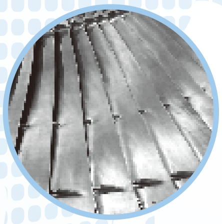
上海集优
SHANGHAI PRIME

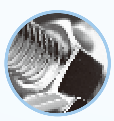


SHANGHAI PRIME MACHINERY COMPANY LIMITED

2010 Annual Report

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

(H share stock code: 02345)



CONTENTS

CORPORATE INFORMATION

Executive Directors
Zheng Yuanhu
Zhu Weiming
Hu Kang
Yu Xiufeng
(Appointed on 28 May 2010)
Zhu Xi
Xu Jianguo
(Appointed on 28 May 2010)
Ye Fucai
(Resigned on 28 May 2010)
Deng Yuntian
(Resigned on 28 May 2010)

Independent Non-Executive Directors
Chan Chun Hong (Thomas)
Liu Huangsong
Ling Hong
(Appointed on 28 May 2010)
Zhou Feida
(Resigned on 28 May 2010)

Supervisors
Xu Chao
(Appointed on 28 May 2010)
Chen Jiaming
(Resigned on 28 May 2010)
Hu Peiming
Zhang Jianping

Company Secretary
Li Wai Chung
(Certified Public Accountant)

Audit Committee
Chan Chun Hong (Thomas)
Liu Huangsong
Ling Hong

Remuneration Committee
Ling Hong
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)	2006	2007	2008	2009	2010
	(Restated)	(Restated)	(Restated)	(Restated)	
Revenue and Profit					
Revenue	2,997	3,422	3,420	2,251	2,671
Profit before tax	338	348	312	189	200
Income tax expense	(98)	(112)	(66)	(9)	(17)
Profit for the year	240	236	246	180	183
Attributable to					
Owners of the Company	233	229	244	179	181
Non-controlling interests	7	7	2	1	2
Dividends - proposed final	58	56	60	40	46
Earnings per share attributable to equity holders of the Company					
- Basic (RMB cents)	19.16	15.95	16.99	12.45	12.61
Assets and Liabilities					
Non-current assets	1,097	1,320	1,488	1,475	2,028
Current assets	2,317	2,124	2,180	2,419	2,548
Current liabilities	881	809	843	766	974
Net current assets	1,436	1,315	1,337	1,653	1,574
Total assets less current liabilities	2,533	2,635	2,825	3,128	3,602
Non-current liabilities	74	62	61	236	642
Net assets	2,459	2,573	2,764	2,892	2,960
Equity attributable to owners of the Company	2,387	2,561	2,750	2,878	2,945
Non-controlling interests	72	12	14	14	15

The financial information previously reported by the Group in 2006, 2007, 2008 and 2009 has been restated as a result of the retrospective adjustment to apply the principles of merger accounting for business combination under common control.

PERFORMANCE HIGHLIGHTS

Revenue for the year ended 31 December 2010 (the "Year") was RMB2,671 million.

Profit attributable to owners of the Company for the Year was RMB181 million.

Basic earnings per share for the Year was RMB12.61 cents. The board of directors proposed a final dividend for 2010 of RMB3.20 cents per share.

Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") have actively restructured the product lines in the turbine blade business, initially moving from conventional thermal power market to high-end markets such as nuclear power and aviation engine. The relevant sales for the Year was RMB117 million, an increase of 59% over last year.

Among the major products in the cutting tool business, both bore-machining and thread cutting tools maintained their leading positions in domestic market during the Year with sales of RMB271 million and RMB117 million, representing an increase of 36% and 40% over last year, respectively.

CORPORATE STRUCTURE

Shanghai Prime Machinery Company Limited

Turbine Blade Business

- Wuxi Turbine Blade Company Limited **100%**

Bearing Business

- Shanghai Tian An Bearing Company Limited **100%**
- Shanghai Zhenhua Bearings Factory Company Limited **100%**
- Shanghai Electric Bearings Company Limited **100%**
- Shanghai United Bearings Company Limited **90%**
- Shanghai General Bearing Company Limited **40%**

Cutting Tool Business

- Shanghai Tool Works Company Limited **100%**

Fastener Business

- Shanghai Biaowu High Tensile Fasteners Company Limited **100%**

Other Businesses

- 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"), it is pleasant to announce the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010 (the "Year"). The Group's annual results have been audited by Ernst & Young.

Business review

During the Year, the Group has recovered from the impact of the financial crisis and kept stable growth as a result of the introduction of a series of measures designed to achieve "Transformation, Restructuring and Development". During the Year, the Group increased steadily in every economic indicator. The Group has strengthened its efforts in the significant technologic renovation projects, including project of producing large turbine blade and aviation forging of the turbine blade business and project of producing extra large bearing for wind power generator of the bearing business. Meanwhile, the Group has made breakthrough in producer services which focus on the distribution of fasteners. The Group has also made outstanding achievement in lean production management aiming at manufacturing reduction cost, and thus has further enhanced the profitability of the Group.

The Group recorded turnover of RMB2,671 million (2009: RMB2,251 million) in 2010, representing an increase of 19% over last year. Profit attributable to owners of the Company was RMB181 million (2009: RMB179 million), representing an increase of 1% over last year. Earnings per share was RMB12.61 cents (2009: RMB12.45 cents). The board of directors proposed a final dividend for 2010 of RMB3.20 cents per share.

As at 31 December 2010, total assets of the Group amounted to RMB4,576 million (31 December 2009: RMB3,894 million), while total liabilities amounted to RMB1,616 million (31 December 2009: RMB1,002 million). Total equity of the Group was RMB2,960 million (31 December 2009: RMB2,892 million), of which RMB 2,945 million (31 December 2009: RMB2,878 million) was attributable to owners of the Company.

Prospect

Looking ahead, the Group is in the phase of another five-year development. The Group will continue to face challenges caused by domestic and overseas economic situations. Meanwhile, the Group will be under significant pressure as implementation of its own restructuring. The Group considers that the following risk factors will exert significant influence on its operation.

First, significant uncertainty remains as to the outlook for the recovery of the world economy and it is hard to predict the impact of such uncertainty. The world economy still faces the risk of "a double dip". In particular, the export and trade of China faces significant uncertainty due to the impact of European debt crisis and the fluctuation of Renminbi's exchange rate. Second, it is hard to predict the impact on enterprises of inflationary pressure resulted from the upward trend in the cost of product materials and labor. Third, the target of low carbon economic development and the demand for change in energy structure in China require the adjustment of product mix of enterprises. The "Twelfth Five Year Plan" for the machinery industry of China will further the development of emerging industries such as new energy industry and new materials industry. The industry adjustment and reform is imminent. Fourth, the demand of "Transformation and Development driven by Innovation, Transformations" during the "Twelfth Five Year Plan" Period for Shanghai municipality will directly procure the economic reform of enterprises in Shanghai. In its "Twelfth Five Year Plan", Shanghai Municipal Government mentioned explicitly the achievement of "Six Transformations", namely, function transformation, industry transformation, society transformation, system transformation, growth power transformation and space structure transformation. All of them will directly link to a new round of development of enterprises.

Given the current macroeconomic environment and the government policy direction, the Group will implement the development strategy of "Transformation and Upgrade, Creating the future in a smart way" in 2011. The Group will focus on the following areas to enhance its all -round capacities. The Group will be committed to achieve the transformation of its development mode and the development of industrial economy. It is also the target of the Group to become a technologically-advanced and service-oriented manufacturer of key components and parts.

Promote industry transformation and enhance the development capacity of producer services. With the aim of "Integrated Development of the Manufacturing Industry and the Service Industry", the Group will further promote industry structure transformation to achieve greater development of producer services. Based on automatic stock management for fastener logistics base, the Group will further enhance the level of logistics services. The Group will improve the function of "mechanical e-business" system as a commercial platform to increase the number of clients, to expand the wholesale delivery capacity, range of application and support services, and to effectively enhance the efficiency of order handling. The Group will strengthen its efforts to upgrade and optimize product, customer and market structure, with a view to achieve delivery to large manufacturers and of key components and parts and to balance the proportions of overseas and domestic sales. Through the enhancement of the cooperation mechanism of enterprises, colleges and research institutes, the Group will allocate more resources on the research of supply chain management, producer services system and related service products to support the sustainable development of the Group's producer services.

Accelerate product upgrade and increase the ability to compete. The Group will continue to implement innovation and product structure adjustment with "product upgrade" as the core, so as to establish and build the strength of high-end product business by optimizing product structure. The turbine blade business will carry out the next round of industrialization of new and high technology associated with turbine blade by establishing a national turbine blade research and development center. It will

CHAIRMAN'S STATEMENT

also build two specialization manufacturing strengths, being turbine blade manufacturing and forging manufacturing, on the basis of existing manufacturing scale of turbine blade, constituting a multiple development towards nuclear power station business, oversea business and aviation business. The bearing business will expand to high-end technology areas such as wind power, aviation, construction machinery and high precision instruments on the basis of resource consolidation. The cutting tool business will improve its application design capability in respect of the overall optimization of numerically controlled cutting tool after the establishment of the national cutting tool laboratory. The Group will also transform its cutting tool manufacturing capability from service-oriented model to vertically integrated business offering hard metal materials, numerically controlled cutting tools and arbors. For fastener business, the Group will adjust certain outdated manufacturing capabilities according to existing manufacturing service structure, so as to transfer from high energy consumption, low-end manufacturing to low-carbon, high-end product manufacturing.

Advance informationization construction and enhance core competence. The Group will carry out the next round of informationization construction and ensure its core competence could meet the "Three Demands", namely "Standardization", "Control", and "Intellectualization". In particular, the Group will improve the planning on informationization development and gradually build up the competitive strength of service-oriented manufacturing business model supported by intellectualization and informationization. The Group will also accelerate the construction of information database. The Group will establish the basic framework of information database management and provide intelligent decision-making support for manufacturing service with core database, ensuring the non-replicability of our new business model. In addition, the Group will further advance the construction of information platform. Based on "mechanical e-business" system, the Group will use the existing fastener business supply chain as a breakthrough point, and then expand to bearing and tools businesses, so as to lay down a solid foundation for the construction of a national famous online company service platform of machinery parts and components.

Promote delicacy management and improve the controlling ability of the Group. The Group will further improve the decision-making controlling ability of entire company from the angle of corporate strategic management. The Group will continue to promote delicacy management and enhance overall management by establishing a risk management system with process control as the basis, an investment management system with investment efficiency as the driver, a lean manufacturing system with targeted cost control as the core and a salary motivation system with market orientation as the foundation.

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
25 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2010 (the "Year"), turnover of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") amounted to RMB2,671 million (2009: RMB2,251million), representing an increase of 19% over last year. Profit attributable to owners of the Company was RMB181 million in 2010 (2009: RMB179 million), representing an increase of 1% over last year. Basic earnings per share was RMB12.61cents (2009: RMB12.45 cents).

As at 31 December 2010, total assets of the Group amounted to RMB4,576 million (31 December 2009: RMB3,894 million) while total liabilities amounted to RMB1,616 million (31 December 2009: RMB1,002 million). Total equity of the Group was RMB2,960 million (31 December 2009: RMB2,892 million), of which RMB2,945 million (31 December 2009: RMB2,878 million) was attributable to owners of the Company.

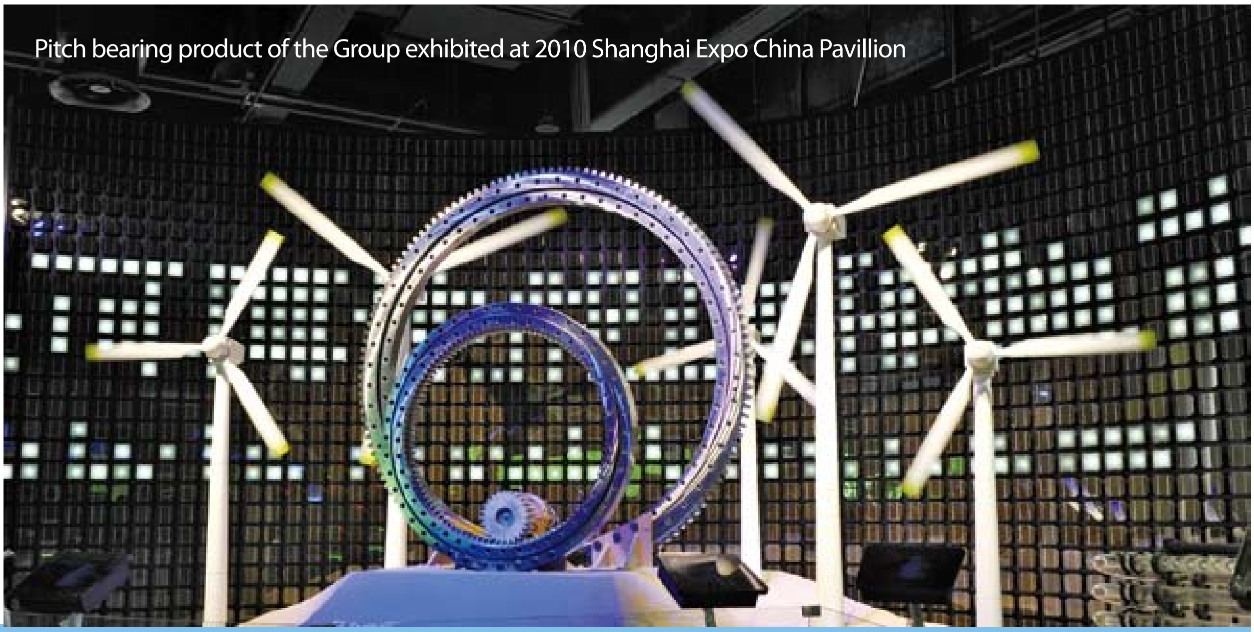
Operation analysis

Progressive development of key projects

During the Year, all key projects in our plans are developing progressively. As for the turbine blade business, the construction and installation work in the production center of the large turbine blade and aviation forging project with a total investment of approximately RMB1 billion is basically completed. Expected to start production next year, the center has a capacity of 550,000 turbine blades per annum. As for the bearing business, the production line of extra large bearings for wind power generator is completed in the Year. After the completion of the project, the Group is expected to reach the top-ranking in domestic market and the leading position in international market in terms of design and manufacture. The products are widely designed for wind power generator ranging from 0.85 MW and 3.6 MW. During the Year, the Group's bearing products designed for wind power generator are supplied to a number of renowned domestic enterprises.

Remarkable achievements in producer services

Based on the "mechanical e-business" system and other e-commerce platforms, the Group has complemented its logistic and distribution services, boosting the transformation of its corporate structure. The fastener business of the Group has signed comprehensive cooperation agreements with over 30 famous enterprises such as Shanghai Electric (Group)


Pitch bearing product of the Group exhibited at 2010 Shanghai Expo China Pavillion

MANAGEMENT DISCUSSION AND ANALYSIS

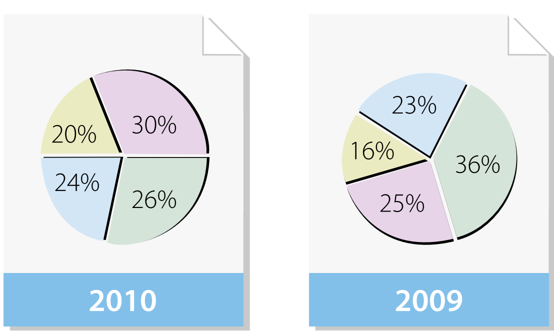
Corporation ("Shanghai Electric Corporation") during the Year. Furthermore, producer services has accelerated the expanding of its target market towards the Yangtze River Delta region, and products have expanded to bearing business and cutting tool business.

Actively promoting lean production management

During the Year, in accordance wth the requirement of "reduce costs through lean production", the Group has effectively reduced the average procurement costs through information technology such as internet procurement platform of ERP. Based on a comprehensive survey and research on its corporate partners during the Year, the Group has mapped out detailed lean production plans and implemented such plans gradually, reducing logistic costs significantly, cutting operating costs and generally raising gross profit margin of major products apart from the slight decrease in gross profit margin of the fastener business in current year because of the reversal of the inventory provision in 2009. Meanwhile, the improved product quality has lead to better customer satisfaction which significantly improved our corporate image.

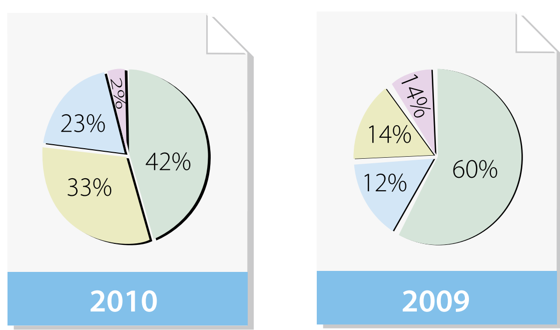
Set out below are the revenue and segment results of each business segment:

	Revenue		Segment Results	
RMB (million)	2010	2009	2010	2009
Turbine blade	700	803	82	103
Percentage of total	26%	36%	42%	60%
Bearing	649	507	44	22
Percentage of total	24%	23%	23%	12%
Cutting tool	517	370	65	23
Percentage of total	20%	16%	33%	14%
Fastener	805	571	4	23
Percentage of total	30%	25%	2%	14%
Total	2,671	2,251	195	171



Revenue

- Turbine blade
- Bearing
- Cutting tool
- Fastener



Segment Results

- Turbine blade
- Bearing
- Cutting tool
- Fastener

Turbine blade business

The Group is a leading manufacturer of turbine blade for domestic power generators and is primarily engaged in the manufacturing of large turbine blades and precision turbine blades, which require higher level of technical sophistication. In the year of 2010, the Group has actively restructured the product lines of turbine blade business, initially moving from conventional thermal power market to high-end markets such as nuclear power and aviation engine. The relevant sales for the Year was RMB117 million.

Turbine Blade

The relocation of the turbine blade business is under progress. As at the date of this report, the relocation of the turbine blade business is entirely completed. After its relocation to a new site occupying about 226,000 square meters, the Group will own the largest research and manufacturing center for large turbine blade and aviation forging in China. The Group has started on-site installation of our newly purchased key equipments, among which an internationally advanced press machine with a capability of 35,500 ton is now under configuration. With the state special fund for building a national level R&D and test center for large turbine blades, the maximum length of the turbine blade products increase from 1,448 mm to 1,900 mm, and the production capacity of the turbine blade business will expand to approximately 550,000 turbine blades per annum. By that time, the Group will become a world-class enterprise in specialized turbine blades.

In year 2010, the turnover of the turbine blade business was RMB700 million (2009: RMB803 million), decreased by 13% over last year. The segment results amounted to RMB82 million (2009: RMB103 million), representing a decrease of 20% as compared with last year. Gross profit margin was 26% (2009: 25%). In 2010, export sales amounted to RMB182 million (2009: RMB197 million), down 8% as compared with last year, while export sales represented 26% (2009: 25%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Bearing business

The Group is a professional production base that manufactures and sells varieties of bearing products. Besides, the Group is one of the bearing and related repairing and maintenance service suppliers designated by the Ministry of Railway. In 2010, the Group successfully acquired Shanghai Zhenhua Bearings Factory Company Limited. Leveraging on the successful acquisition, the Group has consolidated its resources on bearing business, which would help open the new vehicle bearing market and has provided an opportunity to establish the vehicle bearing production base. During the Year, the development of the vehicle bearing business achieved major breakthrough with sales of RMB179 million (2009: RMB153 million), representing an increase of 17% as compared with last year. Meanwhile, the Group vigorously grew its miniature precision bearings business as it successfully developed new products such as dental drill bearing sand X-ray tube bearings used in medical equipments, resulting in further expansion in the Group's bearing product structure. Currently, the Group's bearing products cover aperture from 0.6mm to external diameter of 3,400mm, which are widely used in the segments of railway transportation, vehicles, cargo equipments, electric motors, electrical appliances, aerospace and aviation and navigation equipments.

Wind power bearing

In 2010, the Group endeavored to develop its extra large wind power bearings projects under cooperation with overseas technologists. The Group has purchased a set of internationally advanced equipment and restructured its factories. The basic research and development, testing and trial-run center for extra large wind power pitch and yaw bearings has been put in place, which set ready for the establishment of a high-tech bearings production base in China. At present, the Group has successfully developed the 3.6MW offshore wind power pitch bearing, which embodies leading technologies in the world. Spindle bearings are also in the stage of research,development and trial-running.

In year 2010, the turnover of the bearing business was RMB649 million (2009: RMB507 million), increased 28% as compared with last year. Segment results amounted to RMB44 million (2009: RMB22 million), representing an increase of 100% over last year. Gross profit margin was 24% (2009: 21%). In 2010, export sales amounted to RMB91 million (2009: RMB56 million), an increase of 63% over last year and represented 14% (2009: 11%) 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. In 2010, among the major products in the cutting tool business, both the traditional bore-machining tools and the thread cutting tools maintained their leading positions in domestic market during the Year with sales of RMB271 million and RMB117 million, representing an increase of 36% and 40% as compared with last year, respectively. During the Year, in order to meet the rapid development of numerically controlled machines and clients' high requirements for cutting efficiency, the Group has increased its input in scientific research and reformed its technologies. The Group has vigorously developed a variety of numerically controlled and complex cutting tools, which are highly efficient, precise and professional-oriented, resulting in their sales growing by 61% as compared with last year.

In year 2010, turnover of the cutting tool business was RMB517 million (2009: RMB370 million), increased 40% as compared with last year. Segment results amounted to RMB65 million (2009: RMB23 million), representing an increase of 183% over last year. Gross profit margin was 24% (2009:22%). In 2010, export sales amounted to RMB30 million (2009: RMB31 million), down 3% over last year. Export sales represented 6% (2009: 8%) of the total business sales.

Bore-machining tools,thread cutting tools and coating tools, etc

MANAGEMENT DISCUSSION AND ANALYSIS

Fastener business

With a leading position in China, the Group is mainly engaged in manufacturing the export of various standard and specialized fasteners. In 2010, in view of various challenges faced by fastener business in recent years, such as lower export due to anti-dumping, RMB appreciation and global economy slowing, the Group continued to accelerate the transformation of producer services which focus on the fasteners. In particular, the Group, with the principle of providing services to end-users under chain operation networks, has reduced its logistic cost and consolidated supply chain resources by the establishment of e-commerce platforms. With the sound development of its e-commerce platforms, the Group has attracted a large amount of customers. The domestic sales of fasteners have expanded to RMB144 million, representing a year-on-year increase of 25%. After the fully implementation of producer services mode, the Group's fastener business will be capable to provide service package for large direct customers.

In year 2010, turnover of the fastener business was RMB805 million (2009: RMB571 million), representing an increase of 41% as compared with last year. Segment results amounted to RMB4 million (2009: RMB23 million), representing a decrease of 83% over last year. Gross profit margin was 8% (2009: 10%). In 2010, export sales amounted to RMB661 million (2009: RMB456 million), up 45% over last year. Export sales represented 82% (2009: 80%) of the total business sales.

Automatic and integrated storage warehouse of Fasteners

Review of other financial position

Share of Profits of Associates

During the year 2010, the Group's share of profits of associates was RMB28 million (2009: RMB9 million).

Finance Costs

Finance costs for the year 2010 were RMB7 million (2009: RMB5 million).

Profit Attributable to Equity Holders of the Company

Profit attributable to owners of the Company was RMB181 million in 2010 (2009: RMB179 million), up 1% over last year. Basic earnings per share was RMB12.61 cents (2009: RMB12.45 cents).

Cash Flow

As at 31 December 2010, the Group's cash and bank balances were RMB1,066 million (31 December 2009: RMB1,190 million), of which RMB103 million (31 December 2009: RMB88 million) were restricted deposits, representing an increase of RMB15 million in restricted deposit from the beginning of the year. During the Year, the Group had a net cash inflow from operating activities of RMB190 million (2009: RMB263 million), a net cash outflow from investing activities of RMB287 million (2009: RMB1 million), and a net cash inflow from financing activities of RMB286 million (2009: net cash outflow of RMB103 million).

Assets and Liabilities

As at 31 December 2010, the Group had total assets of RMB4,576 million (31 December 2009: RMB3,894 million), representing an increase of RMB682 million or 18% as compared with the beginning of the Year, of which total current assets amounted to RMB2,548 million (31 December 2009: RMB2,419 million), accounting for 56% of the total assets, representing an increase of RMB129 million as compared with the beginning of the Year. Total non-current assets were RMB2,028 million (31 December 2009: RMB1,475 million), accounting for 44% of the total assets and representing an increase of RMB553 million as compared with the beginning of the Year.

As at 31 December 2010, the total liabilities of the Group were RMB1,616 million (31 December 2009: RMB1,002 million), of which total current liabilities amounted to RMB974 million (31 December 2009: RMB766 million), accounting for 60% of the total liabilities. Total non-current liabilities amounted to RMB642 million (31 December 2009: RMB236 million), accounting for 40% of total liabilities.

As at 31 December 2010, the net current assets of the Group were RMB1,574 million (31 December 2009: RMB1,653 million), representing a decrease of RMB79 million or 5% as compared with the beginning of the Year whereas current ratio decreased from 3.16 to 2.62.

Sources of Funding and Indebtedness

As at 31 December 2010, the Group had an aggregate bank and other borrowings of RMB450 million (31 December 2009: RMB112 million), representing an increase of RMB338 million or 302% as compared with the beginning of the Year. Borrowings repayable by the Group within one year were RMB120 million (31 December 2009: RMB95 million), representing an increase of RMB25 million from the beginning of the Year, whereas borrowings repayable after one year were RMB330 million (31 December 2009: RMB17 million). The Group repaid the loans due on schedule during the Year.

As at 31 December 2010, all bank and other borrowings of the Group were interest bearing at fixed rates.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

As at 31 December 2010, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 15% (31 December 2009: 4%).

Restricted Deposits

As at 31 December 2010, bank deposits of RMB103 million (2009: RMB88 million) of the Group were restricted.

Pledges of Assets

As at 31 December 2010, save as disclosed above, the Group has no other pledges of assets.

Contingent Liabilities

As at 31 December 2010, the Group had no contingent liability (2009: RMB1 million).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB685 million (2009: RMB206 million), which was principally invested in the upgrading of production technologies and equipments, and the expansion of production capacity.

Risk of Foreign Exchange

The Group uses Renminbi ("RMB") as the reporting currency. Notwithstanding a slowdown in the appreciation of RMB against USD since the beginning of year 2010, 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 2010, the Group's deposits comprised US$1.0 million, EUR1.9 million and JPY2.6 million. Save as disclosed above, the Group was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Events

On 19 March 2010, Shanghai Tian An Bearing Company Limited ("Tian An Bearing") entered into a relocation and compensation agreement with Shanghai Electric Corporation, pursuant to which Shanghai Electric Corporation will make a total compensation of approximately RMB38.77 million to Tian An Bearing for the losses incurred in relation to the removal, adjustments and testing, and work suspension resulting from the relocation of the Plant as well as staff resettlement fees.

On 28 May 2010, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") (as the purchaser) and Shanghai Heavy Machinery Plant Co., Ltd (as the vendor), a wholly-owned subsidiary of Shanghai Electric Group Company Limited ("Shanghai Electric Company"), entered into the equipment purchase and sale agreement pursuant to which Shanghai Heavy Machinery Plant Co., Ltd agreed to sell and Wuxi Turbine Blade agreed to buy the equipment for a cash consideration of approximately RMB17.7 million.

All the disclosable and connected transactions occurred in 2010 please refer to the section headed Connected transactions in Report of the Directors of this report.

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

Employees

As at 31 December 2010, the Group had 3,359 employees (2009: 3,089). 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	44	executive director and chairman
Zhu Weiming	40	executive director and vice chairman
Hu Kang	47	executive director and chief executive officer
Yu Xiufeng (Appointed on 28 May 2010)	47	executive director
Zhu Xi	46	executive director
Xu Jianguo (Appointed on 28 May 2010)	46	executive director
Ye Fucai (Resigned on 28 May 2010)	59	executive director
Deng Yuntian (Resigned on 28 May 2010)	38	executive director
Chan Chun Hong (Thomas)	47	independent non-executive director
Liu Huangsong	42	independent non-executive director
Ling Hong (Appointed on 28 May 2010)	50	independent non-executive director
Zhou Feida (Resigned on 28 May 2010)	71	independent non-executive director
Xu Chao (Appointed on 28 May 2010)	55	supervisor and chairman of the supervisory committee
Chen Jiaming (Resigned on 28 May 2010)	49	supervisor and chairman of the supervisory committee
Hu Peiming	53	supervisor
Zhang Jianping	54	supervisor
Yan Qi	45	vice president
Chen Hui	42	vice president
Huang Wennong	62	vice president
Xiao Weifeng (Appointed in 2010)	56	vice president
Xia Sicheng (Resigned in 2010)	47	vice president
Wang Pin	37	chief financial officer
Li Wai Chung	33	certified public accountant and company secretary

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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, 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. 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. Between 1998 and 2002, Mr. Zheng worked as deputy general manager and chief financial officer 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.

Zhu Weiming, aged 40, is an engineer. He was appointed as executive director and vice chairman of the Company in 2008. From 1999 to 2003, Mr. Zhu was assistant to the general manager of Shanghai Li Da Pressing Machines Company Limited as well as deputy head of the company's punching and shearing machine factory and then its vice president. From 2003 to 2007, Mr. Zhu was vice president and then director of Shanghai Ri Yong-JEA Gate Electric Co., Ltd.. Mr. Zhu graduated from Shanghai Polytechnic University in 1993 with a bachelor degree in machine design and manufacturing. He also obtained the qualification of First Class Chinese Professional Managers in 2005.

Hu Kang, aged 47, 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 Bearings Factory Company Limited, 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 with major of management. In 2001, he obtained a MBA degree from Macau University of Science and Technology.

Yu Xiufeng, aged 47, is a senior engineer at professor level. He was appointed as executive director of the Company in 2010. He has been the deputy head of the industrial development department of Shanghai Electric Group Company Limited since November 2005, and has also been the deputy head of the strategic planning department of Shanghai Electric (Group) Corporation since December 2009. He was assistant to the general manager, and the deputy general manager of Shanghai Diesel Engine Co., Ltd. from June 1999 to November 2005. He held positions such as manager of the research and development department and deputy head of Engine Research Institute of Shanghai Diesel Engine Co., Ltd. from September 1996 to June 1999. Mr. Yu obtained his bachelor and master degrees from the Academy of Vehicle Engineering of the Technical Institution of Beijing majoring in Engine in 1986 and 1989 respectively. In September 1996, he graduated from the Academy of Vehicle Engineering of the Technical Institute of Beijing with a doctor degree.

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 2000 to 2004, she was deputy head of the funding and planning department of Shanghai Electric (Group) Corporation. In 2003, she was appointed as director of Shanghai Electric (Group) Corporation Heng Lian Enterprise Development Limited. In 2004, she was head of budget department of Shanghai Electric (Group) Corporation. From 2004 to 2005, she served as deputy head of the asset and finance department of Shanghai Electric Assets Management Company Limited. Ms. Zhu is now deputy head of financial budget department of Shanghai Electric (Group) Corporation as well as head of asset and finance department of Shanghai Electric Assets Management Company Limited. She has served as supervisor of Shanghai Automation Instrumentation Co., Ltd. since May 2008. She has served as supervisor in Shanghai Electric Industry Corporation as well as Shanghai Electric International Fire Protection Equipments Co., Ltd since April 2010. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University.

Xu Jianguo, aged 46, is a senior accountant. He was appointed as executive director of the Company in 2010. He has been deputy head of the financial budget department of Shanghai Electric (Group) Corporation since December 2009. He was deputy head of the assets and finance department of Shanghai Electric Assets Management Company Limited from August 2008 to December 2009. From October 2005 to August 2008, he served as assistant to the financial manager of the first management department of Shanghai Electric Assets Management Company Limited, and chief financial officer of Shanghai Li Da Heavy Industrial Manufacturing Limited since April 2006. He also worked in Shanghai Cable Works, check department of Shanghai Electric (Group) Corporation and the assets and finance department of Shanghai Electric Assets Management Company Limited from July 1984 to September 2005. Mr. Xu graduated from the Correspondence Institute of the Party School of C.C. in 2004.

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.

Deng Yuntian, aged 38, 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 is currently chairman of the labour union of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd.. Mr. Deng graduated from Jiangsu University with a master degree.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Chan Chun Hong (Thomas), aged 47.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 chairman and managing director of China Agri-Products Exchange Limited and PNG Resources Holdings Limited (Formerly known as LeRoi Holdings Limited), and managing director of Wang On Group Limited and Wai Yuen Tong Medicine Holdings Limited, responsible for the overall corporate management and supervision of the companies. Mr. Chan graduated from Hong Kong Polytechnic University with a bachelor degree in accountancy and is a qualified accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Liu Huangsong, aged 42.He was appointed as independent non-executive director of the Company in 2005. Between 1996 to 2001, he held the position of deputy general 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. Mr. Liu is currently serving at the Shanghai Academy of Social Sciences as director, researching professor and PhD program 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, executive counselor of Shanghai association of quantitative economics and counselor of Shanghai economic society. Mr. Liu has been independent non-executive director of Shanghai Xinyu Hengdeli Holdings Limited. On 13 August 2010, Mr. Liu was appointed as independent non-executive director of Jingwei Textile Machinery Company Limited. Mr. Liu graduated from Fudan University in 1989 with a bachelor degree in science, and later obtained a master degree in science in 1992 and a doctorate degree in the school of economics of Fudan University in 2005.

Ling Hong, aged 50. He was appointed as independent non-executive director of the Company in 2010. He is the head, a professor and tutor of doctoral students at the information management and information system department of the faculty of management, Fudan University. He is also a guest professor at the Faculty of Business and Economics, The University of Hong Kong, an executive member of the council of China Information Economics Society (CIES) and a council member of the China Association for Information Systems, ISWorld (CNAIS). Mr. Ling has been a tutor at the faculty of management of Fudan University since 1984. From August 2001 to December 2001, he was a visiting scholar at the MIT Sloan School of Management in the United States. From August 1998 to February 1999, he was a deputy researcher of information systems at City University of Hong Kong. Mr. Ling obtained a bachelor degree in computer science and engineering from Tsinghua University in Beijing in 1984 and a doctoral degree in management science from Fudan University, Shanghai, in 2000.

Zhou Feida, aged 71, 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.

Supervisors

Xu Chao, aged 55, is a senior economist. He was appointed as supervisor and chairman of the supervisory committee of the Company in 2010. He has been vice president and chief financial officer of Shanghai Electric Assets Management Company Limited since May 2008. He has also served as the executive director of Shanghai Electric Industrial Corporation since August 2009. From May 1986 to May 2010, Mr. Xu worked in Shanghai Turbine Works Company Limited and held the position of chief accountant, financial director, chief financial officer and vice president, etc. Mr. Xu obtained a master degree in business administration from Sino-European International Management Institute in 2000.

Chen Jiaming, aged 49, 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 53, was appointed as supervisor of the Company in 2005. Ms. Hu was vice president and chairwoman of the labour union 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 54, 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 45, 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 in 2007.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Chen Hui, aged 42, 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.

Huang Wennong, aged 62, 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.

Xiao Weifeng, aged 56, is an engineer. He was appointed as vice president of the Company in 2010. He began his career in 1973. During the period from 1992 to 2010, he served as deputy head and head of Shanghai No.2 Machine Tool Accessory Factory, assistant to the general manager of Shanghai Tool Works, as well as vice president of Shanghai Tool Works. Mr. Xiao is currently vice president of the Company and executive director (legal representative) as well as general manager of Shanghai Tool Works. Mr. Xiao graduated from Workers University of Shanghai Machine Tool Works Ltd. majoring in machine tool design and manufacturing.

Xia Sicheng, aged 47. He 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. Mr. Xia graduated from the Central College of the Communist Party in 2002 with a bachelor degree in economics and management.

Wang Pin, aged 37, 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 the bearing subsidiaries in 2001. Mr. Wang graduated from Shanghai University in 1996.

Li Wai Chung, aged 33, 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 2010 to 31 December 2010 (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 maximizing 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 28 May 2010, Mr. Yu Xiufeng and Mr. Xu Jianguo were appointed as the executive directors of the Company, and Mr. Ling Hong was appointed as an independent non-executive director of the Company. 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 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.

As at 31 December 2010, the members of the Group's directorship was listed as below:

Executive directors:
Mr. Zheng Yuanhu (Chairman)
Mr. Zhu Weiming
Mr. Hu Kang
Mr. Yu Xiufeng
Ms. Zhu Xi
Mr. Xu Jianguo

Independent non-executive directors:
Mr. Chan Chun Hong (Thomas)
Mr. Liu Huangsong
Mr. Ling Hong

CORPORATE GOVERNANCE REPORT

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

Directors	Number of meetings	Actual attendance
Mr. Zheng Yuanhu	4	4
Mr. Zhu Weiming	4	4
Mr. Hu Kang	4	4
Mr. Yu Xiufeng	3	3
Ms. Zhu Xi	4	4
Mr. Xu Jianguo	3	3
Mr. Ye Fucai*	1	1
Mr. Deng Yuntian*	1	1
Mr. Chan Chun Hong (Thomas)#	4	4
Mr. Ling Hong#	3	3
Mr. Liu Huangsong#	4	4
Mr. Zhou Feida**#	1	1

#Independent non-executive director.
*Director who has resigned as executive director of the Company with effect from 28 May 2010.
**Director who has resigned as independent non-executive director of the Company with effect from 28 May 2010.

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. Yu Xiufeng and Mr. Xu Jianguo as the executive directors of the Company, and Mr. Ling Hong as an independent non-executive director of the Company. These nominations were approved by the annual general meeting of shareholders held on 28 May 2010.

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.

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 remuneration committee currently consists of three independent non-executive directors. It is chaired by Mr. Ling Hong and with Mr. Chan Chun Hong (Thomas) and Mr. Liu Huangsong as members. Mr. Chan Chun Hong (Thomas) and Mr. Liu Huangsong were re-elected as the independent non-executive directors of the Company at the extraordinary general meeting held on 10 October 2008, and Mr. Ling Hong was elected as the independent non-executive directors of the Company at the annual general meeting held on 28 May 2010. All of them were appointed by the Board as members of the remuneration committee after their appointments as the independent non-executive directors were approved by the general meeting.

CORPORATE GOVERNANCE REPORT

The remuneration committee convened one meeting during 2010 and the attendance of each member is summarized as follows:

Name	Number of meetings	Actual attendance
Mr. Ling Hong (Appointed on 28 May 2010)	-	-
Mr. Chan Chun Hong (Thomas)	1	1
Mr. Liu Huangsong	1	1
Mr. Zhou Feida (Resigned on 28 May 2010)	1	1

During the Year, remuneration committee reviewed and approved the proposed 2010 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. Ling Hong and Mr. Liu Huangsong. Mr. Chan Chun Hong (Thomas) and Mr. Liu Huangsong were re-elected as the independent non-executive directors of the Company at the extraordinary general meeting held on 10 October 2008, and Mr. Ling Hong was elected as the independent non-executive directors of the Company at the annual general meeting held on 28 May 2010. All of them were appointed by the Board as members of the audit committee after their appointments as the independent non-executive directors were approved by the general meeting.

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. Liu Huangsong	2	2
Mr. Ling Hong (Appointed on 28 May 2010)	1	1
Mr. Zhou Feida (Resigned on 28 May 2010)	1	1

During the two meetings, the audit committee approved the audited consolidated financial statements of 2009 and unaudited interim condensed consolidated financial statements of 2010 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:

Auditing Service	RMB2.5 million

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 2010, the directors have selected suitable accounting policies and applied them consistently; have made judgments 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 41.

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 and 3 dynamic risk assessments are conducted on each controlled subsidiary during the period, 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.

CORPORATE GOVERNANCE REPORT

In addition, with the help of selected software company, the internal control department has completed the studying, development, installment and operation of Internal control and risk management information system, as one of the major projects this year. The operation of this information system enhances the Group's overall capacity in risk management and control. During the period, the internal control department also participated the preparation of 2010 Annual Report, thus further intensified our supervision over the accuracy of the financial reports of subsidiarie. The internal control departments of all subsidiaries have conducted specific auditing projects smoothly 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 public offerings.

Through the Company's website (http://www.pmcsh.com), the investors can obtain the latest news regarding the 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 organized annual investment conferences and road shows abroad. During the Year, the involvement of the senior management allows investors to have a better understanding of the 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
25 March 2011

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 2010, 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 (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Hong Kong Listing Rules") 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 (Chapter 571 of the Laws of Hong Kong) ("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)	Others	Long position	100.00	47.18
Atlantis Investment Management Limited	H	77,000,000	(2)	Investment manager	Long position	10.14	5.35
Liu Yang	H	77,000,000	(2)	Investment manager	Long position	10.14	5.35
Templeton Asset Management Ltd.	H	76,022,000		Investment manager	Long position	10.01	5.29
Government of Singapore Investment Corporation Pte Ltd	H	54,444,052		Investment manager	Long position	7.17	3.79
Prudential Plc	H	46,176,000	(3)	Interest of controlled corporation	Long position	6.08	3.21

OTHER INFORMATION

Notes:

(1) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government was controlling the entire issued shares capital of Shanghai Electric (Group) Corporation. The long position of 678,576,184 shares as at 31 December 2010 held by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government represented the same parcel of shares in which Shanghai Electric (Group) Corporation was deemed to be interested in by virtue of the SFO.

(2) Liu Yang owned 90% of Atlantis Investment Management (Hong Kong) Limited and 40% of Atlantis Investment Management Limited respectively. The long position of 77,000,000 shares held by Atlantis Investment Management Limited in its capacity as investment manager represented the same parcel of shares in which Liu Yang and Atlantis Investment Management (Hong Kong) Limited were deemed to be interested in by virtue of the SFO.

(3) Prudential Plc was controlling the entire issued share capital of Prudential Holdings Ltd, which in turn was holding 100% interest in Prudential Corporation Holdings Ltd. Prudential Asset Management (Hong Kong) Ltd was a wholly owned subsidiary of Prudential Corporation Holdings Ltd. The long position of 46,176,000 shares as at 31 December 2010 held by Prudential Asset Management (Hong Kong) Ltd represented the same parcel of shares in which Prudential Plc, Prudential Holdings Ltd, Prudential Corporation Holdings Ltd were deemed to be interested in by virtue of the SFO.

Save as disclosed above, the Company is not aware of any other person (other than the directors, chief executives and supervisors (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2010 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 in shares and underlying shares

As at 31 December 2010, 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 (as defined in the SFO), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise required to be notified by the directors, supervisors or chief executives to the Company and 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 Hong Kong Listing Rules. As at 31 December 2010, 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 2010 (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 2010 and the financial positions of the Company and the Group at that date are set out in the financial statements on pages 42 to 114 .

The directors proposed the payment of a final dividend of RMB3.20 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 2010 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 RMB912 million of the proceeds have been applied during the period from the listing of the Company to 31 December 2010 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 RMB143 million was used for the cutting tool business for technology upgrades of manufacturing facilities of numerically controlled carbide and PCD cuttings tools;
- approximately RMB212 million was invested in bearing business, for the purposes of the acquisition of 40% interest in Shanghai United Bearings Co. Ltd., the acquisition of 100% interest in Shanghai Electric Bearings Company Limited, the extra large wind power bearing project and technology upgrading of manufacturing facilities, the heat treatment project of 30B railway bearing and the product level technology innovation project of miniature bearing;
- approximately RMB195 million was used for the fastener business for upgrades of logistic system and facilities and improvement of productivity;
- approximately RMB6 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 2010, the remaining net proceeds of RMB409 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 non-controlling interests of the Group for the last five financial years, as extracted from the audited

REPORT OF THE DIRECTORS

financial statements, is set out on page 3 of the annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 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 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 2010, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB315 million, of which RMB46 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 less than 30% of the total sales for the Year. 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. Yu Xiufeng, Ms. Zhu Xi, Mr. Xu Jianguo as executive directors and Mr. Chan Chun Hong (Thomas), Mr. Ling Hong, Mr. Liu Huangsong as independent non-executive directors. On 28 May 2010, Mr. Ye Fucai and Mr. Deng Yuntian resigned as executive directors of the Company, and Mr. Zhou Feida resigned as independent non-executive director of the Company. On the same date, Mr. Yu Xiufeng and Mr. Xu Jianguo were appointed as executive directors of the Company, and Mr. Ling Hong was appointed as independent non-executive director of the Company.

The independent non-executive directors are appointed for a period of three years.

The Company has received annual confirmations of independence from Mr. Chan Chun Hong (Thomas), Mr. Ling Hong 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 pages17 to 22 of this report.

Directors' service contracts

Mr. Yu Xiufeng, Mr. Xu Jianguo and Mr. Ling Hong, directors of the Company have entered into service contracts with the Company respectively on 28 May 2010. 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 annual 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 2010, 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.

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.

REPORT OF THE DIRECTORS

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

At 31 December 2010, 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 of substantial shareholder	Class of shares	Number of shares	Notes	Capacity	Percentage of total number of shares in issue (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	47.18
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Others	47.18
Atlantis Investment Management Limited	H	77,000,000	(2)	Investment manager	5.35
Liu Yang	H	77,000,000	(2)	Investment manager	5.35
Templeton Asset Management Ltd.	H	76,022,000		Investment manager	5.29

Notes:

(1) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government was controlling the entire issued shares capital of Shanghai Electric Corporation. The long position of 678,576,184 shares as at 31 December 2010 held by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government represented the same parcel of shares in which Shanghai Electric Corporation was deemed to be interested in by virtue of the SFO.

(2) Liu Yang owned 90% of Atlantis Investment Management (Hong Kong) Limited and 40% of Atlantis Investment Management Limited respectively. The long position of 77,000,000 shares held by Atlantis Investment Management Limited in its capacity as investment manager represented the same parcel of shares in which Liu Yang and Atlantis Investment Management (Hong Kong) Limited were deemed to be interested in by virtue of the SFO.

Save as disclosed above, as at 31 December 2010, 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

On 19 March 2010, Shanghai Tian An Bearing Company Limited ("Tian An Bearing") entered into a relocation and compensation agreement with Shanghai Electric Corporation, pursuant to which Shanghai Electric Corporation will make a total compensation of approximately RMB38.77 million to Tian An Bearing for the losses incurred in relation to the removal, adjustments and testing, and work suspension resulting from the relocation of the Plant as well as staff resettlement fees.

On 28 May 2010, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") (as the purchaser) and Shanghai Heavy Machinery Plant Co., Ltd (as the vendor), a wholly-owned subsidiary of Shanghai Electric Group Company Limited ("Shanghai Electric Company"), entered into the equipment purchase and sale agreement pursuant to which Shanghai Heavy Machinery Plant Co., Ltd agreed to sell and Wuxi Turbine Blade agreed to buy the equipment for a cash consideration of approximately RMB17.7 million.

On 22 October 2010, Shanghai Electric Bearings Co., Ltd ("Electric Bearings") which is a wholly-owned subsidiary of the Company and Shanghai Electric International Economic & Trading Co., Ltd, a wholly-owned subsidiary of Shanghai Electric Company entered into a equipment purchase and sale agreement pursuant to which Electric Bearings agreed to buy and Shanghai Electric International Economic & Trading Co., Ltd agreed to sell the equipment for a consideration of approximately RMB5 million.

Continuing connected transactions

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 Shanghai Electric Corporation (either by itself or through its subsidiaries, excluding the Group and Shanghai Electric Company and its subsidiaries). Shanghai Electric Company and its subsidiaries are collectively referred to as "Shanghai Electric Companies".

Pursuant to the framework processing agreement, the Group will provide the raw materials for certain fasteners and other products to Shanghai Electric Corporation and its subsidiaries, excluding the Group and Shanghai Electric Companies (collectively referred to as "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 three years up to the financial year ending 31 December 2011. The term of the framework processing agreement is three years, 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 initial 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 2010.

Wuxi Land Lease Agreement

On 31 March 2006, 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

REPORT OF THE DIRECTORS

agreement and is to be reviewed every three years, taking into account market conditions and should not be higher than the rent applicable to a third party tenant. The rental payment term is also the same as the lease between the Wuxi government and Shanghai Electric Corporation.

In 2006, Wuxi Turbine Blade obtained an approval from the Wuxi government for a waiver of the rental for three years starting from November 2005 and a 50% reduction in the rental for two years thereafter (the "Waiver"). Shanghai Electric Corporation has agreed on the Waiver and accordingly, Wuxi Turbine Blade was not required to pay rental payment to Shanghai Electric Corporation during the waiver periods. Due to the relocation of the factory of Wuxi Turbine Blade, there was no rental payable to Shanghai Electric Corporation for the year ended 31 December 2010.

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

The relevant annual caps, representing the maximum aggregate rental payable as agreed between the parties, for the years of 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 agrees to lease (either by itself or through 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 three years for the said properties under the framework property lease agreement upon the agreement by both parties on the new rental charges. The adjusted rental will apply from 1 January 2009 until 31 December 2011, and thereafter the Company will renegotiate with Shanghai Electric Corporation for the new rental charges.

The relevant annual caps, representing the maximum aggregate rental payable as agreed between the parties, for the years of 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 2010 was RMB18.0 million.

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, cutting tools fasteners, 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 three years up to the financial year ending 31 December 2011. The framework sales agreement is renewable at the option of the Company for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party can terminate the framework sales agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate sales amount as agreed between the parties, for the years of 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 2010 amounted to RMB0.2 million.

Framework Purchase Agreement with Shanghai Electric Corporation

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

The prices of raw materials and components supplied under the framework purchase agreement shall be:

- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not exceeding market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred 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 three years up to the financial year ending 31 December 2011. The framework purchase agreement is renewable at the option of the Company for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate purchase amout 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 2010 amounted to RMB2.2 million.

Framework Sales Agreement with Shanghai Electric Company

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

REPORT OF THE DIRECTORS

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 three years up to the financial year ending 31 December 2011. The framework sales agreement is renewable at the option of either party for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party may terminate the framework sales agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate sales amount as agreed between the parties, for the years of 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 2010 amounted to RMB222.8 million.

Framework Purchase Agreement with Shanghai Electric Company

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

The prices of raw materials and components supplied under the framework purchase agreement shall be:

- such prices as may be stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC government (if any); and if there are no such pricing guidelines or recommendations,
- prices not exceeding market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred 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 2010.

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 Shanghai Electric Companies incurred for the year ended 31 December 2010.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions set out above and in note 38 to the financial statements and have confirmed that these continuing connected transactions were entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- 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.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

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

Subsequent to the end of the reporting period, the Group does not has any significant subsequent events.

Independent auditors

Ernst & Young will retire according to the Company's Articles of Association and a resolution for their reappointment as the independent auditor 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
25 March 2011

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 Hong Kong 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 four Board meetings, conducting on-the-spot inspections and convening meetings of the supervisory committee. The members of the supervisory committee has made use of their business expertise in their due performance of the duties of the supervisory committee.

With respect to annual progress of the Company in 2010, 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, annual report and 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 2010, all continuing connected transaction have not exceed the exempted annual cap.

- The supervisory committee has supervised duty fulfilment 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 2011, 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
Chairman of the Supervisory Committee
Xu Chao
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
25 March 2011

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 consolidated financial statements of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 114, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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

25 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
REVENUE	5	**2,670,633**	2,250,504
Cost of sales		**(2,138,987)**	(1,801,498)
Gross profit		**531,646**	449,006
Other income and gains	5	**143,827**	97,253
Selling and distribution costs		**(99,213)**	(78,250)
Administrative expenses		**(242,939)**	(188,701)
Other expenses		**(154,129)**	(94,390)
Finance costs	7	**(6,743)**	(5,056)
Share of profits and losses of associates		**27,597**	9,182
PROFIT BEFORE TAX	6	**200,046**	189,044
Income tax expense	10	**(16,571)**	(9,440)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**183,475**	179,604
Profit and total comprehensive income attributable to:			
Owners of the Company	11	**181,381**	179,043
Non-controlling interests		**2,094**	561
		183,475	179,604
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	13	**12.61**	12.45

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	2010 RMB'000	2009 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,223,501**	1,078,381
Prepaid land premiums/land lease payments	15	**125,429**	128,234
Goodwill	16	**8,818**	8,818
Other intangible assets	17	**7,011**	6,460
Investments in associates	19	**145,696**	129,767
Available-for-sale investments	20	**872**	1,072
Long-term prepayments		**495,595**	103,386
Deferred tax assets	21	**21,564**	19,240
Total non-current assets		**2,028,486**	1,475,358
CURRENT ASSETS			
Inventories	22	**842,292**	663,866
Trade receivables	23	**384,276**	346,838
Bills receivable	24	**99,255**	141,604
Prepayments, deposits and other receivables	25	**155,658**	76,644
Restricted deposits	27	**102,899**	87,967
Cash and cash equivalents	27	**963,448**	1,101,961
Total current assets		**2,547,828**	2,418,880
CURRENT LIABILITIES			
Trade payables	28	**440,121**	316,862
Bills payable	29	**239,380**	151,350
Tax payable		**46,569**	43,297
Other payables and accruals	30	**127,862**	159,532
Interest-bearing bank and other borrowings	31	**120,200**	95,200
Total current liabilities		**974,132**	766,241
NET CURRENT ASSETS		**1,573,696**	1,652,639
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,602,182**	3,127,997

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,602,182	3,127,997
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	330,000	17,000
Government grants		296,717	172,927
Other long-term payables		13,901	41,861
Deferred tax liabilities	21	1,500	3,679
Total non-current liabilities		642,118	235,467
Net assets		2,960,064	2,892,530
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	1,438,286	1,438,286
Reserves	33(a)	1,460,607	1,399,522
Proposed final dividend	12	46,025	40,272
		2,944,918	2,878,080
Non-controlling interests		15,146	14,450
Total equity		2,960,064	2,892,530

Zheng Yuanhu	Hu Kang
Director	Director

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 dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
1 January 2009										
As previously reported		1,438,286	702,945	(58,090)	116,518	452,024	60,120	2,711,803	13,889	2,725,692
Acquisition of Zhenhua Bearing #		-	-	27,554	38	10,579	-	38,171	-	38,171
As restated		1,438,286	702,945	(30,536)	116,556	462,603	60,120	2,749,974	13,889	2,763,863
Total comprehensive income for the year		-	-	-	-	179,043	-	179,043	561	179,604
Appropriation to surplus reserves		-	-	-	24,092	(24,092)	-	-	-	-
Final 2008 dividend declared		-	-	-	-	-	(60,120)	(60,120)	-	(60,120)
Others-Zhenhua Bearing corporate reform #	34	-	-	47,349	(38)	(38,128)	-	9,183	-	9,183
Proposed final 2009 dividend	12	-	-	-	-	(40,272)	40,272	-	-	-
At 31 December 2009, as restated		1,438,286	702,945*	16,813*	140,610*	539,154*	40,272	2,878,080	14,450	2,892,530
1 January 2010										
As previously reported		1,438,286	702,945	(58,090)	140,610	538,674	40,272	2,802,697	14,450	2,817,147
Acquisition of Zhenhua Bearing #	34	-	-	74,903	-	480	-	75,383	-	75,383
As restated		1,438,286	702,945	16,813	140,610	539,154	40,272	2,878,080	14,450	2,892,530
Total comprehensive income for the year		-	-	-	-	181,381	-	181,381	2,094	183,475
Appropriation to surplus reserves		-	-	-	35,802	(35,802)	-	-	-	-
Final 2009 dividend declared		-	-	-	-	-	(40,272)	(40,272)	-	(40,272)
Purchase of a non -controlling interest		-	-	(6)	-	-	-	(6)	(1,398)	(1,404)
Disposal of an associate		-	-	1,898	-	-	-	1,898	-	1,898
Proposed final 2010 dividend	12	-	-	-	-	(46,025)	46,025	-	-	-
Acquisition of Zhenhua Bearing #	34	-	-	(76,163)	-	-	-	(76,163)	-	(76,163)
At 31 December 2010		1,438,286	702,945*	(57,458)*	176,412*	638,708*	46,025	2,944,918	15,146	2,960,064

* These reserve accounts comprise the consolidated reserves of RMB1,460,607,000 (2009: RMB1,399,522,000) in the consolidated statement of financial position.

Zhenhua Bearing refers to Shanghai Zhenhua Bearings Factory Company Limited. Details are set out in note 34 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		200,046	189,044
Adjustments for:			
Finance costs	7	6,743	5,056
Share of profits and losses of associates		(27,597)	(9,182)
Interest income from loans receivable, bank balances and deposits and other financial assets	5	(14,221)	(17,982)
Dividend income from available-for-sale investments	5	(105)	(23)
Depreciation	6	107,157	115,979
Recognition of prepaid land premiums/land lease payments	6	2,783	2,760
Amortisation of other intangible assets	17	1,994	1,645
Foreign exchange differences, net	6	8,475	1,070
Gain on disposal of items of property, plant and equipment, net	5	(1,113)	(3,255)
Gain on write-back of long-aged payables	5	(5,290)	(5,081)
Gain on disposal of an associate	5	(4,089)	(21,804)
Impairment of receivables	6	1,579	115
Impairment of property, plant and equipment	6	4,055	-
Write-down/(reversal of write-down) of inventories to net realisable value	6	12,279	(13,379)
		292,696	244,963
(Increase)/decrease in inventories		(190,705)	66,593
Increase in trade receivables, bills receivable, prepayments, deposits and other receivables		(84,191)	(14,455)
Increase/(decrease) in trade payables, bills payable, other payables and accruals		189,249	(41,079)
(Decrease)/increase in other long-term payables		(22,960)	28,251
Increase in government grants		23,475	7,726
Cash generated from operations		207,564	291,999
Taxes paid		(17,802)	(29,140)
Net cash flows from operating activities		189,762	262,859

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		15,365	16,897
Dividend income from available-for-sale investments	5	105	23
Dividends received from associates		900	1,302
Purchases of items of property, plant and equipment		(681,856)	(168,295)
Proceeds from disposal of items of property, plant and equipment		35,235	51,481
Prepaid land premiums/land lease payments		-	(5,624)
Additions to other intangible assets		(2,545)	(338)
Receipt of government grants		95,315	147,147
Disposal of an associate		20,504	141,917
Acquisition of a subsidiary	34	(76,163)	-
Acquisition of equity interest in an associate		(3,749)	(77,636)
Acquisition of non-controlling interests		(1,404)	-
Disposal of available-for-sale investments		200	-
Increase in restricted deposits		(14,932)	(24,234)
Decrease/(increase) in non-restricted deposits with original maturity of over three months when acquired		325,960	(84,039)
Net cash flows used in investing activities		(287,065)	(1,399)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		655,000	100,000
Repayment of bank and other borrowings		(316,500)	(138,000)
Dividends paid		(40,272)	(60,328)
Interest paid		(12,368)	(5,056)
Net cash flows from/(used in) financing activities		285,860	(103,384)
NET INCREASE IN CASH AND CASH EQUIVALENTS		188,557	158,076
Cash and cash equivalents at beginning of year		724,922	566,870
Effect of foreign exchange rate changes, net		(1,110)	(24)
CASH AND CASH EQUIVALENTS AT END OF YEAR		912,369	724,922
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	457,151	544,823
Non-restricted time deposits with original maturity of less than three months when acquired		455,218	180,099
Cash and cash equivalents as stated in the statement of cash flows		912,369	724,922

STATEMENT OF FINANCIAL POSITION

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	3,387	5,708
Other intangible assets	17	3,626	2,315
Interests in subsidiaries	18	1,824,044	1,719,153
Investments in associates	19	94,008	106,806
Deferred tax assets	21	1,068	694
Total non-current assets		1,926,133	1,834,676
CURRENT ASSETS			
Inventories	22	-	858
Trade receivables	23	58,062	61,000
Bills receivable	24	100	-
Prepayments, deposits and other receivables	25	353,283	346,126
Loans receivable	26	142,000	42,000
Cash and cash equivalents	27	531,739	776,845
Total current assets		1,085,184	1,226,829
CURRENT LIABILITIES			
Trade payables	28	10,505	37,476
Tax payable		(105)	-
Other payables and accruals	30	391,361	602,045
Interest-bearing bank and other borrowings	31	100,000	-
Total current liabilities		501,761	639,521
NET CURRENT ASSETS		583,423	587,308
TOTAL ASSETS LESS CURRENT LIABILITIES		2,509,556	2,421,984
NON-CURRENT LIABILITIES			
Government grants		1,260	-
Deferred tax liabilities	21	-	1,839
Total non-current liabilities		1,260	1,839
Net assets		2,508,296	2,420,145
EQUITY			
Issued capital	32	1,438,286	1,438,286
Reserves	33(b)	1,023,985	941,587
Proposed final dividend	12	46,025	40,272
Total equity		2,508,296	2,420,145

Zheng Yuanhu
Director

Hu Kang
Director

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 services, 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 (the "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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, or the beginning of the earliest financial period presented (for business combination under common control), and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *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 a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation *4 Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited 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 changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows:* Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.
- HKAS 17 *Leases:* Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

The Group has reassessed its leases, previously classified as operating leases, upon the adoption of the amendments. The classification of leases remained as operating leases.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards –Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes–Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[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 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.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO

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

liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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

Business combination and goodwill

Business combination under common control

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA to account for the purchase of the equity interests in the acquired subsidiary under common control (the "Acquired Subsidiary"), as if the acquisitions had occurred and the Acquired Subsidiary had been combined from 1 January 2009, the beginning of the earliest financial period presented.

The net assets of the Group and the Acquired Subsidiary 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 Subsidiary's identifiable assets, liabilities and contingent liabilities over the 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 Subsidiary from 1 January 2009, 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 Subsidiary had been combined at the beginning of the previous reporting period or when it 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.

Business combination not under common control from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combination not under common control from 1 January 2010 (continued)

recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

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

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

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

Where goodwill 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.

Business combinations not under common control prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

Related parties

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

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

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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 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 3 to 5 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Patents and licences

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

Research and development costs

All research costs are charged to the income statement as incurred.

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to 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 the income statement on the straight-line basis over the lease terms.

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

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 investments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 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 income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement in other 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 income statement 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. 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.

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 the income statement.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 and all collateral has been realised or has been transferred to the Group.

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

Assets carried at cost

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

Available-for-sale financial investments

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 the income statement, is removed from other comprehensive income and recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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 the income statment – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. 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 the income statement. 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 the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 income statement.

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 the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the income statement 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 a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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.

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, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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 reporting 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 the 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 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

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

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

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below;

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement 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 consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5.85% and 6.22% has been applied to the expenditure on the individual assets.

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 are maintained and these financial statements are presented in RMB, which is the functional and presentation currency of the Company and its subsidiaries.

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 the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

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 2010 was RMB8,818,000 (2009: RMB8,818,000). Further 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.

(iv) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing, the applicable tax rates, and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2010 was RMB1,340,000 (2009: RMB844,000). The amount of unrecognised tax losses at 31 December 2010 was RMB6,596,000 (2009: nil). Further details are contained in note 21 to the financial statements.

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;

4. OPERATING SEGMENT INFORMATION (continued)

(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.

Management monitors the results of the Group's 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. The adjusted profit before tax is measured consistently with the Group's profit before tax 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.

Year ended 31 December 2010	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	648,729	700,148	516,560	805,196	-	2,670,633
Other revenue	7,986	77,801	34,309	5,805	-	125,901
Total	656,715	777,949	550,869	811,001	-	2,796,534
Reconciliation:						
Elimination of intersegment sales						-
Revenue						2,796,534
Segment results	43,618	81,733	65,422	4,079	-	194,852
Reconciliation:						
Interest and dividend income and unallocated gains						17,926
Corporate and other unallocated expenses						(33,586)
Finance costs						(6,743)
Share of profits and losses of associates	7,321	-	4,628	-	15,648	27,597
Profit before tax						200,046

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets	1,038,572	2,075,632	587,560	644,770	558,118	4,904,652
Reconciliation:						
Elimination of intersegment receivables						(1,015,344)
Investments in associates	68,601	-	19,021	-	58,074	145,696
Corporate and other unallocated assets						541,310
Total assets						4,576,314
Segment liabilities	375,593	832,783	162,152	350,304	460,075	2,180,907
Reconciliation:						
Elimination of intersegment payables						(1,015,344)
Corporate and other unallocated liabilities						450,687
Total liabilities						1,616,250
Other segment information:						
Impairment losses recognised/(reversed) in profit or loss	7,605	-	10,585	(277)	-	17,913
Depreciation and amortisation	19,489	40,185	26,203	23,581	2,476	111,934
Capital expenditure	108,381	503,244	68,205	3,377	2,001	685,208*

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

Year ended 31 December 2009 (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	506,904	803,141	369,487	570,972	-	2,250,504
Other revenue	8,943	15,103	17,179	15,955	-	57,180
Total	515,847	818,244	386,666	586,927	-	2,307,684
Reconciliation:						
Elimination of intersegment sales						-
Revenue						2,307,684
Segment results	21,422	103,045	23,218	23,061	-	170,746
Reconciliation:						
Interest and dividend income and unallocated gains						40,073
Corporate and other unallocated expenses						(25,901)
Finance costs						(5,056)
Share of profits and losses of associates	(2,968)	-	1,378	-	10,772	9,182
Profit before tax						189,044

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009 (restated)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets	1,009,861	1,507,630	522,409	594,959	459,920	4,094,779
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						3,894,238
Segment liabilities	394,686	534,893	107,995	304,646	663,401	2,005,621
Reconciliation:						
Elimination of intersegment payables						(1,116,772)
Corporate and other unallocated liabilities						112,859
Total liabilities						1,001,708
Other segment information:						
Impairment losses recognised/(reversed) in profit or loss	4,859	5,045	(4,222)	(18,946)	-	(13,264)
Depreciation and amortisation	17,380	51,382	25,330	24,097	2,195	120,384
Capital expenditure	50,157	142,235	11,421	242	1,717	205,772

Geographical information

(a) Revenue from external customers

	2010			2009 (Restated)		
	PRC RMB'000	Outside PRC RMB'000	Total RMB'000	PRC RMB'000	Outside PRC RMB'000	Total RMB'000
Sales to external customers	1,706,194	964,439	2,670,633	1,510,927	739,577	2,250,504

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

(b) Non-current assets

	2010 RMB'000	2009 RMB'000
PRC	2,006,050	1,455,046

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 RMB226,827,000 (2009: RMB231,524,000) 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:

	2010 RMB'000	2009 RMB'000 (Restated)
Revenue		
Sale of goods	2,657,788	2,241,540
Rendering of services	12,845	8,964
	2,670,633	2,250,504
Other income		
Dividend income from available-for-sale investments	105	23
Interest income from loans receivable, bank balances and deposits, and other financial assets	14,221	17,982
Gross rental income	162	867
Profit on sales of raw materials, spare parts and semi-finished goods	17,827	10,382
Government grants *	95,460	27,541
Compensation income	458	349
Others	5,102	9,969
	133,335	67,113
Gains		
Gain on disposal of items of property, plant and equipment, net	1,113	3,255
Gain on disposal of an associate	4,089	21,804
Gain on write-back of long-aged payables	5,290	5,081
	10,492	30,140
	143,827	97,253

* Various government grants have been received during the years ended 31 December 2010 and 2009. 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):

	Notes	2010 RMB'000	2009 RMB'000 (Restated)
Cost of inventories sold		2,116,036	1,808,982
Cost of services provided		10,672	5,895
Depreciation	14	107,157	115,979
Amortisation of prepaid land premiums/land lease payments	15	2,783	2,760
Amortisation of other intangible assets *	17	1,994	1,645
Write-down/(reversal of write-down) of inventories to net realisable value		12,279	(13,379)
Impairment of receivables *		1,579	115
Impairment of property, plant and equipment *	14	4,055	-
Research and development costs: *			
Current year expenditure		69,071	72,774
Minimum lease payments under operating leases:			
Land and buildings		19,675	14,961
Auditors' remuneration:			
Audit services		2,500	1,980
Non-audit services		1,013	737
Employee benefit expense (including directors' and supervisors' remuneration – note 8):			
Wages and salaries		270,228	239,200
Defined contribution pension scheme (note i)		26,769	22,445
Medical benefits (note iii)		12,840	11,656
Housing fund (note iv)		11,248	10,172
Cash housing subsidies costs		760	871
		321,845	284,344
Foreign exchange differences, net		8,475	1,070

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

6. PROFIT BEFORE TAX (continued)

Notes:

(i) Defined contribution pension scheme

All of the Group's full-time employees in the PRC are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 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 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 have been fully reimbursed by Shanghai Electric Corporation. The total costs of early retirement benefits borne by Shanghai Electric Corporation since 1 September 2005 amounted to approximately RMB14 million, of which RMB1,639,000 (2009: RMB1,388,000) was related to the year ended 31 December 2010. There was no employee early retired under the plan subsequent to 1 September 2005.

(iii) Medical benefits

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

(iv) Housing fund

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2010 RMB'000	2009 RMB'000 (Restated)
Interest on bank and other loans wholly repayable within five years	13,088	5,056
Less: Interest capitalised	(6,345)	-
	6,743	5,056

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Fees	536	526	-	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	889	864	497	491
Performance related bonuses	45	66	145	31
Pension scheme contributions	56	50	55	50
Total	1,526	1,506	697	572

(a) Independent non-executive directors

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

	2010 RMB'000	2009 RMB'000
Chan Chun Hong, Thomas	209	210
Zhou Feida	78	158
Ling Hong	92	-
Liu Huangsong	157	158
	536	526

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

(b) Executive directors and supervisors

2010	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Zheng Yuanhu	-	-	-	-
Zhu Weiming	443	24	28	495
Hu Kang	446	21	28	495
Yu Xiufeng	-	-	-	-
Ye Fucai	-	-	-	-
Zhu Xi	-	-	-	-

8. DIRECTORS' AND SUPERVISORS' REMUNERATION(continued)

(b) Executive directors and supervisors(continued)

2010	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Xu Jianguo	-	-	-	-
Deng Yuntian	-	-	-	-
	889	45	56	990
Supervisors:				
Xu Chao	-	-	-	-
Chen Jiaming	-	-	-	-
Hu Peiming	153	27	27	207
Zhang Jianping	344	118	28	490
	497	145	55	697
	1,386	190	111	1,687

2009	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
Zheng Yuanhu	-	-	-	-
Liu Zhenduo	-	-	-	-
Zhu Weiming	432	33	25	490
Hu Kang	432	33	25	490
Ye Fucai	-	-	-	-
Zhu Xi	-	-	-	-
Deng Yuntian	-	-	-	-
	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

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2009: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2009: three) non-director and non-supervisor, highest paid employees for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	2,925	2,504
Pension scheme contributions	166	120
	3,091	2,624

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 (2009: 25%) under the income tax rules and regulations in the PRC.

Four subsidiaries of the Company, namely Shanghai United Bearings Company Limited ("United Bearing"), Shanghai Tian An Bearing Company Limited ("Tian An Bearing"), Shanghai Tool Works Company Limited ("Tool Works") and Zhenhua Bearings are subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2008, 2009 and 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, 25 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 years ended 31 December 2009 and 2010 and the year ending 31 December 2011.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year.

	2010 RMB'000	2009 RMB'000 (Restated)
Group:		
Current – the PRC		
Charge for the year	29,918	22,559
Overprovision in prior years	(8,844)	(16,941)
Deferred (note 21)	(4,503)	3,822
Total tax charge for the year	16,571	9,440

10. INCOME TAX (continued)

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:

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before tax	200,046	189,044
Tax at the statutory tax rate of 25% (2009: 25%)	50,011	47,261
Preferential tax rate for certain subsidiaries	(20,061)	(16,121)
Effect of tax rate change:		
On opening deferred tax	-	1,147
Adjustments in respect of current tax of previous period	(8,844)	(16,941)
Profits and losses attributable to associates	(4,827)	(1,951)
Income not subject to tax	(1,198)	(1,733)
Expenses not deductible for tax	2,265	562
Tax losses not recognised	1,649	-
Effect of tax incentive	(2,424)	(2,784)
Tax charge at the Group's effective rate	16,571	9,440
The Group's effective income tax rate	8.3%	5.0%

The share of tax attributable to associates amounting to RMB8,244,000 (2009: RMB3,612,000) 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 2010 includes a profit of RMB128,423,000 (2009: RMB43,401,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final – RMB3.20 cents (2009: RMB2.80 cents) per ordinary share	46,025	40,272

The proposed final dividend for the year is 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 2010 and 2009 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2010 RMB'000	2009 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	181,381	179,043

	Number of shares	
	2010	2009
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 2010							
Cost:							
At 1 January 2010							
As previously reported	166,244	1,364,556	24,510	24,367	170,114	19,035	1,768,826
Acquisition of Zhenhua Bearing	-	18,962	378	-	3	-	19,343
As restated	166,244	1,383,518	24,888	24,367	170,117	19,035	1,788,169
Additions	-	4,030	2,301	694	283,022	407	290,454
Disposals	(65,880)	(21,986)	(1,879)	(1,617)	(471)	-	(91,833)
Transfers	17,803	44,624	570	462	(67,587)	4,128	-
At 31 December 2010	118,167	1,410,186	25,880	23,906	385,081	23,570	1,986,790
Accumulated depreciation and impairment:							
At 1 January 2010							
As previously reported	50,202	617,879	15,543	15,660	408	9,427	709,119
Acquisition of Zhenhua Bearing	-	631	38	-	-	-	669

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	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
As restated	50,202	618,510	15,581	15,660	408	9,427	709,788
Depreciation provided during the year	8,646	89,575	3,087	3,140	-	2,709	107,157
Impairment	-	4,055	-	-	-	-	4,055
Disposals	(35,959)	(18,566)	(1,725)	(1,461)	-	-	(57,711)
At 31 December 2010	22,889	693,574	16,943	17,339	408	12,136	763,289
Net book value:							
At 31 December 2010	95,278	716,612	8,937	6,567	384,673	11,434	1,223,501
31 December 2009 (Restated)							
Cost:							
At 1 January 2009							
As previously reported	166,121	1,363,676	26,768	23,500	29,777	18,383	1,628,225
Acquisition of Zhenhua Bearing	28,807	43,634	1,576	-	3,562	-	77,579
As restated	194,928	1,407,310	28,344	23,500	33,339	18,383	1,705,804
Additions	3,774	27,435	1,091	1,751	161,302	202	195,555
Fair value adjustments arising from Zhenhua Bearing corporate reform (note 34)	-	8,103	200	-	-	-	8,303
Disposals	(32,931)	(50,537)	(4,090)	(1,470)	(2,061)	(269)	(91,358)
Offset against depreciation due to Zhenhua Bearing corporate reform	-	(29,137)	(998)	-	-	-	(30,135)
Transfers	473	20,344	341	586	(22,463)	719	-
At 31 December 2009	166,244	1,383,518	24,888	24,367	170,117	19,035	1,788,169
Accumulated depreciation and impairment:							
At 1 January 2009							
As previously reported	41,661	537,773	15,739	13,672	408	7,209	616,462
Acquisition of Zhenhua Bearing	14,187	29,322	1,270	-	-	-	44,779
As restated	55,848	567,095	17,009	13,672	408	7,209	661,241
Depreciation provided during the year	9,284	98,605	2,578	3,221	-	2,291	115,979
Disposals	(14,930)	(18,053)	(3,008)	(1,233)	-	(73)	(37,297)
Offset against cost due to Zhenhua Bearing corporate reform	-	(29,137)	(998)	-	-	-	(30,135)
At 31 December 2009	50,202	618,510	15,581	15,660	408	9,427	709,788
Net book value:							
At 31 December 2009	116,042	765,008	9,307	8,707	169,709	9,608	1,078,381

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 2010				
Cost:				
At 1 January 2010	1,607	7,501	2,915	12,023
Additions	-	136	-	136
Disposals	-	(482)	(43)	(525)
At 31 December 2010	1,607	7,155	2,872	11,634
Accumulated depreciation and impairment:				
At 1 January 2010	901	3,826	1,588	6,315
Depreciation provided during the year	308	1,443	574	2,325
Disposals	-	(392)	(1)	(393)
At 31 December 2010	1,209	4,877	2,161	8,247
Net book value:				
At 31 December 2010	398	2,278	711	3,387
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 during the year	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

As at 31 December 2010, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB2,187,000 (2009: RMB2,944,000).

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	2010 RMB'000	2009 RMB'000 (Restated)
At cost:		
At beginning of year		
As previously reported	137,207	131,583
Acquisition of Zhenhua Bearing	-	16,263
As restated	137,207	147,846
Additions	-	5,624
Disposals	-	(16,263)
At end of year	137,207	137,207
Accumulated amortisation:		
At beginning of year	-	-
As previously reported	6,200	3,440
Acquisition of Zhenhua Bearing	-	-
As restated	6,200	3,440
Recognised	2,783	2,760
At end of year	8,983	6,200
Net book value:		
At end of year	128,224	131,007
Of which:		
Current portion included in prepayments, deposits and other receivables (note 25)	2,795	2,773
Non-current portion	125,429	128,234
	128,224	131,007

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 2009 and 31 December 2010	8,818

Impairment testing of goodwill

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

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 10% and cash flows beyond the five-year period are assumed to be stable.

Key assumptions were used in the value in use calculation of the bearing cash-generating unit for 31 December 2010 and 2009. 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

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2010			
At cost:			
At 1 January 2010			
As previously reported	-	7,717	7,717
Acquisition of Zhenhua Bearing	2,500	-	2,500
As restated	2,500	7,717	10,217
Additions	-	2,545	2,545
At 31 December 2010	2,500	10,262	12,762

17. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
Accumulated amortisation:			
At 1 January 2010			
As previously reported	-	3,507	3,507
Acquisition of Zhenhua Bearing	250	-	250
As restated	250	3,507	3,757
Amortisation provided during the year	500	1,494	1,994
At 31 December 2010	750	5,001	5,751
Net book value:			
At 31 December 2010	1,750	5,261	7,011
31 December 2009 (Restated)			
At cost:			
At 1 January 2009			
As previously reported	-	7,175	7,175
Acquisition of Zhenhua Bearing	-	-	-
As restated	-	7,175	7,175
Additions	-	542	542
Fair value adjustments due to Zhenhua Bearing corporate reform (note 34)	2,500	-	2,500
At 31 December 2009	2,500	7,717	10,217
Accumulated amortisation:			
At 1 January 2009			
As previously reported	-	2,112	2,112
Acquisition of Zhenhua Bearing	-	-	-
As restated	-	2,112	2,112
Amortisation provided during the year	250	1,395	1,645
At 31 December 2009	250	3,507	3,757
Net book value:			
At 31 December 2009	2,250	4,210	6,460

17. OTHER INTANGIBLE ASSETS (continued)

Company

	Software RMB'000
31 December 2010	
At cost:	
At 1 January 2010	2,834
Additions	1,907
At 31 December 2010	4,741
Accumulated amortisation:	
At 1 January 2010	519
Amortisation provided during the year	596
At 31 December 2010	1,115
Net book value:	
At 31 December 2010	3,626
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 during the year	421
At 31 December 2009	519
Net book value:	
At 31 December 2009	2,315

18. INTERESTS IN SUBSIDIARIES

Company

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	1,771,036	1,643,667
Due from a subsidiary	53,008	75,486
	1,824,044	1,719,153

The Company's other receivables, trade payables and other payables and accruals with subsidiaries are disclosed in notes 25, 28 and 30, respectively. The amount due from a subsidiary included in the interests in subsidiaries above totalling RMB53,008,000 (2009: RMB75,486,000) 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.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Percentage of equity attributable to the Company: Direct	Indirect	Principal activities
Shanghai Tian An Bearing Company Limited 上海天安軸承有限公司	PRC	RMB159,389	100%*	-	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 Zhenhua Bearing Factory Company Limited 上海振華軸承總廠有限公司	PRC	RMB245,000	100%	-	Production and sale of bearings and related specific equipment
Shanghai United Bearing Company Limited 上海聯合滾動承有限公司	PRC	US$12,670	90%	-	Production and sale of bearings and related specific equipment
Shanghai Electric Bearing Company Limited 上海電气軸承有限公司	PRC	RMB250,000	100%	-	Production and sale of bearing products

* On 14 July 2010, the Company purchased a 1% non-controlling interest of Tian An Bearing at a total consideration of RMB1,404,000.

19. INVESTMENTS IN ASSOCIATES

Group

	2010 RMB'000	2009 RMB'000
Share of net assets	145,696	129,767

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

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 Morgan Carbon Crucible Company Limited(i, ii) 上海摩根碳制品有限公司	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:

	2010 RMB'000	2009 RMB'000
Assets	682,379	518,063
Liabilities	(251,908)	(157,543)
Revenue	722,574	498,619
Profit	79,074	28,865

Company

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	94,008	106,806

20. AVAILABLE-FOR-SALE INVESTMENTS

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	872	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 offsetting against future taxable profit RMB'000	Impairment of assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2010					
As previously reported	844	15,167	(127)	3,356	19,240
Acquisition of Zhenhua Bearing	-	-	-	-	-
As restated	844	15,167	(127)	3,356	19,240
Credited/(charged) to profit or loss during the year	496	(3,492)	304	5,016	2,324
At 31 December 2010	1,340	11,675	177	8,372	21,564

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 2010			
As previously reported	659	1,839	2,498
Acquisition of Zhenhua Bearing	1,181	-	1,181
As restated	1,840	1,839	3,679
Credited to profit or loss during the year	(340)	(1,839)	(2,179)
At 31 December 2010	1,500	-	1,500

21. DEFERRED TAX (continued)

Group (continued)

Deferred tax assets

	Losses available for offsetting against future taxable profit RMB'000	Impairment of assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009					
As previously reported	-	21,124	423	3,715	25,262
Acquisition of Zhenhua Bearing	-	246	-	-	246
As restated	-	21,370	423	3,715	25,508
Effect of tax rate change on opening deferred tax	-	(382)	(409)	(356)	(1,147)
Credited/(charged) to profit or loss during the year	844	(5,821)	(141)	(3)	(5,121)
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			
As previously reported	829	3,676	4,505
Acquisition of Zhenhua Bearing	-	-	-
As restated	829	3,676	4,505
Adjustment arising from Zhenhua Bearing corporate reform (note 34)	1,620	-	1,620
Credited to profit or loss during the year	(609)	(1,837)	(2,446)
At 31 December 2009	1,840	1,839	3,679

21. DEFERRED TAX (continued)

Group **(continued)**

As at 31 December 2010, the Group has tax losses of RMB6,596,000, of which deferred tax asset has not been recognised as the management considered it is not probable that taxable profits will be available to utilise the tax losses within five years.

Company

The Company's deferred tax assets as at the end of the reporting period related to accrued expenses and tax losses carried 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

	2010 RMB'000	2009 RMB'000 (Restated)
Raw materials	189,657	190,306
Work in progress	296,698	211,172
Finished goods	355,937	262,388
	842,292	663,866

Company

	2010 RMB'000	2009 RMB'000
Finished goods	-	858

23. TRADE RECEIVABLES

Group

	2010 RMB'000	2009 RMB'000 (Restated)
Trade receivables	397,692	381,078
Impairment	(13,416)	(34,240)
	384,276	346,838

23. TRADE RECEIVABLES (continued)

Group **(continued)**

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

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

	2010 RMB'000	2009 RMB'000 (Restated)
Within 3 months	298,810	278,822
Over 3 months but within 6 months	45,689	42,512
Over 6 months but within 1 year	35,461	23,423
Over 1 year but within 2 years	4,206	2,081
Over 2 years	110	-
	384,276	346,838

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

	2010 RMB'000	2009 RMB'000 (Restated)
At 1 January	34,240	48,842
Impairment losses recognised	2,048	3,645
Impairment losses reversed	(492)	(3,284)
Amount written off as uncollectible	(22,380)	(14,963)
	13,416	34,240

The above provision for impairment of trade receivables of the Group is a provision for both individually and collectively impaired trade receivables with a carrying amount before provision of RMB36,350,000 (2009: RMB53,983,000). 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:

23. TRADE RECEIVABLES (continued)

Group **(continued)**

	2010 RMB'000	2009 RMB'000 (Restated)
Neither past due nor impaired	300,503	310,458
Less than 3 months past due	55,416	15,738
3 to 6 months past due	3,446	895
6 to 9 months past due	293	4
9 months to 1year past due	-	-
1 to 2 years past due	1,684	-
	361,342	327,095

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

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

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

	2010 RMB'000	2009 RMB'000 (Restated)
Due from associates	359	261
Due from the SEC group companies	16,942	9,282
	17,301	9,543

Company

	2010 RMB'000	2009 RMB'000
Within 3 months	50,532	35,404
Over 3 months but within 6 months	5,846	-
Over 1 year but within 2 years	1,684	-
Over 2 years	-	25,596
	58,062	61,000

23. TRADE RECEIVABLES (continued)

Company **(continued)**

	2010 RMB'000	2009 RMB'000
Due from SEC group companies	1,684	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

	2010 RMB'000	2009 RMB'000 (Restated)
Within 3 months	49,995	35,284
Over 3 months but within 6 months	49,260	106,320
Over 6 months but within 12 months	-	-
	99,255	141,604

Included in the above balance are bills of RMB7,500,000 (2009: RMB39,836,000) issued by SEC group companies.

Company

	2010 RMB'000	2009 RMB'000
Within 3 months	100	-

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

	2010 RMB'000	2009 RMB'000 (Restated)
Prepayments	82,606	51,918
Deposits	1,722	1,722
Prepaid land premiums/land lease payments (note 15)	2,795	2,773
Value-added tax refunds and prepaid value-added tax	51,934	5,668
Other receivables	6,751	13,516
Due from ultimate holding company	-	142
Due from SEC group companies	9,850	905
	155,658	76,644

Company

	2010 RMB'000	2009 RMB'000
Prepayments	956	745
Deposits	218	534
Value-added tax refunds and prepaid value-added tax	5,087	3,254
Other receivables	2,204	2,990
Due from ultimate holding company	-	192
Due from SEC group companies	-	549
Due from subsidiaries	344,818	337,862
	353,283	346,126

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 RMB142,000,000 (2009: RMB42,000,000) represents entrusted loans of RMB 67,000,000 provided by the Company to United Bearing and RMB75,000,000 to Wuxi Turbine Blade through China Construction Bank. The loans are unsecured, bearing interest at rates ranging from 4.21% to 4.78% (2009: 4.78%) per annum and for periods of one year beginning from 29 January 2010, 28 September 2010 and 15 November 2010 (2009: 19 January 2009 and 25 September 2009). The carrying amount of the loans approximates to its fair value.

27. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

Group

	2010 RMB'000	2009 RMB'000 (Restated)
Cash and bank balances	457,151	544,823
Time deposits	609,196	645,105
	1,066,347	1,189,928
Less: Restricted deposits	102,899	87,967
Cash and cash equivalents	963,448	1,101,961

The restricted deposits can be analysed as follows:

	2010 RMB'000	2009 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	102,899	87,967

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

	2010		2009	
	Original currency in'000	RMB equivalent in'000	Original currency in'000 (Restated)	RMB equivalent in'000 (Restated)
Cash and bank balances:				
USD	919	6,084	814	5,557
EUR	1,879	16,548	81	792
JPY	2,642	215	7,660	565

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

	2010 RMB'000	2009 RMB'000
Cash and bank balances	531,739	776,845

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

Company **(continued)**

As at 31 December 2010, the Company's cash and bank balances are denominated in RMB, except for an amount of RMB1,077,000 which is denominated in US$163,000. 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.

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

	2010 RMB'000	2009 RMB'000 (Restated)
Within 3 months	371,539	213,047
Over 3 months but within 6 months	39,719	28,130
Over 6 months but within 1 year	21,809	22,917
Over 1 year but within 2 years	4,597	51,591
Over 2 years	2,457	1,177
	440,121	316,862

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

	2010 RMB'000	2009 RMB'000 (Restated)
Due to SEC group companies	1,031	3,823

Company

	2010 RMB'000	2009 RMB'000
Within 3 months	10,505	37,476

28. TRADE PAYABLES (continued)

Company **(continued)**

An amount due to a subsidiary of RMB6,411,000 (2009: RMB32,245,000) 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:

	2010 RMB'000	2009 RMB'000 (Restated)
Within 3 months	52,777	91,440
Over 3 months but within 6 months	186,603	59,910
	239,380	151,350

30. OTHER PAYABLES AND ACCRUALS

Group

	2010 RMB'000	2009 RMB'000 (Restated)
Advance from customers	19,518	24,668
Other tax payables	19,664	18,061
Staff costs payable	41,025	27,172
Interest payable	201	4,743
Payables for purchases of non-trade assets	6,747	8,035
Accruals	15,222	5,015
Other payables	6,023	16,055
Due to ultimate holding company	19,237	48,712
Due to associates	-	31
Due to SEC group companies	225	7,040
	127,862	159,532

30. OTHER PAYABLES AND ACCRUALS (continued)

Company

	2010 RMB'000	2009 RMB'000
Advance from customers	7,084	5,958
Other tax payables	832	529
Staff costs payable	2,762	2,673
Interest payable	141	-
Accruals	887	112
Other payables	229	26
Due to subsidiaries	379,426	592,716
Due to associates	-	31
	391,361	602,045

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

	2010			2009 (Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	3.0–4.8	2011	120,200	3.0–5.3	2010	95,200
Non-current						
Bank loans						
- unsecured	5.9–6.2	2012–2015	330,000	-	-	-
Other loans						
- unsecured	-	-	-	-	Not fixed	17,000
			330,000			17,000
			450,200			112,200

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Group **(continued)**

	2010 RMB'000	2009 RMB'000 (Restated)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	120,200	95,200
In the second year	105,000	-
In the third to fifth years, inclusive	225,000	-
Beyond five years	-	-
	450,200	95,200
Other loans repayable beyond five years	-	17,000
	450,200	112,200

Company

	2010			2009		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	4.2	2011	100,000	-	-	-

	2010 RMB'000	2009 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	100,000	-

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

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

32. ISSUED CAPITAL

	2010		2009	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed				
– State-owned shares	678,576	678,576	678,576	678,576
H Shares of RMB1.00 each	759,710	759,710	759,710	759,710
	1,438,286	1,438,286	1,438,286	1,438,286

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.

33. RESERVES(continued)

(a) Group (continued)

Capital reserve

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

Distributable reserves

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and HKFRSs. As at the end of the reporting period, the Company has distributable reserves amounting to RMB314,749,000 (2009: RMB241,255,000), of which RMB46,025,000 (2009: RMB40,272,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB691,217,000 (2009: RMB691,217,000) may be distributed in the form of fully paid bonus shares.

(b) Company

	Capital reserve RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 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 dividend (note 12)	-	-	(40,272)	(40,272)
At 31 December 2009 and 1 January 2010	692,553	48,051	200,983	941,587
Profit for the year	-	-	128,423	128,423
Appropriation to surplus reserves	-	14,657	(14,657)	-
Proposed final 2010 dividend (note 12)	-	-	(46,025)	(46,025)
At 31 December 2010	692,553	62,708	268,724	1,023,985

The capital reserve account balance as at 31 December 2010 included the Company's share premium of RMB691,217,000 (2009: RMB691,217,000).

34. BUSINESS COMBINATION UNDER COMMON CONTROL

On 28 February 2010, the Group acquired a 100% equity interest in Zhenhua Bearing from Shanghai Hydraulics & Pneumatics Works Company Limited, a wholly-owned subsidiary of Shanghai Electric Corporation, at a cash consideration of RMB76,163,000. Zhenhua Bearing is mainly engaged in the manufacturing of various types of bearings and bearing components, such as engine bearings, transmission bearings, clutch bearings and mower bearings. No significant adjustments were made to the net assets and net profit of Zhenhua Bearing as a result of the common control combination to achieve consistency of accounting policies.

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 "*Merger Accounting for Common Control Combinations*" issued by the HKICPA to account for the business combination under common control. Accordingly, Zhenhua Bearing has been combined since 1 January 2009, the earliest financial period presented, as if the acquisition had been occurred at the date.

The reconciliation of the effect arising from the common control combination on the consolidated statement of financial position as at 31 December 2010 and 31 December 2009 is as follows:

31 December 2010

	The Group excluding Zhenhua Bearing RMB'000	Zhenhua Bearing RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Cash and cash equivalents	916,016	47,432	-	963,448
Other current assets	1,522,626	77,399	(15,645)	1,584,380
Investment in a subsidiary	76,163	-	(76,163)	-
Other non-current assets	2,009,261	19,225	-	2,028,486
Current liabilities	(940,327)	(49,450)	15,645	(974,132)
Non-current liabilities	(626,652)	(15,466)	-	(642,118)
Net assets	2,957,087	79,140	(76,163)	2,960,064
Equity				
Equity attributable to owners of the Company				
Issued/paid-up capital	1,438,286	24,500	(24,500)	1,438,286
Reserves	1,457,630	54,640	(51,663)	1,460,607
Proposed final dividend	46,025	-	-	46,025
	2,941,941	79,140	(76,163)	2,944,918
Non-controlling interests	15,146	-	-	15,146
Total equity	2,957,087	79,140	(76,163)	2,960,064

34. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

31 December 2009

	The Group excluding Zhenhua Bearing RMB'000	Zhenhua Bearing RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Cash and cash equivalents	1,004,784	97,177	-	1,101,961
Other current assets	1,258,707	58,212	-	1,316,919
Non-current assets	1,454,432	20,926	-	1,475,358
Current liabilities	(679,750)	(86,491)	-	(766,241)
Non-current liabilities	(221,026)	(14,441)	-	(235,467)
Net assets	2,817,147	75,383	-	2,892,530
Equity				
Equity attributable to owners of the Company				
Issued/paid-up capital	1,438,286	24,500	(24,500)	1,438,286
Reserves	1,324,139	50,883	24,500	1,399,522
Proposed final dividend	40,272	-	-	40,272
	2,802,697	75,383	-	2,878,080
Non-controlling interests	14,450	-	-	14,450
Total equity	2,817,147	75,383	-	2,892,530

The above adjustments represent adjustments to eliminate the paid-up capital of Zhenhua Bearing against the Group's investment cost in Zhenhua Bearing as at 31 December 2010 and 31 December 2009; and the cash deposited in the cash pool of the Company as at 31 December 2010.

Zhenhua Bearing was a state-owned enterprise before October 2009, it undertook a corporate reform from a state-owned enterprise to a limited liability company on 31 October 2009. According to the relevant regulations, Zhenhua Bearing engaged a third party valuer to perform a valuation for its net assets. Based on the valuation result, as of the corporate reform date on 31 October 2009, the fair values of its property, plant and equipment, and intangible assets increased by RMB8,303,000, and RMB2,500,000, respectively, and the increase in the related deferred tax liability for the fair value amounted to RMB1,620,000. The management adopted the fair value on the reform date as the deemed cost and recorded a net fair value gain of RMB9,183,000 in contributed surplus account. In addition, surplus reserve of RMB38,000 and retained profits of RMB38,128,000 were transferred to the contributed surplus account according to the regulation for corporate reform of state-owned enterprise to limited liability company.

35. 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.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	-	426

(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.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	19,286	19,246
In the second to fifth years, inclusive	9,679	16,408
Total	28,965	35,654

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2010, the Company had future minimum lease payments under non-cancellable operating leases of RMB2,129,000 (2009: RMB2,129,000).

36. COMMITMENTS

(a) The Group

In addition to the operating lease commitments detailed in note 35(a)(ii) above, the Group had the following capital commitments at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
Land and buildings	-	515
Plant and machineries	635,099	546,467
Leasehold improvements	5,902	-
	641,001	546,982
Authorised, but not contracted for:		
Plant and machineries	136,299	299,257
Contracted, but not provided for:		
Capital contributions payable to an associate	-	3,715
Total	777,300	849,954

(b) The Company

At the end of the reporting period, the Company did not have any significant commitments (2009: Nil).

37. CONTINGENT LIABILITIES

(a) The Group

	2010 RMB'000	2009 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- An associate	-	1,000

(b) The Company

	2010 RMB'000	2009 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- A subsidiary	-	29,200

38. 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	2010 RMB'000	2009 RMB'000 (Restated)
Purchase of materials from:	(i)		
Associates		195	81
SEC group companies		2,216	2,759
		2,411	2,840
Sales of goods to:	(i)		
Associates		1,850	971
SEC group companies		220,765	267,601
		222,615	268,572
Receiving agent services from:	(i)		
SEC group companies		1,780	183
Receiving other manpower services from:	(i)		
Ultimate holding company		28	106
SEC group companies		1,612	1,798
Associates		98	-
		1,738	1,904
Rendering manpower services to:	(i)		
SEC group companies		282	400
Purchase of items property, plant and equipment from:	(i)		
SEC group companies		83	-
Sales of items of property, plant and equipment to:	(i)		
Ultimate holding company		-	17,741
SEC group companies		-	7,717
		-	25,458
Rental fee payable to:	(ii)		
Ultimate holding company		2,137	2,128
SEC group companies		15,900	15,903
		18,037	18,031
Receiving relocation compensation from:	(iii)		
Ultimate holding company		32,000	-

38. RELATED PARTY TRANSACTIONS (continued)

Notes:

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

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

iii. In March 2010, Tian An Bearing signed a "Relocation Compensation Agreement" with Shanghai Electric Corporation, pursuant to which Tian An Bearing should move entirely from the existing manufacturing site to a new one, with the launch of the former China Bearing Factory's "Removal of Companies Producing Industrial Waste" project. The Relocation Compensation Agreement was approved by the Circular Hujingtou (2006) No. 369 issued by the Shanghai Municipal Commission of Economy and Informatization and the Circular Hudiandong (2006) No. 30 issued by Shanghai Electric Corporation. Both old and new manufacturing sites were leased from Shanghai Electric Corporation. Shanghai Electric Corporation agreed to pay RMB38,770,000 to Tian An Bearing as compensation for the expenses and losses incurred during the relocation . As at 31 December 2010, Tian An Bearing has received RMB32,000,000 relating to the relocation compensation and the relocation is still in progress.

(b) Other transactions with related parties

(i) During the year, one of the SEC group companies 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 RMB1,342,000 per annum.

(ii) During the year, the ultimate holding company 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 RMB4,115,000 per annum.

(iii) During the year, the ultimate holding company leased certain properties to Zhenhua Bearing, 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 market rate is RMB3,995,000 per annum.

(c) Guarantees provided to related companies of the Group

As disclosed in note 37(a), the Group provided no corporate guarantees (2009: RMB1,000,000) to related companies as at 31 December 2010.

(d) Balances due from/to related parties

The balances due from/to related parties during the year mainly related to 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

	2010 RMB'000	2009 RMB'000
Fees	536	526
Short-term employee benefits	1,576	1,452
Post-employment benefits	111	100
	2,223	2,078

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

38. RELATED PARTY TRANSACTIONS (continued)

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.

39. 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

	2010			2009		
	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000	Loans and receivables RMB'000 (Restated)	Available-for-sale investments RMB'000 (Restated)	Total RMB'000 (Restated)
Available-for-sale investments	-	872	872	-	1,072	1,072
Trade receivables and bills receivable	483,531	-	483,531	488,442	-	488,442
Financial assets included in prepayments, deposits and other receivables	18,183	-	18,183	16,322	-	16,322
Restricted deposits	102,899	-	102,899	87,967	-	87,967
Cash and cash equivalents	963,448	-	963,448	1,101,961	-	1,101,961
	1,568,061	872	1,568,933	1,694,692	1,072	1,695,764

Financial liabilities

	Financial liabilities at amortised cost	
	2010 RMB'000	2009 RMB'000 (Restated)
Trade payables and bills payable	679,501	468,212
Financial liabilities included in other payables and accruals	82,470	110,214
Interest-bearing bank and other borrowings	450,200	112,200
Other long-term payables	13,901	41,861
	1,226,072	732,487

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2010		2009	
	Loans and receivables RMB'000	Total RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables and bills receivable	58,162	58,162	61,000	61,000
Financial assets included in prepayments, deposits and other receivables	347,240	347,240	342,127	342,127
Loans receivable	142,000	142,000	42,000	42,000
Cash and cash equivalents	531,739	531,739	776,845	776,845
	1,079,141	1,079,141	1,221,972	1,221,972

Financial liabilities

	Financial liabilities at amortised cost	
	2010 RMB'000	2009 RMB'000
Trade payables	10,505	37,476
Interest-bearing bank and other borrowings	100,000	-
Financial liabilities included in other payables and accruals	383,444	595,536
	493,949	633,012

40. 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.

(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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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
	%	RMB'000
2010		
If US$ weakens against RMB	5	(3,851)
If EUR weakens against RMB	5	(829)
If US$ strengthens against RMB	(5)	3,851
If EUR strengthens against RMB	(5)	829
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

(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 23% of the Group's total trade receivables as at 31 December 2010.

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Credit risk (continued)

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.

(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, was as follows:

Group

	2010					
	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	373,338	250,224	50,831	5,108	-	679,501
Financial liabilities included in other payables and accruals	49,730	28,066	2,246	2,428	-	82,470
Interest-bearing bank and other borrowings	-	5,209	126,562	376,875	-	508,646
Other long-term payables	-	-	-	13,901	-	13,901
	423,068	283,499	179,639	398,312	-	1,284,518

	2009 (Restated)					
	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	134,731	267,212	65,895	374	-	468,212
Financial liabilities included in other payables and accruals	25,982	18,453	65,653	126	-	110,214
Interest-bearing bank and other borrowings	-	24,404	72,958	-	21,743	119,105
Other long-term payables	-	-	-	41,861	-	41,861

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk (continued)

Group **(countinued)**

	2009 (Restated)					
	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
Guarantees given to banks in connection with facilities granted to an associate	-	-	1,000	-	-	1,000
	160,713	310,069	205,506	42,361	21,743	740,392

Company

	2010					
	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	10,505	-	-	-	-	10,505
Interest-bearing bank and other borrowings	-	-	103,819	-	-	103,819
Financial liabilities included in other payables and accruals	378,736	4,708	-	-	-	383,444
	389,241	4,708	103,819	-	-	497,768

	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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. 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 objectives of the Group's capital management are 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

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.

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

Group

	2010 RMB'000	2009 RMB'000 (Restated)
Interest-bearing bank and other borrowings	450,200	112,200
Equity attributable to owners of the Company	2,944,918	2,878,080
Gearing ratio	15.3%	3.9%

41. COMPARATIVE AMOUNTS

Due to the business combination under common control as detailed in note 34, the presentation of certain items and balances in the consolidated financial statements have been restated and presented as if the entities or businesses had been combined as at 1 January 2009. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.