PMC 上海集优 SHANGHAI PRIME

SHANGHAI PRIME

MACHINERY COMPANY LIMITED

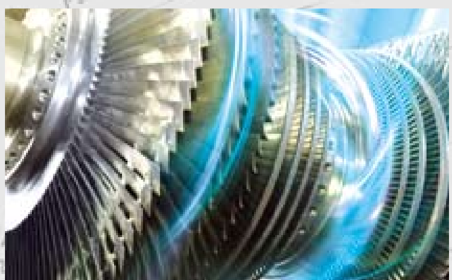
(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(H share stock code: 02345)

2009 Annual Report

CONTENTS



CORPORATE INFORMATION

Executive Directors
Zheng Yuanhu *(Appointed on 4 December 2009)*
Liu Zhenduo *(Resigned on 4 December 2009)*
Zhu Weiming
Hu Kang
Ye Fucai
Zhu Xi
Deng Yuntian

Independent Non-Executive Directors
Chan Chun Hong (Thomas)
Zhou Feida
Liu Huangsong

Supervisors
Chen Jiaming
Hu Peiming
Zhang Jianping

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

Authorised Representatives
Zhu Weiming
Hu Kang

Alternative Authorised Representatives
Chan Chun Hong (Thomas)
Li Wai Chung

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

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)	2005	2006	2007	2008 (Restated)	2009
Revenue and Profit					
Revenue	1,425	2,867	3,272	3,250	2,106
Profit before tax	201	336	344	308	158
Income tax expense	(56)	(98)	(112)	(65)	(6)
Profit for the year	145	238	232	243	152
Attributable to:					
Owners of the Company	135	231	225	241	151
Minority interests	10	7	7	2	1
Dividends - proposed final	-	58	56	60	40
Earnings per share attributable to equity holders of the Company					
- Basic (RMB cents)	18.04	18.98	15.65	16.75	10.50
Assets and Liabilities					
Non-current assets	845	1,017	1,241	1,409	1,454
Current assets	954	2,249	2,048	2,066	2,264
Current liabilities	933	776	701	701	680
Net current assets	21	1,473	1,347	1,365	1,584
Total assets less current liabilities	866	2,490	2,588	2,774	3,038
Non-current liabilities	51	61	49	48	221
Net assets	815	2,429	2,539	2,726	2,817
Equity attributable to owners of the Company	744	2,357	2,527	2,712	2,803
Minority interests	71	72	12	14	14

PERFORMANCE HIGHLIGHTS

Revenue for the year ended 31 December 2009 (the "Year") was RMB**2,106** million.

Profit attributable to owners of the Company for the Year was RMB**151** million.

Basic earnings per share for the Year was RMB**10.50** cents. The board of directors proposed a final dividend for 2009 of RMB**2.80** cents per share.

Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has allocated more resources on the technology research of turbine blade products. During the Year, the Group has achieved breakthrough in the research and development of blades for jet engines. Benefiting from the continuous improvement of the quality of products, the turbine blade business had substantial growth in export sales and recorded overseas sales of approximately RMB**197** million during the Year, representing an increase of **68**% over last year.

During the Year, the Group has successfully commenced production of extra large wind power bearings and lauched such products to the market. Thus the Group has enhanced its manufacturing capacity of extra large bearings and achieved annual sales of RMB**24** million, representing an increase of **84**% as compared with last year.

CORPORATE STRUCTURE

Shanghai Prime Machinery Company Limited

Wuxi Turbine Blade Company Limited
100%

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%

Shanghai Zhenhua Bearings Factory Company Limited (under acquisition)
100%

Shanghai Tool Works Company Limited
100%

Shanghai Biaowu High Tensile Fasteners Company Limited
100%

Shanghai Morgan Carbon Crucible Company Limited
30%

Shanghai Morganite Electrical Carbon Company Limited
30%

CHAIRMAN'S STATEMENT

Chairman: **Zheng Yuanhu**

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 2009 (the "Year"). The Group's annual results have been audited by Ernst & Young.

The Group recorded turnover of RMB2,106 million (2008: RMB3,250 million) in 2009, representing a decrease of 35% over last year. Profit attributable to owners of the Company was RMB151 million (2008: RMB241 million), representing a decrease of 37% over last year. Earnings per share was RMB10.50 cents (2008: RMB16.75 cents).

As at 31 December 2009, total assets of the Group amounted to RMB3,718 million (31 December 2008: RMB3,475 million), while total liabilities amounted to RMB901 million (31 December 2008: RMB749 million). Total equity of the Group was RMB2,817 million (31 December 2008: RMB2,726 million), of which RMB2,803 million (31 December 2008: RMB2,712 million) was attributable to owners of the Company.

Looking back at year 2009, the Group's operation and development encountered multiple challenges resulting from the impact of the financial crisis. A significant portion of the total revenue of the Group is derived from export sales and as a result, the decrease in international demand has directly led to a shrink of the export scale of the Group to a certain extent. The imposition of an anti-dumping duty as high as 69.9% against our fastener products has to a certain extent adversely affected the fastener export business of the Group. Although China still maintains a satisfactory level of GDP of over 8%, the pace of recovery of the components and parts industry, which the Group engages in, is usually slower than other industries and therefore the aggregate demand of components and parts was stagnant during the Year.

In order to stimulate the economy growth, the Chinese government has introduced a series of measures, which included the RMB4 trillion investment plan and other measures aiming at boosting domestic demand and maintaining economic growth. China's economy has benefited from such stimulus policies and has shown sign of recovery starting from the third quarter of year 2009, and this reinforced the confidence of the global market towards China's ability to walk out of the financial crisis. During the Year, the Group has fully leveraged on the relevant government's policy on industrial restructuring and has taken proactive stance to encounter the prevailing economic adversity. We have also firmly implemented the strategic plan of the Group in stages in order to ensure the smooth operation of business of the Group during the Year, which in turn laid a strong foundation for the long term and steady growth and sustainable development of the Group. The Group has allocated more resources on the technology research of turbine blade products. During the Year, we have achieved breakthrough in the research and development of blades for jet engines. Benefiting from the continuous improvement of the quality of our products, the turbine blade business had substantial growth in export sales and recorded overseas sales of approximately RMB197 million during the Year, representing an increase of 68% over last year. The Group has also focused on the development of new energy products. Through our synchronized efforts in both market development and technical upgrading, the Group has successfully commenced production of extra large wind power bearings and launched such products to the market. Thus the Group has enhanced its manufacturing capacity of extra large bearings and achieved annual sales of RMB24 million, representing an increase of 84% as compared with last year.

Looking ahead, the global economy is in the phase of slow recovery. Under such economic condition, China will continue the full implementation of the RMB4 trillion investment plan and make sure the gradual materialization of its investment effect. On the other hand, the "Plan of Restructuring and Reviving the Equipment Manufacturing Industry" and the "Implementation Opinions on the Acceleration of High-tech Industrialization in Shanghai" separately promulgated by the State Council and Shanghai government have classified the Group's new energy equipment and high-tech core parts and components as one of the key development directions. With the introduction of a series of supportive policies, it is hopeful that the Group, as a supplier of parts and components, would continue to enjoy a favorable operating environment. The Group expect that the long-term factors of China's economic development will remain positive in year 2010, especially new energy technology, as a core element to the development of low carbon economy, will become one of the major foundations for the future development of China's economy.

The Group will closely monitor the development trend of the industry and the policy direction and would spare no effort to implement investment projects such as project of producing large turbine blade and aviation forging of the turbine blade business and the project of producing extra large bearing for wind power generator of the bearing business.

The Group has invested RMB850 million in the turbine blade business for the construction of a large-scale turbine blade production base in Wuxi Huishan Economic Development Zone. The capital will also be used to purchase certain internationally advanced equipments, which include critical equipment such as 35,500 tonnes spire-pressure machine with a view that in the future, the Group could acquire core technology and the edges in operation scale in certain high-tech products sectors, which include large blades of MW-capacity power generators, nuclear power and aviation engine. It is also the target of the Group to achieve an annual manufacturing capacity of approximately 550,000 turbine blades and realize the goal of the Group of becoming an internationally renowned manufacturer of turbine blades and a key supplier of aviation blade forgings which possesses first grade equipment, advanced technology, high-quality management system and outstanding operation process.

On the aspect of bearing business, the Group will grasp the business opportunities offered by the government's encouraging policies on new energy and new materials. The Group will also invest RMB250 million in the project of extra large bearings of wind power generator and the fund will be used to reconstruct our factories, premises and acquire key equipments. It is expected that such project could achieve annual manufacturing capacity of 1,800 units of yaw and pitch bearings of wind power generators and sharpen the overall competitive edges of the products of our bearing business in a comprehensive manner.

With the gradual recovery of China's manufacturing industry, the cutting tool business and fastener business of the Group have shown different level of improvement, and future prospect will be more promising. The Group will focus on the development of numerically-controlled cutting tools, expand its product mix, while at the same time speed up the pace of development of the domestic sales business of fastener and spare no effort to develop the domestic market of such business. The Group expect that the cutting tool business and fastener business of the Group will make more contribution to the future profit growth of the Group.

At the same time, the Group will endeavor to mitigate the impacts of the financial crisis through the enhancement of financial risk management and optimizing the management standard of the Group in order to ensure the stable operation and healthy development of the Group and step by step achieve the target of the Group of becoming a leading machinery components manufacturing group in China.

Finally, I would like to take this opportunity to thank all shareholders and investors for their continuous encouragement and support, and all directors, supervisors, members of the management and the entire staff for their contributions and devotion to the Group. In the coming year, the Group will continue to be proactive and enthusiastic in promoting its business and leveraging on its competitive strengths. We will also enhance our risk management capability and the value of the Group in order to achieve stable profit growth with a view to reward our shareholders for their unremitting support.

Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
19 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2009 (the "Year"), turnover of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") amounted to RMB2,106 million (2008: RMB3,250 million), representing a decrease of 35% over last year. Profit attributable to owners of the Company was RMB151 million in 2009 (2008: RMB241 million), representing a decrease of 37% over last year. Basic earnings per share was RMB10.50 cents (2008: RMB16.75 cents).

As at 31 December 2009, total assets of the Group amounted to RMB3,718 million (31 December 2008: RMB3,475 million) while total liabilities amounted to RMB901 million (31 December 2008: RMB749 million). Total equity of the Group was RMB2,817 million (31 December 2008: RMB2,726 million), of which RMB2,803 million (31 December 2008: RMB2,712 million) was attributable to owners of the Company.

Operation analysis

Increase the inputs in research and development to support the industrial development

During the Year, the Group has continued to focus on the adjustment to our product mix and make effort on technology innovation. The Group has further increased investment on the research relating to its core businesses and endeavored to develop new products with promising market potential and upgraded manufacturing efficiency and technical standard of existing products. During the Year, the Group has strengthened its efforts in the significant projects, including project of producing large turbine blade and aviation forging and project of producing extra large bearing for wind power generator. New energy products have been our focus area of development and we have made efforts in market development and technical renovation with an aim to enhance the profitability of the Group.

Maintain profit through efficient cost control

During the Year, the Group has taken a proactive stance to implement various measures aiming at reducing costs and enhancing efficiency. One of our cost cutting initiatives is the purchase of quality key components and materials at competitive price through our online networks. Our target is to maintain inventories under relatively lower cost and to reduce procurement cost. In order to guarantee sufficient cash flow, we have also implemented the strategy of stock reduction through sales promotion. We have also implemented measures to strictly control our overhead, such as management expense and selling expense and have also continued to enhance cost control over our products and manage our overhead in order to maintain the profit margin level of our key segments and mitigate operating risk under the current economic adversity. Through such effective cost management measures, our various business segments were able to record profit and stay on the track of healthy development under the adverse market conditions.

Solid foundation laid by structural adjustment

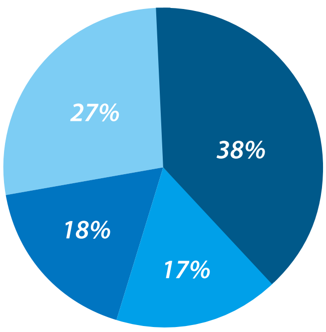
During the Year, the Group has increased its investment in turbine blade business and allocated more resources on products that show great sales potential such as MW grade ultra-super-critical power generation turbine blades, aviation forgings through our analysis over the market conditions and prospect of our business segments. In view of the anti-dumping measures taken by the European Union against our fastener business and the shrinking of the international market, we have shifted our focus to the development of domestic market, identification of end customers and reduction of manufaction which offers relatively lower added value in our industrial chain. As a result, we will enhance our profit margin of fastener business.

Set out below are the revenue and segment results of each business segment:

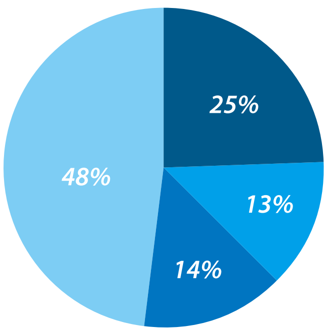
	Revenue		Segment Results	
RMB (million)	**2009**	**2008**	**2009**	**2008**
Turbine blade	803	797	103	140
Percentage of total	38%	25%	64%	46%
Bearing	362	429	13	40
Percentage of total	17%	13%	8%	13%
Cutting tool	370	471	23	57
Percentage of total	18%	14%	14%	18%
Fastener	571	1,553	23	70
Percentage of total	27%	48%	14%	23%
Total	2,106	3,250	162	307

Revenue

2009

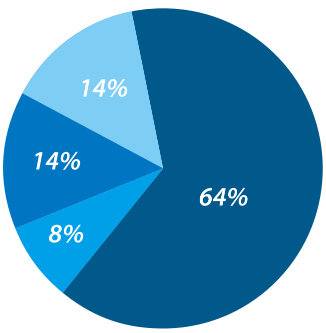


2008

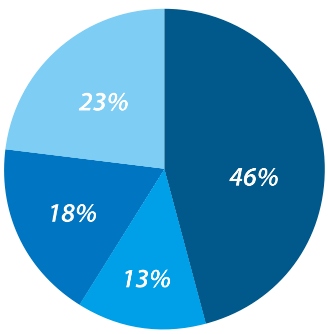


Segment Results

2009



2008



Turbine blade
Bearing
Cutting tool
Fastener

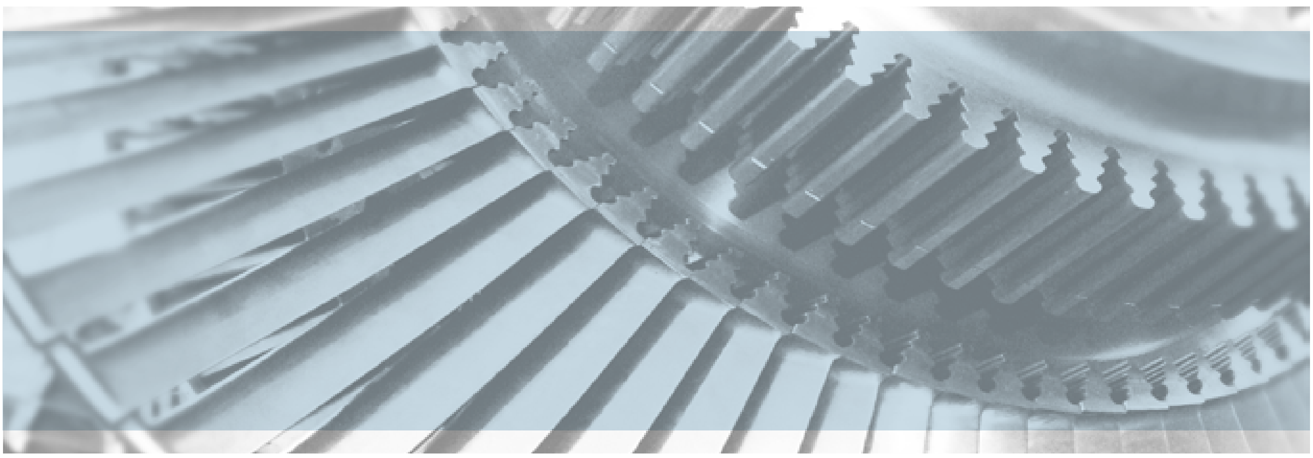
MANAGEMENT DISCUSSION AND ANALYSIS

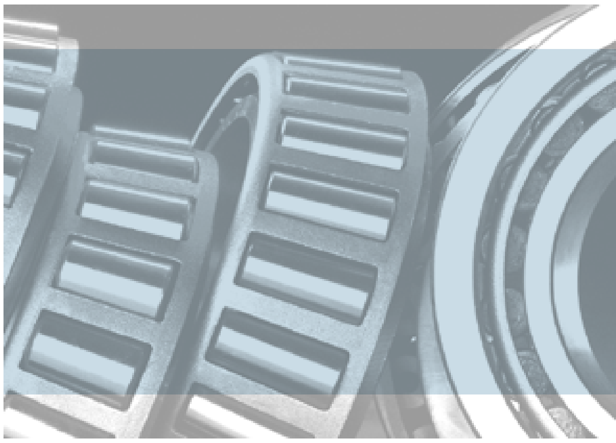
Turbine blade business

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. In year 2009, the Group geared up its efforts in self technical innovation and initiated comprehensive research collaboration with universities and research institutions with technical edges in the PRC. During the Year, the Group has achieved remarkable results in the areas of nuclear energy, new energy and aviation, thus laid the solid foundation for the Group to implement its long term strategy of structural adjustment. The Group has allocated more resources on the technology research of turbine blade products. During the Year, the Group has achieved breakthrough in the research and development of blades for jet engines. Benefiting from the continuous improvement of the quality of the products of the Group, the turbine blade business had substantial growth in export sales and recorded overseas sales of approximately RMB197 million during the Year, representing an increase of 68% over last year.

Meanwhile, the Group has continuously and steadily proceeded with the construction of projects such as project of producing large turbine blade and aviation forging with the attempt to enhance the overall competitiveness of the turbine blade business of the Group. In January 2008, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade"), a wholly-owned subsidiary of the Group acquired a parcel of land of approximately 226,000 square meters at a consideration of RMB65 million in Wuxi Huishan Economic Development Zone, in order to set up a new plant. In August 2008, Wuxi Turbine Blade acquired a 35,500 tonnes clutch spire-pressure machine at a consideration of approximately EUR29 million, in order to obtain the ability to manufacture new products. As this project falls into the category of major equipment segment encouraged by the national industrial policies, in year 2009, upon the review of the National Energy Administration and the approval of the National Development and Reform Commission, the State has earmarked RMB95 million for this project to subsidize Wuxi Turbine Blade for the construction of a national level R&D and test center for large turbine blades.

In year 2009, turnover of the turbine blade business was RMB803 million (2008: RMB797 million), up 1% over last year. The segment results amounted to RMB103 million (2008: RMB140 million), representing a decrease of 26% as compared with last year. Gross profit margin was 25% (2008: 29%). In 2009, export sales amounted to RMB197 million (2008: RMB117 million), up 68% as compared with last year, while export sales represented 25% (2008: 15%) of the total business sales.



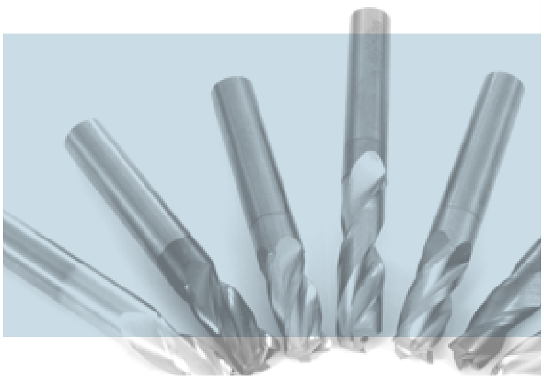


Bearing business

The Group is a professional manufacturer of varieties of bearing products. The Group sells bearing products that are widely used in the segments of railway transportation, vehicles, cargo equipments, electric motors, electrical appliances, aerospace, aviation and navigation equipments. Besides, the Group is one of the bearing and related repairing and maintenance service suppliers designated by the Ministry of Railway. In year 2009, the Group has focused on the development of new energy products. Through our synchronized efforts in both market development and technical upgrading, the Group has successfully commenced production of extra large wind power bearings and launched such products to the market. Thus, the Group has enhanced its manufacturing capacity of extra large bearings and achieved annual sales of RMB24 million, representing an increase of 84% as compared with last year.

On the other hand, the Group passed the resolution of the general meeting of shareholders concerning the proposed bid for Shanghai Zhenhua Bearing Factory Company Limited ("Zhenhua Bearing") on 5 February 2010 at a consideration of approximately RMB79 million, up to a maximum bid not exceeding approximately RMB87 million (which is a 10% premium over the base bid). On 23 February 2010, the Company successfully bid for Zhenhua Bearing at a total consideration of approximately RMB79 million. Leveraging on the successful completion of the acquisition, the Group intends to consolidate its resources on bearing business, so as to enter into the vehicle bearing market and develop products for the market.

In year 2009, turnover of the bearing business was RMB362 million (2008: RMB429 million), dropped 16% as compared with last year. Segment results amounted to RMB13 million (2008: RMB40 million), representing a decrease of 68% over last year. Gross profit margin was 21% (2008: 23%). In 2009, export sales amounted to RMB47 million (2008: RMB54 million), down 13% over last year and represented 13% (2008: 13%) of the total business sales.



Cutting tool business

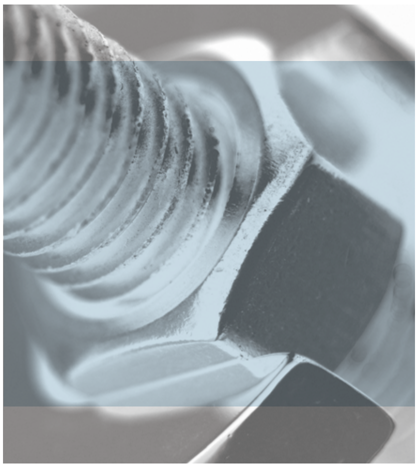
The Group is a major cutting tool manufacturer in the PRC with more than 50 years of history. During year 2009, the Group put more resources in technology development and focused on technical innovation. During the Year, the Group successfully developed five new products, including stainless steel fiber, high-performance screw fiber, integral hard alloy general-purpose end mill, high-performance drilling head and HSK cutting tool series. The Group also enhanced its efforts in the research and development of arbor and shank of cutting tools and further upgraded the capacity and technical standard of numerically controlled arbor and shank of cutting tools during the Year and such initiatives provided a solid foundation for the serialization and mass production of arbor and shank of cutting tools and further expanded our diversified product mix. On the other hand, the Group has continued to establish its extensive sales network through franchising in the nation and has hence provided our customers an excellent service which features both manufacturing know-how and after-sales problem solving.

Extra efforts will be put into the development of numerically controlled cutting tools to expand our product portfolio, so as to develop its integrated capacity in offering hard metal materials, numerically-controlled cutting tools, numerically controlled arbors and measuring tools, while at the same time speed up the process of structural adjustment of products and enhance our brand recognition and market competitiveness.

In year 2009, turnover of the cutting tool business was RMB370 million (2008: RMB471 million), declined 21% as compared with last year. Segment results amounted to RMB23 million (2008: RMB57 million), representing a decrease of 60% over last year. Gross profit margin was 22% (2008: 23%). In 2009, export sales amounted to RMB31 million (2008: RMB67 million), down 54% over last year. Export sales represented 8% (2008: 14%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Fastener business



The Group is one of the largest professional manufacturing and export companies of fasteners in the PRC and is mainly engaged in the manufacturing, the import and export of various standard and specialized fasteners. In year 2009, the fastener business had a weak performance due to the imposition of European Union anti-dumping duty and unfavorable global economic environment. The Group focused on the development of domestic market of fasteners and endeavored to identify end customers. The Group also will enhance our profit margin of fastener business by scaling down the production phase which offers relatively lower added value in the industrial chain. At the same time, the Group made effort to develop e-commerce in order to reduce the overall stockpile in our supply chain and facilitated the realisation of our strategic transformation, which is to "transform from a product supplier to a professional service provider of fasteners".

In year 2009, turnover of the fastener business was RMB571 million (2008: RMB1,553 million), declined 63% as compared with last year. Segment results amounted to RMB23 million (2008: RMB70 million), representing a decrease of 67% over last year. Gross profit margin was 10% (2008: 10%). In 2009, export sales amounted to RMB455 million (2008: RMB1,390 million), down 67% over last year. Export sales represented 80% (2008: 90%) of the total business sales.

Review of other financial position

Share of Profits of Associates

During the year 2009, the Group's share of profits of associates was RMB9 million (2008: RMB16 million).

Finance Costs

Finance costs for the year 2009 were RMB5 million (2008: RMB5 million).

Profit Attributable to Equity Holders of the Company

Profit attributable to owners of the Company was RMB151 million in 2009 (2008: RMB241 million), down 37% over last year. Basic earnings per share was RMB10.50 cents (2008: RMB16.75 cents).

Cash Flow

As at 31 December 2009, the Group's cash and bank balances were RMB1,093 million (31 December 2008: RMB864 million), of which RMB88 million (31 December 2008: RMB64 million) were restricted deposits, representing an increase of RMB24 million in restricted deposit from the beginning of the year. During the Year, the Group had a net cash inflow from operating activities of RMB269 million (2008: RMB184 million), a net cash outflow from investing activities of RMB89 million (2008: RMB481 million), and a net cash outflow from financing activities of RMB60 million (2008: RMB46 million).

Assets and Liabilities

As at 31 December 2009, the Group had total assets of RMB3,718 million (31 December 2008: RMB3,475 million), representing an increase of RMB243 million or 7% as compared with the beginning of the Year, of which total current assets amounted to RMB2,264 million (31 December 2008: RMB2,066 million), accounting for 61% of the total assets, representing an increase of RMB198 million as compared with the beginning of the Year. Total non-current assets were RMB1,454 million (31 December 2008: RMB1,409 million), accounting for 39% of the total assets and representing an increase of RMB45 million as compared with the beginning of the Year.

As at 31 December 2009, the total liabilities of the Group were RMB901 million (31 December 2008: RMB749 million), of which total current liabilities amounted to RMB680 million (31 December 2008: RMB701 million), accounting for 75% of the total liabilities. Total non-current liabilities amounted to RMB221 million (31 December 2008: RMB48 million), accounting for 25% of total liabilities.

As at 31 December 2009, the net current assets of the Group were RMB1,584 million (31 December 2008: RMB1,365 million), representing an increase of RMB219 million or 16% as compared with the beginning of the Year whereas current ratio increased from 2.95 to 3.33.

Sources of Funding and Indebtedness

As at 31 December 2009, the Group had an aggregate bank and other borrowings of RMB112 million (31 December 2008: RMB107 million), representing an increase of RMB5 million or 5% as compared with the beginning of the Year. Borrowings repayable by the Group within one year were RMB95 million (31 December 2008: RMB90 million), representing an increase of RMB5 million from the beginning of the Year, whereas borrowings repayable after one year were RMB17 million (31 December 2008: RMB17 million). The Group repaid the loans due on schedule during the Year.

As at 31 December 2009, all bank and other borrowings of the Group were interest bearing at fixed rates.

Gearing Ratio

As at 31 December 2009, 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 2008: 4%).

Pledges of Assets

As at 31 December 2009, bank deposits of RMB88 million (2008: RMB64 million) of the Group were pledged to banks.

Contingent Liabilities

As at 31 December 2009, the Group had total contingent liabilities of RMB1 million (2008: RMB1 million).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB170 million (2008: RMB265 million), which was principally invested in the upgrading of production technologies and equipments, and the expansion of production capacity.

MANAGEMENT DISCUSSION AND ANALYSIS

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 year 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 2009, the Group's deposits comprised US$1.0 million. Save as disclosed above, the Group was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Events

On 19 June 2009, Wuxi Turbine Blade, the Office of Wuxi City Industrial Township Planning Department and Jiangsu Guyunhe Investments Development Co., Ltd. ("Jiangsu Guyunhe") entered into a compensation agreement, pursuant to which, Jiangsu Guyunhe is required to make a total compensation of RMB300 million, including RMB25 million as land compensation, to Wuxi Turbine Blade in respect of vacating the parcel of land currently occupied by the plant of Wuxi Turbine Blade. Details of the compensation agreement were set out in the announcement of the Group dated 23 June 2009.

On 17 July 2009, Wuxi Turbine Blade entered into a construction contract with China Nuclear Industry Hua Xing Construction Co., Ltd. ("Hua Xing Construction"), pursuant to which Hua Xing Construction will undertake a construction project from around 18 July 2009. The consideration of the construction contract is approximately RMB153 million (subject to adjustment), which will be paid by Wuxi Turbine Blade in instalments. Details of the contract are set out in the announcement of the Company dated 17 July 2009.

On 4 December 2009, the Board has passed the resolution concerning the bid for Zhenhua Bearing at a consideration of approximately RMB79 million up to a maximum bid not exceeding approximately RMB87 million (which is a 10% premium over the bid of approximately RMB79 million). On 5 February 2010, the bid for the proposed acquisition was submitted after obtaining independent shareholders' and other necessary approvals. On 23 February 2010, the Company successfully bid for Zhenhua Bearing at a consideration of approximately RMB79 million and entered into a Zhenhua Acquisition Agreement with Shanghai Hydraulics & Pneumatics Works.

Shanghai Tian An Bearing Company Limited ("Tian An Bearing") entered into a relocation compensation agreement with Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") on 19 March 2010 in relation to its relocation to the new factory area at 4399, Yindu Road, Shanghai, and pursuant to which Shanghai Electric Corporation will compensate Tian An Bearing for the losses incurred in relation to the removal, adjustments and testing, and work suspension during such relocation as well as staff resettlement fees in an aggregate amount of approximately RMB39 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 2009, the Group had 3,089 employees (2008: 3,317). 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 AND SENIOR MANAGEMENT

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

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

Name	Age	Position
Zheng Yuanhu (Appointed on 4 December 2009)	44	executive director and chairman
Liu Zhenduo (Resigned on 4 December 2009)	62	executive director and chairman
Zhu Weiming	39	executive director and vice chairman
Hu Kang	46	executive director and chief executive officer
Ye Fucai	59	executive director
Zhu Xi	46	executive director
Deng Yuntian	37	executive director
Chan Chun Hong (Thomas)	46	independent non-executive director
Zhou Feida	70	independent non-executive director
Liu Huangsong	41	independent non-executive director
Chen Jiaming	48	supervisor and chairman of the supervisory committee
Hu Peiming	52	supervisor
Zhang Jianping	52	supervisor
Yan Qi	44	vice president
Chen Hui	41	vice president
Xia Sicheng	46	vice president
Huang Wennong	61	vice president
Wang Pin	36	chief financial officer
Li Wai Chung	32	qualified accountant and company secretary

Directors

Zheng Yuanhu, aged 44, is a senior engineer. He was appointed as executive director and chairman of Shanghai Prime Machinery Company Limited (the "Company") in 2009. Mr. Zheng currently holds the positions of vice president of Shanghai Electric (Group) Corporation, president of Shanghai Electric Assets Management Company Limited as well as executive director of Shanghai Electric Group Assets Operation Company Limited. He has been the vice president of Shanghai Electric (Group) Corporation since 2008, president and vice president of Shanghai Electric Assets Management Company Limited since 2007. Mr. Zheng has acted as president and chairman of Pacific Mechatronic (Group) Co., Ltd. since 2002. During the period from 2003 to 2007, he also served at Shanghai Erfangji Co., Ltd. as chairman concurrently. Between 1998 and 2002, Mr. Zheng worked as deputy general manager and financial controller in Shanghai Diesel Engine Co., Ltd.. Mr. Zheng graduated from Tianjin University with a bachelor degree in internal combustion engineering in 1988. He also obtained a master degree in business administration from Fudan University in 2001.

Liu Zhenduo, aged 62, is a senior economist. He was appointed as executive director and chairman of 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 39, 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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 46, 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 59, is a senior economist. He was appointed as executive director of the Company in 2008. Mr. Ye worked in Shanghai Electrical Appliances Mated Plant. And he also acted as chairman of Siemens Switch Co., Ltd., a Sino-German joint venture, head of the general machinery department of Shanghai Electric (Group) Corporation and general manager of Shanghai General Machinery (Group) Corporation respectively. Mr. Ye served as deputy head of the business development department of Shanghai Electric Group Company Limited from 2004 to 2008 as well as standing deputy head of the strategic planning department of Shanghai Electric (Group) Corporation and then head of the strategic planning department of Shanghai Electric (Group) Corporation from 2007 to 2009. Mr. Ye is currently the chairman of Pacific Mechatronic (Group) Co., Ltd. Mr. Ye graduated from the business management department of PLAAF Political Academy.

Zhu Xi, aged 46, 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 37, 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 head 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. Mr. Deng served as deputy head of the investment management department of Shanghai Electric Assets Management Company Limited from 2006 to 2008, vice president of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. from 2009 to 2010 and chairman of the labour union of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. at present. Mr. Deng graduated from Jiangsu University with a master degree.

Chan Chun Hong (Thomas), aged 46, is a qualified accountant as well as a fellow of The Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public 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 in accounting.

Zhou Feida, aged 70, 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 1963 and later with a master degree in 1966, both in mechanical engineering.

Liu Huangsong, aged 41, 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, researching professor and PhD programme supervisor 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 48, 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. From 2004 to 2010, Mr. Chen acted as general manager of the first management department and department head of the reorganization department of Shanghai Electric Assets Management Company Limited, one of the promoters of the Company, and then served as vice president and department head of the reorganization department of Shanghai Electric Assets Management Company Limited. Mr. Chen is currently the general manager of Shanghai Electric International Economic and Trading Co., Ltd. Mr. Chen graduated from Tongji University in 1988 specializing in automation.

Hu Peiming, aged 52, 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 52, 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 years 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 44, 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 the representative of the Thirteenth and Fourteenth People's Congress of Wuxi city in year 2003 and 2008 respectively. 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 41, 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 46, was appointed as vice president of the Company in 2005. He joined Shanghai Electric (Group) Corporation in 1982. From 1998 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 executive director 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 61, is a senior economist. He was appointed as a vice president of the Company in 2005. He joined the Shanghai Electric (Group) Corporation in 1968 and since 1991, served as the vice president of Shanghai Standard Component Corporation, the president of Shanghai Shang Biao (Group) Co., Ltd, the 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.

Wang Pin, aged 36, 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 32, 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 2009 to 31 December 2009 (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.

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 4 December 2009, Mr. Zheng Yuanhu was elected as the director and appointed as the chairman of the Board. As at the date of this annual report, the 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.

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

Existing executive directors:

Mr. Zheng Yuanhu (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 five Board meetings during the Year. The attendance of each director is summarized as follows:

Directors	Number of meetings	Actual attendance
Mr. Zheng Yuanhu	1	1
Mr. Zhu Weiming	5	5
Mr. Hu Kang	5	5
Mr. Ye Fucai	5	5
Ms. Zhu Xi	5	5
Mr. Deng Yuntian	5	5
Mr. Chan Chun Hong (Thomas)*	5	5
Mr. Zhou Feida*	5	5
Mr. Liu Huangsong*	5	5
Mr. Liu Zhenduo **	4	4

* *Independent non-executive director.*
** *Director who has resigned as executive director of the Company with effect from 4 December 2009.*

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 Board nominated Mr. Zheng Yuanhu as the director and his nomination was approved by the extraordinary general meeting of shareholders held on 4 December 2009.

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. Zheng Yuanhu 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.

CORPORATE GOVERNANCE REPORT

Tenure of independent non-executive directors

All current independent non-executive directors of the Company were appointed 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 two meetings during 2009. The attendance of each member is summarized as follows:

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

During the Year, remuneration committee reviewed and approved the proposed 2009 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 and the attendance of each member is summarized as follows:

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 2008 and unaudited interim condensed consolidated financial statements of 2009 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.

Independent auditors' remuneration

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

For services provided	Amount paid/payable (RMB in million)
Auditing Service	2.0

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 2009, 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 internal control system, which includes a defined management and organizational structure with operating policies and procedures, delegated authority and limits of responsibility, is designed to safeguard the Group's assets, to maintain proper accounting records, to ensure the compliance with relevant laws and regulations and 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 a review of the effectiveness of the internal control systems of the Company and its subsidiaries. During the Year, the internal control department continued to focus on four different areas, namely control environment, risk assessment, control activities and ongoing monitoring, with reference to the structure of the COSO Internal Control Framework Model, in order to strengthen the formulation and control of the internal control procedures. This includes regulating the occupational ethics of middle and senior management staffs of the headquarters and its subsidiaries through the "Annual Personal Declaration Statement"; conducting comprehensive risk assessments on five controlled subsidiaries, raising the awareness of operating risk among management through the circulation of assessment reports and continuing to monitor the remedial measures taken by the subsidiaries in response to management recommendations through on-site inspection and would urge the management of the relevant subsidiaries to take proactive stance to improve if weaknesses were discovered.

In addition, the internal control department has conducted compliance inspections on the financial reporting process of the subsidiaries of the Company during the last year in accordance with the "Standard of Internal Control Procedures" and completed the comprehensive modification and improvement of all seven business procedural standards of this Standard during the period. Furthermore, this department has also co-operated with the finance department in conducting special examination and evaluation of the budget management processes of five controlled subsidiaries, including the establishment of budgeting team, budget preparation, budget implementation, budget adjustment and review, thereby improved the quality of our overall budgeting work. Furthermore, it has also effectively improved the operating efficiency and results of the Group's assets through carrying on special examination on the assets of the Group, such as the cash pool. During the Year, the internal control department also performed a comprehensive stocktaking of the fixed assets

CORPORATE GOVERNANCE REPORT

and a full implementation of an electronic management system for work in progress for five controlled subsidiaries, thus further intensified our supervision over the security and integrity of these controlled subsidiaries' assets, and increased the Group's capacity in identifying and coping with operating risks through providing training on customers and suppliers credit management to these five subsidiaries. The internal control department of each subsidiaries have commenced to function independently under the guidance of the headquarters, and the internal control system, which emphasizes upper-lower interaction, has been reinforced during the Year, which complemented the internal control department of the headquarters in ensuring the effective supervision of its daily operation. As a result, the Board is aware of the current condition of the internal control of the Company and its subsidiaries 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 pulic 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 and 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 Group's strategy and development plans.

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

By order of the Board
Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
19 March 2010

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 2009, 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	Number 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	678,576,184	(1)	Beneficial owner	Long position	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
Atlantis Investment Management Limited	H	70,000,000		Investment manager	Long position	9.21	4.87
Templeton Asset Management Ltd.	H	68,822,000		Investment manager	Long position	9.06	4.79
Government of Singapore Investment Corporation Pte Ltd	H	44,544,052		Investment manager	Long position	5.86	3.10
The Capital Group Companies, Inc.	H	38,960,000	(2)	Investment manager	Long position	5.13	2.71
Prudential Plc	H	38,646,000	(3)	Interest of controlled corporation	Long position	5.09	2.69

Notes:

(1) Shanghai Electric (Group) Corporation is wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, thus State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is deemed to be interested in the 678,576,184 shares of the Company held by Shanghai Electric (Group) Corporation.

OTHER INFORMATION

(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 (%)	Number of shares
Capital Guardian Trust Company	100	2,574,000
Capital International, Inc	100	31,974,000
Capital International Limited	100	4,412,000

(3) Prudential Plc is interested in 38,646,000 shares of the Company by virtue of its control over its 100% owned subsidiary Prudential Holdings Ltd, which in turn held a 100% interest in Prudential Corporation Holdings Ltd. Prudential Corporation Holdings Ltd in turn holds 100% interest in Prudential Asset Management (Hong Kong) Ltd, which held the direct interests of 38,646,000 shares in the Company.

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 2009 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 2009, 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 2009, 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.

This Annual Report (in both English and Chinese versions) has been posted on the Company's website at http://www.pmcsh.com. Shareholders who have chosen to rely on copies of the Company's corporate communication (including but not limited to annual report and summary financial report (where applicable), interim report, summary interim report (where applicable)), posted on the Company's website in lieu of the printed copies thereof may request the printed copy of the Annual Report. Shareholders who have chosen to receive the corporate communication using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the Annual Report posted on the Company's website will promptly upon request be sent the Annual Report in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's Corporate Communication by notice in writing to the H Share Registrar and Transfer Office, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company") herein present the report of the directors of the Company and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009 (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 note18 to the financial statements. During the Year, there were no significant changes in the Group's principal activities.

Results and dividends

The Group's profit for the year ended 31 December 2009 and the financial positions of the Company and the Group at that date are set out in the financial statements on pages 36 to 102.

The directors proposed the payment of a final dividend of RMB2.80 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 2009 annual general meeting. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

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. Approximately RMB774 million of the proceeds have been applied during the period from the listing of the Company to 31 December 2009 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 RMB126 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 Bearing Company Limited and as part of the consideration of the acquisition of the entire equity interest in Shanghai Electric Bearing Company Limited, the project of producing extra large bearing for wind power generator as well as for 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 of the Company; and
- approximately RMB160 million was applied as additional working capital of the Group.

As at 31 December 2009, the remaining net proceeds of RMB547 million (net of foreign exchange loss of RMB61 million) were placed as interest-bearing bank deposits and 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 the annual report. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

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 14 to the financial statements.

Share capital

There were no movements in either the Company's authorized or issued share capital during the Year, the details of which are set out in note 32 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company Law of the People's Republic of China (the "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 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB241 million, of which RMB40 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.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for 32% of the total sales for the Year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital)had any beneficial interest in the Group's five largest customers.

Directors

As at the date of this report, the directors of the Company include Mr. Zheng Yuanhu, 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 non-executive directors. Mr. Liu Zhenduo resigned as executive director of the Company on 4 December 2009. On the same date, Mr. Zheng Yuanhu was appointed as executive director of the Company.

Directors (continued)

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 15 to 17 of this report.

Directors' service contracts

Mr. Zheng Yuanhu, chairman of the Company has entered into a service contract with the Company on 4 December 2009. Other executive directors of the Company have entered into service contracts with the Company respectively 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.

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

As at 31 December 2009, none of the directors, supervisors and chief executives 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.

REPORT OF THE DIRECTORS

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 "Connected transactions and continuing connected transactions" below.

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

At 31 December 2009, 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 issued share capital	Category of shares
Shanghai Electric Corporation	Directly beneficially owned	678,576,184	47.18	Domestic

Save as disclosed above, as at 31 December 2009, 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.

Connected transactions and continuing connected transactions

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

Connected transactions

Shanghai Tian An Bearing Co., Ltd. ("Tian An Bearing") entered into an agreement on the transfer of the equipment with Shanghai Micro Bearing Factory ("Shanghai Micro") on 10 April 2009, pursuant to which Tian An Bearing agreed to sell the equipment to Shanghai Micro at a total consideration of approximately RMB7.7 million. As Shanghai Micro is a wholly-owned subsidiary of Shanghai Electric Corporation, a substantial shareholder of the Company, and Tian An Bearing is a 99%-owned subsidiary of the Company, Shanghai Micro is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of it being an associate of the Company's substantial shareholder. According to the equipment transfer agreement, Tian An Bearing agreed to sell the equipment that Tian An Bearing has held for more than 12 months to Shanghai Micro at a consideration of approximately RMB7.7 million. The consideration was determined by reference to the value of the equipment at approximately RMB7.7 million on 28 February 2009 in the valuation report dated 8 April 2009 prepared by Shanghai Xinda Assets Appraisal Co., Ltd., a registered appraiser in China, which is independent to the Group. Pursuant to the relevant laws and regulations in China, the consideration under the equipment transfer agreement is to be determined with reference to the valuation of a registered appraiser in China.

On 4 December 2009, the board has passed the resolution concerning the bid for Shanghai Zhenhua Bearing Factory Company Limited ("Zhenhua Bearing") at a consideration of approximately RMB78.6 million up to a maximum bid not exceeding approximately RMB86.5 million (which is a 10% premium over the bid of approximately RMB78.6 million). On 5 February 2010, the bid for the proposed acquisition was submitted after obtaining independent shareholders' and other necessary approvals. On 23 February 2010, the Company successfully bade for Zhenhua Bearing and entered into a Zhenhua acquisition agreement with Shanghai Hydraulics & Pneumatics Works.

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 (the "Wuxi 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 maximum agreed rental payable due 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 from November 2008 (the "Waiver"). Shanghai Electric Corporation has agreed on the Waiver. Accordingly, Wuxi Turbine Blade was not required to pay rental payment to Shanghai Electric Corporation during the waiver periods. Due to the proposed relocation of the factory of Wuxi Turbine Blade, there is no rental payable to Shanghai Electric Corporation during the Year.

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 3 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 2009, 2010 and 2011 are RMB3.7 million, RMB3.7 million and RMB3.7 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 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 the "Parent Group") certain properties with 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 3 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 2009, 2010 and 2011 are RMB33.0 million, RMB36.3 million and RMB39.9 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, conditions and size within the same geographical region. The actual rental payable to the Parent Group for the year ended 31 December 2009 was RMB18.0 million.

REPORT OF THE DIRECTORS

Continuing connected transactions (continued)

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 thereof 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 3 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 the 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 2009, 2010 and 2011 are RMB27.6 million, RMB28.6 million and RMB29.6 million, respectively. There was no processing fee payable to the Parent Group incurred for the year ended 31 December 2009.

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 has agreed to sell certain bearings, turbine blades, fasteners, cutting tools and related components, on a non-exclusive basis, 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 thereof 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 3 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 2009, 2010 and 2011 are RMB42.5 million, RMB70.5 million and RMB96.0 million, respectively. The Group's actual sales to the Parent Group for the year ended 31 December 2009 amounted to RMB2.7 million.

Continuing connected transactions (continued)

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 has agreed to purchase 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 thereof 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 3 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 2009, 2010 and 2011 are RMB17.2 million, RMB28.2 million and RMB39.2 million, respectively. The Group's actual purchases from the Parent Group for the year ended 31 December 2009 amounted to RMB2.4 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 a 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 thereof 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 3 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 2009, 2010 and 2011 are RMB417.2 million, RMB534.8 million and RMB656.3 million, respectively. The Group's actual sales to Shanghai Electric Companies for the year ended 31 December 2009 amounted to RMB238.0 million.

REPORT OF THE DIRECTORS

Continuing connected transactions (continued)

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 thereof 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 2009, 2010 and 2011 are RMB4.5 million, RMB6.5 million and RMB9.0 million, respectively. There was no actual purchase made from Shanghai Electric Companies for the year ended 31 December 2009.

Framework Processing Agreement with Shanghai Electric Company

On 25 April 2008, the Company entered into a framework processing agreement with Shanghai Electric Company, pursuant to which the Group agreed to procure processing services of extra-large bearings and other products, on a non-exclusive basis, from Shanghai Electric Companies.

The pricing basis of certain processing services of extra-large bearings and other products 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 product,
- an agreed price consisting of the actual or reasonable cost incurred thereof plus a reasonable profit margin.

The relevant annual caps, representing the maximum aggregate processing fees payable as agreed between the parties, for 2009, 2010 and 2011 are RMB17.6 million, RMB17.6 million and RMB17.6 million, respectively. There was no processing fee payable to the Shanghai Electric Companies incurred for the year ended 31 December 2009.

Continuing connected transactions (continued)

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 37 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.

The Board has engaged the auditors of the Company to perform certain procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400, "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information", issued by the Hong Kong Institute of Certified Public Accounts to deal with the requirements under paragraph 14A.38 of the Listing Rules.

Based on the procedures performed, the auditors of the Company reported that the aforesaid continuing connected transactions (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Group if the transactions involve provision of goods and services by the Group, for the samples selected; (iii) have been entered into and conducted in accordance with the relevant agreements governing these transactions, for the sample selected; and (iv) have not exceeded the caps and revised caps disclosed in the Company's announcements dated 25 April 2008.

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 40 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. The Company has not changed its independent auditors in the past three years.

By order of the Board
Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
19 March 2010

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, two supervisory committee thematic meetings of Shanghai Prime Machinery Company Limited (the "Company") were convened by the committee members in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Articles of Association of the Company and the Rules Governing the Listing of Securities on the HongKong Stock Exchange (the "Listing Rules"), and has actively and effectively carried out all its duties with diligence and prudence, and has supervised all operating and management activities of the Company in a legal, timely and effective manner in compliance with the Company's Standing Order of the supervisory committee, 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 five 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 2009, 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 certified public accountant 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, 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 basically in concert with those disclosed in the listing prospectus of the Company.
- 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 2009, all continuing connected transaction have not exceed 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.

In 2010, all members of the supervisory committee will continue to comply with relevant provisions of the Company law of the People's Republic of China, 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
19 March 2010

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 102, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 2009 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
19 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
REVENUE	5	2,105,549	3,250,181
Cost of sales		(1,688,494)	(2,659,448)
Gross profit		417,055	590,733
Other income and gains	5	75,241	71,104
Selling and distribution costs		(77,584)	(87,664)
Administrative expenses		(173,998)	(188,671)
Other expenses		(87,391)	(87,920)
Finance costs	7	(4,538)	(5,415)
Share of profits and losses of associates		9,182	16,058
PROFIT BEFORE TAX	6	157,967	308,225
Income tax expense	10	(6,392)	(65,199)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		151,575	243,026
Profit and total comprehensive income attributable to:			
Owners of the Company	11	151,014	240,975
Minority interests		561	2,051
		151,575	243,026
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	13	10.50	16.75

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,059,705	1,011,763
Prepaid land premiums/land lease payments	15	128,234	125,462
Goodwill	16	8,818	8,818
Other intangible assets	17	4,210	5,063
Investments in associates	19	129,767	120,302
Available-for-sale investments	20	1,072	1,072
Long-term prepayments		103,386	110,931
Deferred tax assets	21	19,240	25,262
Total non-current assets		1,454,432	1,408,673
CURRENT ASSETS			
Inventories	22	641,030	690,935
Trade receivables	23	321,083	341,117
Bills receivable	24	137,663	87,193
Prepayments, deposits and other receivables	25	70,964	82,986
Restricted deposits	27	87,967	63,733
Cash and cash equivalents	27	1,004,784	800,279
Total current assets		2,263,491	2,066,243
CURRENT LIABILITIES			
Trade payables	28	289,911	309,328
Bills payable	29	151,350	125,900
Tax payable		39,528	66,696
Other payables and accruals	30	103,961	108,974
Interest-bearing bank and other borrowings	31	95,000	90,000
Total current liabilities		679,750	700,898
NET CURRENT ASSETS		1,583,741	1,365,345
TOTAL ASSETS LESS CURRENT LIABILITIES		3,038,173	2,774,018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,038,173	2,774,018
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	17,000	17,000
Government grants		172,227	18,054
Other long-term payables		29,301	8,767
Deferred tax liabilities	21	2,498	4,505
Total non-current liabilities		221,026	48,326
Net assets		2,817,147	2,725,692
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	1,438,286	1,438,286
Reserves	33(a)	1,324,139	1,213,397
Proposed final dividends	12	40,272	60,120
		2,802,697	2,711,803
Minority interests		14,450	13,889
Total equity		2,817,147	2,725,692

Director **Zheng Yuanhu** Director **Hu Kang**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to owners 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 2008 as previously reported		1,438,286	702,606	(58,090)	52,451	336,312	55,806	2,527,371	11,981	2,539,352
Change of accounting policies		-	-	-	-	(1,076)	-	(1,076)	-	(1,076)
As restated		1,438,286	702,606	(58,090)	52,451	335,236	55,806	2,526,295	11,981	2,538,276
Total comprehensive income for the year		-	-	-	-	240,975	-	240,975	2,051	243,026
Appropriation to surplus reserves		-	-	-	64,067	(64,067)	-	-	-	-
Effect of tax rate change on deferred tax liabilities	21	-	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	12	-	-	-	-	(60,120)	60,120	-	-	-
At 31 December 2008, as restated		1,438,286	702,945*	(58,090)*	116,518*	452,024*	60,120	2,711,803	13,889	2,725,692
1 January 2009 as previously reported		1,438,286	702,945	(58,090)	116,518	452,964	60,120	2,712,743	13,889	2,726,632
Change of accounting policies		-	-	-	-	(940)	-	(940)	-	(940)
As restated		1,438,286	702,945	(58,090)	116,518	452,024	60,120	2,711,803	13,889	2,725,692
Total comprehensive income for the year		-	-	-	-	151,014	-	151,014	561	151,575
Appropriation to surplus reserves		-	-	-	24,092	(24,092)	-	-	-	-
Final 2008 dividends declared		-	-	-	-	-	(60,120)	(60,120)	-	(60,120)
Proposed final 2009 dividends	12	-	-	-	-	(40,272)	40,272	-	-	-
At 31 December 2009		1,438,286	702,945*	(58,090)*	140,610*	538,674*	40,272	2,802,697	14,450	2,817,147

* These reserve accounts comprise the consolidated reserves of RMB1,324,139,000 (2008: RMB1,213,397,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		157,967	308,225
Adjustments for:			
Finance costs	7	4,538	5,415
Share of profits and losses of associates		(9,182)	(16,058)
Interest income from loans receivable, bank balances and deposits	5	(16,246)	(13,482)
Interest income from other financial assets	5	(835)	(8,212)
Dividend income from available-for-sale investments	5	(23)	(29)
Depreciation	6	113,142	104,278
Recognition of prepaid land premiums/land lease payments	6	2,760	2,182
Amortisation of other intangible assets	17	1,395	881
Foreign exchange differences, net		67	1,512
(Gain)/loss on disposal of items of property, plant and equipment, net	5	(4,219)	574
Gain on write-back of long-aged payables	5	(5,081)	(7,702)
Impairment/(reversal impairment) of receivables	6	126	(5,953)
(Reversal of write-down)/write-down of inventories to net realisable value	6	(13,379)	37,747
		231,030	409,378
Decrease/(increase) in inventories		63,284	(175,111)
(Increase)/decrease in trade receivables, bills receivable, prepayments, deposits and other receivables		(6,125)	24,074
Increase in trade payables, bills payable, other payables and accruals		(24,574)	18,225
Increase in other long-term payables		28,251	5,302
Increase/(decrease) in government grants		7,026	(3,232)
Cash generated from operations		298,892	278,636
Taxes paid		(29,545)	(94,363)
Net cash flows from operating activities		269,347	184,273

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		15,161	12,817
Interest income from other financial assets	5	835	8,212
Dividend income from available-for-sale investments	5	23	29
Dividends received from associates		1,302	5,187
Purchases of items of property, plant and equipment		(145,498)	(178,305)
Proceeds from disposal of items of property, plant and equipment		7,200	1,769
Prepaid land premiums/land lease payments		(5,624)	(72,890)
Additions to other intangible assets		(338)	(3,638)
Receipt of government grants		147,147	-
Disposal of a subsidiary		-	6,133
Acquisition of an equity interest in an associate		(883)	(13,978)
Disposal of held-to-maturity investments		-	80,000
Increase in restricted deposits		(24,234)	(44,900)
Increase in non-restricted deposits with original maturity of over three months when acquired		(84,040)	(281,860)
Net cash flows used in investing activities		(88,949)	(481,424)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		100,000	110,000
Repayments of bank and other borrowings		(95,000)	(95,000)
Dividends paid		(60,328)	(55,806)
Interest paid		(4,538)	(5,415)
Net cash flows used in financing activities		(59,866)	(46,221)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		120,532	(343,372)
Cash and cash equivalents at beginning of year		507,279	852,163
Effect of foreign exchange rate changes, net		(67)	(1,512)
CASH AND CASH EQUIVALENTS AT END OF YEAR		627,744	507,279
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	447,645	231,279
Non-restricted time deposits with original maturity of less than three months when acquired		180,099	276,000
Cash and cash equivalents as stated in the statement of cash flows		627,744	507,279

STATEMENT OF FINANCIAL POSITION

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	5,708	6,782
Other intangible assets	17	2,315	2,194
Interests in subsidiaries	18	1,719,153	1,822,453
Investments in associates	19	106,806	106,806
Deferred tax assets	21	694	755
Total non-current assets		1,834,676	1,938,990
CURRENT ASSETS			
Inventories	22	858	4,530
Trade receivables	23	61,000	111,561
Bills receivable	24	-	36,500
Prepayments, deposits and other receivables	25	346,126	409,984
Loans receivable	26	42,000	42,000
Cash and cash equivalents	27	776,845	713,719
Total current assets		1,226,829	1,318,294
CURRENT LIABILITIES			
Trade payables	28	37,476	44,595
Tax payable		-	3,282
Other payables and accruals	30	602,045	768,867
Total current liabilities		639,521	816,744
NET CURRENT ASSETS		587,308	501,550
TOTAL ASSETS LESS CURRENT LIABILITIES		2,421,984	2,440,540
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	1,839	3,676
Total non-current liabilities		1,839	3,676
Net assets		2,420,145	2,436,864
EQUITY			
Issued capital	32	1,438,286	1,438,286
Reserves	33(b)	941,587	938,458
Proposed final dividends	12	40,272	60,120
Total equity		2,420,145	2,436,864

Director **Zheng Yuanhu** 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, manufacture 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 ("HKICPA"), 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. 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 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA to account for the purchase of the equity interests in the acquired subsidiaries under common control (the "Acquired Subsidiaries"), as if the acquisitions had been occurred and the Acquired Subsidiaries had been combined from 1 January 2008, the beginning of the earliest financial period presented.

The net assets of the Group and the Acquired Subsidiaries are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of the Acquired Subsidiaries' identifiable assets, liabilities and contingent liabilities over cost of acquisition at the time of the business combinations under common control. The consolidated statement of comprehensive income includes the results of the Group and the Acquired Subsidiaries from 1 January 2008, the earliest date presented, regardless of the date of the business combinations under common control.

The comparative amounts in the consolidated financial statements are restated and presented as if the Acquired Subsidiaries had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Transaction costs incurred in relation to business combinations under common control that is accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

Other than the business combination under common control, 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.

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 Changes in accounting policy and disclosures

The Group has adopted the following new and revised 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 and revised HKFRSs has had no significant effect on 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*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKFRS 8 Amendment*	Amendment to HKFRS 8 *Operating Segments – Disclosure of information about segment assets* (early adopted)
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
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*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in *Improvements* to HKFRSs 2009 (as issued in May 2009)

2.2 Changes in accounting policy and disclosures (continued)

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

(a) 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*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in profit or loss in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group currently has no share-based payment scheme, the amendments have had no impact on the financial position or result of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement and liquidity risk disclosures are presented in note 39 to the financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces 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 concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. The revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

The Group has early adopted in these financial statements the Amendment to HKFRS 8 issued in *Improvements to HKFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief operating decision maker.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

2.2 Changes in accounting policy and disclosures (continued)

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 Changes in accounting policy and disclosures (continued)

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the profit or loss as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. 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.

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which is effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group.

In the previous years, the Group adopted purchase method of accounting to account for the business combinations under common control. In the current year, the Group decided to change its accounting policy for business combination under common control and adopt "merger accounting" as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by HKICPA (note 2.1).

The Company's Directors are of the view that applying the new accounting policies as described above can minimise the differences between the financial statements prepared under the Chinese Accounting Standards and HKFRSs, and can provide more comparable and relevant information to the readers of the financial statements in the PRC and overseas. These changes in accounting policies have been accounted for retrospectively and the financial statements for the year ended 31 December 2008 have been restated in order to comply with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

The effect on the consolidated financial statements arising from the aforementioned changes in accounting policies is as follows:

	31 December, 2009 **RMB'000**	**31 December, 2008** **RMB'000**	**1 January, 2008** **RMB'000**
Decrease in equity	940	940	1,076

There is no material impact on the profit or loss and basic earnings per share of the Group arising from the aforementioned change in accounting policies.

2.3 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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 included *Improvements to HKFRSs* issued in *October 2008*	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in in a Subsidiary* [1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

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.

2.3 Issued but not yet effective Hong Kong financial reporting standards (continued)

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. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

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 the accounting of future acquisitions, loss of control and transactions with minority interests.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39. HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. The Group expects to adopt HKFRS 9 from 1 January 2013.

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 profit or loss 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.

2.4 Summary of significant accounting policies (continued)

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 statement of financial position 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 statement of comprehensive income 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 profit or loss 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 and associates 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 statement of financial position 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 in the consolidated statement of financial position.

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.

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 profit or loss.

2.4 Summary of significant accounting policies (continued)

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 profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period 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 profit or loss in the period in which it arises.

Related parties

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

(a) the party, 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;

(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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of asset as a replacement. Where significant parts of properly, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation (continued)

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 financial year end.

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

Construction in progress represents 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)

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

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 five 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 profit or loss as incurred.

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

2.4 Summary of significant accounting policies (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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 profit or loss 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 profit or loss 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets within 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. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and cash equivalents, restricted deposits, trade receivables and bills receivable, other receivables and available-for-sale investments.

Subsequent measurement

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

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes do 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.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. 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.

Loans and receivables

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

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 calculated by taking into account any discount or premium on acquisition and fees or costs that are an integrated part of the effective interest rate. The effective interest rate amortisation is included in finance income in the profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the statement of comprehensive income in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the statement of comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

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.

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 profit or loss, removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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 profit or loss.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. 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 of derivatives are taken directly to profit or loss except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Offsetting of financial instruments

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

2.4 Summary of significant accounting policies (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

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

For the purpose of the statement of financial position, 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 end of reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit or loss.

2.4 Summary of significant accounting policies (continued)

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period 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 goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if 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.

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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.4 Summary of significant accounting policies (continued)

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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate 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 and its associates participate in a government-regulated defined contribution pension scheme, under which the Group and its 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 profit or loss 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 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 and associates.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. All differences are taken to profit or loss. 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 end of the reporting period. 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 end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are 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 2009 was RMB8,818,000 (2008: RMB8,818,000). More details are given in note 16.

(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 the end of each reporting period. Non-financial assets with definite life are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(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 an estimate has been changed.

4. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments 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; and

(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.

4. Operating segment information (continued)

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude corporate and other unallocated head office assets as these assets are managed on a group basis.

Segment liabilities exclude corporate and other unallocated head office liabilities as these liabilities are managed on a group basis.

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. Operating segment information (continued)

Year ended 31 December 2009	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	361,949	803,141	369,487	570,972	-	2,105,549
Other revenue	9,637	15,103	17,179	15,955	-	57,874
Total	371,586	818,244	386,666	586,927	-	2,163,423
Reconciliation:						
Elimination of intersegment sales						-
Revenue						2,163,423
Segment results	12,533	103,045	23,218	23,061	-	161,857
Reconciliation:						
Interest and dividend income and unallocated gains						17,367
Corporate and other unallocated expenses						(25,901)
Finance costs						(4,538)
Share of profits and losses of associates	(2,968)	-	1,378	-	10,772	9,182
Profit before tax						157,967
Segment assets	833,546	1,507,630	522,409	594,959	459,920	3,918,464
Reconciliation:						
Elimination of intersegment receivables						(1,116,772)
Investments in associates	65,698	-	10,644	-	53,425	129,767
Corporate and other unallocated assets						786,464
Total assets						3,717,923
Segment liabilities	293,954	534,893	107,995	304,646	663,401	1,904,889
Reconciliation:						
Elimination of intersegment payables						(1,116,772)
Corporate and other unallocated liabilities						112,659
Total liabilities						900,776
Other segment information						
Impairment losses recognised/(reversed) in profit or loss	4,870	5,045	(4,222)	(18,946)	-	(13,253)
Depreciation and amortisation	14,291	51,382	25,330	24,097	2,197	117,297
Capital expenditure	14,788	142,235	11,421	242	1,717	170,403*

* Capital expenditure consists of additions to property, plant and equipment, prepaid land premiums / land lease payments, other intangibles and other long term assets.

4. Operating segment information (continued)

Year ended 31 December 2008 (Restated)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales to external customers	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	439,197	817,697	489,389	1,553,466	(64)	3,299,685
Reconciliation:						
Elimination of intersegment sales						(123)
Revenue						3,299,562
Segment results	39,534	139,964	57,238	70,072	73	306,881
Reconciliation:						
Interest and dividend income and unallocated gains						21,723
Corporate and other unallocated expenses						(31,022)
Finance costs						(5,415)
Share of profits and losses of associates	2,850	-	2,280	-	10,928	16,058
Profit before tax						308,225
Segment assets	957,627	1,308,848	450,510	656,660	572,300	3,945,945
Reconciliation:						
Elimination of intersegment receivables						(1,305,532)
Investments in associates	68,666	-	8,383	-	43,253	120,302
Corporate and other unallocated assets						714,201
Total assets						3,474,916
Segment liabilities	239,129	420,902	126,675	374,584	785,638	1,946,928
Reconciliation:						
Elimination of intersegment payables						(1,305,532)
Corporate and other unallocated liabilities						107,828
Total liabilities						749,224
Other segment information:						
Impairment losses recognised/(reversed) in profit or loss	3,426	(990)	6,270	23,088	-	31,794
Depreciation and amortisation	12,881	51,793	21,245	19,351	2,071	107,341
Capital expenditure	35,860	178,184	17,099	31,980	1,379	264,502

4. Operating Segment information (continued)

Geographical information

(a) Revenue from external customers

	2009			2008		
	PRC	Outside PRC	Total	PRC	Outside PRC	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	1,375,083	730,466	2,105,549	1,621,865	1,628,316	3,250,181

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

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
PRC	1,434,120	1,382,339

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

Information about a major customer

Revenue of approximately RMB231,524,000 (2008: RMB214,542,000) was derived from sales by the turbine blade segment to a single customer of the Group.

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:

	2009 RMB'000	2008 RMB'000
Revenue		
Sale of goods	2,096,585	3,234,043
Rendering of services	8,964	16,138
	2,105,549	3,250,181

5. Revenue, other income and gains (continued)

	2009 RMB'000	2008 RMB'000
Other income		
Dividend income from available-for-sale investments	23	29
Interest income from held-to-maturity investments	835	8,212
Interest income from loans receivable, bank balances and deposits	16,246	13,482
Gross rental income	867	2,196
Profit on sales of raw materials, spare parts and semi-finished goods	10,420	15,628
Government grants *	27,246	16,061
Compensation income	349	670
Others	9,955	7,698
	65,941	63,976
Gains		
Gain/(loss) on disposal of items of property, plant and equipment, net	4,219	(574)
Gain on write-back of long-aged payables	5,081	7,702
	9,300	7,128
	75,241	71,104

* Various government grants have been received during the years ended 31 December 2009 and 2008. 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):

	2009 RMB'000	2008 RMB'000 (Restated)
Cost of inventories sold	1,695,978	2,606,651
Cost of services provided	5,895	15,050
Depreciation	113,142	104,278
Recognition of prepaid land premiums/land lease payments	2,760	2,182
Amortisation of other intangible assets *	1,395	881
(Reversal of write-down)/write-down of inventories to net realisable value	(13,379)	37,747
Impairment/(reversal of impairment) of receivables *	126	(5,953)
Research and development costs: *		
Current year expenditure	65,536	61,169

6. Profit before tax (continued)

	2009 RMB'000	2008 RMB'000 (Restated)
Minimum lease payments under operating leases:		
Land and buildings	14,961	24,286
Auditors' remuneration:		
Audit services	1,980	4,600
Non-audit services	737	668
Employee benefits expense (including directors' and supervisors' remuneration – note 8):		
Wages and salaries	214,855	242,470
Defined contribution pension scheme (note i)	21,733	33,394
Medical benefits (note iii)	10,895	11,217
Housing fund (note iv)	9,640	10,416
Cash housing subsidies costs	871	1,030
	257,994	298,527
Foreign exchange differences, net	1,323	15,982

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

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 20% or 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 RMB1,388,000 (2008: RMB1,610,000) was related to the year ended 31 December 2009. There was no employee early retired under the plan subsequent to 1 September 2005.

6. Profit before tax (continued)

(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

An analysis of finance costs is as follows:

	2009 RMB'000	2008 RMB'000
Interest on bank and other loans wholly repayable within five years	4,538	5,415

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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Fees	526	540	-	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	864	1,699	491	161
Performance related bonuses	66	181	31	58
Pension scheme contributions	50	96	50	28
Total	1,506	2,516	572	247

8. Directors' and supervisors' remuneration (continued)

(a) Independent non-executive directors

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

	2009 RMB'000	2008 RMB'000
Chan Chun Hong, Thomas	210	216
Zhou Feida	158	162
Liu Huangsong	158	162
	526	540

There were no other emoluments payable to the independent non-executive directors during the year (2008: 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
2009				
Executive directors:				
Zheng Yuanhu	-	-	-	-
Liu Zhenduo	-	-	-	-
Zhu Weiming	432	33	25	490
Hu Kang	432	33	25	490
Ye Fucai	-	-	-	-
Deng Yuntian	-	-	-	-
Zhu Xi	-	-	-	-
	864	66	50	980
Supervisors:				
Chen Jiaming	-	-	-	-
Hu Peiming	149	18	25	192
Zhang Jianping	342	13	25	380
	491	31	50	572
	1,355	97	100	1,552

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
2008				
Executive directors:				
Liu Zhenduo	-	-	-	-
Zhu Weiming	106	11	6	123
Hu Kang	424	43	22	489
Ye Fucai	-	-	-	-
Zhu Xi	-	-	-	-
Deng Yuntian	-	-	-	-
Yan Qi	356	40	20	416
Chen Hui	237	17	16	270
Xia Sicheng	258	29	16	303
Huang Wennong	318	41	16	375
	1,699	181	96	1,976
Supervisors:				
Chen Jiaming	-	-	-	-
Hu Peiming	106	58	22	186
Zhang Jianping	55	-	6	61
Lin Guanhong	-	-	-	-
	161	58	28	247
	1,860	239	124	2,223

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2008: Nil).

9. Five highest paid employees

The five highest paid employees during the year included two (2008: two) directors or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2008: three) non-director and non-supervisor, highest paid employees for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	2,504	2,419
Pension scheme contributions	120	107
	2,624	2,526

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

10. Income tax

The Group is subject to the statutory corporate income tax rate of 25% for the year (2008: 25%) under the income tax rules and regulations in the PRC.

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") are subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2008 and 2009 and the year ending 31 December 2010, as they were granted the High and New Technology Enterprises ("HNTEs") qualification by the relevant government authority on 25 December 2008, 29 December 2008 and 25 December 2008, respectively.

In addition, Wuxi Turbine Blade was granted the HNTEs qualification by the relevant government authority on 27 May 2009 and accordingly is subject to a preferential corporate income tax rate of 15% for the year ended 31 December 2009 and the years ending 31 December 2010 and 2011.

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.

	2009 RMB'000	2008 RMB'000 (Restated)
Group:		
Current – the PRC		
Charge for the year	18,759	56,836
(Overprovision)/underprovision in prior periods	(16,382)	1,735
Deferred (note 21)	4,015	6,628
Total tax charge for the year	6,392	65,199

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:

	2009 RMB'000	2008 RMB'000 (Restated)
Profit before tax	157,967	308,225
Tax at the statutory tax rate of 25% (2008: 25%)	39,492	77,056
Preferential tax rate for certain subsidiaries	(13,014)	(9,790)
Effect of tax rate change:		
On opening deferred tax	1,147	10,203
Adjustments in respect of current tax of previous period	(16,382)	1,735
Profits and losses attributable to associates	(1,951)	(3,445)
Income not subject to tax	(1,733)	(2,220)
Expenses not deductible for tax	529	3,881
Effect of tax incentive	(1,696)	(12,221)
Tax charge at the Group's effective rate	6,392	65,199
The Group's effective income tax rate	4.0%	21.2%

The share of tax attributable to associates amounting to RMB3,612,000 (2008: RMB3,539,000) is included in "Share of profits and losses of associates" in the consolidated statement of comprehensive income.

11. Profit attributable to owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of RMB43,401,000 (2008: RMB292,259,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. Dividends

	2009 RMB'000	2008 RMB'000
Proposed final – RMB2.80 cents (2008: RMB4.18 cents) per ordinary share	40,272	60,120

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

13. 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 2009 and 2008 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2009 RMB'000	2008 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	151,014	240,975

	Number of shares	
	2009	2008
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

14. 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 2009							
Cost:							
At 1 January 2009	166,121	1,363,676	26,768	23,500	29,777	18,383	1,628,225
Additions	-	8,830	790	1,751	160,209	202	171,782
Disposals	(350)	(25,769)	(3,322)	(1,471)	-	(269)	(31,181)
Transfers	473	17,819	274	587	(19,872)	719	-
At 31 December 2009	166,244	1,364,556	24,510	24,367	170,114	19,035	1,768,826
Accumulated depreciation and impairment:							
At 1 January 2009	41,661	537,773	15,739	13,672	408	7,209	616,462
Depreciation provided	8,633	96,540	2,457	3,221	-	2,291	113,142
Disposals	(92)	(16,432)	(2,653)	(1,233)	-	(73)	(20,483)
At 31 December 2009	50,202	617,881	15,543	15,660	408	9,427	709,121
Net book value:							
At 31 December 2009	116,042	746,675	8,967	8,707	169,706	9,608	1,059,705

	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 (Restated)							
Cost:							
At 1 January 2008	126,384	1,155,029	25,686	20,604	201,362	16,230	1,545,295
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	1,363,676	26,768	23,500	29,777	18,383	1,628,225
Accumulated depreciation and impairment:							
At 1 January 2008	34,922	455,273	13,692	11,010	426	4,267	519,590
Depreciation provided	6,831	88,221	3,215	3,069	-	2,942	104,278
Disposals	(92)	(5,721)	(1,168)	(407)	(18)	-	(7,406)
At 31 December 2008	41,661	537,773	15,739	13,672	408	7,209	616,462
Net book value:							
At 31 December 2008	124,460	825,903	11,029	9,828	29,369	11,174	1,011,763

14. Property, plant and equipment (continued)

Company

	Motor vehicles RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2009				
Cost:				
At 1 January 2009	1,607	6,336	2,872	10,815
Additions	-	1,167	43	1,210
Disposals	-	(2)	-	(2)
At 31 December 2009	1,607	7,501	2,915	12,023
Accumulated depreciation and impairment:				
At 1 January 2009	593	2,426	1,014	4,033
Depreciation provided	308	1,401	574	2,283
Disposals	-	(1)	-	(1)
At 31 December 2009	901	3,826	1,588	6,315
Net book value:				
At 31 December 2009	706	3,675	1,327	5,708

	Motor vehicles RMB'000	Office and other equipment 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

14. Property, plant and equipment (continued)

As at 31 December 2009, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB2,944,000 (2008: RMB3,404,000).

15. Prepaid land premiums/land lease payments

Group

	2009 RMB'000	2008 RMB'000
At cost:		
At beginning of year	131,583	58,693
Additions	5,624	72,890
At end of year	137,207	131,583
Accumulated amortisation:		
At beginning of year	3,440	1,258
Recognised	2,760	2,182
At end of year	6,200	3,440
Net book value:		
At end of year	131,007	128,143
Of which:		
Current portion included in prepayments, deposits and other receivables (note 25)	2,773	2,681
Non-current portion	128,234	125,462
	131,007	128,143

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

16. Goodwill

Group

	RMB'000
Cost and net carrying amount at 31 December 2008 and 31 December 2009	8,818

16. Goodwill (continued)

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 the bearing cash-generating unit for 31 December 2009 and 2008. 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 margin 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.

17. Other intangible assets

Group

	Software RMB'000
31 December 2009	
At cost:	
At 1 January 2009	7,175
Additions	542
At 31 December 2009	7,717
Accumulated amortisation:	
At 1 January 2009	2,112
Amortisation provided	1,395
At 31 December 2009	3,507
Net book value:	
At 31 December 2009	4,210

17. Other intangible assets (continued)

Group (continued)

	Software RMB'000
31 December 2008 (Restated)	
At cost:	
At 1 January 2008	3,537
Additions	3,638
At 31 December 2008	7,175
Accumulated amortisation:	
At 1 January 2008	1,231
Amortisation provided	881
At 31 December 2008	2,112
Net book value:	
At 31 December 2008	5,063

Company

	Software RMB'000
31 December 2009	
At cost:	
At 1 January 2009	2,292
Additions	542
At 31 December 2009	2,834
Accumulated amortisation:	
At 1 January 2009	98
Amortisation provided	421
At 31 December 2009	519
Net book value:	
At 31 December 2009	2,315

17. Other intangible assets (continued)

Company (continued)

	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

18. Interests in subsidiaries

Company

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	1,643,667	1,756,967
Due from a subsidiary	75,486	65,486
	1,719,153	1,822,453

The Company's other receivables, trade payables and other payables and accruals with subsidiaries are disclosed in notes 25, 28 and 30. The amount due from a subsidiary included in the interests in subsidiaries above totalling RMB75,486,000 (2008: 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.

18. 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		Principal activities
			Direct	Indirect	
Shanghai Tian An Bearing Company Limited 上海天安軸承有限公司	PRC	US$12,616	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	RMB340,910	99.80%	0.20%	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	RMB25,000	100%	-	Production and sale of bearing products

19. Investments in associates

Group

	2009 RMB'000	2008 RMB'000
Share of net assets	129,767	120,302

The Group's balances of prepayments, deposits and other receivables with its associates are disclosed in note 25 to the financial statements.

19. 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 上海摩根碳製品有限公司	PRC	US$9,928	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	EUR3,685	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:

	2009 RMB'000	2008 RMB'000
Assets	518,063	505,729
Liabilities	(157,543)	(172,074)
Revenue	498,619	761,287
Profit	28,865	45,364

Company

	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	106,806	106,806

20. Available-for-sale investments

	2009 RMB'000	2008 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.

21. Deferred tax

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

Group

Deferred tax assets

	Losses available for offset against future taxable profit	Impairment of assets RMB'000	Depreciation in excess of related depreciation allowance RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	-	21,124	423	3,715	25,262
Effect of tax rate change on opening deferred tax	-	(382)	(409)	(356)	(1,147)
Credited/(charged) to profit or loss during the year	844	(5,575)	(141)	(3)	(4,875)
At 31 December 2009	844	15,167	(127)	3,356	19,240

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 2009	829	3,676	4,505
Credited to profit or loss during the year	(170)	(1,837)	(2,007)
At 31 December 2009	659	1,839	2,498

21. Deferred tax (continued)

Group (continued)

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 profit or loss 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 (Restated)	1,337	5,515	6,852
Preferential tax rate effect credited to equity	(339)	-	(339)
Credited to profit or loss during the year (Restated)	(169)	(1,839)	(2,008)
At 31 December 2008 (Restated)	829	3,676	4,505

Company

The Company's deferred tax assets as at the end of reporting period related to accrued expenses and tax loss carry forward. The Company's deferred tax liabilities as at the end of the reporting period related to the interest income from over-subscription funds.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. Inventories

Group

	2009 RMB'000	2008 RMB'000
Raw materials	182,435	207,295
Work in progress	202,982	222,349
Finished goods	255,613	261,291
	641,030	690,935

Company

	2009 RMB'000	2008 RMB'000
Raw materials	-	2,896
Finished goods	858	1,634
	858	4,530

23. Trade receivables

Group

	2009 RMB'000	2008 RMB'000
Trade receivables	355,323	389,948
Impairment	(34,240)	(48,831)
	321,083	341,117

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.

23. Trade receivables (continued)

Group (continued)

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

	2009 RMB'000	2008 RMB'000
Within 3 months	258,402	303,008
Over 3 months but within 6 months	40,950	30,201
Over 6 months but within 1 year	19,650	7,448
Over 1 year but within 2 years	2,081	460
	321,083	341,117

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

	2009 RMB'000	2008 RMB'000
At 1 January	48,831	57,018
Impairment losses recognised	3,645	878
Impairment losses reversed	(3,273)	(3,328)
Amount written off as uncollectible	(14,963)	(5,737)
	34,240	48,831

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 before provision of RMB53,983,000 (2008: RMB55,916,000). 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.

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

	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	284,703	311,225
Less than 3 months past due	15,738	22,267
3 to 6 months past due	895	138
6 to 9 months past due	4	402
	301,340	334,032

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.

23. Trade receivables (continued)

Group (continued)

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") and associates included in the above can be analysed as follows:

	2009 RMB'000	2008 RMB'000
Due from associates	261	-
Due from the SEC group companies	4,677	2,469
	4,938	2,469

Company

	2009 RMB'000	2008 RMB'000
Within 3 months	35,404	78,031
Over 3 months but within 6 months	-	7,934
Over 1 year but within 2 years	-	25,596
Over 2 years	25,596	-
	61,000	111,561

	2009 RMB'000	2008 RMB'000
Due from the SEC group companies	2,812	-

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.

24. Bills receivable

The maturity profiles of the bills receivable are as follows:

Group

	2009 RMB'000	2008 RMB'000
Within 3 months	31,790	36,451
Over 3 months but within 6 months	105,873	49,742
Over 6 months but within 12 months	-	1,000
	137,663	87,193

Included in the above balance are bills of RMB39,836,000 (2008: RMB21,500,000) issued by the SEC group companies.

24. Bills receivable (continued)

Company

	2009 RMB'000	2008 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.

25. Prepayments, deposits and other receivables

Group

	2009 RMB'000	2008 RMB'000
Prepayments as purchase deposits	50,635	60,361
Deposits	1,718	1,253
Prepaid land premiums/land lease payments (note 15)	2,773	2,681
Value-added tax refundables and prepaid value-added tax	5,589	9,831
Other receivables	9,202	4,940
Due from the ultimate holding company	142	2,272
Due from the SEC group companies	905	569
Due from associates	-	1,079
	70,964	82,986

Company

	2009 RMB'000	2008 RMB'000
Prepayments as purchase deposits	745	2,816
Deposits	534	677
Value-added tax refundables and prepaid value-added tax	3,254	9,555
Other receivables	2,990	1,549
Due from the ultimate holding company	192	192
Due from the SEC group companies	549	569
Due from associates	-	702
Due from subsidiaries	337,862	393,924
	346,126	409,984

25. Prepayments, deposits and other receivables (continued)

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.

26. Loans receivable

The balance of RMB42,000,000 (2008: RMB42,000,000) represents entrusted loans provided by the Company to United Bearing through China Construction Bank. The loans are unsecured, bearing an interest rate of 4.78% (2008: 6.32% to 6.72%) per annum and for periods of one year beginning from 19 January 2009 and 25 September 2009 (2008: 24 January 2008 and 28 September 2008). The carrying amount of the loans approximates to its fair value.

27. Cash and cash equivalents and restricted deposits

Group

	2009 RMB'000	2008 RMB'000
Cash and bank balances	447,645	231,279
Time deposits	645,106	632,733
	1,092,751	864,012
Less: Restricted deposits	87,967	63,733
Cash and cash equivalents	1,004,784	800,279

The restricted deposits can be analysed as follows:

	2009 RMB'000	2008 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	87,967	63,733

The Group's cash and bank balances are denominated in RMB at the end of the reporting period, except for the following:

	2009		2008	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
US$	813	5,551	1,960	13,395
EUR	39	428	100	969

27. Cash and cash equivalents and restricted deposits (continued)

Group (continued)

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

	2009 RMB'000	2008 RMB'000
Cash and bank balances	776,845	713,719

As at 31 December 2009, the Company's cash and bank balances are denominated in RMB, except for an amount of RMB2,846,000 which is denominated in US$417,000 and an amount of RMB382,000 which is denominated in EUR39,000. As at 31 December 2008, all of the Company's cash and bank balances are denominated in RMB.

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.

28. Trade payables

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

Group

	2009 RMB'000	2008 RMB'000
Within 3 months	186,159	242,843
Over 3 months but within 6 months	28,130	32,007
Over 6 months but within 1 year	22,917	28,761
Over 1 year but within 2 years	51,528	3,165
Over 2 years	1,177	2,552
	289,911	309,328

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

	2009 RMB'000	2008 RMB'000
Due to the SEC group companies	3,823	2,794

28. Trade payables (continued)

Company

	2009 RMB'000	2008 RMB'000
Within 3 months	37,476	44,595

An amount due to a subsidiary of RMB32,245,000 (2008: RMB37,246,000) 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.

29. Bills payable

Group

The maturity profiles of the bills payable are as follows:

	2009 RMB'000	2008 RMB'000
Within 3 months	91,440	66,500
Over 3 months but within 6 months	59,910	59,400
	151,350	125,900

30. Other payables and accruals

Group

	2009 RMB'000	2008 RMB'000
Advance from customers	24,517	14,428
Other tax payables	18,061	25,139
Staff costs payable	24,947	27,273
Interest payable	4,743	4,743
Payables for purchases of non-trade assets	11,451	13,248
Accruals	3,560	9,110
Other payables	9,577	6,996
Due to the ultimate holding company	40	420
Due to associates	31	-
Due to the SEC group companies	7,034	7,617
	103,961	108,974

30. Other payables and accruals (continued)

Company

	2009 RMB'000	2008 RMB'000
Advance from customers	5,958	6,792
Other tax payables	529	862
Staff costs payable	2,673	3,857
Accruals	112	1,493
Other payables	26	71
Due to the SEC group companies	-	1,517
Due to subsidiaries	592,716	754,275
Due to associates	31	-
	602,045	768,867

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.

31. Interest-bearing bank and other borrowings

Group

	2009			2008		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	4.4-5.3	2010	95,000	5.0 - 6.5	2009	90,000
Non-current						
Other loans						
- unsecured	-	Not fixed	17,000	-	Not fixed	17,000
			112,000			107,000

	2009 RMB'000	2008 RMB'000
Analysed into:		
Bank loans repayable within one year or on demand	95,000	90,000
Other loans repayable beyond five years	17,000	17,000
	112,000	107,000

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.

32. Issued capital

	2009 Number of shares '000	Amount RMB'000	2008 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

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.

33. 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.

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 a 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.

33. Reserves (continued)

(a) Group (continued)

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 end of the reporting period, the Company has distributable reserves amounting to RMB241,255,000 (2008: RMB262,940,000), of which RMB40,272,000 (2008: RMB60,120,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB691,217,000 (2008: RMB691,217,000) may be distributed in the form of fully paid bonus shares.

(b) Company

	Capital reserves RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 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 dividends (note 12)	-	-	(60,120)	(60,120)
At 31 December 2008 and 1 January 2009	692,553	43,085	202,820	938,458
Profit for the year	-	-	43,401	43,401
Appropriation to surplus reserves	-	4,966	(4,966)	-
Proposed final 2009 dividends (note 12)	-	-	(40,272)	(40,272)
At 31 December 2009	692,553	48,051	200,983	941,587

The capital reserve account balance as at 31 December 2009 included the Company's share premium of RMB691,217,000 (2008: RMB691,217,000).

34. 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 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	426	383
In the second to fifth years, inclusive	-	-
Total	426	383

(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 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	19,246	21,201
In the second to fifth years, inclusive	16,408	40,861
After five years	-	4,086
Total	35,654	66,148

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2009, the Company had future minimum lease payments under non-cancellable operating leases of RMB2,129,000 (2008: RMB2,129,000).

35. Commitments

(a) The Group

In addition to the operating lease commitments detailed in note 34(a)(ii) above, the Group had the following capital commitments as at 31 December 2009:

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:		
Land and buildings	515	-
Plant and machineries	546,467	289,430
	546,982	289,430
Authorised, but not contracted for:		
Plant and machineries	299,257	589,316
Contracted, but not provided for:		
Capital contributions payable to an associate	3,715	-
Total	849,954	878,746

(b) The Company

At the end of the reporting period, the Company did not have any significant commitments (2008: Nil).

36. Contingent liabilities

(a) The Group

	2009 RMB'000	2008 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- Associates	1,000	1,000

(b) The Company

	2009 RMB'000	2008 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- A subsidiary	29,200	25,000

37. 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	2009 RMB'000	2008 RMB'000
Purchase of materials from:	(i)		
Associates		81	79
SEC group companies		2,578	2,246
		2,659	2,325
Sales of goods to:	(i)		
Associates		971	1,495
SEC group companies		238,452	212,952
		239,423	214,447
Sales of scraps and spare parts to:	(i)		
SEC group companies		-	64
Receiving of manpower services from:	(i)		
Ultimate holding company		98	-
SEC group companies		1,727	2,439
		1,825	2,439
Rendering of manpower services to:	(i)		
SEC group companies		400	2,840
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies		-	1,682
Sales of items of property, plant and equipment to:	(i)		
SEC group companies		7,717	-
Rental fee payable to:	(ii)		
Ultimate holding company		2,128	4,261
SEC group companies		15,903	16,616
		18,031	20,877

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.

37. 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 RMB3,292,000 per annum.

(c) Guarantees provided to related companies of the Group

As disclosed in note 36(a), the Group provided corporate guarantees totalling RMB1,000,000 (2008: RMB1,000,000) to related companies. The expiry date of these guarantees falls on 31 December 2010.

(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 23, 24, 25, 28 and 30 to the financial statements.

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

	2009 RMB'000	2008 RMB'000
Fees	526	540
Short-term employee benefits	1,452	2,099
Post-employment benefits	100	124
	2,078	2,763

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.

38. Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	2009			2008		
	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	-	1,072	1,072	-	1,072	1,072
Trade receivables and bills receivable	458,746	-	458,746	428,310	-	428,310
Financial assets included in prepayments, deposits and other receivables	11,611	-	11,611	10,113	-	10,113
Restricted deposits	87,967	-	87,967	63,733	-	63,733
Cash and cash equivalents	1,004,784	-	1,004,784	800,279	-	800,279
	1,563,108	1,072	1,564,180	1,302,435	1,072	1,303,507

Financial liabilities

	Financial liabilities at amortised cost	
	2009 RMB'000	2008 RMB'000
Trade payables and bills payable	441,261	435,228
Financial liabilities included in other payables and accruals	54,808	61,630
Interest-bearing bank and other borrowings	112,000	107,000
Other long-term payables	29,301	8,767
	637,370	612,625

38. Financial instruments by category (continued)

Company

Financial assets

	2009		2008	
	Loans and receivables RMB'000	Total RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables and bills receivable	61,000	61,000	148,061	148,061
Financial assets included in prepayments, deposits and other receivables	342,127	342,127	397,613	397,613
Loan receivable	42,000	42,000	42,000	42,000
Cash and cash equivalents	776,845	776,845	713,719	713,719
	1,221,972	1,221,972	1,301,393	1,301,393

Financial liabilities

	Financial liabilities at amortised cost	
	2009 RMB'000	2008 RMB'000
Trade payables	37,476	44,595
Financial liabilities included in other payables and accruals	595,536	761,187
	633,012	805,782

39. 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 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.

39. 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 31 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 end of the reporting period 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
2009		
If US$ weakens against RMB	5	(2,745)
If EUR weakens against RMB	5	(239)
If US$ strengthens against RMB	(5)	2,745
If EUR strengthens against RMB	(5)	239
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

(iii) *Credit risk*

The carrying amount of trade receivables included in the consolidated statement of financial position 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 30% of the Group's total trade receivables as at 31 December 2009.

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.

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 Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 23 and 25 to the financial statements.

39. Financial risk management objectives and policies (continued)

(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 end of the reporting period, based on the contractual undiscounted payments, were as follows:

Group

	2009					
	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	107,780	267,212	65,895	374	-	441,261
Financial liabilities included in other payables and accruals	27,179	18,453	9,050	126	-	54,808
Interest-bearing bank and other borrowings	-	24,000	71,000	-	17,000	112,000
Other long-term payables	-	-	-	29,301	-	29,301
Guarantees given to banks in connection with facilities granted to an associate	-	-	1,000	-	-	1,000
	134,959	309,665	146,945	29,801	17,000	638,370

	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
Guarantees given to banks in connection with facilities granted to an associate	-	-	1,000	-	-	1,000
	257,857	175,504	153,524	9,740	17,000	613,625

39. Financial risk management objectives and policies (continued)

Company

	2009					
	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	5,115	32,361	-	-	-	37,476
Financial liabilities included in other payables and accruals	592,186	3,350	-	-	-	595,536
	597,301	35,711	-	-	-	633,012

	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

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 the end of each reporting period.

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 for managing capital during the years ended 31 December 2009 and 2008.

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

39. Financial risk management objectives and policies (continued)

Capital management (continued)

The gearing ratios as at the end of the reporting period were as follows:

Group

	2009 RMB'000	2008 RMB'000 (Restated)
Interest-bearing bank and other borrowings	112,000	107,000
Equity attributable to owners of the Company	2,802,697	2,711,803
Gearing ratio	4.0%	3.9%

40. Events after the reporting period

a) Tian An Bearing entered into a relocation compensation agreement with Shanghai Electric Corporation on 19 March 2010 in relation to its relocation to the new factory area at 4399, Yindu Road, and pursuant to which Shanghai Electric Corporation will compensate Tian An Bearing for the losses incurred in relation to the removal, adjustments and testing, and business suspension during such relocation as well as staff resettlement fees in an aggregate amount of RMB38,770,000.

b) Pursuant to the Company's announcement dated 23 February 2010, the Company successfully bid for the acquisition of a 100% equity interest in Shanghai Zhenhua Bearing Factory Company Limited ("Zhenhua Bearing") at a total consideration of RMB78,600,000. As of the date of this report, the acquisition of Zhenhua Bearing has completed and the consideration has been fully settled.

41. Comparative amounts

As further explained in note 2.2 to the financial statements, due to the change of accounting policies and the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.

42. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 19 March 2010.

PMC 上海集优
SHANGHAI PRIME