
Gross profit		590,733	537,981
Other income and gains	5	71,104	69,372
Selling and distribution costs		(87,664)	(78,615)
Administrative expenses		(188,720)	(140,364)
Other expenses		(88,052)	(70,324)
Finance costs	7	(5,415)	(3,885)
Share of profits and losses of associates		16,058	16,486
PROFIT BEFORE TAX	6	308,044	330,651
Tax	10	(65,154)	(110,829)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		242,890	219,822
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	-	11,836
PROFIT FOR THE YEAR		242,890	231,658
Attributable to:			
Equity holders of the Company	14	240,839	225,094
Minority interests		2,051	6,564
		242,890	231,658
DIVIDENDS			
Proposed final	13	60,120	55,806
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	14	16.74	15.65
– For profit from continuing operations	14	16.74	15.16

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	1,012,093	1,026,084
Prepaid land premiums/land lease payments	16	125,462	56,212
Goodwill	17	8,818	8,818
Other intangible assets	18	5,987	3,362
Investments in associates	20	120,302	96,155
Available-for-sale investments	21	1,072	1,072
Long-term prepayments		110,931	15,636
Deferred tax assets	22	25,262	33,898
Total non-current assets		1,409,927	1,241,237
CURRENT ASSETS			
Inventories	23	690,935	553,571
Trade receivables	24	341,117	337,868
Bills receivable	25	87,193	81,529
Prepayments, deposits and other receivables	26	82,986	113,328
Held-to-maturity investment	28	-	80,000
Restricted deposits	29	63,733	18,833
Cash and cash equivalents	29	800,279	863,303
Total current assets		2,066,243	2,048,432
CURRENT LIABILITIES			
Trade payables	30	309,328	360,879
Bills payable	31	125,900	50,460
Tax payable		66,696	102,488
Other payables and accruals	32	108,974	112,528
Interest-bearing bank and other borrowings	33	90,000	75,000
Total current liabilities		700,898	701,355
NET CURRENT ASSETS		1,365,345	1,347,077
TOTAL ASSETS LESS CURRENT LIABILITIES		2,775,272	2,588,314

Consolidated Balance Sheet (continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,775,272	2,588,314
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	17,000	17,000
Government grants		18,054	21,286
Other long-term payables		8,767	3,465
Deferred tax liabilities	22	4,819	7,211
Total non-current liabilities		48,640	48,962
Net assets		2,726,632	2,539,352
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	34	1,438,286	1,438,286
Reserves	35(a)	1,214,337	1,033,279
Proposed final dividends	13	60,120	55,806
		2,712,743	2,527,371
Minority interests		13,889	11,981
Total equity		2,726,632	2,539,352

Director .... **Liu Zhenduo** .... **Director** .... **Hu Kang** ....

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the Company								
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
1 January 2007		1,438,286	758,849	(58,756)	42,849	118,088	57,531	2,356,847	72,041	2,428,888
Profit for the year		-	-	-	-	225,094	-	225,094	6,564	231,658
Total income and expense for the year		-	-	-	-	225,094	-	225,094	6,564	231,658
Acquisition of subsidiaries	36	-	2,295	-	-	-	-	2,295	5,296	7,591
Capital injection by minority interests		-	-	-	-	-	-	-	3,692	3,692
Appropriation to surplus reserves		-	-	-	25,672	(25,672)	-	-	-	-
Adjustments of surplus reserves		-	-	-	(12,692)	12,692	-	-	-	-
Adjustments of capital reserve		-	(54,552)	-	-	54,552	-	-	-	-
Disposal of a subsidiary	37	-	(3,986)	666	(3,378)	7,364	-	666	(75,530)	(74,864)
Final 2006 dividends declared		-	-	-	-	-	(57,531)	(57,531)	-	(57,531)
Dividends paid to a minority shareholder		-	-	-	-	-	-	-	(82)	(82)
Proposed final 2007 dividends	13	-	-	-	-	(55,806)	55,806	-	-	-
At 31 December 2007 and at 1 January 2008		1,438,286	702,606*	(58,090)*	52,451*	336,312*	55,806	2,527,371	11,981	2,539,352
Profit for the year		-	-	-	-	240,839	-	240,839	2,051	242,890
Total income and expense for the year		-	-	-	-	240,839	-	240,839	2,051	242,890
Appropriation to surplus reserves		-	-	-	64,067	(64,067)	-	-	-	-
Effect of tax rate change on deferred tax liabilities	22	-	339	-	-	-	-	339	-	339
Final 2007 dividends declared		-	-	-	-	-	(55,806)	(55,806)	-	(55,806)
Dividends paid to a minority shareholder		-	-	-	-	-	-	-	(143)	(143)
Proposed final 2008 dividends	13	-	-	-	-	(60,120)	60,120	-	-	-
At 31 December 2008		1,438,286	702,945*	(58,090)*	116,518*	452,964*	60,120	2,712,743	13,889	2,726,632

* These reserve accounts comprise the consolidated reserves of RMB1,214,337,000 (2007: RMB1,033,279,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		308,044	330,651
From a discontinued operation	12	-	12,606
Adjustments for:			
Finance costs	7	5,415	7,702
Share of profits and losses of associates		(16,058)	(16,486)
Interest income from loans receivable, bank balances and deposits	5	(13,482)	(29,073)
Interest income from other financial assets	5	(8,212)	(334)
Dividend income from available-for-sale investments	5	(29)	(1,965)
Depreciation	6	104,327	86,273
Recognition of prepaid land premiums/land lease payments	6	2,182	1,457
Amortisation of other intangible assets	18	1,013	2,771
Gain on disposal of a subsidiary	5	-	(13,518)
Gain on disposal of available-for-sale investments	5	-	(1,060)
Fair value gains on derivative financial instruments, net	5	-	(4,008)
Foreign exchange differences, net		1,512	31,408
Loss/(gain) on disposal of items of property, plant and equipment, net	5	574	(1,495)
Gain on write-off of long-aged payables	5	(7,702)	(3,019)
Impairment of items of property, plant and equipment	6	-	4
(Reversal of impairment)/impairment of receivables	6	(5,953)	437
Write-down/(reversal of write-down) of inventories to net realisable value	6	37,747	(1,425)
		409,378	400,926
Increase in inventories		(175,111)	(157,227)
Decrease/(increase) in trade receivables, bills receivable, prepayments, deposits and other receivables		24,074	(128,433)
Decrease in long-term prepayments		-	1,014
Increase in trade payables, bills payable, other payables and accruals		18,225	128,637
Increase/(decrease) in other long-term payables		5,302	(2,844)
Decrease in government grants		(3,232)	(3,233)

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash generated from operations		278,636	238,840
Taxes paid		(94,363)	(58,382)
Net cash inflow from operating activities		184,273	180,458
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		12,817	38,191
Interest income from other financial assets	5	8,212	334
Dividend income from available-for-sale investments	5	29	1,965
Dividends received from associates		5,187	10,721
Purchase of items of property, plant and equipment		(178,305)	(414,635)
Proceeds from disposal of items of property, plant and equipment		1,769	4,577
Proceeds from derivative financial instruments		-	5,623
Prepaid land premiums/land lease payments		(72,890)	(43,386)
Additions to other intangible assets		(3,638)	(2,902)
Acquisition of subsidiaries	36	-	(57,015)
Proceeds from disposal of available-for-sale investments		-	6,351
Disposal of a subsidiary	37	6,133	111,499
Acquisition of an equity interest in an associate		(13,978)	(18,471)
Disposal/(purchase) of held-to-maturity investments		80,000	(80,000)
(Increase)/decrease in restricted deposits		(44,900)	640,624
(Increase)/decrease in non-restricted deposits with original maturity of over three months when acquired		(281,860)	157,159
Net cash (outflow)/inflow from investing activities		(481,424)	360,635
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		110,000	273,000
Capital injection by minority interests		-	3,692
Repayments of bank and other borrowings		(95,000)	(228,000)
Dividends paid		(55,806)	(57,531)
Interest paid		(5,415)	(7,702)
Net cash outflow from financing activities		(46,221)	(16,541)

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(343,372)	524,552
Cash and cash equivalents at beginning of year		852,163	359,019
Effect of foreign exchange rate changes, net		(1,512)	(31,408)
CASH AND CASH EQUIVALENTS AT END OF YEAR		507,279	852,163
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	231,279	262,163
Non-restricted time deposits with original maturity of less than three months when acquired		276,000	590,000
		507,279	852,163

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	6,782	7,540
Other intangible assets	18	2,194	-
Interests in subsidiaries	19	1,822,453	1,572,453
Investments in associates	20	106,806	92,828
Deferred tax assets	22	755	-
Total non-current assets		1,938,990	1,672,821
CURRENT ASSETS			
Inventories	23	4,530	2,774
Trade receivables	24	111,561	156,364
Bills receivable	25	36,500	-
Prepayments, deposits and other receivables	26	409,984	285,942
Loans receivable	27	42,000	22,000
Held-to-maturity investment	28	-	80,000
Cash and cash equivalents	29	713,719	414,844
Total current assets		1,318,294	961,924
CURRENT LIABILITIES			
Trade payables	30	44,595	106,820
Tax payable		3,282	6,493
Other payables and accruals	32	768,867	315,506
Total current liabilities		816,744	428,819
NET CURRENT ASSETS		501,550	533,105
TOTAL ASSETS LESS CURRENT LIABILITIES		2,440,540	2,205,926
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	3,676	5,515
Total non-current liabilities		3,676	5,515
Net assets		2,436,864	2,200,411
EQUITY			
Issued capital	34	1,438,286	1,438,286
Reserves	35(b)	938,458	706,319
Proposed final dividends	13	60,120	55,806
Total equity		2,436,864	2,200,411

Director ....**Liu Zhenduo**........ **Director** ....**Hu Kang**........

Notes to Financial Statements

1. CORPORATE INFORMATION

Shanghai Prime Machinery Company Limited (the "Company") is a joint stock limited liability company incorporated in the People's Republic of China (the "PRC") on 30 September 2005. The registered office of the Company is located at Room 1501, Jidian Edifice, No. 600 Hengfeng Road, Shanghai, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design and sale of turbine blades, precision bearings, highly durable fasteners, numerical control machine cutting tools and others, the provision of related technical services, domestic trade, the provision of manpower service, industrial investment, entrepot trade of goods and technical services.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), a wholly-state-owned enterprise established in the PRC.

2.1 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, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2008. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2–Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19–The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

2.3 IMPACT OF 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.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfers of Assets from Customers*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The Group expects to adopt HKFRS 3(Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Except as stated above, the Group expects that the adoption of the above new and revised HKFRSs will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The Group's investment in its jointly-controlled entity is accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of the jointly-controlled entity are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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 forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), 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 to sell, 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.

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 income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any 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 income statement in the period in which it arises.

Related parties

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

(a) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

A party is considered to be related to the Group if: (continued)

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

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. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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:

Leasehold buildings	2% to 5%
Machinery and equipment	4% to 24%
Motor vehicles	7% to 19%
Office and other equipment	10% to 19%
Leasehold improvements	10% to 20%

Included in machinery and equipment is a spire-pressure machine (10KT-clutch mode) which is depreciated on the unit-of-production method to write off its cost to the residual value over its estimated working hours capacity.

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 methods are reviewed, and adjusted if appropriate, at least at each balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment 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 income statement 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 property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are 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 balance sheet date.

Software

Purchased software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

Research and development costs

All research costs are charged to the income statement 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, commencing from the date when the products are put into commercial production.

Operating leases

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 income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. The lease terms of prepaid land premiums range from 20 to 50 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gains or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statements as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, 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 (excluding future credit losses that have not been incurred) 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 either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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, 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.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. 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 balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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 the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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.

Contracts for services

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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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 balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, 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 balance sheet date 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 income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred tax liability 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where 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, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where 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, associates and interests in joint ventures, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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" above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

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

Retirement benefits

The Group, jointly-controlled entity and associates participate in a government-regulated defined contribution pension scheme, under which the Group, jointly-controlled entity and associates pay contributions to a government-regulated pension scheme at a fixed percentage of wages and salaries of the existing full-time employees in the PRC and have no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to the income statement as incurred. Details of the government-regulated pension scheme are set out in note 6(i) below.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The financial records of the Group, jointly-controlled entity and associates are maintained and these financial statements are presented in RMB, which is the functional and presentation currency of the Company and its subsidiaries, jointly-controlled entity and associates.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. 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 determined.

3. SIGNIFICANT ACCOUNTING 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 the disclosure of contingent liabilities, at the reporting date. However, 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was RMB8,818,000 (2007: RMB8,818,000). More details are given in note 17.

(ii) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets with definite life are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(iii) Impairment of trade receivables and other receivables

Impairment of trade receivables and other receivables is made based on assessment of their recoverability. The identification of impairment of trade receivables and other receivables requires management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which such estimate has been changed.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

(i) the bearing segment is engaged in the production and sale of bearings;

(ii) the turbine blade segment is engaged in the production and sale of turbine blades;

(iii) the cutting tool segment is engaged in the production and sale of cutting tools;

(iv) the fastener segment is engaged in the production and sale of fasteners;

(v) "others" refers to investment in an associate, which is engaged in the production and sale of carbolic products, and trading activities carried out by the Company.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. No further geographical segments based on the location of the assets are presented as the Group's operations and assets are solely located in the PRC.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information on the Group's business segments for the years ended 31 December 2008 and 2007:

	Continuing operations						
Year ended 31 December 2008	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	429,363	796,621	470,694	1,553,503	-	-	3,250,181
Intersegment sales	-	-	-	-	123	(123)	-
Other revenue	9,711	21,076	18,695	(37)	(64)	-	49,381
Total	439,074	817,697	489,389	1,553,466	59	(123)	3,299,562
Segment results	39,534	139,964	57,238	69,891	254	-	306,881
Interest and dividend income and unallocated gains							21,723
Corporate and other unallocated expenses							(31,203)
Finance costs							(5,415)
Share of profits and losses of associates	2,850	-	2,280	-	10,928	-	16,058
Profit before tax							308,044
Tax							(65,154)
Profit for the year							242,890
Assets and liabilities							
Segment assets	957,627	1,308,848	450,510	657,914	572,300	(1,305,532)	2,641,667
Investments in associates	68,666	-	8,383	-	43,253	-	120,302
Corporate and other unallocated assets							714,201
Total assets							3,476,170
Segment liabilities	239,129	420,902	126,675	374,584	785,638	(1,305,532)	641,396
Corporate and other unallocated liabilities							108,142
Total liabilities							749,538
Other segment information:							
Depreciation and amortisation	12,881	51,793	21,245	19,532	2,071	-	107,522
Capital expenditure	35,860	178,184	17,099	31,980	1,379	-	264,502
Impairment losses recognised in the income statement	3,426	(990)	6,270	23,088	-	-	31,794

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2007	Continuing operations: Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000	Discontinued operation: Electric motor RMB'000	Consolidated RMB'000
Segment revenue:									
Sales to external customers	394,471	643,353	445,749	1,416,797	27	-	2,900,397	372,210	3,272,607
Intersegment sales	-	-	-	-	58,005	(58,005)	-	-	-
Other revenue	10,842	17,666	10,060	13,388	-	-	51,956	4,174	56,130
Total	405,313	661,019	455,809	1,430,185	58,032	(58,005)	2,952,353	376,384	3,328,737
Segment results	55,068	147,093	58,592	62,308	313	-	323,374	16,296	339,670
Interest and dividend income and unallocated gains							17,416	127	17,543
Corporate and other unallocated expenses							(22,740)	-	(22,740)
Finance costs							(3,885)	(3,817)	(7,702)
Share of profits and losses of associates	9,255	-	225	-	7,006	-	16,486	-	16,486
Profit before tax							330,651	12,606	343,257
Tax							(110,829)	(770)	(111,599)
Profit for the year							219,822	11,836	231,658
Assets and liabilities									
Segment assets	929,310	903,748	469,564	704,231	438,911	(689,870)	2,755,894	-	2,755,894
Investments in associates	51,837	-	6,103	-	38,215	-	96,155	-	96,155
Corporate and other unallocated assets							437,620	-	437,620
Total assets							3,289,669	-	3,289,669
Segment liabilities	229,342	254,817	109,381	419,234	333,718	(689,870)	656,622	-	656,622
Corporate and other unallocated liabilities							93,695	-	93,695
Total liabilities							750,317	-	750,317
Other segment information:									
Depreciation and amortisation	9,230	35,282	16,570	14,181	1,430	-	76,693	13,808	90,501
Capital expenditure	66,515	186,553	103,327	162,746	3,190	-	522,331	12,877	535,208
Impairment losses recognised in the income statement	29	(913)	577	(636)	-	-	(943)	842	(101)

4. SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue information on the Group's geographical segments for the years ended 31 December 2008 and 2007:

	2008			2007		
		Outside			Outside	
	PRC	PRC	Total	PRC	PRC	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	1,621,865	1,628,316	3,250,181	1,756,103	1,516,504	3,272,607
Attributable to a discontinued operation	-	-	-	(372,210)	-	(372,210)
Revenue from continuing operations	1,621,865	1,628,316	3,250,181	1,383,893	1,516,504	2,900,397

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the year, net of sales taxes and surcharges.

An analysis of revenue, other income and gains is as follows:

	Notes	2008 RMB'000	2007 RMB'000
Revenue			
Sale of goods		3,234,043	2,885,751
Rendering of services		16,138	14,646
Attributable to continuing operations reported in the consolidated income statement		3,250,181	2,900,397
Revenue attributable to a discontinued operation	12	-	372,210
		3,250,181	3,272,607

5. REVENUE, OTHER INCOME AND GAINS (continued)

	Notes	2008 RMB'000	2007 RMB'000
Other income			
Dividend income from available-for-sale investments		29	1,965
Interest income from held-to-maturity investments		8,212	334
Interest income from loans receivable, bank balances and deposits		13,482	28,945
Gross rental income		2,196	1,914
Profit on sales of raw materials, spare parts and semi-finished goods		15,628	20,194
Government grants *		16,061	19,584
Compensation income		670	348
Others		7,698	4,395
		63,976	77,679
Gains			
(Loss)/gain on disposal of items of property, plant and equipment, net		(574)	1,495
Gain on disposal of a subsidiary	37	-	13,518
Gain on disposal of available-for-sale investments		-	1,060
Fair value gains on derivative financial instruments, net		-	4,008
Foreign exchange differences, net		-	(31,407)
Gain on write-off of long-aged payables		7,702	3,019
		7,128	(8,307)
Attributable to continuing operations reported in the consolidated income statement		71,104	69,372
Other income and gains attributable to a discontinued operation	12	-	4,301
		71,104	73,673

* Various government grants have been received during the years ended 31 December 2008 and 2007. There are no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

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

	2008 RMB'000	2007 RMB'000
Cost of inventories sold	2,606,651	2,662,881
Cost of services provided	15,050	14,396
Depreciation	104,327	86,273

6. PROFIT BEFORE TAX (continued)

	2008 RMB'000	2007 RMB'000
Recognition of prepaid land premiums/land lease payments	2,182	1,457
Amortisation of patents and licences *	132	2,045
Amortisation of other intangible assets *	881	726
Write-down/(reversal of write-down) of inventories to net realisable value	37,747	(1,425)
(Reversal of impairment)/impairment of receivables *	(5,953)	437
Impairment of items of property, plant and equipment *	-	4
Research and development costs: *		
Current year expenditure	61,169	48,079
Minimum lease payments under operating leases:		
Land and buildings	24,286	22,425
Plant and machinery	-	3,006
Vehicles	-	2,144
Auditors' remuneration:		
Audit services	4,600	4,623
Non-audit services	668	494
Employee benefits expense (including directors' and supervisors' remuneration – note 8):		
Wages and salaries	242,470	226,872
Defined contribution pension scheme (note i)	33,394	33,620
Medical benefits (note iii)	11,217	10,655
Housing fund (note iv)	10,416	9,878
Cash housing subsidies costs	1,030	443
	298,527	281,468
Foreign exchange differences, net **	15,982	44,849

* These items are included in "Other expenses" on the face of the consolidated income statement.

** The net foreign exchange losses consist of an amount of Nil (2007: RMB31,407,000) included as "Other income and gains" (note 5) and an amount of RMB15,982,000 (2007: RMB13,442,000) included as "Other expenses".

The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operation.

6. PROFIT BEFORE TAX (continued)

Notes:

(i) Defined contribution pension scheme

All of the Group's full-time employees in the PRC are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 22% of the employees' basic salaries subject to a cap. The related pension costs are expensed as incurred.

(ii) Early retirement benefits

The Group implemented an early retirement plan for certain employees in addition to the benefits under the government regulated defined contribution pension scheme described above. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of services from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employees.

Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") and Shanghai Electric Corporation, the ultimate holding company, have agreed that the costs of early retirement benefits for those employees who early retired before 1 September 2005 will be borne by Shanghai Electric Corporation from 1 September 2005 onwards. Beginning from that date the related costs paid by Wuxi Turbine Blade to these employees will be fully reimbursed by Shanghai Electric Corporation. The total costs of early retirement benefits so borne by Shanghai Electric Corporation since 1 September 2005 were approximately RMB14 million, of which RMB1,610,000 (2007: RMB3,810,000) was related to the year ended 31 December 2008. There was no employee early retired under the plan subsequent to 1 September 2005.

(iii) Medical benefits

The Group contributes on a monthly basis to defined contribution medical benefit plans administrated by the PRC government. The PRC government undertakes to assume the medical benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for medical benefits for their qualified employees under these plans.

(iv) Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans administrated by the PRC government. Contributions to these plans by the Group are expensed as incurred.

7. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank and other loans wholly repayable within five years	5,415	7,702
Attributable to a discontinued operation (note 12)	-	3,817
Attributable to continuing operations reported in the consolidated income statement	5,415	3,885
	5,415	7,702

Notes to Financial Statements (continued)

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Directors		Supervisors	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Fees	540	587	-	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	1,699	1,390	161	304
Performance related bonuses	181	811	58	45
Pension scheme contributions	96	104	28	38
Total	2,516	2,892	247	387

(a) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Chan Chun Hong, Thomas	216	237
Zhou Feida	162	175
Liu Huangsong	162	175
	540	587

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(b) Executive directors and supervisors

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2008				
Executive directors:				
Liu Zhenduo	-	-	-	-
Yan Qi	356	40	20	416
Hu Kang	424	43	22	489
Chen Hui	237	17	16	270
Xia Sicheng	258	29	16	303
Huang Wennong	318	41	16	375
Deng Yuntian	-	-	-	-
Zhu Xi	-	-	-	-
Ye Fucai	-	-	-	-
Zhu Weiming	106	11	6	123
	1,699	181	96	1,976

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and supervisors (continued)

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Supervisors:				
Chen Jiaming	-	-	-	-
Hu Peiming	106	58	22	186
Lin Guanhong	-	-	-	-
Zhang Jianping	55	-	6	61
	161	58	28	247
	1,860	239	124	2,223
2007				
Executive directors:				
Liu Zhenduo	-	-	-	-
Zhou Zhiyan	-	-	-	-
Yan Qi	303	219	28	550
Hu Kang	348	128	19	495
Chen Hui	258	83	19	360
Xia Sicheng	214	167	19	400
Huang Wennong	267	214	19	500
	1,390	811	104	2,305
Supervisors:				
Chen Jiaming	-	-	-	-
Hu Peiming	141	45	19	205
Lin Guanhong	163	-	19	182
	304	45	38	387
	1,694	856	142	2,692

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2007:Nil).

Notes to Financial Statements (continued)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2007: two) directors or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2007: three) non-director and non-supervisor, highest paid employees for the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	2,419	2,556
Pension scheme contributions	107	99
	2,526	2,655

The remuneration of each of the three non-director and non-supervisor, highest paid employees does not exceed RMB1,000,000.

10. TAX

On 16 March 2007, the National People's Congress approved the PRC Corporate Income Tax Law (the "New CIT Law"). The New CIT Law, which became effective from 1 January 2008, reduced the statutory corporate income tax rate of the Group from 33% to 25%. In addition, the New CIT Law also grants a preferential tax rate of 15% for enterprises qualified as High and New Technology Enterprises ("HNTEs").

In 2008, three subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Tian An Bearing Company Limited ("Tian An Bearing"), and Shanghai Tool Works Company Limited ("Tool Works") applied for HNTEs qualification to the relevant government bodies. The application were jointly approved by the Shanghai Science Technology Committee, Shanghai Finance Bureau, Shanghai State Taxation Bureau and Shanghai Local Taxation Bureau. United Bearing, Tian An Bearing and Tool Works were qualified as HNTEs on 25 December 2008, 29 December 2008 and 25 December 2008, respectively, for a period of three years commencing 1 January 2008. Therefore, they are entitled to a preferential income tax rate of 15% for each of the three years ending 31 December 2010.

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits arising in Hong Kong for the year.

10. TAX (continued)

	2008 RMB'000	2007 RMB'000
Group:		
Current – the PRC		
Charge for the year	56,836	104,455
Underprovision/(overprovision) in prior years	1,735	(1,327)
Deferred (note 22)	6,583	8,471
Total tax charge for the year	65,154	111,599
Attributable to a discontinued operation (note 12)	-	770
Attributable to continuing operations reported in the consolidated income statement	65,154	110,829
	65,154	111,599

A reconciliation of the tax expense applicable to profit before tax using the statutory rate of 25% to the tax expense at the effective tax rate is as follows:

	2008 RMB'000	2007 RMB'000
Profit before tax (including profit from a discontinued operation)	308,044	343,257
Tax at the statutory tax rate of 25% (2007: 33%)	77,011	113,275
Preferential tax rate for certain subsidiaries	(9,790)	(2,454)
Effect of tax rate change:		
On opening deferred tax	10,203	8,062
On deferred tax movement during the year	-	(572)
Adjustments in respect of current tax of previous periods	1,735	(1,327)
Profits and losses attributable to associates	(3,445)	(3,839)
Income not subject to tax	(2,220)	(542)
Expenses not deductible for tax	3,881	5,620
Effect of tax incentive	(12,221)	(6,624)
Tax charge at the Group's effective rate	65,154	111,599
Represented by:		
Tax charge attributable to a discontinued operation (note 12)	-	770
Tax charge attributable to continuing operations reported in the consolidated income statement	65,154	110,829
	65,154	111,599
The Group's effective income tax rate	21.2%	32.5%

The share of tax attributable to associates amounting to RMB3,539,000 (2007: RMB3,128,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

Notes to Financial Statements (continued)

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of RMB292,259,000 (2007: RMB104,797,000) which has been dealt with in the financial statements of the Company (note 35(b)).

12. DISCONTINUED OPERATION

On 30 November 2007, the Company disposed its entire 60% equity interest in Shanghai Nanyang Motor Co., Ltd. ("Nanyang Motor"). Nanyang Motor engages in the production and sale of electric motors and accessories, and is a separate business segment that is part of the Group's operations. The Group ceased its electric motor business because of the expected changes in the market conditions.

The results of Nanyang Motor are presented below:

	For 11 months ended 30 November 2007 RMB'000
Revenue	372,210
Other income and gains	4,301
Total revenue	376,511
Expenses	(360,088)
Finance costs	(3,817)
Profit before tax from the discontinued operation	12,606
Tax	(770)
Profit for the year from the discontinued operation	11,836

The net cash flows incurred by Nanyang Motor are as follows:

	For 11 months ended 30 November 2007 RMB'000
Operating activities	(19,305)
Investing activities	(11,392)
Financing activities	22,569
Net cash outflow	(8,128)
Earnings per share:	
Basic (RMB cents), from the discontinued operation	0.49

12. DISCONTINUED OPERATION (continued)

The calculation of basic earnings per share from the discontinued operation is based on:

	For 11 months ended 30 November 2007
Profit attributable to equity holders of the Company from the discontinued operation (RMB'000)	7,102
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (Number of shares)	1,438,286,184

13. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Proposed final - RMB4.18 cents (2007: RMB3.88 cents) per ordinary share	60,120	55,806

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

No diluted earnings per share amounts have been presented for the years ended 31 December 2008 and 2007 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2008 RMB'000	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company		
From continuing operations	240,839	217,992
From a discontinued operation	-	7,102
	240,839	225,094

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,438,286,184	1,438,286,184

Notes to Financial Statements (continued)

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2008							
Cost:							
At 1 January 2008	126,384	1,155,617	25,784	20,595	201,362	16,230	1,545,972
Additions	463	10,025	1,696	1,199	78,700	596	92,679
Disposals	(287)	(7,094)	(1,391)	(473)	(504)	-	(9,749)
Transfers	39,561	205,716	777	2,170	(249,781)	1,557	-
At 31 December 2008	166,121	1,364,264	26,866	23,491	29,777	18,383	1,628,902
Accumulated depreciation and impairment:							
At 1 January 2008	34,922	455,487	13,785	11,001	426	4,267	519,888
Depreciation	6,831	88,270	3,215	3,069	-	2,942	104,327
Impairment recognised	-	-	-	-	-	-	-
Disposals	(92)	(5,721)	(1,168)	(407)	(18)	-	(7,406)
At 31 December 2008	41,661	538,036	15,832	13,663	408	7,209	616,809
Net book value:							
At 31 December 2008	124,460	826,228	11,034	9,828	29,369	11,174	1,012,093

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Notes	Leasehold buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2007								
Cost:								
At 1 January 2007		169,565	906,546	27,317	18,979	107,119	3,896	1,233,422
Additions		51,490	9,764	1,064	2,564	382,235	3,648	450,765
Acquisition of subsidiaries	36	1,140	37,331	4,055	746	15,414	567	59,253
Disposals		(25)	(16,430)	(3,022)	(111)	(908)	-	(20,496)
Disposal of a subsidiary	37	(96,274)	(63,751)	(4,739)	(2,975)	(9,233)	-	(176,972)
Transfers		488	282,157	1,109	1,392	(293,265)	8,119	-
At 31 December 2007		126,384	1,155,617	25,784	20,595	201,362	16,230	1,545,972
Accumulated depreciation and impairment:								
At 1 January 2007		38,498	401,140	12,006	8,015	294	2,237	462,190
Depreciation		6,818	69,575	4,192	3,932	-	1,756	86,273
Impairment recognised		-	-	4	-	-	-	4
Acquisition of subsidiaries	36	513	16,772	2,682	562	295	274	21,098
Disposals		(24)	(14,275)	(2,857)	(95)	(163)	-	(17,414)
Disposal of a subsidiary	37	(10,883)	(17,725)	(2,242)	(1,413)	-	-	(32,263)
At 31 December 2007		34,922	455,487	13,785	11,001	426	4,267	519,888
Net book value:								
At 31 December 2007		91,462	700,130	11,999	9,594	200,936	11,963	1,026,084

Notes to Financial Statements (continued)

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2008					
Cost:					
At 1 January 2008	1,607	5,445	-	2,326	9,378
Additions	-	891	-	546	1,437
At 31 December 2008	1,607	6,336	-	2,872	10,815
Accumulated depreciation and impairment:					
At 1 January 2008	285	1,204	-	349	1,838
Depreciation provided	308	1,222	-	665	2,195
At 31 December 2008	593	2,426	-	1,014	4,033
Net book value:					
At 31 December 2008	1,014	3,910	-	1,858	6,782

	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2007					
Cost:					
At 1 January 2007	1,285	2,897	1,961	-	6,143
Additions	322	1,602	966	359	3,249
Disposals	-	(14)	-	-	(14)
Transfers	-	960	(2,927)	1,967	-
At 31 December 2007	1,607	5,445	-	2,326	9,378
Accumulated depreciation and impairment:					
At 1 January 2007	28	281	-	-	309
Depreciation provided	257	928	-	349	1,534
Disposals	-	(5)	-	-	(5)
At 31 December 2007	285	1,204	-	349	1,838
Net book value:					
At 31 December 2007	1,322	4,241	-	1,977	7,540

15. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2008, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB3,404,000 (2007: RMB3,909,000).

16. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	Note	2008 RMB'000	2007 RMB'000
At cost:			
At beginning of year		58,693	47,821
Additions		72,890	43,386
Disposal of a subsidiary	37	-	(32,514)
At end of year		131,583	58,693
Accumulated amortisation:			
At beginning of year		1,258	993
Recognised		2,182	1,457
Disposal of a subsidiary	37	-	(1,192)
At end of year		3,440	1,258
Net book value:			
At end of year		128,143	57,435
Of which:			
Current portion included in prepayments, deposits and other receivables (note 26)		2,681	1,223
Non-current portion		125,462	56,212
		128,143	57,435

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

Notes to Financial Statements (continued)

17. GOODWILL

Group

	RMB'000
Cost at 1 January 2007	-
Acquisition of subsidiaries (note 36)	8,818
Cost and net carrying amount at 31 December 2007 and 31 December 2008	8,818

Impairment testing of goodwill
Goodwill acquired through business combinations has been allocated to the bearing cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a 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 is 10% and cash flows beyond the five-year period are assumed to be stable.

Key assumptions were used in the value in use calculation of bearing cash-generating unit for 31 December 2008 and 2007. The following describes each key assumption on which management has based its cash flow projections to undertake 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 bearing cash-generating unit.

18. OTHER INTANGIBLE ASSETS

Group

	Software RMB'000	Patents and licences RMB'000	Total RMB'000
31 December 2008			
At cost:			
At 1 January 2008	3,537	1,320	4,857
Additions	3,638	-	3,638
At 31 December 2008	7,175	1,320	8,495

18. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

	Software RMB'000	Patents and licences RMB'000	Total RMB'000
Accumulated amortisation:			
At 1 January 2008	1,231	264	1,495
Amortisation provided	881	132	1,013
At 31 December 2008	2,112	396	2,508
Net book value:			
At 31 December 2008	5,063	924	5,987

	Note	Software RMB'000	Patents and licences RMB'000	Total RMB'000
31 December 2007				
At cost:				
At 1 January 2007		2,911	22,181	25,092
Additions		2,902	-	2,902
Disposal of a subsidiary	37	(2,276)	(20,861)	(23,137)
At 31 December 2007		3,537	1,320	4,857
Accumulated amortisation:				
At 1 January 2007		715	5,375	6,090
Amortisation provided		726	2,045	2,771
Disposal of a subsidiary	37	(210)	(7,156)	(7,366)
At 31 December 2007		1,231	264	1,495
Net book value:				
At 31 December 2007		2,306	1,056	3,362

18. OTHER INTANGIBLE ASSETS (continued)

Company

	Software RMB'000
31 December 2008	
At cost:	
At 1 January 2008	-
Additions	2,292
At 31 December 2008	2,292
Accumulated amortisation:	
At 1 January 2008	-
Amortisation provided	(98)
At 31 December 2008	(98)
Net book value:	
At 31 December 2008	2,194

19. INTERESTS IN SUBSIDIARIES

Company

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	1,756,967	1,506,967
Due from a subsidiary	65,486	65,486
	1,822,453	1,572,453

The Company's other receivables, trade payables and other payables and accruals with subsidiaries are disclosed in notes 26, 30 and 32. The amount due from a subsidiary included in the interests in subsidiaries above totalling RMB65,486,000 (2007: RMB65,486,000) is in respect of non-trade balance, which is unsecured, non-interest-bearing and has no fixed terms of repayment and is therefore classified as non-current. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiary. The carrying amount of the balance approximates to its fair value.

19. INTERESTS IN SUBSIDIARIES (continued)

Company (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Tian An Bearing Company Limited 上海天安軸承有限公司	PRC	US$13,103	99%	-	Production and sale of precision and other bearings and ancillary appliances
Wuxi Turbine Blade Company Limited 無錫透平葉片有限公司	PRC	RMB630,460	99.71%	0.29%	Production and sale of turbine blades
Shanghai Tool Works Company Limited 上海工具廠有限公司	PRC	RMB265,113	99.74%	0.26%	Production and sale of cutting tools and accessories
Shanghai Biaowu High Tensile Fasteners Company Limited 上海標五高強度緊固件有限公司	PRC	RMB233,100	98.93%	1.07%	Production and sale of high tensile fasteners and related equipment
Shanghai Tool Works Sales Company Limited 上海工具廠銷售有限公司	PRC	RMB8,140	-	92.81%	Sale of tools, measures and hardware
Shanghai United Bearing Company Limited 上海聯合滾動軸承有限公司	PRC	US$12,670	90%	-	Production and sale of bearings and related specific equipment
Shanghai Electric Bearing Company Limited 上海電氣軸承有限公司	PRC	RMB100,000	100%	-	Production and sale of bearing products

In 2007, the Group acquired an additional 40% interest in United Bearing and the entire equity interest in Shanghai Electric Bearing Company Limited ("Electric Bearing"). Further details of these acquisitions are included in note 36 to the financial statements.

20. INVESTMENTS IN ASSOCIATES

Group

	2008 RMB'000	2007 RMB'000
Share of net assets	120,302	96,155

The Group's balances of prepayments, deposits and other receivables with its associates are disclosed in notes 26 to the financial statements.

20. INVESTMENTS IN ASSOCIATES (continued)

Group (continued)

Particulars of the associates of the Group are as follows:

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Percentage of ownership interest attributable to the Group	Principal activities
Shanghai General Bearing Company Limited i, ii 上海通用軸承有限公司	PRC	US$13,750	40%	Production and sale of bearings and spare parts
Shanghai Bearing Import & Export Company Limited ii 上海軸承進出口有限公司	PRC	RMB3,000	30%	Import and export of commodities and technology
Shanghai Morgan Carbon Crucible Company Limited i, ii 上海摩根碳制品有限公司	PRC	US$7,972	30%	Production and sale of carbolic products
S.U. Machine Tool (Shanghai) Company Limited i 上優機床工具（上海）有限公司	PRC	EUR2,500	40%	Design, production and sale of numerical control machine tools with three dimensions and above, and related tools
Shanghai Morganite Electrical Carbon Co., Ltd. i, ii 上海摩根耐特電碳有限公司	PRC	US$8,013	30%	Production and sale of various carbon products

i. Sino-foreign equity joint ventures
ii. The equity interests of these companies are directly owned by the Company.

The following table illustrates the summarised financial information of the Group's associates:

	2008 RMB'000	2007 RMB'000
Assets	505,729	440,526
Liabilities	(172,074)	(167,525)
Revenue	761,287	641,566
Profit	45,364	47,657

Company

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	106,806	92,828

21. AVAILABLE-FOR-SALE INVESTMENTS

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	1,072	1,072

All the available-for-sale investments are located in the PRC. Unlisted equity investments are stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

22. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

Deferred tax assets

	Impairment of assets RMB'000	Depreciation in excess of related depreciation allowance RMB'000	Others RMB'000	Total RMB'000
At 1 January 2008	28,216	2,805	2,877	33,898
Effect of tax rate change on opening deferred tax	(9,630)	22	(595)	(10,203)
Credited/(charged) to the income statement during the year	2,538	(2,404)	1,433	1,567
At 31 December 2008	21,124	423	3,715	25,262

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Interest income from oversubscription funds RMB'000	Total RMB'000
At 1 January 2008	1,696	5,515	7,211
Preferential tax rate effect credited to equity	(339)	-	(339)
Credited to the income statement during the year	(214)	(1,839)	(2,053)
At 31 December 2008	1,143	3,676	4,819

22. DEFERRED TAX (continued)

Group (continued)

Deferred tax assets

	Losses available for offset against future taxable profit RMB'000	Impairment of assets RMB'000	Depreciation in excess of related depreciation allowance RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007					
Per balance sheet					47,036
Offset by deferred tax liabilities					533
Before offsetting	533	37,837	3,996	5,203	47,569
Effect of tax rate change					
- on opening deferred tax	(129)	(8,532)	(978)	(1,254)	(10,893)
- on deferred tax movement during the year	129	990	67	336	1,522
Acquisition of subsidiaries (note 36)	-	3,909	(57)	67	3,919
Disposal of a subsidiary (note 37)	-	(373)	-	(472)	(845)
Charged to the income statement during the year	(533)	(5,615)	(223)	(1,003)	(7,374)
At 31 December 2007	-	28,216	2,805	2,877	33,898

Deferred tax liabilities

	Fair value adjustments arising from		Interest income from over-subscription funds RMB'000	Unremitted earnings RMB'000	Total RMB'000
	Derivative financial instruments RMB'000	Acquisition of a subsidiary RMB'000			
At 1 January 2007					
Per balance sheet					13,422
Offset by deferred tax assets					533
Before offsetting	533	1,440	9,708	2,274	13,955
Effect of tax rate change					
- on opening deferred tax	(129)	(349)	(2,353)	-	(2,831)
- on deferred tax movement during the year	129	234	587	-	950
Acquisition of subsidiaries (note 36)	-	1,530	-	-	1,530
Credited to the income statement during the year	(533)	(1,159)	(2,427)	(2,274)	(6,393)
At 31 December 2007	-	1,696	5,515	-	7,211

The Group has no unrecognised tax losses arising in the PRC at each balance sheet date.

22. DEFERRED TAX (continued)

Company

Pursuant to the New CIT Law, effective from 1 January 2008, a 10% (subject to reduction to 5% by applicable tax treaty) withholding tax is levied on dividends declared to non-resident enterprises from earnings after 31 December 2007. Since the Company and its subsidiaries as well as the associates are all established in the Mainland China, the Group has no tax burden arising from remittance of the retained earnings of the Group and its associates.

The Company's deferred tax assets as at 31 December 2008 related to accrued expenses. The Company's deferred tax liabilities as at each balance sheet date related to the interest income from over-subscription funds.

23. INVENTORIES

Group

	2008 RMB'000	2007 RMB'000
Raw materials	207,295	154,796
Work in progress	222,349	170,083
Finished goods	261,291	228,692
	690,935	553,571

Company

	2008 RMB'000	2007 RMB'000
Raw materials	2,896	2,475
Finished goods	1,634	299
	4,530	2,774

24. TRADE RECEIVABLES

Group

	2008 RMB'000	2007 RMB'000
Trade receivables	389,948	394,886
Impairment	(48,831)	(57,018)
	341,117	337,868

24. TRADE RECEIVABLES (continued)

Group (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally for a period of less than three months. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the balance sheet date, based on the invoice date, and net of provisions, is as follows:

	2008 RMB'000	2007 RMB'000
Within 3 months	303,008	311,678
Over 3 months but within 6 months	30,201	21,758
Over 6 months but within 1 year	7,448	3,593
Over 1 year but within 2 years	460	804
Over 2 years	-	35
	341,117	337,868

The movements in provision for impairment of trade receivables are as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	57,018	76,942
Impairment losses recognised	878	7,301
Acquisition of subsidiaries (note 36)	-	4,531
Impairment losses reversed	(3,328)	(7,071)
Disposal of a subsidiary (note 37)	-	(2,508)
Amount written off as uncollectible	(5,737)	(22,177)
	48,831	57,018

The above provision for impairment of trade receivables of the Group is provision for both individually and collectively impaired trade receivables with a carrying amount of RMB55,916,000 (2007: RMB60,486,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

24. TRADE RECEIVABLES (continued)

Group (continued)

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	311,225	249,533
Less than 3 months past due	22,267	84,695
3 to 6 months past due	138	92
6 to 9 months past due	402	80
	334,032	334,400

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The amounts due from the related companies over which Shanghai Electric Corporation is able to exert control or significant influence (the "SEC group companies") included in the above can be analysed as follows:

	2008 RMB'000	2007 RMB'000
Due from the SEC group companies	2,469	8,208

Company

	2008 RMB'000	2007 RMB'000
Within 3 months	78,031	151,590
Over 3 months but within 6 months	7,934	4,104
Over 6 months but within 9 months	-	670
Over 9 months but within 1 year	-	-
Over 1 year but within 2 years	25,596	-
	111,561	156,364

The Group's and the Company's balances with related parties are unsecured, non-interest-bearing and are repayable on similar credit terms to those offered to the major customers of the Group.

Notes to Financial Statements (continued)

25. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

Group

	2008 RMB'000	2007 RMB'000
Within 3 months	36,451	64,143
Over 3 months but within 6 months	49,742	17,386
Over 6 months but within 12 months	1,000	-
	87,193	81,529

Included in the above balance are bills of RMB21,500,000 (2007: RMB800,000) issued by the SEC group companies.

Company

	2008 RMB'000	2007 RMB'000
Within 3 months	3,500	-
Over 3 months but within 6 months	32,000	-
Over 6 months but within 12 months	1,000	-
	36,500	-

The Group's and the Company's bills receivable balances are unsecured, non-interest-bearing and are repayable as the bills fall due.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2008 RMB'000	2007 RMB'000
Prepayments as purchase deposits	60,361	74,186
Receivables from sales of non-trade assets	-	82
Deposits	1,253	977
Prepaid land premiums/land lease payments (note 16)	2,681	1,223
Value-added tax refundables and prepaid value-added tax	9,831	14,294
Other receivables	4,940	10,108
Due from the ultimate holding company	2,272	10,135
Due from the SEC group companies	569	2,323
Due from associates	1,079	-
	82,986	113,328

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Company

	2008 RMB'000	2007 RMB'000
Prepayments as purchase deposits	2,816	14,449
Deposits	677	567
Value-added tax refundables and prepaid value-added tax	9,555	14,083
Other receivables	1,549	1,073
Due from the ultimate holding company	192	6,325
Due from the SEC group companies	569	1,069
Due from associates	702	-
Due from subsidiaries	393,924	248,376
	409,984	285,942

The Group's and the Company's balances with related parties are unsecured, non-interest-bearing and are repayable on demand or within one year.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

27. LOANS RECEIVABLE

The balance of RMB42,000,000 (2007: RMB22,000,000) represents entrusted loans provided by the Company to United Bearing through China Construction Bank. The loans are unsecured, bearing interest rates ranging from 6.32% to 6.72% (2007: 6.32%) per annum and for periods of one year beginning from 24 January 2008 and 28 September 2008 (2007: 28 September 2007). The carrying amount of the loans approximates to its fair value.

28. HELD-TO-MATURITY INVESTMENT

As at 31 December 2007, the balance represents an investment in the money market for a period of 40 days commencing on 11 December 2007 which bore an expected interest rate of 3.8% per annum.

Notes to Financial Statements (continued)

29. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

Group

	2008 RMB'000	2007 RMB'000
Cash and bank balances	231,279	262,163
Time deposits	632,733	619,973
	864,012	882,136
Less: Restricted deposits	63,733	18,833
Cash and cash equivalents	800,279	863,303

The restricted deposits can be analysed as follows:

	2008 RMB'000	2007 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	63,733	18,833

The Group's cash and bank balances are denominated in RMB at each balance sheet date, except for the followings:

	2008		2007	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
US$	1,960	13,395	826	6,033
JPY	-	-	12,615	808
EUR	100	969	-	-
HK$	-	-	215	201

The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Company

	2008 RMB'000	2007 RMB'000
Cash and bank balances	713,719	414,844

29. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS (continued)

Company (continued)

As at 31 December 2008, all of the Company's cash and bank balances are denominated in RMB. As at 31 December 2007, the Company's cash and bank balances are dominated in RMB, except for an amount of RMB201,000 which is denominated in HK$215,000.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods within six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

30. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled on 60-day terms. An ageing analysis of trade payables, based on the invoice date, is as follows:

Group

	2008 RMB'000	2007 RMB'000
Within 3 months	242,843	291,830
Over 3 months but within 6 months	32,007	54,089
Over 6 months but within 1 year	28,761	6,893
Over 1 year but within 2 years	3,165	1,436
Over 2 years	2,552	6,631
	309,328	360,879

The amounts due to the SEC group companies included in the above are as follows:

	2008 RMB'000	2007 RMB'000
Due to the SEC group companies	2,794	7,400

Company

	2008 RMB'000	2007 RMB'000
Within 3 months	44,595	106,820

An amount due to a subsidiary of RMB37,246,000 (2007: RMB91,918,000) is included in the Company's trade payables.

The Group's and the Company's balances with related parties are unsecured, non-interest-bearing and payable on similar credit terms to those offered to the Group by its major suppliers.

31. BILLS PAYABLE

Group

The maturity profiles of the bills payable are as follows:

	2008 RMB'000	2007 RMB'000
Within 3 months	66,500	25,500
Over 3 months but within 6 months	59,400	24,960
	125,900	50,460

32. OTHER PAYABLES AND ACCRUALS

Group

	2008 RMB'000	2007 RMB'000
Advance from customers	14,428	19,355
Other tax payables	25,139	25,525
Staff cost payables	27,273	19,431
Interest payables	4,743	4,743
Payables for purchases of non-trade assets	13,248	3,579
Accruals	9,110	9,150
Other payables	6,996	7,545
Due to the ultimate holding company	420	557
Due to the SEC group companies	7,617	22,643
	108,974	112,528

Company

	2008 RMB'000	2007 RMB'000
Advance from customers	6,792	10,053
Accruals	1,493	1,810
Other payables	4,790	798
Due to the SEC group companies	1,517	1,517
Due to subsidiaries	754,275	301,328
	768,867	315,506

Other payables are non-interest-bearing and have average terms of one to three months. The Group's and the Company's balances with related parties are unsecured and are repayable on demand or within one year.

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	5.0 - 6.5	2009	90,000	5.1 - 6.6	2008	75,000
Non-current						
Other loans						
- unsecured	-	Not fixed	17,000	-	Not fixed	17,000
			107,000			92,000

	2008 RMB'000	2007 RMB'000
Analysed into:		
Bank loans repayable within one year or on demand	90,000	75,000
Other loans repayable beyond five years	17,000	17,000
	107,000	92,000

The Group's bank and other borrowings are all denominated in RMB.

The carrying amounts of the Group's bank and other borrowings approximate to their fair values.

34. ISSUED CAPITAL

	2008		2007	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed				
– State-owned shares	678,576	678,576	678,576	678,576
H Shares of RMB1.00 each	759,710	759,710	759,710	759,710
	1,438,286	1,438,286	1,438,286	1,438,286

Notes to Financial Statements (continued)

34. ISSUED CAPITAL (continued)

The domestic shares are currently not listed on any stock exchange.

The holders of domestic shares and H shares are entitled to receive dividends as and when declared by the Company. All domestic shares and H shares carry one vote per share without restriction.

During the year, there was no movement in the Company's issued share capital.

35. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 39 of this report.

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

Contributed surplus
The Group's contributed surplus represents the difference between (i) the Company's cost of investments in subsidiaries and an associate acquired from Shanghai Electric Corporation and Shanghai Electric Industrial Corporation as part of the Group reorganisation, and (ii) the aggregate amount of the paid-up capital of those subsidiaries attributable to the Group and the then carrying value of the Group's investment in the associate upon the establishment of the Company.

Capital reserve
The capital reserve of the Group includes the Company's share premium of RMB691,217,000 and the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations of the PRC.

Distributable reserves
The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and HKFRSs. As at the balance sheet date, the Company has distributable reserves amounting to RMB262,940,000 (2007: RMB55,812,000), of which RMB60,120,000 (2007: RMB55,806,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB691,217,000 (2007: RMB691,217,000) may be distributed in the form of fully paid bonus shares.

35. RESERVES (continued)

(b) Company

	Capital reserves RMB'000	Surplus reserves RMB'000	(Accumulated losses)/retained profits RMB'000	Total RMB'000
At 1 January 2007	719,821	22,618	(85,111)	657,328
Profit for the year	-	-	104,797	104,797
Transfer to capital reserve	(27,268)	-	27,268	-
Appropriation to surplus reserves	-	(9,454)	9,454	-
Proposed final 2007 dividend (note 13)	-	-	(55,806)	(55,806)
At 31 December 2007 and 1 January 2008	692,553	13,164	602	706,319
Profit for the year	-	-	292,259	292,259
Appropriation to surplus reserves	-	29,921	(29,921)	-
Proposed final 2008 dividend (note 13)	-	-	(60,120)	(60,120)
At 31 December 2008	692,553	43,085	202,820	938,458

The capital reserve account balance as at 31 December 2008 included the Company's share premium of RMB691,217,000 (2007: RMB691,217,000).

36. BUSINESS COMBINATIONS

During the year ended 31 December 2007, the Group acquired the following companies:

(a) On 1 March 2007, the Group completed its acquisition of an additional 40% interest in United Bearing from the foreign investor of United Bearing and thus increased its equity interest in United Bearing to 90%. Prior to the acquisition, United Bearing was a jointly-controlled entity of the Company and was accounted for in the Group's consolidated financial statements using the proportionate consolidation method. United Bearing is engaged in the production and sale of bearings and related specific equipment. Other details of United Bearing are set out in note 19 to the financial statements. The purchase consideration of RMB30,000,000 for the acquisition was in the form of cash, which has been fully paid up to the balance sheet date.

(b) On 30 November 2007, the Group acquired the entire equity interest in Electric Bearing, a subsidiary of Shanghai Electric Corporation. Electric Bearing is engaged in the production and sale of bearing products. The purchase consideration of RMB32,486,000 for the acquisition was in the form of cash and was paid on 21 September 2007.

36. BUSINESS COMBINATIONS (continued)

The aggregated fair values of the identifiable assets and liabilities of United Bearing and Electric Bearing as at the date of acquisition and the corresponding aggregate carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	15	70,190	64,070
Available-for-sale investments		200	200
Deferred tax assets	22	7,837	7,837
Inventories		53,384	53,384
Trade receivables		42,145	42,145
Bills receivable		10,481	10,481
Prepayments, deposits and other receivables		43,560	43,541
Cash and cash equivalents		10,610	10,610
Trade payables		(57,857)	(57,857)
Tax payable		(2,214)	(2,214)
Other payables and accruals		(33,363)	(33,363)
Interest-bearing bank and other borrowings		(58,000)	(58,000)
Deferred tax in relation to fair value adjustments	22	(1,530)	-
Minority interests		(5,296)	(4,837)
		80,147	75,997
Goodwill on acquisition	17	8,818	
Revaluation surplus relating to previously held interests		(2,295)	
		86,670	
Satisfied by:			
Cash		62,486	
Proportionate consolidation before the business combination		24,184	
		86,670	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries was as follows:

	RMB'000
Cash consideration	62,486
Cash and cash equivalents acquired	(10,610)
Offset by cash and cash equivalents recognised by proportionate consolidation before the business combination	5,139
Net outflow of cash and cash equivalents in respect of th acquisition of subsidiaries	57,015

36. BUSINESS COMBINATIONS (continued)

Since its acquisition, United Bearing contributed RMB240,967,000 to the Group's turnover and RMB17,078,000 to the consolidated profit for the year ended 31 December 2007. These figures include the Group's share of United Bearing's turnover and profit of RMB120,483,000 and RMB8,539,000, respectively, under proportionate consolidation for the said year had the acquisition not taken place and United Bearing remained a jointly-controlled entity of the Group. Electric Bearing contributed RMB324,000 to the Group's consolidated profit for the year ended 31 December 2007 since its acquisition.

Had the combination taken place at the beginning of the year ended 31 December 2007, the revenue from continuing operations and profit of the Group for the year would have been RMB2,911,165,000 and RMB232,915,000, respectively.

37. DISPOSAL OF A SUBSIDIARY

On 30 November 2007, the Group disposed of its entire 60% interest in Nanyang Motor for a total consideration of RMB128,893,000. The total consideration consisted of a sales consideration of RMB122,568,000 according to the share transfer agreement entered into between the Company and Shanghai Electric Corporation on 16 August 2007 and an additional consideration of RMB6,325,000 according to the supplementary share transfer agreement entered into between the Company and Shanghai Electric Corporation on 11 November 2007.

	Notes	2007 RMB'000
Net assets disposed of:		
Property, plant and equipment	15	144,709
Prepaid land premiums/land lease payments	16	31,322
Other intangible assets	18	15,771
Long-term prepayments		368
Deferred tax assets	22	845
Inventories		161,464
Trade receivables		54,798
Bills receivable		80,012
Prepayments, deposits and other receivables		9,205
Restricted deposits		348
Cash and cash equivalents		11,069
Trade payables		(196,115)
Tax payable		(1,614)
Other payables and accruals		(46,943)
Interest-bearing bank and other borrowings		(75,000)
Minority interests		(75,530)
Contributed surplus		666
		115,375
Gain on disposal of a subsidiary	5	13,518
		128,893
Satisfied by:		
Cash		122,568
Prepayments, deposits and other receivables		6,325
		128,893

37. DISPOSAL OF A SUBSIDIARY (continued)

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

	2007 RMB'000
Cash consideration	122,568
Cash and cash equivalents disposed of	(11,069)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	111,499

During the year ended 31 December 2008, the Company received settlement of RMB6,133,000 out of the total prepayments, deposits and other receivables of RMB6,325,000 arose from disposal of the subsidiary.

38. OPERATING LEASE COMMITMENTS

(a) The Group

(i) As lessor

The Group leases out certain of its buildings and plant and machinery under operating lease arrangements, with leases negotiated for a term of two years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

As at 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008 RMB'000	2007 RMB'000
Within one year	383	270
In the second to fifth years, inclusive	-	261
Total	383	531

(ii) As lessee

The Group leases certain land, buildings and motor vehicles under operating lease arrangements, with leases negotiated for terms ranging from 1 to 20 years.

As at 31 December 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2008 RMB'000	2007 RMB'000
Within one year	21,201	21,401
In the second to fifth years, inclusive	40,861	21,502
After five years	4,086	7,049
Total	66,148	49,952

38. OPERATING LEASE COMMITMENTS (continued)

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2008, the Company had future minimum lease payments under non-cancellable operating leases of RMB2,129,000 (2007: RMB2,033,000).

39. COMMITMENTS

(a) The Group

In addition to the operating lease commitments detailed in note 38(a)(ii) above, the Group had the following capital commitments as at 31 December 2008:

	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
Land and buildings	-	325
Plant and machineries	289,430	59,775
Intangible assets	-	900
	289,430	61,000
Authorised, but not contracted for:		
Land and buildings	-	26,512
Plant and machineries	589,316	115,688
	589,316	142,200
Total	878,746	203,200

(b) The Company

The Company had the following capital commitments as at 31 December 2008:

	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
Intangible assets	-	900

Notes to Financial Statements (continued)

40. CONTINGENT LIABILITIES

(a) The Group

	2008 RMB'000	2007 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- Associates	1,000	1,800

(b) The Company

	2008 RMB'000	2007 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- A subsidiary	25,000	25,000

41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2008 RMB'000	2007 RMB'000
Purchase of materials from:	(i)		
Associates		79	341
SEC group companies		2,246	4,296
		2,325	4,637
Sales of goods to:	(i)		
Jointly-controlled entity *		-	4,615
Associates		1,495	670
SEC group companies		212,952	210,912
		214,447	216,197

41. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

	Notes	2008 RMB'000	2007 RMB'000
Sales of scraps and spare parts to:	(i)		
SEC group companies		64	-
Receiving of manpower services from:	(i)		
SEC group companies		2,439	12
Rendering of manpower services to:	(i)		
SEC group companies		2,840	555
Purchase of property, plant and equipment from:	(i)		
SEC group companies		1,682	392
Rental fee payable to:	(ii)		
Ultimate holding company		4,261	4,261
SEC group companies		16,616	18,956
		20,877	23,217
Interest income from:	(iii)		
Jointly-controlled entity *		-	126
Dividend income from:			
SEC group companies		-	1,354

Notes:

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

ii. The rental fee was based on mutually agreed terms with reference to market rates.

iii. The interest income and interest expenses were based on mutually agreed terms with reference to market rates.

* The amounts of transactions with the jointly-controlled entity disclosed in the tables above are arrived at after deducting the Group's share portion, which has been eliminated in the proportionate consolidation of the Group's investment in the jointly-controlled entity.

41. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties

(i) During the year, the ultimate holding company leased certain properties to United Bearing with no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to the market rate is RMB1,121,000 per annum.

(ii) During the year, one of the SEC group companies leased certain properties to Tool Works, a wholly-owned subsidiary of the Company, with no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to the market rate is RMB3,621,000 per annum.

(c) Guarantees provided to related companies of the Group

As disclosed in note 40(a), the Group provided corporate guarantees totalling RMB1,000,000 (2007: RMB1,800,000) to related companies. The expiry date of such guarantees falls on 18 June 2009.

(d) Balances due from/to related parties

The balances due from/to related parties during the year mainly result from trading transactions, bills receivable, deposits and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in notes 24, 25, 26, 30 and 32 to the financial statements.

(e) Compensation of the key management personnel of the Group

	2008 RMB'000	2007 RMB'000
Fees	540	587
Short-term employee benefits	2,099	2,387
Post-employment benefits	124	123
	2,763	3,097

Further details of directors' and supervisors' emoluments are included in note 8.

The related party transactions with the ultimate holding company and the SEC group companies also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	2008				2007			
	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Held-to-maturity investment	-	-	-	-	80,000	-	-	80,000
Available-for-sale investments	-	-	1,072	1,072	-	-	1,072	1,072
Trade receivables and bills receivable	-	428,310	-	428,310	-	419,397	-	419,397
Financial assets included in prepayments, deposits and other receivables	-	10,113	-	10,113	-	23,625	-	23,625
Restricted deposits	-	63,733	-	63,733	-	18,833	-	18,833
Cash and cash equivalents	-	800,279	-	800,279	-	863,303	-	863,303
	-	1,302,435	1,072	1,303,507	80,000	1,325,158	1,072	1,406,230

Financial liabilities

	Financial liabilities at amortised cost	
	2008 RMB'000	2007 RMB'000
Trade payables and bills payable	435,228	411,339
Financial liabilities included in other payables and accruals	61,630	64,009
Interest-bearing bank and other borrowings	107,000	92,000
Other long-term payables	8,767	3,465
	612,625	570,813

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2008			2007		
	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Total RMB'000	Held-to-maturity investment RMB'000	Loans and receivables RMB'000	Total RMB'000
Held-to-maturity investment	-	-	-	80,000	-	80,000
Trade receivables and bills receivable	-	148,061	148,061	-	156,364	156,364
Financial assets included in prepayments, deposits and other receivables	-	397,613	397,613	-	271,493	271,493
Loan receivable	-	42,000	42,000	-	22,000	22,000
Cash and cash equivalents	-	713,719	713,719	-	414,844	414,844
	-	1,301,393	1,301,393	80,000	864,701	944,701

Financial liabilities

	Financial liabilities at amortised cost	
	2008 RMB'000	2007 RMB'000
Trade payables	44,595	106,820
Financial liabilities included in other payables and accruals	761,187	305,453
	805,782	412,273

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest-bearing loans and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its cash and bank balances and restricted deposits. As of 31 December 2008, there was no unsettled forward currency contract.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Interest rate risk

The interest rates and the terms of repayment of the Group's bank and other borrowings are disclosed in note 33 above. The Group has no significant exposure to interest rate risk as all the current interest-bearing bank borrowings are subject to fixed interest rates and non-current loans are non-interest-bearing.

(ii) Foreign currency risk

The Group's exposure to market risk for changes in foreign currency exchange rates relates primarily to certain trade receivables and certain cash and cash equivalents in currencies other than the functional currency of RMB.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar/Euro exchange rate, 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).

	Increase/ (decrease) in US$ or EUR rate %	Increase/ (decrease) in profit before tax attributable to continuing operations RMB'000
2008		
If US$ weakens against RMB	5	(5,425)
If EUR weakens against RMB	5	(300)
If US$ strengthens against RMB	(5)	5,425
If EUR strengthens against RMB	(5)	300
2007		
If US$ weakens against RMB	5	(5,947)
If EUR weakens against RMB	5	(1,034)
If US$ strengthens against RMB	(5)	5,947
If EUR strengthens against RMB	(5)	1,034

(iii) Credit risk

The carrying amount of trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group does not have a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for only 17% of the Group's total trade receivables as at 31 December 2008.

The Group performs ongoing credit evaluations of its customers' financial conditions. The impairment of trade receivables is based upon a review of the expected collectability of all trade receivables.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk (continued)

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There are no significant concentrations of credit risk within the Group in relation to the other financial assets.

Further quantitative data in respect of the Groups' exposure to credit risk arising from trade and other receivables are disclosed in notes 24 and 26 to the financial statements.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's and the Company's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, were as follows:

Group

	2008					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables and bills payable	236,079	131,735	66,786	628	-	435,228
Financial liabilities included in other payables and accruals	21,778	34,769	4,738	345	-	61,630
Interest-bearing bank and other borrowings	-	9,000	81,000	-	17,000	107,000
Other long-term payables	-	-	-	8,767	-	8,767
	257,857	175,504	152,524	9,740	17,000	612,625

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk (continued)

Group (continued)

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables and bills payable	105,269	269,431	36,639	-	-	411,339
Financial liabilities included in other payables and accruals	28,061	34,444	1,504	-	-	64,009
Interest-bearing bank and other borrowings	-	9,000	66,000	-	17,000	92,000
Other long-term payables	-	-	-	3,465	-	3,465
	133,330	312,875	104,143	3,465	17,000	570,813

Company

	2008					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	44,595	-	-	-	44,595
Financial liabilities included in other payables and accruals	754,275	6,912	-	-	-	761,187
	754,275	51,507	-	-	-	805,782

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	106,820	-	-	-	106,820
Financial liabilities included in other payables and accruals	269,329	34,511	1,613	-	-	305,453
	269,329	141,331	1,613	-	-	412,273

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of financial instruments of the Group and of the Company approximated to their fair values due to the short term to maturity at each of the balance sheet dates.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in the 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 or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

The Group monitors capital using a gearing ratio, which represents the ratio of interest-bearing bank and other borrowings to equity attributable to equity holders of the Company.

The gearing ratios as at the balance sheet dates were as follows:

Group

	2008 RMB'000	2007 RMB'000
Interest-bearing bank and other borrowings	107,000	92,000
Equity attributable to equity holders of the Company	2,712,743	2,527,371
Gearing ratio	3.9%	3.6%

44. POST BALANCE SHEET EVENTS

The Company and Shanghai Biaowu High Tensile Fasteners Company Limited ("Biaowu Fasteners"), a wholly-owned subsidiary of the Company, was involved in an anti-dumping investigation on Chinese companies manufacturing carbon steel fasteners initiated by the European Commission on 9 November 2007. On 31 January 2009, the council of the European Union (the "Council") announced a Council Regulation dated 26 January 2009 (the "Council Regulation"), imposing a definitive anti-dumping duty on imports of certain iron or steel fasteners originating in the PRC. Based on the Council Regulation, the anti-dumping duty rate of 69.9% is imposed on imports of certain iron or steel fasteners produced by Biaowu Fasteners and the Company with effect from 1 February 2009.

45. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 April 2009.