上海集优
SHANGHAI PRIME

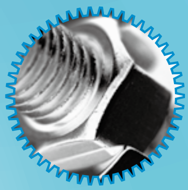


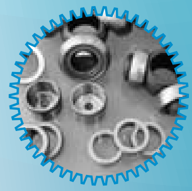
(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(H share stock code: 02345)

SHANGHAI PRIME MACHINERY COMPANY LIMITED

2011 Annual Report





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CORPORATE INFORMATION

Executive Directors

Zheng Yuanhu
Zhu Weiming
Hu Kang
Zhu Xi
Sun Wei
(Appointed on 21 October 2011)
Yu Xiufeng
(Resigned on 21 October 2011)
Yuan Mifang
(Appointed on 21 October 2011)
Xu Jianguo
(Resigned on 21 October 2011)

Independent Non-Executive Directors

Chan Chun Hong (Thomas)
Ling Hong
Li Yin
(Appointed on 21 October 2011)
Liu Huangsong
(Resigned on 21 October 2011)

Supervisors

Xu Chao
Hu Peiming
Zhang Jianping

Company Secretary

Li Wai Chung
(Certified Public Accountant)

Audit Committee

Chan Chun Hong (Thomas)
Ling Hong
Li Yin

Remuneration Committee

Ling Hong
Chan Chun Hong (Thomas)
Li Yin

Strategic Committee

Zheng Yuanhu
Hu Kang
Zhu Xi
Sun Wei
Yuan Mifang

Nomination Committee

Zheng Yuanhu
Zhu Weiming
Chan Chun Hong (Thomas)
Ling Hong
Li Yin

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
Clifford Chance LLP
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

Room 3509, 35th Floor, Tower Two,
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)	2007	2008	2009	2010	2011
	(Restated)	(Restated)	(Restated)	(Restated)	
Revenue and Profit					
Revenue	3,519	3,537	2,367	2,790	3,552
Profit before tax	349	313	190	202	259
Income tax expense	(113)	(66)	(9)	(17)	(36)
Profit for the year	236	247	181	185	223
Attributable to					
Owners of the Company	229	245	180	183	222
Non-controlling interests	7	2	1	2	1
Dividends - proposed final	56	60	40	46	55
Earnings per share attributable to equity holders of the Company					
- Basic (RMB cents)	15.97	17.07	12.56	12.72	15.40
Assets and Liabilities					
Non-current assets	1,342	1,511	1,500	2,053	2,359
Current assets	2,171	2,232	2,484	2,619	2,942
Current liabilities	850	889	825	1,039	1,434
Net current assets	1,321	1,343	1,659	1,580	1,508
Total assets less current liabilities	2,663	2,854	3,159	3,633	3,867
Non-current liabilities	63	63	237	643	736
Net assets	2,600	2,791	2,922	2,990	3,131
Equity attributable to owners of the Company	2,588	2,777	2,907	2,975	3,114
Non-controlling interests	12	14	15	15	17

The financial information previously reported by the Group in 2007, 2008, 2009 and 2010 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 2011 (the "Year") was RMB3,552 million.

Profit attributable to owners of Shanghai Prime Machinery Company Limited (the "Company") for the Year was RMB222 million.

Basic earnings per share for the Year was RMB 15.40 cents. The board of directors proposed a final dividend for 2011 of RMB3.80 cents per share.

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 United Bearings Company Limited **90%**
- Shanghai Electric Bearings Company Limited **100%**
- 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%**
- Shanghai High Strength Bolt Factory Company Limited **100%**
- Shanghai Fastener and Welding Material Technology Research Centre Company Limited **100%**

Other Businesses

- Shanghai Morgan Carbon Crucible Company Limited **30%**
- Shanghai Morganite Electrical Carbon Company Limited **30%**
- Shanghai Electric Insulating Material Company Limited **100%**

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 2011 (the "Year"). The Group's annual results have been audited by Ernst & Young.

Business review

Looking back 2011, with concrete execution of its strategy of "Transformation, Upgrade and Future Development" , the Group has overcome uncertainties such as worsening inflation, accelerating Renminbi appreciation, soaring raw material and labour costs and contracting marco-economy in the second half of the year. During the Year, we are capable of experiencing a speed up in product upgrade and a preliminary result of the industrial transformation, through which steady growth has been achieved.

During the Year, marching towards the high-end market, the turbine blade business of the Group has been switched from traditional turbine blade towards aviation sector, recording revenue of the aerial forgings of RMB100 million. In respect of the cutting tool business, the numerically controlled cutting tools and complex tools with more precise and efficient features have been further developed, and the relevant sales amounted to RMB86 million in the Year, representing a year-on-year increase of 26%. The revenue of the extra large bearing under the bearing business amounted to RMB47 million, representing a year-on-year increase of 104%.

While developing high-end products, the Group has also aimed at the producer service sector with a vision of "Direct Delivery and End-user Services". Initial results have been seen. For the fastener business, the three producer services namely the integrated in-house services, JIT delivery services and sampling services have been introduced and improved during the course of providing services to the customers of Shanghai Electric (Group) Corporation. The "Direct Delivery and End-user Services" sector has accomplished a fast growth.

In 2011, the Group recorded turnover of RMB3,552 million (2010: RMB2,790 million), representing an increase of 27% over last year. Profit attributable to the owners of the Company was RMB222 million (2010: RMB183 million), representing an increase of 21% over last year. Earnings per share was RMB15.40 cents (2010: RMB12.72 cents).

As at 31 December 2011, total assets of the Group amounted to RMB5,301 million (31 December 2010: RMB4,672 million), while total liabilities were RMB2,170 million (31 December 2010: RMB1,682 million). Total equity of the Group was RMB3,131 million (31 December 2010: RMB2,990 million), of which RMB3,114 million (31 December 2010: RMB2,975 million) was attributable to the owners of the Company.

Prospect

Looking forward 2012, grasping the key of "innovation", the Group will fortify its effort in transformation, upgrade and structural adjustment, and focus on business, management and technology innovation, so as to facilitate four changes, i.e. changing towards "innovation driven business" from investment driven mode, changing towards "service-oriented manufacturing" from traditional manufacturing mode, changing towards resource integrator from production operator and changing towards soft power oriented from hard power oriented.

The Group will focus on the following aspects and continue to facilitate its business mode transformation and the development of industrial economy, heading to its objective of becoming a technologically advanced, service-oriented manufacturer of key components.

Product upgrade and strengthening core competitive edges. The Group will accelerate its step towards the high-end product sector and expedite product upgrade by continuing the integration of advanced technology with its self-developed techniques, complementing social resources with its own potentials and enhancing its capabilities in respect of research, development, design and technique. Regarding turbine blade business, capturing the opportunities arising from the development of aircrafts industry of the Mainland China and taking advantage of the precise pressing machine with a capacity of 35,500 tonne of spire-pressure, bulk production capability of turbine blade as an aerial component will be gradually developed. Building on the accomplishment of reaching the production targets of numerically controlled cutting tools and high-powered components to replace the reliance on import, the Group will strive to develop high-end cutting tool market. For the bearing business, main focuses will be on the improvement of product precision and useful life, and the development of bearings as an auxiliary equipment for strategic emerging industries like wind power generator, tensioners and medical machineries of which the markets have huge potential, and which could mitigate the reliance on import. As a result of the above effort, a comprehensive product upgrade can be realized.

Innovative development and carry forward producer service business. By further expanding a new commercial model of "Direct Delivery and End-user Services", and setting fastener business as a key to breakthrough, a new producer service business featuring "end-user-oriented, quick response, standardized procedures, one-stop service and low transaction cost" is formed and well developing. Duplicating and expanding this new business mode in two markets, i.e. the power station equipment and construction machinery, the Group is striving to further explore the "Direct Delivery and End-user Services" sector.

Structural adjustment and enhancing market competitiveness. The Group will conduct gradual adjustment on its business and investment structure. To control key procedures, those labour-intensive processing business, the production of low margin, limited output products and those insignificant manufacturing procedures will be out-sourced in order to fully utilize and integrate the external social resources, increase utilization of resources and expedite operation mode transformation. Meanwhile, investments and

CHAIRMAN'S STATEMENT

resources will be mainly allocated to build up the Group's core businesses and capabilities by adding value on the two ends of the "smile curve", i.e. on branding, marketing, design, research and testing, etc., enabling stepwise shaping of the "dumbbell-like" organization and the "asset-light" structure. All these will lead to the enhancement of market competitiveness.

Driving informationization construction and grasping market opportunities arising therefrom. The Group will further build up its application system with emphasis on the formation and perfection of its self-controlled informationized platform, which includes the construction of human resource system, investment management system, budget management system and capital management system, as well as on the optimization of its internal control and risk management system. The Group will carry out next round of informationization to ensure the operation of "standardized", "controllable" and "intelligent" management system within the Group.

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

Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
16 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

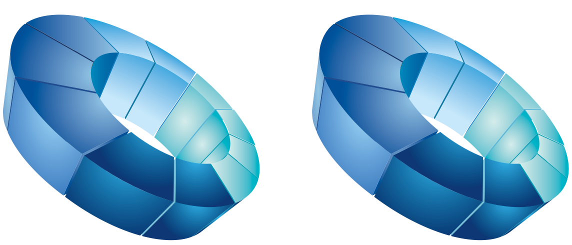
For the year ended 31 December 2011 (the "Year"), turnover of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") amounted to RMB3,552 million (2010: RMB2,790 million), representing an increase of 27% over last year. Profit attributable to owners of the Company was RMB222 million (2010: RMB183 million), representing an increase of 21% over last year. Basic earnings per share was RMB15.40 cents (2010: RMB12.72 cents).

As at 31 December 2011, total assets of the Group amounted to RMB5,301 million (31 December 2010: RMB4,672 million) while total liabilities amounted to RMB2,170 million (31 December 2010: RMB1,682 million). Total equity of the Group was RMB3,131 million (31 December 2010: RMB2,990 million), of which equity attributable to the owners of the Company amounted to RMB3,114 million (31 December 2010: RMB2,975 million).

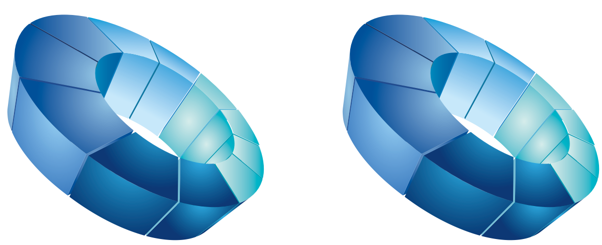
Operation Analysis

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

	Revenue		Segment Results	
RMB (million)	2011	2010	2011	2010
Turbine blade	1,001	700	123	82
Percentage of total	28%	25%	47%	42%
Bearing	753	649	47	44
Percentage of total	21%	23%	18%	22%
Cutting tool	603	517	70	65
Percentage of total	17%	19%	26%	33%
Fastener	1,195	924	23	5
Percentage of total	34%	33%	9%	3%
Total	3,552	2,790	263	196



Revenue



Segment Results

Turbine blade Bearing Cutting tool Fastener Turbine blade Bearing Cutting tool Fastener

MANAGEMENT DISCUSSION AND ANALYSIS

Turbine blade business

The Group is one of the largest domestic specialized manufacturer of turbine blade for sizable power generators, specializing in the manufacturing of turbine blades for thermal power and nuclear power plants as well as parts and components for aviation and aerospace. Our products have been widely applied on the areas including energy and electricity and aviation and aerospace. Currently, the Group is the strategic supplier of various renowned electric companies, such as Shanghai Electric Power Generation Equipment Co., Ltd., Harbin Turbine Company Limited, DEC Dongfang Steam Turbine Co. Ltd., Siemens and Toshiba Group.

In the first half of 2011, plant relocation for turbine blade business was entirely completed and the new site occupied an area of approximately 230 thousand square meters. Backed by the full implementation of large turbine blades and aviation forging project, the turbine blade business of the Group has built a world-leading device, such as a heat processing system with 355MN clutch screw press , as its main component and a machine processing system with numerical control machine tool featuring higher precision and five-axes as its main component. The specification of turbine blade products which can be produced has increased from the maximum turbine blade length of 1,448 mm to 1,900 mm, enabling to completely satisfy the technical requirement of all kinds of the turbine blades that are used in conventional power generators, gas turbine compressor, nuclear power and ultra-supercritical power stations as well as high-end forging products including aerial disk forgings.

This Year, by capturing the opportunities arising from the development of large size aircrafts industry in China and taking advantage of the screw press with a capacity of 35,500 tonnes, a precise pressing machine, being well-positioned, the Group provided turbine blades, various disk forgings and structural forgings for the engines of aviation, aerospace and ships, which improved specialized manufacturing in aviation industry-oriented pressing. The sales of aviation business for the Year amounted to RMB100 million.

From 2012 to 2015, the Group will focus on two strategic targets, "supplier of top-class turbine blades in the world" and "domestic supplier of top-class aviation components", and commit to develop the ability of "specialized manufacturing in aviation industry-oriented pressing". It will also continue to achieve an upgrade and transformation of the industry structure through the development of both domestic and overseas businesses of power station, in order to achieve a balance contributing to the total sales between three main business segments of turbine blades for domestic and overseas power station as well as parts and components for aviation, and gradually form a new model of two specialization developing together, devoting to the direction of becoming an outstanding specialized manufacturing enterprise of turbine blades and specializing enterprise of aviation-motive components in China.

In 2011, the turnover of the turbine blade business was RMB1,001 million (2010: RMB700 million), up 43% year-on-year. The segment results amounted to RMB123 million (2010: RMB82 million), representing a year-on-year increase of 50%. Gross profit margin was 23% (2010: 26%). In 2011, export sales amounted to RMB220 million (2010: RMB182 million), representing a year-on-year increase of 21%, while export sales represented 22% (2010: 26%) of the total business sales.

Bearing business

The Group is specialized in manufacturing and selling different kinds of bearing products, which are widely used in the areas of railway transportation, vehicles, cargo equipments, electric motors, electrical appliances, aerospace and aviation and navigation equipments. The Group is one of the bearing and related repairing and maintenance service suppliers designated by the Ministry of Railway. Meanwhile, the Group has entered the global procurement system of a number of well-known multinational procurement suppliers of auto parts and components in the world. The automobile bearing products of the Group have marched into the international market.

During the year, the Group newly developed export products such as high-end series of bearings used in medical equipments and bearings of the hydraulic transformers, driving a year-on-year growth of 32% on export revenue from bearing products and promoting the brand image of the Group's bearing products by enlarging the overseas market.

In year 2012, on top of focusing on improving the precision as well as prolonging service life, the bearing business of the Group will put great efforts to develop high-end products such as wind power bearings, tension pulley bearings and medical equipments bearings which are industry facilities that have a high market potential and are strategically emerged to substitute imports, and realize product upgrading continuously by moving forward the implementation of technological renovation projects for new products such as robot angular contact ball bearings, pivot bearing for heavy trucks and automobile bearings.

In year 2011, the turnover of the bearing business was RMB753 million (2010: RMB649 million), increased by 16% year-on-year. Segment results amounted to RMB47 million (2010: RMB44 million), representing a year-on-year increase of 7%. Gross profit margin was 21% (2010: 24%). In year 2011, export sales amounted to RMB120 million (2010: RMB91million), representing a year-on-year increase of 32%, representing 16% (2010: 14%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

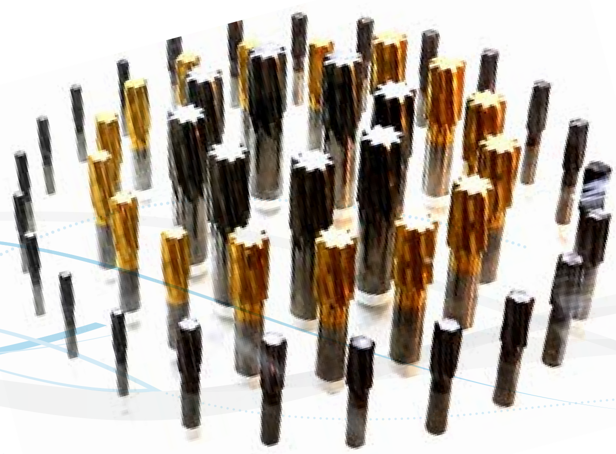
Cutting tool business

The Group is a major cutting tool manufacturer in the PRC with profound experience, specializing in manufacturing all kinds of metal cutting tools, and the cutting tools products meet demands for cutting tools from numerically controlled machine tools and machining centers applied to industries including auto, appliances, mould, aviation and aerospace.

In year 2011, insisted in being oriented by market demands, the Group focused on developing a complete series of new products in mass production with certain economies of scale, especially numerically controlled cutting tools and complex tools and individualized thread cutting tools with high precision have developed rapidly. During the year, the Group has created a basic capacity of scaled manufacturing of numerically controlled cutting tools and complex tools as production skills of numerically controlled cutting tools and complex tools have been getting mature while input and output efficiency of the project has become more and more manifest. Turnover of numerically controlled cutting tools and complex tools products for the year amounted to RMB86 million, increased by 26% year-on-year. During the year, the Group has developed the individualized thread cutting tools with high precision rapidly in response to the demand for individualization in the market, and kept launching a series of screw taps with high-performance and all-ground produced for specialized usage to the market. The new generation of thread cutting tools has become the new growing sector to sales. Turnover of thread cutting tools for the year amounted to RMB151 million, increased by 29% year-on-year.

In year 2012, the Group will focus on developing series of high-end thread cutting tools in powerful high speed steel, powder metallurgy high speed steel, generally carbide and super-hard materials with our own intellectual property rights, and speed up high-new-tech industrialization. In terms of high-end technology process flow, the Group will carry out the research and development in depth from material, processing to application, and gradually form a full range of industrialization manufacturing technology, and build production lines for powerful carbide material used in numerically controlled cutting tools. On the basis of realizing the production capacity of high-end numerically controlled cutting tools and aiming at import substitution, the Group will expand the market of high-end cutting tools and further increase the sales revenue of high-end carbide cutting tools and optimize the product structure.

In year 2011, turnover of the cutting tool business was RMB603 million (2010: RMB517 million), increased by 17% year-on-year. Segment results amounted to RMB70 million (2010: RMB65 million), representing a year-on-year increase of 8%. Gross profit margin was 27% (2010: 24%). In year 2011, export sales amounted to RMB37 million (2010: RMB30 million), up 23% year-on-year. Export sales represented 6% (2010: 6%) of the total business sales.



Fastener business

The Group is one of the biggest companies in the country for specialized manufacturing and exporting standard fasteners, and is principally engaged in the processing of semi-finished fasteners, as well as the import and export trade relating to all kinds of standard and specialized fasteners. Compared with other capital intensive manufacturers of fasteners, the Group emphasizes on production service advantages in logistics, sorting and packaging. The Group sets up high array storage warehouses equipped with storage and searching system controlled by computers, boasting the strong power in selecting and packaging specific fasteners through automatic control.

In year 2011, the Group has moved on with the innovative business mode of Direct Delivery and End user Services. In the domestic fasteners market, actively searched for the end-customers, shortened the time for reply with customer service, and made efforts on service flow standardization, in order to lower down the overall supply chain reserve and reduce the trading cost substantially. The Group has also enhanced the overall profitability of this section by streamlining certain manufacturing steps chain with comparatively low-added value in the industry. Gross profit margin for the year grew 1% on a year-on-year basis. This business model received good responses from customers with increased sales.

On the basis of productive service industry development, the Group strategically acquired Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited. While edges in marketing, purchasing and logistics in the rear-end of the fastener business are maintained, research and development and examination function as well as high-end manufacturing function has been added to its front-end and middle-end, respectively. The product specification of the Group's fasteners has been expanded to high strength bolt used in high-end steal structures, whereas the testing service for fasteners, research on productive service industry as well as research and development for related products have been further improved, creating positive conditions for further exploring the productive service industry and business.

In year 2011, turnover of the fastener business was RMB1,195 million (2010: RMB924 million), representing an increase of 29% year-on-year. Segment results amounted to RMB23 million (2010: RMB5 million), representing a year-on-year increase of 360%. Gross profit margin was 11% (2010: 10%). In year 2011, export sales amounted to RMB873 million (2010: RMB661 million), up 32% year-on-year. Export sales represented 73% (2010: 72%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of other financial position

Share of Profits of Associates

During the year 2011, the Group's share of profits of associates was RMB27 million (2010: RMB28 million).

Finance Costs

Finance costs for the year 2011 were RMB18 million (2010: RMB7 million).

Profit Attributable to Equity Holders of the Company

Profit attributable to owners of the Company was RMB222 million in 2011 (2010: RMB183 million), up 21% over last year. Basic earnings per share were RMB15.40 cents (2010: RMB12.72 cents).

Cash Flow

As at 31 December 2011, the Group's cash and bank balances were RMB925 million (31 December 2010: RMB1,089 million), of which RMB57 million (31 December 2010: RMB103 million) were restricted deposits, representing decrease of RMB46 million in restricted deposit from the beginning of the year. During the Year, the Group had a net cash inflow from operating activities of RMB77 million (2010: RMB193 million), a net cash outflow from investing activities of RMB333 million (2010: RMB289 million), and a net cash inflow from financing activities of RMB179 million (2010: RMB285 million).

Assets and Liabilities

As at 31 December 2011, the Group had total assets of RMB5,301 million (31 December 2010: RMB4,672 million), representing an increase of RMB629 million or 13% as compared with the beginning of the Year, of which total current assets amounted to RMB2,942 million (31 December 2010: RMB2,619 million), accounting for 55% of the total assets, representing an increase of RMB323 million as compared with the beginning of the Year. Total non-current assets were RMB2,359 million (31 December 2010: RMB2,053 million), accounting for 45% of the total assets and representing an increase of RMB306 million as compared with the beginning of the Year.

As at 31 December 2011, the total liabilities of the Group were RMB2,170 million (31 December 2010: RMB1,682 million), of which total current liabilities amounted to RMB1,434 million (31 December 2010: RMB1,039 million), accounting for 66% of the total liabilities. Total non-current liabilities amounted to RMB736 million (31 December 2010: RMB643 million), accounting for 34% of total liabilities.

As at 31 December 2011, the net current assets of the Group were RMB1,508 million (31 December 2010: RMB1,580 million), representing a decrease of RMB72 million or 5% as compared with the beginning of the Year whereas current ratio decreased from 2.52 to 2.05.

Sources of Funding and Indebtedness

As at 31 December 2011, the Group had an aggregate bank and other borrowings of RMB727 million (31 December 2010: RMB450 million), representing an increase of RMB277 million or 62% as compared with the beginning of the Year. Borrowings repayable by the Group within one year were RMB347 million (31 December 2010: RMB120 million), representing an increase of RMB227 million from the beginning of the Year, whereas borrowings repayable after one year were RMB380 million (31 December 2010: RMB330 million). The Group repaid the loans due on schedule during the Year.

As at 31 December 2011, all bank and other borrowings of the Group were interest bearing at fixed rates.

Gearing Ratio

As at 31 December 2011, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 23% (31 December 2010: 15%).

Restricted Deposits

As at 31 December 2011, bank deposits of RMB57 million (31 December 2010: RMB103 million) of the Group were restricted.

Pledges of Assets

As at 31 December 2011, save as disclosed above, the Group has no other pledges of assets.

Contingent Liabilities

As at 31 December 2011, the Group has no significant contingent liabilities (2010: Nil).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB414 million (2010: RMB687 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. 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 from overseas. In addition, as at 31 December 2011, the Group's bank deposits comprised USD1.1 million, JPY8.1 million and EUR0.9 million. Save as disclosed above, the Company was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Events

On 16 September 2011, the Group successfully bid for the 100% equity interest in Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited sold by Shanghai Electric (Group) Corporation (the"Shanghai Electric Corporation") from Shanghai United Assets and Equity Exchange (the"Shanghai Equity Exchange"). On the even date, the Group entered into the agreement with Shanghai Electric Corporation in respect of the proposed acquisition. Under terms of the agreement, the Company is obligated to acquire Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited from the Shanghai Electric Corporation should the Company wins the bid on the Equity Exchange and obtains all necessary approvals. The bid prices for Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited were RMB30.8 million and RMB58.6 million, respectively. As a result, the total consideration for the proposed acquisition was RMB89.4 million. The acquisition was passed at the extraordinary general meeting of the Company on 21 October 2011.The actual takeover prices were RMB26.7 million and RMB42.6 million respectively.

On 24 February 2012, the Company successfully bid for the 100% equity interest of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") disposed by Shanghai Electric Development Co., Ltd. (the"SED") through the Equity Exchange. The successful bid price for Shanghai Insulating was RMB40 million. On 5 March 2012, the Company entered into the Shanghai Insulating Acquisition Agreement with SED to acquire 100% equity interest of Shanghai Insulating from SED at the successful bid price.

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

Employees

As at 31 December 2011, the Group had 3,398 employees (2010: 3,359). 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	45	Executive director and chairman
Zhu Weiming	41	Executive director and vice chairman
Hu Kang	48	Executive director and chief executive officer
Zhu Xi	47	Executive director
Sun Wei (Appointed on 21 October 2011)	42	Executive director
Yuan Mifang (Appointed on 21 October 2011)	59	Executive director
Yu Xiufeng (Resigned on 21 October 2011)	48	Executive director
Xu Jianguo (Resigned on 21 October 2011)	47	Executive director
Chan Chun Hong (Thomas)	48	Independent non-executive director
Ling Hong	51	Independent non-executive director
Li Yin (Appointed on 21 October 2011)	48	Independent non-executive director
Liu Huangsong (Resigned on 21 October 2011)	43	Independent non-executive director
Xu Chao	56	Supervisor and chairman of the supervisory committee
Hu Peiming	54	Supervisor
Zhang Jianping	55	Supervisor
Yan Qi	46	Vice president
Chen Hui	43	Vice president
Xiao Weifeng	57	Vice president
Wang Pin	38	Chief financial officer
Li Wai Chung	34	Certified public accountant and company secretary

Directors

Zheng Yuanhu, aged 45, is a senior engineer. He was appointed as executive director and chairman of Shanghai Prime Machinery Company Limited(the "Company") in 2009 and was re-elected and appointed as executive director and chairman of the Company in 2011. Mr Zheng currently holds various positions including vice president of Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") and executive director of Shanghai Electric Group Assets Operation Company Limited. He has been the vice president of Shanghai Electric 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 financial controller in Shanghai Diesel Engine Co., Ltd. Mr Zheng graduated from Tianjin University with a bachelor degree in internal combustion engineering in 1988. He also obtained a master degree in business administration from Fudan University in 2001.

Zhu Weiming, aged 41, is an engineer. He was appointed as executive director and vice chairman of the Company in 2008 and was re-elected and appointed as executive director and vice chairman of the Company in 2011. 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 RiYong-JEA Gate Electric Corporation Limited. Mr Zhu graduated from Shanghai Polytechnic University in 1993 with a bachelor degree in machine design and manufacturing. He also obtained the qualification of national first class Chinese professional managers in 2005.

Hu Kang, aged 48, is a senior economist. He was appointed as executive director and chief executive officer of the Company in 2005 and was re-elected and appointed as executive director and chief executive officer of the Company in 2011. He joined Shanghai Electric Corporation in 1982. Since 1996, he has been factory director of Shanghai Zhenhua Bearing Factory Company Limited, vice president of Shanghai Bearing (Group) Co., Ltd., president of Shanghai Shangling Electric Company Ltd., and president of the second management department of Shanghai Electric Assets Management Company Limited, one of our promoters. Mr Hu graduated from Shanghai University of Finance & Economics in 1988 with a degree in statistics, and graduated from the Shanghai College of the Chinese Communist Party in 1998 majoring in management. In 2001, he obtained an MBA degree from Macau University of Science and Technology.

Zhu Xi, aged 47, is a senior accountant. She was appointed as executive director of the Company in 2008 and was re-elected and appointed as executive director in 2011. 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 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 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 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Sun Wei, aged 42, is a senior engineer. He was appointed as executive director of the Company in 2011. Mr Sun joined Shanghai Electric Corporation in 1993. From 2003 to 2005, he worked as the deputy manager of Shanghai Faiveley Transportation Equipment Company Limited. From 2005 to 2010, Mr Sun worked as the manager of the industrial development department of Shanghai Electric Corporation and assistant to general manager in Shanghai Rail Traffic Equipment Co., Ltd.. From 2006 to 2010, he was promoted to deputy general manager in Shanghai Rail Traffic Equipment Co., Ltd. and general manager of Shanghai Rail Traffic Equipment Co., Ltd. Screen Door Engineering Company. From 2010 till now, he works as the deputy head of the strategic planning department of Shanghai Electric Corporation and was promoted to the head of strategic planning department in 2011. He also serves as the director of the sixth board of directors of Shanghai Highly (Group) Co., Ltd. since 2011. Mr Sun graduated from Shanghai Jiao Tong University with a double bachelor 's degree majored in industrial management, welding technology and equipment in 1993 and obtained a master degree in project management in 2010.

Yuan Mifang, aged 59, is an accountant. He was appointed as executive director of the Company in 2011. Mr Yuan joined Shanghai Electric Corporation in 1999. From 1999 to 2004, Mr Yuan worked as the chief finance executive of the electricity transmission and distribution department of Shanghai Electric Corporation as well as the chief finance executive of Shanghai Electricity Transmission and Distribution Equipment Company Limited from 1999 to 2001. From 2000 to 2001, Mr Yuan also worked as the vice chairman of the Chuanqi (China) Company Limited. From 2004 till now, Mr Yuan has been working as the head of audit and inspection office of Shanghai Electric Corporation and head of audit department of Shanghai Electric Corporation since 2007. From 2009, Mr. Yuan has been appointed as the supervisor of the sixth board of supervisors of Shanghai Mechanical & Electrical Industry Co., Ltd. From 2011, Mr Yuan has also been appointed as the supervisor and the chairman of the sixth board of supervisors of Shanghai Highly (Group) Co., Ltd.. Mr Yuan graduated from the Evening College of Shanghai University of Finance and Economics majored in industrial accounting in 1982.

Yu Xiufeng, aged 48, 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 (the"Shanghai Electric Company") since November 2005, and has also been the deputy head of the strategic planning department of Shanghai Electric 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.

Xu Jianguo, aged 47, 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 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 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.

Chan Chun Hong (Thomas), aged 48. He was appointed as an independent non-executive director of the Company in 2005 and was re-elected and appointed as independent non-executive director in 2011. 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, and managing director of Wang On Group Limited and Wai Yuen Tong Medicine Holdings Limited, responsible for the overall corporate management and supervision of those 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.

Ling Hong, aged 51. He was appointed as independent non-executive director of the Company in 2010 and was re-elected and appointed as independent non-executive director in 2011. 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 an honorable 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 the 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.

Li Yin, aged 48, is a senior engineer. He was appointed as independent non-executive director of the Company in 2011. He worked as an editor and reporter of Chinese Academy of Agricultural Mechanization Sciences Farm Machinery Magazine during the year 1984 to 1996. From 1997 to 2001, he worked as the Vice President of the Magazine. For the year 2000 to 2001, Mr Li worked as the Deputy Secretary General of China Construction Machinery Association. He has been working as the head of the China Construction Machinery Magazine and President of Beijing Green Media Co., Ltd. since 2001. Mr Li graduated from China Agricultural University in 1984 with a bachelor degree in engineering. In 1996, he pursued further study in strategic manufacturing management for four months at the University of Warwick in Britain.

Liu Huangsong, aged 43. 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. He has been financial consultant of the Pudong New Area Trade Union since 2003. Mr. Liu is currently serving at the Shanghai Academy of Social Sciences as director, researching professor and PhD 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

Xu Chao, aged 56, is a senior economist. He was appointed as supervisor and chairman of the supervisory committee of the Company in 2010 and was re-elected and appointed as supervisor and chairman of the supervisory committee of the Company in 2011. 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 primarily held the positions 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.

Hu Peiming, aged 54, was appointed as supervisor of the Company in 2005 and was re-elected and appointed as supervisor of the Company in 2011. Ms. Hu was vice president and chairwoman of the labour union of Shanghai Standard Component Import and Export Company Limited from 1988 to 2005. Ms. Hu graduated from Shanghai College of Electromechanics of the Chinese Communist Party in 1986, specializing in politics and management.

Zhang Jianping, aged 55, is a political affair officer. He was appointed as supervisor of the Company in 2008 and was re-elected and appointed as supervisor of the Company in 2011. 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 East China University of Political Science and Law majoring in business laws.

Senior management

Yan Qi, aged 46, 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.

Chen Hui, aged 43, 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 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 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.

Xiao Weifeng, aged 57, 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.

Wang Pin, aged 38, 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 34, 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 2011 to 31 December 2011 (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.

Amendments to the Articles of Association

The Company confirms that, in this Year, there is no major amendment to the Articles of Association.

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, implementing resolutions approved at shareholders' meeting and managing corporate governance.

At the extraordinary general meeting held on 21 October 2011, resolutions in relation to the appointment of the third session of the Board were passed, by which Mr. Sun Wei, Mr. Yuan Mifang were appointed as the executive directors of the Company; Mr Xu Jianguo and Mr Yu Xiufeng ceased to be the executive directors of the Company; Mr. Li Yin was appointed as the independent non-executive director of the Company; and Mr Liu Huangsong ceased to be the 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 three independent non-executive directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors are independent in accordance with the definition of the term "independence" set out in Rule 3.13 of the Listing Rules.

As at 31 December 2011, the members of the Group's directorship was listed as below:

Executive directors:

Mr. Zheng Yuanhu (Chairman)	Mr. Zhu Weiming
Mr. Hu Kang	Ms. Zhu Xi
Mr. Sun Wei	Mr. Yuan Mifang

Independent non-executive directors:

Mr. Chan Chun Hong (Thomas)
Mr. Ling Hong
Mr. Li Yin

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

Directors	Number of meetings	Actual attendance
Mr. Zheng Yuanhu	7	7
Mr. Zhu Weiming	7	7
Mr. Hu Kang	7	7
Ms. Zhu Xi	7	7
Mr. Sun Wei	1	1
Mr. Yuan Mifang	1	1
Mr. Chan Chun Hong (Thomas)#	7	7
Mr. Ling Hong #	7	7
Mr. Li Yin #	1	1
Mr. Yu Xiufeng*	6	6
Mr. Xu Jianguo*	6	6
Mr. Liu Huangsong*#	6	6

Independent non-executive directors.
* Director who has resigned as directors of the Company with effect from 21 October 2011.

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. Besides, to enable timely understanding by each Board member of the daily operations of the Company, the Company shall provide monthly the relevant information to each Board members, which shall include the development of the major investments of the Company, change of major shareholdings of the Company, monthly financial data of the Company and other information that is necessary for the directors to perform their responsibilities. 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.

CORPORATE GOVERNANCE REPORT

Trainings of the Directors

The Company provides regular trainings every year to all Board members and deliver relevant training information to the directors and supervisors regularly. The Company has received written attendance records of the trainings of all Directors.

Insurance of the Directors

During the year, the Company has arranged sufficient and proper insurances for the directors to well perform their responsibilities and risk aversion.

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.

Committees under the Board

Remuneration Committee

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 and making recommendation to the Board, evaluating the performance of executive directors and approving the terms of service contracts of executive directors. Executive directors, however, do not participate in determination relating to their own remuneration. Pursuant to the Articles of Association of the Company, the remuneration package must be approved by general meeting of shareholders.

The committee currently consists of three independent non-executive directors. It is chaired by Mr. Ling Hong and with Mr. Chan Chun Hong (Thomas) and Mr. Li Yin as members. Three 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.

The remuneration committee convened two meetings during 2011 and the attendance of each member is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong	2	2
Mr. Chan Chun Hong (Thomas)	2	2
Mr. Li Yin（appointed on 21 October 2011）	0	0
Mr. Liu Huangsong（resigned on 21 October 2011）	2	2

During the Year, remuneration committee reviewed and approved the proposed 2011 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. Li Yin. Three 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 attendace of each member is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Chan Chun Hong (Thomas)	2	2
Mr. Ling Hong	2	2
Mr. Li Yin（appointed on 21 October 2011）	0	0
Mr. Liu Huangsong（resigned on 21 October 2011）	2	2

During the two meetings, the audit committee approved the audited consolidated financial statements of 2010 and unaudited interim condensed consolidated financial statements of 2011 of the Group, met twice and discussed with external auditors regarding the legitimacy of the applied accounting principles and practices and reviewed findings regarding internal control discovered during the engagement.

CORPORATE GOVERNANCE REPORT

Nomination Committee

As at the date of this report, upon consent by the Board, a nomination committee was duly formed on 20 January 2012 (for details, please see the announcement issued on 20 January 2012).

The key responsibility of the nomination committee is to provide advices and recommendations in relation to the selection, qualifications, standards and procedures of the proposed directors, senior managements and key operation officers of the Company.

Mr. Zheng Yuanhu, Mr. Zhu Weiming, Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin have been appointed as members of the nomination committee of the third session of the Board. Mr. Zheng Yuanhu has been appointed as the chairman of the nomination committee, while Mr. Li Wai Chung was appointed as the secretary of the committee. They will hold office from 20 January 2012 to the date of the meeting for the election of the next session of the Board.

Strategic Committee

As at the date of this report, upon consent by the Board, a strategic committee was duly formed on 20 January 2012 (for details, please see the announcement issued on 20 January 2012).

As a specialized unit formed by the Board, the strategic committee is mainly responsible for conducting research and advising on the long term development plans and major investment decisions of the Company.

Mr. Zheng Yuanhu, Mr. Hu Kang, Ms. Zhu Xi, Mr. Sun Wei and Mr. Yuan Mifang have been appointed as members of the strategic committee of the third session of the Board. Mr. Zheng Yuanhu has been appointed as the chairman of the strategic committee, while Mr. Chen Hui was appointed as the secretary of the committee. They will hold office from 20 January 2012 to the date of the meeting for the election of the next session of the Board.

Independent auditors' remuneration

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

Auditing Service	RMB2.2 million
Non-audit services	RMB0.9 million

Non-audit services refer to due diligence and subsequent audit business for the acquisition. Ernst & Young has got the approval from the Audit Committee of the Company for providing due diligence and subsequent audit business in the acquisition of Shanghai Electric Insulating Material Company Limited.

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 2011, 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 performing 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 five different areas, namely control environment, risk assessment, control activities, information and communications 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 nine controlled subsidiaries, raising the awareness of operating risk among management through the circulation of assessment reports and continuing to monitor the remedial measures taken by the subsidiaries in response to management recommendations through on-site inspection and would urge the management of the relevant subsidiaries to take proactive stance to improve if weaknesses were discovered. Ernst & Yong has been appointed in 2011 to conduct enquiry on the risk management of the Group so as to set up clear direction for the planning and design of the risk-oriented internal control system.

In addition, with reference to the "Implementation Guidelines for Enterpise Internal Control" issued by five ministries of the nation on 26 April 2010 and the "Procedures and Standards of Internal Control" of the Company, the internal control department has conducted compliance inspection on every business procedure of the subsidiaries of the Company by using the internal control and risk management system of the Company. During the period, the internal control department has completed year-end stock check and management of trade receivables and work in process for nine controlled subsidiaries, effectively strengthening the control on the security and integrity of the assets. Under the supervision of the internal control department, all subsidiaries of the Company has fully utilized the internal and risk management system, thereby the system, which emphasizes upper-lower interaction, has been reinforced during the Year and has 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.

Rights of Shareholders

According to the Articles of Association, the procedures for convening an extraordinary general meeting upon request made by shareholders, making inquiries to the Board and rendering advice on the general meetings by the shareholders are as below:

(1) Convening an extraordinary general meeting upon request made by shareholders

Shareholders shall follow the following procedures when they call for an extraordinary general meeting or a meeting for classes of shares:

(i) Two or more shareholders holding together 10% or more of the number of shares with voting rights on the proposed meeting may sign one or more written requests in the same format and content and deliver to the Board for calling on an extraordinary general meeting or a meeting for classes of shares, stating the subjects of the meeting. The Board shall call on an extraordinary general meeting or a meeting for classes of shares as soon as possible after receiving the aforementioned written requests. The said number of shares is based on the data on the date when written requests are submitted by the shareholders.

(ii) In the case that notice for calling on a meeting is not

CORPORATE GOVERNANCE REPORT

issued within thirty days by the Board after receiving of the aforementioned written requests, shareholders who submit the requests may call a meeting by themselves within four months after receiving the aforementioned written requests by the Board. The calling procedures shall be, wherever possible, the same as the procedures adopted by the Board for calling meeting.

(2) Procedures for making inquiries to the Board by the shareholders

Upon requesting for inspection on the said information or asking for data, shareholders shall provide to the Company with written documents certifying the class as well as the number of the shares of the Company they hold. And the Company shall offer information and data as requested when their identity as shareholders is verified.

(3) Procedures for rendering advice on the general meetings

On the annual general meeting convened by the Company, shareholders which hold 5% or more of the total number of shares with voting rights are entitled to propose new resolutions to the Company by writing. Such issues from the proposal within the scope of the duties for the general meeting shall be placed on the agenda for the meeting.

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
16 March 2012

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 2011, the interests or short positions of the substantial shareholders who were entitled to exercise or control the exercise of 5% or more of the voting rights at any general meeting of Shanghai Prime Machinery Company Limited (the "Company") (other than the directors, chief executives and supervisors of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") and to the knowledge of the directors of the Company were as follows:

Name of substantial shareholder	Class of shares	Number of shares	Notes	Capacity	Nature of interest	Percentage of total number of Domestic/H shares in issue (%)	Percentage of total number of shares in issue (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
	H	6,708,000	(1)	Beneficial owner	Long position	0.88	0.47
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Others	Long position	100.00	47.18
	H	6,708,000	(1)	Others	Long position	0.88	0.47
Atlantis Capital Holdings Limited	H	85,000,000	(2)	Interest of a controlled corporation	Long position	11.19	5.91
Liu Yang	H	85,000,000	(2)	Interest of a controlled corporation	Long position	11.19	5.91
Templeton Asset Management Ltd.	H	76,022,000		Investment manager	Long position	10.01	5.29
Government of Singapore Investment Corporation Pte Ltd	H	62,694,052		Investment manager	Long position	8.25	4.36
Prudential Plc	H	46,176,000	(3)	Interest of a controlled corporation	Long position	6.08	3.21

OTHER INFORMATION

Notes:

(1) Shanghai Electric (Group) Corporation (the"Shanghai Electric Corporation") is wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, thus State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is deemed to be interested in the 678,576,184 domestic shares and 6,708,000 H shares of the Company held by Shanghai Electric Corporation.

As at 31 December 2011, except for the domestic shares of the Company, Shanghai Electric Corporation has also held 6,708,000 H shares of the Company, representing 0.88% of the H share class and 0.47% of the issued shares of the Company as disclosed by the Shanghai Electric Corporation to the Company. Shanghai Electric Corporation holds 685,284,184 issued shares of the Company in aggregate, representing 47.65% of the issued shares of the Company.

(2) Atlantis Capital Holdings Limited was owned as to 100% by Liu Yang, thus Atlantis Capital Holdings Limited and Liu Yang were deemed to be interested in 85,000,000 shares. The interest in 85,000,000 shares relates to the same block of shares in the Company.

(3) Prudential Plc is interested in 46,176,000 shares of the Company by virtue of its control over its 100% owned subsidiary Prudential Holdings Ltd, which in turn held a 100% interest in Prudential Corporation Holdings Ltd. Prudential Corporation Holdings Ltd in turn holds 100% interest in Prudential Asset Management (Hong Kong) Ltd, which held the direct interests of 46,176,000 shares in the Company.

Save as disclosed above, the Company is not aware of any other person (other than the directors, chief executives and supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2011 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 2011, none of the directors, supervisors or chief executives of the Company and their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded in the register required to be kept 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 Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the"Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. As at 31 December 2011, 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 2011 (the "Year").

Principal activities

The principal activities of the Group is the design, manufacture and sale of turbine blades, bearings, cutting tools, fasteners and others, the provision of related technical services, the provision of manpower service, industrial investment, domestic trade and entrepot trade of goods and technical services. Details of the principal activities of the subsidiaries are set out in note 18 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 2011 and the financial positions of the Company and the Group as at that date are set out in the financial statements on pages 42 to116.

The directors proposed the payment of a final dividend of RMB3.80 cents per ordinary share in respect of the Year to shareholders on the register of members as at 29 June 2012. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section in 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 RMB14 billion. Net of foreign exchange loss of RMB61 million, all of the proceeds have been applied during the period from the listing of the Company to 31 December 2011 in accordance with the proposed applications set out in the Company's listing prospectus as amended by the announcement of the Company dated 14 August 2009 and 12 August 2011 respectively, 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 RMB156 million was used for the cutting tool business for technology upgrades of manufacturing facilities of numerically controlled carbide and PCD cuttings tools;
- approximately RMB244 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 RMB7 million was used to reform and upgrade the management and control systems of the Company; and
- approximately RMB523 million was applied as additional working capital of the Group.

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 financial statements and restated/reclassified as appropriate, is set out on page 3 of this annual report. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 14 to the financial statements.

Share capital

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

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China ("PRC") 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 2011, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB330 million, of which RMB55 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, Ms. Zhu Xi, Mr. Sun Wei and Mr. Yuan Mifang as executive directors and Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin as independent non-executive directors. With effect from 21 October 2011, Mr. Yu Xiufeng and Mr. Xu Jianguo resigned as executive directors of the Company, and Mr. Liu Huangsong resigned as independent non-executive director of the Company. On the same date, Mr. Sun Wei and Mr. Yuan Mifang were appointed as executive directors of the Company, and Mr. Li Yin 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 the annual independence declarations from Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin. As at the date of this report, the Company considers the directors above are independent.

Directors', supervisors' and senior management's biographies

Biographical details of the directors, supervisors and senior management of the Company are set out on pages 16 to 21 of this report.

Directors' service contracts

Each of the directors of the Company has entered into service contracts with the Company on 21 October 2011. According to the terms of the service contracts, each of the directors agreed to take up the office of director of the Company 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 and debentures

As at 31 December 2011, 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 ("SFO"), or as otherwise required to notify the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the"Model Code").

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.

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

At 31 December 2011, 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:

REPORT OF THE DIRECTORS

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
	H	6,708,000	(1)	Beneficial owner	0.47
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Others	47.18
	H	6,708,000	(1)	Others	0.47
Atlantis Capital Holdings Limited	H	85,000,000	(2)	Interest of a controlled corporation	5.91
Liu Yang	H	85,000,000	(2)	Interest of a controlled corporation	5.91
Templeton Asset Management Ltd.	H	76,022,000		Investment manager	5.29

Notes:

(1) Shanghai Electric Corporation is wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, thus State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is deemed to be interested in the 678,576,184 domestic shares and 6,708,000 H shares of the Company held by Shanghai Electric Corporation.

As at 31 December 2011, except for the domestic shares of the Company, Shanghai Electric Corporation has also held 6,708,000 H shares of the Company, representing 0.88% of the H share class and 0.47% of the issued shares of the Company as disclosed by the Shanghai Electric Corporation to the Company. Shanghai Electric Corporation holds 685,284,184 issued shares of the Company in aggregate, representing 47.65% of the issued shares of the Company.

(2) Atlantis Capital Holdings Limited was owned as to 100% by Liu Yang, thus Atlantis Capital Holdings Limited and Liu Yang were deemed to be interested in 85,000,000 shares. The interest in 85,000,000 shares relates to the same block of shares in the Company.

Save as disclosed above, as at 31 December 2011, no person had regisrered 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 interests of 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 16 September 2011, the Group successfully bid for the 100% equity interest in Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener & Welding Material Technology Research Centre Co., Ltd. sold by Shanghai Electric Corporation from Shanghai United Assets and Equity Exchange (the "Equity Exchange"). On the even date, the Group entered into the agreement with Shanghai Electric Corporation in respect of the proposed acquisition. Under terms of the agreement, the Company is obligated to acquire Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited from Shanghai

Electric Corporation should the Company wins the bid on the Equity Exchange and obtains all necessary approvals. The bid prices for Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited were RMB30.8 million and RMB58.6 million, respectively. As a result, the total consideration for the proposed acquisition was RMB89.4 million. The acquisition was passed at the extraordinary general meeting of the Company on 21 October 2011. The actual takeover prices were RMB26.7 million and RMB42.6 million respectively.

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" refers to Shanghai Electric Group Company Limited. 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 ended 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 2011.

Wuxi Land Lease Agreement

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

REPORT OF THE DIRECTORS

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.

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. There was no rental payable to Shanghai Electric Corporation for the year ended 31 December 2011.

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 2011 was RMB13.3 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 PRCgovernment (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 exised framework sales agreement and shall cover a period of three years up to the financial year ended 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 2011 amounted to RMB5.9 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 ended 31 December 2011. The framework purchase agreement is renewable at the option of the Company for another term of three years by giving at least three months' notice prior to the expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

The relevant annual caps, representing the maximum aggregate purchase price as agreed between the parties for the years of 2009, 2010 and 2011 are RMB17.2 million, RMB28.2 million and RMB39.2 million, respectively. The Group's actual purchases from the Parent Group for the year ended 31 December 2011 amounted to RMB4.7 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 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,

REPORT OF THE DIRECTORS

- 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 ended 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 2011 amounted to RMB410.3 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 ended 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. The Group's actual purchases from Shanghai Electric Companies for the year ended 31 December 2011 amounted to RMB0.1 million.

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 2011.

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.

Director's interests in a competing business

None of the Directors or any of their associates had an interest in a business which causes or may cause significant competition with the business of the Group.

Post balance sheet events

On 24 February 2012, the Company successfully bid for the 100% equity interest of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") disposed by Shanghai Electric Development Co., Ltd. (" Shanghai Electric Development"), a wholly-owned subsidiary of Shanghai Electric Corporation through Shanghai United Assets and Equity Exchange (" the Shanghai Equity Exchange"). The successful bid price for Shanghai Insulating was RMB40 million. On 5 March 2012, the Company entered into the Shanghai Insulating Acquisition Agreement with Shanghai Electric Development at the successful bid price. Further details are available in the Company's press announcement dated 5 March 2012.

Independent auditors

Ernst & Young will retire according to the Company's Articles of Association and a resolution to reappoitment them as the independent auditors of the Company will be proposed at the forthcoming annual general meeting. The Company has not changed its independent auditors in the past three years.

By order of the Board
Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
16 March 2012

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, the supervisory committee of Shanghai Prime Machinery Company Limited (the "Company") has convened three thematic meetings 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 has attended two general meetings, four directors' meetings, conducted on-the-spot inspections and convened meetings of the supervisory committee, during which it has completed the review of the interim results, annual financial accounts, financial budgets and profit distribution of the Company, as well as participated in the review of the auditor's report and provided justifiable advices. Members of the supervisory committee have capitalized on their business expertise to facilitate performance of all duties of the supervisory committee.

With respect to progress of the Company in the year 2011, 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, and has confirmed that the budget report, financial report, annual report and interim report are true and reliable and that the auditing opinions expressed by the auditor engaged by the Company are objective and fair.

- The supervisory committee has supervised the operating activities of the Company, and believed that the Company has established a relatively mature internal control system and a corresponding internal control structure, and has made great efforts to execute and improve the same so as to mitigate various operating risks of the Company.

- The supervisory committee has examined the use of proceeds of the Company, and has considered that the use of proceeds of the Company is basically in concert with those disclosed in the prospectus of the Company as amended by the announcement of the Company dated 14 August 2009 and 12 August 2011, respectively. As at the date of this report, all of the proceeds from the Company's initial public offering have been used up..

- The supervisory committee has supervised the connected transactions of the Company, and believed 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, impartial and without prejudice to the interests of other shareholders and the Company, while all continuing connected transaction have not exceed the exempted annual cap during 2011.

- The supervisory committee has supervised duty fulfillment of the directors and management of the Company, and has confirmed that the directors, general managers 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 2012, 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
16 March 2012

INDEPENDENT AUDITORS' REPORT

To the shareholders of Shanghai Prime Machinery Company Limited

(Established 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 116, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 2011, 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

16 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
REVENUE	5	3,551,526	2,789,976
Cost of sales		(2,864,167)	(2,234,901)
Gross profit		687,359	555,075
Other income and gains	5	199,435	145,129
Selling and distribution costs		(116,363)	(102,925)
Administrative expenses		(301,460)	(255,378)
Other expenses		(219,084)	(161,077)
Finance costs	7	(17,826)	(6,743)
Share of profits and losses of associates		27,046	27,597
PROFIT BEFORE TAX	6	259,107	201,678
Income tax expense	10	(36,117)	(16,572)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		222,990	185,106
Profit and total comprehensive income attributable to:			
Owners of the Company	11	221,532	183,012
Non-controlling interests		1,458	2,094
		222,990	185,106
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	13	15.40	12.72

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	2011 RMB'000	2010 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,933,170**	1,244,090
Prepaid land premiums/land lease payments	15	**155,944**	125,429
Goodwill	16	**8,818**	8,818
Other intangible assets	17	**23,928**	7,011
Investments in associates	19	**196,180**	145,696
Available-for-sale investments	20	**872**	4,372
Long-term prepayments		**8,290**	495,595
Deferred tax assets	21	**31,814**	21,564
Total non-current assets		**2,359,016**	2,052,575
CURRENT ASSETS			
Inventories	22	**789,266**	859,760
Trade receivables	23	**688,060**	410,735
Bills receivable	24	**371,674**	102,325
Prepayments, deposits and other receivables	25	**168,254**	157,290
Restricted deposits	27	**56,595**	102,899
Cash and cash equivalents	27	**867,968**	986,280
Total current assets		**2,941,817**	2,619,289
CURRENT LIABILITIES			
Trade payables	28	**689,809**	476,232
Bills payable	29	**124,210**	239,380
Tax payable		**63,673**	46,526
Other payables and accruals	30	**210,119**	156,420
Interest-bearing bank and other borrowings	31	**346,590**	120,200
Total current liabilities		**1,434,401**	1,038,758
NET CURRENT ASSETS		**1,507,416**	1,580,531
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,866,432**	3,633,106

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,866,432	3,633,106
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	380,000	330,000
Government grants		328,446	296,717
Other long-term payables		18,377	14,863
Deferred tax liabilities	21	8,832	1,500
Total non-current liabilities		735,655	643,080
Net assets		3,130,777	2,990,026
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	1,438,286	1,438,286
Reserves	33(a)	1,621,232	1,490,569
Proposed final dividend	12	54,655	46,025
		3,114,173	2,974,880
Non-controlling interests		16,604	15,146
Total equity		3,130,777	2,990,026

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 dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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 [2]		-	-	74,903	-	480	-	75,383	-	75,383
Acquisition of Research Centre [3]	34	-	-	7,144	290	780	-	8,214	-	8,214
Acquisition of Bolting [3]	34	-	-	12,363	1,949	5,805	-	20,117	-	20,117
As restated		1,438,286	702,945	36,320	142,849	545,739	40,272	2,906,411	14,450	2,920,861
Total comprehensive income for the year		-	-	-	-	183,012	-	183,012	2,094	185,106
Appropriation to surplus reserves		-	-	-	35,965	(35,965)	-	-	-	-
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 [2]		-	-	(76,163)	-	-	-	(76,163)	-	(76,163)
At 31 December 2010		1,438,286	702,945 [1]	(37,951) [1]	178,814 [1]	646,761 [1]	46,025	2,974,880	15,146	2,990,026

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

		Attributable to owners of the Company								
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
1 January 2011										
As previously reported		1,438,286	702,945	(57,458)	176,412	638,708	46,025	2,944,918	15,146	2,960,064
Acquisition of Research Centre [3]	34	-	-	7,144	314	1,001	-	8,459	-	8,459
Acquisition of Bolting [3]	34	-	-	12,363	2,088	7,052	-	21,503	-	21,503
As restated		1,438,286	702,945	(37,951)	178,814	646,761	46,025	2,974,880	15,146	2,990,026
Total comprehensive income for the year		-	-	-	-	221,532	-	221,532	1,458	222,990
Appropriation to surplus reserves		-	-	-	32,347	(32,347)	-	-	-	-
Final 2010 dividend declared		-	-	-	-	(14,300)	(46,025)	(60,325)	-	(60,325)
Proposed final 2011 dividends	12	-	-	-	-	(54,655)	54,655	-	-	-
Research Centre and Bolting reform [3]	34	-	-	58,542	(4,032)	(7,050)	-	47,460	-	47,460
Acquisition of Research Centre and Bolting [3]	34	-	-	(69,374)	-	-	-	(69,374)	-	(69,374)
At 31 December 2011		1,438,286	702,945 [1]	(48,783) [1]	207,129 [1]	759,941 [1]	54,655	3,114,173	16,604	3,130,777

Notes

1 These reserve accounts comprise the consolidated reserves of RMB1,621,232,000 (2010: RMB1,490,569,000) in the consolidated statement of financial position.

2 Zhenhua Bearing refers to Shanghai Zhenhua Bearing Factory Company Limited.

3 Bolting and Research Centre refer to Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited, respectively, whose details are set out in note 34 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		259,107	201,678
Adjustments for:			
Finance costs	7	17,826	6,743
Share of profits and losses of associates		(27,046)	(27,597)
Interest income from loans receivable, bank balances and deposits and other financial assets	5	(20,036)	(14,396)
Dividend income from available-for-sale investments	5	(8,361)	(105)
Depreciation	6	128,485	109,458
Amortisation of prepaid land premiums/land lease payments	6	3,183	2,783
Amortisation of other intangible assets	6	2,930	1,994
Foreign exchange differences, net	6	8,474	8,475
Gain on disposal of items of property, plant and equipment, net	5	(6,468)	(1,307)
Gain on write-back of long-aged payables	5	(13,582)	(5,290)
Gain on disposal of an associate	5	-	(4,089)
Gain on disposal of available-for-sale investments	5	(3,632)	-
Impairment of receivables	6	1,571	1,723
Impairment of property, plant and equipment	6	10,171	4,055
Write-down of inventories to net realisable value	6	20,526	12,279
		373,148	296,404
Decrease/(increase) in inventories		49,968	(193,190)
Increase in trade receivables, bills receivable, prepayments, deposits and other receivables		(469,022)	(88,366)
Increase in trade payables, bills payable, other payables and accruals		164,713	195,226
Increase/(decrease) in other long-term payables		3,514	(22,960)
(Decrease)/increase in government grants		(18,271)	23,475
Cash generated from operations		104,050	210,589
Taxes paid		(27,389)	(17,802)
Net cash flows from operating activities		76,661	192,787

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		19,601	15,365
Dividend income from available-for-sale investments	5	8,361	105
Dividends received from associates		2,400	900
Purchases of items of property, plant and equipment		(364,617)	(683,633)
Proceeds from disposal of items of property, plant and equipment		77,122	35,235
Prepaid land premiums/land lease payments		(10,530)	-
Additions to other intangible assets		(17,059)	(2,545)
Receipt of government grants		-	95,315
Disposal of an associate		-	20,504
Acquisition of subsidiaries	34	(69,374)	(76,163)
Additional contribution to the share capital of an associate		(25,838)	-
Acquisition of an equity interest in an associate		-	(3,749)
Acquisition of non-controlling interests		-	(1,404)
Disposal of available-for-sale investments		7,132	200
Increase in restricted deposits		-	(14,932)
Decrease in non-restricted deposits with original maturity of over three months when acquired		39,407	325,960
Net cash flows used in investing activities		(333,395)	(288,842)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		496,590	655,000
Repayment of bank and other borrowings		(220,200)	(317,556)
Dividends paid		(60,325)	(40,272)
Interest paid		(37,002)	(12,368)
Net cash flows from financing activities		179,063	284,804
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(77,671)	188,749
Cash and cash equivalents at beginning of year		935,201	747,562
Effect of foreign exchange rate changes, net		(1,234)	(1,110)
CASH AND CASH EQUIVALENTS AT END OF YEAR		856,296	935,201
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	387,181	479,983
Non-restricted time deposits with original maturity of less than three months when acquired		469,115	455,218
Cash and cash equivalents as stated in the statement of cash flows		856,296	935,201

STATEMENT OF FINANCIAL POSITION

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	3,159	3,387
Other intangible assets	17	2,706	3,626
Investments in subsidiaries	18	2,083,410	1,824,044
Investments in associates	19	119,845	94,008
Deferred tax assets	21	1,306	1,068
Total non-current assets		2,210,426	1,926,133
CURRENT ASSETS			
Trade receivables	23	67,302	58,062
Bills receivable	24	250	100
Prepayments, deposits and other receivables	25	292,395	353,283
Loans receivable	26	100,000	142,000
Cash and cash equivalents	27	483,404	531,739
Total current assets		943,351	1,085,184
CURRENT LIABILITIES			
Trade payables	28	64,717	10,505
Tax payable		1,964	(105)
Other payables and accruals	30	382,900	391,361
Interest-bearing bank and other borrowings	31	170,000	100,000
Total current liabilities		619,581	501,761
NET CURRENT ASSETS		323,770	583,423
TOTAL ASSETS LESS CURRENT LIABILITIES		2,534,196	2,509,556
NON-CURRENT LIABILITIES			
Government grants		980	1,260
Total non-current liabilities		980	1,260
Net assets		2,533,216	2,508,296
EQUITY			
Issued capital	32	1,438,286	1,438,286
Reserves	33(b)	1,040,275	1,023,985
Proposed final dividends	12	54,655	46,025
Total equity		2,533,216	2,508,296

Zheng Yuanhu	Hu Kang
Director	Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Shanghai Prime Machinery Company Limited (the "Company") is a joint stock limited liability company established 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, the provision of manpower services, industrial investment, domestic trade and 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

2.2 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 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*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, 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) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 38 to the consolidated financial statements.

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment 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.

2.3 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 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*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 9	*Financial Instruments*[5]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015

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

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 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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

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

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 *Income Taxes - Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The application of these new amendments are unlikely to have any material financial impact on the Group.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The application of this revised standard is unlikely to have any material financial impact on the Group.

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 investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

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. Adjustments are made to bring into line any dissimilar accounting policies that may existed. 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.

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 acquisition had occurred and the Acquired Subsidiary had been combined from 1 January 2010, 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 2010, the earliest date presented, regardless of the date of the business combinations under common control.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combination under common control (continued)

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 are accounted for by using merger accounting are recognised as an expense in the year in which they are incurred.

Business combination not under common control

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition 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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combination not under common control (continued)

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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 8%
Machinery and equipment	4% to 24%
Motor vehicles	7% to 24%
Office and other equipment	10% to 20%
Leasehold improvements	10% to 20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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 is stated at cost less any impairment losses and is amortised on the straight-line basis over the estimated useful lives of 3 to 5 years.

Patents and licences

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

Research and development costs

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs in the income statement. 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.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

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, in rare circumstances, 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. 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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

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 finance costs for loans and in other expenses for receivables.

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 them to maturity. Held-to-maturity investments 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 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.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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 revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investment 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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 statement – 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, it evaluates if and to what extent it has retained the risk and reward of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the 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 plus, in the case of loans and borrowings, 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 subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the 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 and interest rate swaps, to hedge its foreign currency risk and interest risk, respectively. 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:

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)

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.

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 5.23% and 6.21% 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

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates 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 arising on settlement or translation of monetary items are taken to the income statement with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

(i) Classification of leases

The Group classifies its leases into either finance leases or operating leases taking into account the guidance of HKAS 17 "Leases".

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For leases where substantially all the rewards and risks of ownership of assets remain with the lessor, they are being treated as operating leases.

Estimation uncertainty

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

(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 2011 was RMB8,818,000 (2010: RMB8,818,000). Further details are given in note 16.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(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 2011 was RMB218,000 (2010: RMB1,340,000). The amount of unrecognised tax losses at 31 December 2011 was RMB15,535,000 (2010: RMB11,438,000). 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 engages in the production and sale of bearings;

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Management monitors the results of 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.

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2011						
Segment revenue:						
Sales to external customers	753,043	1,000,608	602,963	1,194,912	-	3,551,526
Other revenue	16,970	120,913	19,972	11,125	-	168,980
Total	770,013	1,121,521	622,935	1,206,037	-	3,720,506
Reconciliation:						
Elimination of intersegment sales						-
Revenue						3,720,506
Segment results	46,896	123,596	69,609	23,202	-	263,303
Reconciliation:						
Interest and dividend income and unallocated gains						30,455
Corporate and other unallocated expenses						(43,871)
Finance costs						(17,826)
Share of profits and losses of associates	6,960	-	2,190	-	17,896	27,046
Profit before tax						259,107

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets	1,213,742	2,462,855	644,164	775,807	394,268	5,490,836
Reconciliation:						
Elimination of intersegment receivables						(876,156)
Investments in associates	88,599	-	18,811	-	88,770	196,180
Corporate and other unallocated assets						489,973
Total assets						5,300,833
Segment liabilities	399,601	884,486	204,462	389,853	440,903	2,319,305
Reconciliation:						
Elimination of intersegment payables						(876,156)
Corporate and other unallocated liabilities						726,907
Total liabilities						2,170,056
Other segment information:						
Impairment losses recognised in profit or loss	3,031	7,149	9,506	12,047	535	32,268
Other non-cash expenses	2,150	-	-	-	-	2,150
Depreciation and amortisation	21,501	50,988	31,280	28,118	2,711	134,598
Capital expenditure	65,023	268,599	61,415	16,895	2,160	414,092*

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

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2010 (restated)						
Segment revenue:						
Sales to external customers	648,729	700,148	516,560	924,539	-	2,789,976
Other revenue	7,986	77,801	34,309	6,931	-	127,027
Total	656,715	777,949	550,869	931,470	-	2,917,003

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Reconciliation:						
Elimination of intersegment sales						-
Revenue						2,917,003
Segment results	43,618	81,733	65,422	5,535	-	196,308
Reconciliation:						
Interest and dividend income and unallocated gains						18,102
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						201,678
Segment assets	1,038,572	2,075,632	587,560	740,320	558,118	5,000,202
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						4,671,864
Segment liabilities	375,593	832,783	162,152	415,892	460,075	2,246,495
Reconciliation:						
Elimination of intersegment payables						(1,015,344)
Corporate and other unallocated liabilities						450,687
Total liabilities						1,681,838
Other segment information:						
Impairment losses recognised/(reversed) in profit or loss	7,605	-	10,585	(133)	-	18,057
Depreciation and amortisation	19,489	40,185	26,203	25,882	2,476	114,235
Capital expenditure	108,381	503,244	68,205	5,155	2,046	687,031

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011			2010 (Restated)		
	PRC	Outside PRC	Total	PRC	Outside PRC	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	**2,301,544**	**1,249,982**	**3,551,526**	1,825,537	964,439	2,789,976

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

(b) Non-current assets

	2011	2010
	RMB'000	RMB'000
		(Restated)
PRC	**2,326,330**	2,026,639

The non-current assets 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 RMB329,237,000 (2010: RMB226,827,000) 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Revenue		
Sale of goods	3,527,290	2,757,472
Rendering of services	24,236	32,504
	3,551,526	2,789,976
Other income		
Dividend income from available-for-sale investments	8,361	105
Interest income from loans receivable, bank balances and deposits, and other financial assets	20,036	14,396
Gross rental income	1,434	668
Profit on sales of raw materials, spare parts and semi-finished goods	25,978	18,120
Government grants *	109,512	95,595
Compensation income	295	458
Technical service income	4,020	580
Others	6,117	4,521
	175,753	134,443
Gains		
Gain on disposal of items of property, plant and equipment, net	6,468	1,307
Gain on disposal of an associate	-	4,089
Gain on disposal of available for sale investments	3,632	-
Gain on write-back of long-aged payables	13,582	5,290
	23,682	10,686
	199,435	145,129

* Various government grants have been received during the years ended 31 December 2011 and 2010. 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:

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
Cost of inventories sold		**2,823,800**	2,200,057
Cost of services provided		**19,841**	22,565
Depreciation	14	**128,485**	109,458
Amortisation of prepaid land premiums/land lease payments	15	**3,183**	2,783
Amortisation of other intangible assets *	17	**2,930**	1,994
Write-down of inventories to net realisable value		**20,526**	12,279
Impairment of receivables *		**1,571**	1,723
Impairment of property, plant and equipment *	14	**10,171**	4,055
Research and development costs: *			
Current year expenditure		**99,466**	75,737
Minimum lease payments under operating leases:			
Land and buildings		**16,913**	19,675
Vehicles		**1,897**	-
Auditors' remuneration:			
Audit services		**2,470**	2,500
Non-audit services		**1,455**	1,013
Employee benefit expense (including directors' and supervisors' remuneration – note 8):			
Wages and salaries		**341,815**	283,274
Defined contribution pension scheme (note i)		**28,254**	27,497
Medical benefits (note iii)		**14,107**	12,966
Housing fund (note iv)		**11,595**	11,398
Cash housing subsidies		**1,068**	760
		396,839	335,895
Foreign exchange differences, net		**8,474**	8,475

* 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 had early retired before 1 September 2005 are 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 RMB943,000 (2010: RMB1,639,000) was related to the year ended 31 December 2011. 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Interest on bank and other loans wholly repayable within five years	**38,387**	13,088
Less: Interest capitalised	**(20,561)**	(6,345)
	17,826	6,743

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	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Fees	509	536	-	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	686	889	548	497
Performance related bonuses	414	45	234	145
Pension scheme contributions	60	56	60	55
Total	1,669	1,526	842	697

(a) Independent non-executive directors

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

	2011 RMB'000	2010 RMB'000
Chan Chun Hong, Thomas	199	209
Zhou Feida	-	78
Li Yin	36	-
Ling Hong	149	92
Liu Huangsong	125	157
	509	536

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and supervisors

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011				
Executive directors:				
Zheng Yuanhu	-	-	-	-
Zhu Weiming	343	207	30	580
Hu Kang	343	207	30	580
Sun Wei	-	-	-	-
Yuan Mifang	-	-	-	-
Yu Xiufeng	-	-	-	-
Zhu Xi	-	-	-	-
Xu Jianguo	-	-	-	-
	686	414	60	1,160
Supervisors:				
Xu Chao	-	-	-	-
Hu Peiming	156	98	30	284
Zhang Jianping	392	136	30	558
	548	234	60	842
	1,234	648	120	2,002
2010				
Executive directors:				
Zheng Yuanhu	-	-	-	-
Zhu Weiming	443	24	28	495
Hu Kang	446	21	28	495
Yu Xiufeng	-	-	-	-
Ye Fucai	-	-	-	-
Zhu Xi	-	-	-	-
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

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2010: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the five highest paid employees, including remaining three (2010: three) non-director and non-supervisor, highest paid employees for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	2,162	2,385
Performance related bonuses	1,087	540
Pension scheme contributions	149	166
	3,398	3,091

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 (2010: 25%) under the income tax rules and regulations in the PRC.

Four subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Tool Works Company Limited ("Tool Works"), Zhenhua Bearing and Research Centre were subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2008, 2009 and 2010, as they were respectively granted the High and New Technology Enterprises ("HNTEs") qualification by the relevant government authority on 25 December 2008. These subsidiaries had submitted their application to renew their HNTEs qualification for another 3 years ending 31 December 2013. The group is of the opinion that these subsidiaries will be successful in the application and accordingly, the applicable corporate income tax rate is 15% for the years ending 31 December 2013.

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, 2010 and 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.

	2011 RMB'000	2010 RMB'000 (Restated)
Group:		
Current – the PRC		
Charge for the year	47,147	29,919
Underprovision/(overprovision) in prior years	65	(8,844)
Deferred (note 21)	(11,095)	(4,503)
Total tax charge for the year	36,117	16,572

10. INCOME TAX (continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before tax	259,107	201,678
Tax at the statutory tax rate of 25% (2010: 25%)	64,777	50,419
Preferential tax rate for certain subsidiaries	(21,701)	(20,224)
Effect of tax rate change:		
On opening deferred tax	(1,024)	-
Adjustments in respect of current tax of previous period	65	(8,844)
Profits and losses attributable to associates	(6,214)	(4,827)
Income not subject to tax	(1,739)	(1,198)
Expenses not deductible for tax	3,109	2,495
Tax losses utilised from previous periods	(652)	(192)
Tax losses not recognised	1,393	1,649
Effect of tax incentive	(1,897)	(2,706)
Tax charge at the Group's effective rate	36,117	16,572
The Group's effective income tax rate	13.9%	8.2%

The share of tax attributable to associates amounting to RMB9,235,000 (2010: RMB8,244,000) 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 2011 includes a profit of RMB70,945,000 (2010: RMB128,423,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Proposed final – RMB3.80 cents (2010: RMB3.20 cents) per ordinary share	54,655	46,025

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 2011 and 2010 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2011 RMB'000	2010 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	**221,532**	183,012

	Number of shares 2011	2010
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 2011							
Cost:							
At 1 January 2011							
As previously reported	118,167	1,410,186	25,880	23,906	385,081	23,570	1,986,790
Acquisition of Bolting and Research Centre	22,896	21,401	1,963	7,956	708	-	54,924
As restated	141,063	1,431,587	27,843	31,862	385,789	23,570	2,041,714
Additions	-	38,011	4,279	2,432	820,592	8,494	873,808
Fair value adjustments arising from the corporate reform of Bolting and Research Centre (note 34)	18,216	6,652	(543)	(296)	-	-	24,029
Disposals	(51,315)	(93,734)	(9,625)	(3,071)	(246)	(3,102)	(161,093)
Offset against depreciation due to the corporate reform of Bolting and Research Centre	(587)	(16,003)	(862)	(5,051)	-	-	(22,503)
Transfers	378,674	423,122	2,313	366	(804,475)	-	-
At 31 December 2011	486,051	1,789,635	23,405	26,242	401,660	28,962	2,755,955

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
Accumulated depreciation and impairment:							
At 1 January 2011							
As previously reported	22,889	693,574	16,943	17,339	408	12,136	763,289
Acquisition of Bolting and Research Centre	13,012	13,758	1,441	6,124	-	-	34,335
As restated	35,901	707,332	18,384	23,463	408	12,136	797,624
Depreciation provided during the year	12,199	105,971	2,679	3,118	-	4,518	128,485
Fair value adjustments arising from the corporate reform of Bolting and Research Centre (note 34)	(2,964)	3,368	(654)	(303)	-	-	(553)
Offset against depreciation due to the corporate reform of Bolting and Research Centre	(587)	(16,003)	(862)	(5,051)	-	-	(22,503)
Impairment	-	10,171	-	-	-	-	10,171
Disposals	(16,960)	(61,592)	(6,663)	(2,277)	-	(2,947)	(90,439)
At 31 December 2011	27,589	749,247	12,884	18,950	408	13,707	822,785
Net book value:							
At 31 December 2011	458,462	1,040,388	10,521	7,292	401,252	15,255	1,933,170

31 December 2010 (Restated)

	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
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, Bolting and Research Centre	22,896	41,354	2,222	7,587	3	-	74,062
As restated	189,140	1,405,910	26,732	31,954	170,117	19,035	1,842,888
Additions	-	4,052	2,385	1,261	284,129	450	292,277
Disposals	(65,880)	(23,302)	(1,907)	(1,846)	(473)	(43)	(93,451)
Transfers	17,803	44,927	633	493	(67,984)	4,128	-
At 31 December 2010	141,063	1,431,587	27,843	31,862	385,789	23,570	2,041,714

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
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, Bolting and Research Centre	12,092	14,799	1,325	5,967	-	-	34,183
As restated	62,294	632,678	16,868	21,627	408	9,427	743,302
Depreciation provided during the year	9,566	90,398	3,267	3,518	-	2,709	109,458
Impairment	-	4,055	-	-	-	-	4,055
Disposals	(35,959)	(19,799)	(1,751)	(1,682)	-	-	(59,191)
At 31 December 2010	35,901	707,332	18,384	23,463	408	12,136	797,624
Net book value:							
At 31 December 2010	105,162	724,255	9,459	8,399	385,381	11,434	1,244,090

Company

	Motor vehicles RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2011				
Cost:				
At 1 January 2011	1,607	7,155	2,872	11,634
Additions	1,141	1,007	-	2,148
Disposals	(1,158)	(236)	-	(1,394)
At 31 December 2011	1,590	7,926	2,872	12,388
Accumulated depreciation:				
At 1 January 2011	1,209	4,877	2,161	8,247
Depreciation provided during the year	234	1,397	574	2,205
Disposals	(1,013)	(210)	-	(1,223)
At 31 December 2011	430	6,064	2,735	9,229
Net book value:				
At 31 December 2011	1,160	1,862	137	3,159

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

	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:				
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

As at 31 December 2011, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB1,970,000 (2010: RMB2,187,000).

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	2011 RMB'000	2010 RMB'000
At cost:		
At beginning of year	**137,207**	137,207
Additions	**10,530**	-
Fair value adjustments arising from the corporate reform of Bolting and Research Centre (note 34)	**23,856**	-
At end of year	**171,593**	137,207

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS (continued)

Group (continued)

	2011 RMB'000	2010 RMB'000
Accumulated amortisation:		
At beginning of year	8,983	6,200
Recognised during the year	3,183	2,783
At end of year	12,166	8,983
Net book value:		
At end of year	159,427	128,224
Of which:		
Current portion included in prepayments, deposits and other receivables (note 25)	3,483	2,795
Non-current portion	155,944	125,429
	159,427	128,224

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 2010 and 2011	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 2011 and 2010. 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

	Deferred development costs RMB'000	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2011				
At cost:				
At 1 January 2011	-	2,500	10,262	12,762
Additions	14,703	-	2,356	17,059
Fair value adjustments arising from Bolting and Research Centre corporate reform (note 34)	263	2,525	-	2,788
At 31 December 2011	14,966	5,025	12,618	32,609
Accumulated amortisation:				
At 1 January 2011	-	750	5,001	5,751
Amortisation provided during the year	517	745	1,668	2,930
At 31 December 2011	517	1,495	6,669	8,681
Net book value:				
At 31 December 2011	14,449	3,530	5,949	23,928

	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
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

17. OTHER INTANGIBLE ASSETS (continued)

Company

	Software RMB'000
31 December 2011	
At cost:	
At 1 January 2011	4,741
Additions	13
At 31 December 2011	4,754
Accumulated amortisation:	
At 1 January 2011	1,115
Amortisation provided during the year	933
At 31 December 2011	2,048
Net book value:	
At 31 December 2011	2,706
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

18. INVESTMENTS IN SUBSIDIARIES

Company

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	**1,900,410**	1,771,036
Due from a subsidiary	**183,000**	53,008
	2,083,410	1,824,044

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 RMB183,000,000 (2010: RMB53,008,000) 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		Principal activities
			Direct	Indirect	
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	RMB660,460	99.73%	0.27%	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	RMB54,500	100%	-	Production and sale of bearings and related specific equipment
Shanghai United Bearing Company Limited 上海聯合滾動軸承有限公司	PRC	US$12,670	90%	-	Production and sale of bearings and related specific equipment
Shanghai Electric Bearing Company Limited 上海電气軸承有限公司	PRC	RMB250,000	100%	-	Production and sale of bearing products
Shanghai High Strength Bolting Company Limited 上海高強度螺栓廠有限公司	PRC	RMB11,865	100%	-	Production of high strength bolts and sales of the products
Shanghai Fastener and Welding Material Technology Research Centre Company Limited 上海市緊固件和焊接材料技術研究所有限公司	PRC	RMB1,174	100%	-	Research and development, provision of services of expertise and quality testing for fasteners and related equipment

19. INVESTMENTS IN ASSOCIATES

Group

	2011 RMB'000	2010 RMB'000
Share of net assets	**196,180**	145,696

The Group's balances of trade receivables and other payables and accruals with its associates are disclosed in note 23 and 30 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$23,750	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.

During the year, Shanghai General Bearing Company Limited has increased its paid up/ registered capital by US$10,000,000 to US$23,750,000, of which the Group has contributed US$4,000,000 and the Group's equity interests after the contribution is 40%

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

	2011 RMB'000	2010 RMB'000
Assets	**827,819**	682,379
Liabilities	**(256,758)**	(251,908)
Revenue	**865,183**	722,574
Profit	**83,639**	79,074

Company

	2011 RMB'000	2010 RMB'000
Unlisted investments, at cost	**119,845**	94,008

20. AVAILABLE-FOR-SALE INVESTMENTS

	2011 RMB'000	2010 RMB'000 (Restated)
Unlisted investments, at cost	872	4,372

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 2011	1,340	11,675	177	8,372	21,564
Credited/(charged) to profit or loss during the year	(1,122)	4,327	130	6,915	10,250
At 31 December 2011	218	16,002	307	15,287	31,814

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January 2011	1,500	1,500
Adjusting arising from Bolting and Research Centre corporate reform (note 34)	8,177	8,177
Credited to profit or loss during the year	(845)	(845)
At 31 December 2011	8,832	8,832

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 2010	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	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

As at 31 December 2011, the Group has tax losses of RMB15,535,000 (2010: RMB11,438,000), 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, depreciation in excess of related depreciation allowance and impairment of assets.

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

22. INVENTORIES

Group

	2011 RMB'000	2010 RMB'000 (Restated)
Raw materials	175,292	200,094
Work in progress	251,980	300,560
Finished goods	361,994	359,106
	789,266	859,760

23. TRADE RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000 (Restated)
Trade receivables	701,399	426,346
Impairment	(13,339)	(15,611)
	688,060	410,735

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:

	2011 RMB'000	2010 RMB'000 (Restated)
Within 3 months	517,450	301,720
Over 3 months but within 6 months	123,708	68,442
Over 6 months but within 1 year	44,890	35,769
Over 1 year but within 2 years	2,002	4,614
Over 2 years	10	190
	688,060	410,735

23. TRADE RECEIVABLES (continued)

Group (continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
At 1 January	**15,611**	36,190
Impairment losses recognised	**3,346**	2,300
Impairment losses reversed	**(2,811)**	(499)
Amount written off as uncollectible	**(2,807)**	(22,380)
	13,339	15,611

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 RMB28,979,000 (2010: RMB39,319,000). 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Neither past due nor impaired	**492,059**	300,504
Less than 3 months past due	**148,047**	81,036
3 to 6 months past due	**26,789**	3,489
6 to 9 months past due	**4,691**	293
9 months to 1 year past due	**-**	21
1 to 2 years past due	**834**	1,684
	672,420	387,027

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.

23. TRADE RECEIVABLES (continued)

Group (continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
Due from SEC group companies	99,735	16,969
Due from associates	653	359
	100,388	17,328

Company

	2011 RMB'000	2010 RMB'000
Within 3 months	63,006	50,532
Over 3 months but within 6 months	3,462	5,846
Over 1 year but within 2 years	834	1,684
	67,302	58,062

	2011 RMB'000	2010 RMB'000
Due from SEC group companies	834	1,684

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

	2011 RMB'000	2010 RMB'000 (Restated)
Within 3 months	111,730	53,065
Over 3 months but within 6 months	259,944	49,260
	371,674	102,325

Included in the above balance are bills of RMB132,059,000 (2010: RMB8,355,000) issued by SEC group companies.

24. BILLS RECEIVABLE (continued)

Company

	2011 RMB'000	2010 RMB'000
Within 3 months	250	100

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

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2011 RMB'000	2010 RMB'000 (Restated)
Prepayments	39,272	83,813
Deposits	2,866	1,781
Prepaid land premiums/land lease payments (note 15)	3,483	2,795
Value-added tax refunds and prepaid value-added tax	42,608	51,934
Other receivables	59,965	7,117
Due from ultimate holding company	20,017	-
Due from SEC group companies	43	9,850
	168,254	157,290

Company

	2011 RMB'000	2010 RMB'000
Prepayments	1,849	956
Deposits	232	218
Value-added tax refunds and prepaid value-added tax	6,302	5,087
Other receivables	2,140	2,204
Due from ultimate holding company	20,017	-
Due from SEC group companies	4	-
Due from subsidiaries	261,851	344,818
	292,395	353,283

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 RMB100,000,000 (2010: RMB142,000,000) represents entrusted loans provided by the Company to Wuxi Turbine Blade through China Construction Bank. The loans are unsecured, bearing interest at rates ranging from 4.23% to 5.90% (2010: from 4.21% to 4.78%) per annum and for periods of one year beginning from 25 July 2011, 28 September 2011 and 25 November 2011 (2010: 29 January 2010, 28 September 2010 and 15 November 2010). The carrying amounts of the loans approximate to their fair value.

27. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

Group

	2011 RMB'000	2010 RMB'000 (Restated)
Cash and bank balances	387,181	479,983
Unpledged time deposit with maturity within 3 months	469,115	455,218
Unpledged time deposit with maturity over 3 months	11,672	51,079
Pledged time deposit with maturity over 3 months	56,595	102,899
	924,563	1,089,179
Less: Restricted deposits	56,595	102,899
Cash and cash equivalents as stated in the statement of financial position	867,968	986,280
Cash and cash equivalents as stated in the statement of cash flows	856,296	935,201

The restricted deposits can be analysed as follows:

	2011 RMB'000	2010 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	56,595	102,899

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

	2011		2010	
	Original currency in'000	RMB equivalent in'000	Original currency in'000 (Restated)	RMB equivalent in'000 (Restated)
Cash and bank balances:				
USD	1,125	7,096	919	6,084
EUR	929	7,584	1,879	16,548
JPY	8,110	658	2,642	215

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.

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

Company

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**483,404**	531,739

As at 31 December 2011, the Company's cash and bank balances are denominated in RMB, except for an amount of US$529,000. As at 31 December 2010, the Company's cash and bank balances are denominated in RMB, except for an amount of US$163,000.

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

	2011 RMB'000	2010 RMB'000 (Restated)
Within 3 months	**580,785**	404,539
Over 3 months but within 6 months	**71,462**	41,049
Over 6 months but within 1 year	**29,566**	21,887
Over 1 year but within 2 years	**6,103**	4,638
Over 2 years	**1,893**	4,119
	689,809	476,232

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

	2011 RMB'000	2010 RMB'000 (Restated)
Due to SEC group companies	**15,058**	1,031

28. TRADE PAYABLES (continued)

Company

	2011 RMB'000	2010 RMB'000
Within 3 months	64,197	10,505
Over 3 months but within 6 months	252	-
Over 6 months but within 1 year	268	-
	64,717	10,505

An amount due to a subsidiary of RMB60,518,000 (2010: RMB6,411,000) 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Within 3 months	67,110	52,777
Over 3 months but within 6 months	57,100	186,603
	124,210	239,380

30. OTHER PAYABLES AND ACCRUALS

Group

	2011 RMB'000	2010 RMB'000 (Restated)
Advance from customers	30,551	25,154
Other tax payables	11,177	20,084
Staff costs payable	65,538	47,774
Interest payable	1,586	201
Payables for purchases of non-trade assets	8,804	7,479
Accruals	42,087	15,222
Other payables	17,121	9,262
Due to ultimate holding company	26,841	20,292
Due to associates	249	-
Due to SEC group companies	6,165	10,952
	210,119	156,420

30. OTHER PAYABLES AND ACCRUALS (continued)

Company

	2011 RMB'000	2010 RMB'000
Advance from customers	8,098	7,084
Other tax payables	407	833
Staff costs payable	7,225	2,761
Interest payable	258	141
Payables for purchases of non-trade assets	40	-
Accruals	4,616	887
Other payables	564	229
Due to subsidiaries	361,443	379,426
Due to associates	249	-
	382,900	391,361

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

	2011			2010 (Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	4.5-6.7	2012	346,590	3.0–4.8	2011	120,200
Non-current						
Bank loans						
- unsecured	6.2-6.7	2013–2015	380,000	5.9–6.2	2012–2015	330,000
			726,590			450,200

	2011 RMB'000	2010 RMB'000 (Restated)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	346,590	120,200
In the second year	40,000	105,000
In the third to fifth years, inclusive	340,000	225,000
	726,590	450,200

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

Company

	2011			2010 (Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	5.5	2012	170,000	4.2	2011	100,000

	2011 RMB'000	2010 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	170,000	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

	2011		2010	
	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.

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 had distributable reserves amounting to RMB330,156,000 (2010: RMB314,749,000), of which RMB54,655,000 (2010: RMB46,025,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB691,217,000 (2010: 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 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 and 1 January 2011	692,553	62,708	268,724	1,023,985
Profit for the year	-	-	70,945	70,945
Appropriation to surplus reserves	-	9,513	(9,513)	-
Proposed final 2011 dividend (note 12)	-	-	(54,655)	(54,655)
At 31 December 2011	692,553	72,221	275,501	1,040,275

33. RESERVES (continued)

(b) Company(continued)

The capital reserve account balance as at 31 December 2011 included the Company's share premium of RMB691,217,000 (2010: RMB691,217,000).

34. BUSINESS COMBINATION UNDER COMMON CONTROL

On 31 October 2011, the Group acquired 100% equity interests in Bolting and Research Centre from Shanghai Electric Corporation, at cash considerations of RMB26,730,000 and RMB42,644,000, respectively. Bolting engages in the manufacturing of high strength hexagonal bolts, twisted shear type high strength bolts and truss bolts, as well as the sale and marketing of the products. Research Centre mainly engages in research and development, the provision of services of expertise and quality testing for fasteners and related equipment. No significant adjustments were made to the net assets and net profits of Bolting and Research Centre 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, Bolting and Research Centre have been combined since 1 January 2010, 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 2011 and 31 December 2010 is as follows:

31 December 2011

	The Group excluding Bolting and Research Centre RMB'000	Research Centre RMB'000	Bolting RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities					
Cash and cash equivalents	848,552	2,960	16,456	-	867,968
Other current assets	2,043,736	8,480	40,981	(19,348)	2,073,849
Investment in subsidiaries	69,374	-	-	(69,374)	-
Other non-current assets	2,288,858	59,606	10,552	-	2,359,016
Current liabilities	(1,392,580)	(21,552)	(39,617)	19,348	(1,434,401)
Non-current liabilities	(727,716)	(6,813)	(1,126)	-	(735,655)
Net assets	3,130,224	42,681	27,246	(69,374)	3,130,777
Equity					
Equity attributable to owners of the Company					
Issued/paid-up capital	1,438,286	1,174	11,866	(13,040)	1,438,286
Reserves	1,620,679	41,507	15,380	(56,334)	1,621,232
Proposed final dividend	54,655	-	-	-	54,655
	3,113,620	42,681	27,246	(69,374)	3,114,173
Non-controlling interests	16,604	-	-	-	16,604
Total equity	3,130,224	42,681	27,246	(69,374)	3,130,777

34. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

31 December 2010

	The Group excluding Bolting and Research Centre RMB'000	Research Centre RMB'000	Bolting RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities					
Cash and cash equivalents	963,448	3,611	19,221	-	986,280
Other current assets	1,584,380	4,225	44,404	-	1,633,009
Other non-current assets	2,028,486	7,536	16,553	-	2,052,575
Current liabilities	(974,132)	(5,951)	(58,675)	-	(1,038,758)
Non-current liabilities	(642,118)	(962)	-	-	(643,080)
Net assets	2,960,064	8,459	21,503	-	2,990,026
Equity					
Equity attributable to owners of the Company					
Issued/paid-up capital	1,438,286	1,174	11,866	(13,040)	1,438,286
Reserves	1,460,607	7,285	9,637	13,040	1,490,569
Proposed final dividend	46,025	-	-	-	46,025
	2,944,918	8,459	21,503	-	2,974,880
Non-controlling interests	15,146	-	-	-	15,146
Total equity	2,960,064	8,459	21,503	-	2,990,026

The above adjustments represent adjustments to eliminate the paid-up capital of Research Centre and Bolting against the Group's investment cost in Research Centre and Bolting as at 31 December 2011 and 31 December 2010; and the cash deposited in the cash pool of the Company as at 31 December 2011.

Bolting and Research Centre were state-owned enterprises prior to 31 May 2011. In accordance with the PRC regulations, Bolting and Research Centre undertook a corporate reform exercise ("Corporate Reform") and were converted from state-owned enterprises to a limited liability companies on 31 May 2011. According to the relevant regulations, Bolting and Research Centre engaged a third party valuer to perform a valuation for their net assets. Based on the valuation result, as of the corporate reform date on 31 May 2011, the fair values of their property, plant and equipment, prepaid land premiums/land lease payments and intangible assets increased by RMB24,582,000, RMB23,856,000 and RMB2,788,000, respectively, and the increase in the related deferred tax liability for the fair value amounted to RMB8,177,000. The management adopted the fair value on the reform date as the deemed cost and recorded a net fair value gain of RMB43,049,000 in the contributed surplus account. During the Corporate Reform, management had assessed and concluded that Bolting was no longer obliged to pay an employee benefits payable of RMB4,411,000. Pursuant to the regulation for corporate reform of state-owned enterprise to limited liability company, management had credited RMB4,411,000 to the contributed surplus account. In addition, surplus reserve of RMB4,032,000 and retained profits of RMB7,050,000 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 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:

	2011 RMB'000	2010 RMB'000
Within one year	-	504

(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:

	2011 RMB'000	2010 RMB'000
Within one year	14,266	19,286
In the second to fifth years, inclusive	16,710	9,679
Total	30,976	28,965

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2011, the Company had future minimum lease payments under non-cancellable operating leases of RMB2,401,000 (2010: 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:

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:		
Land and buildings	**1,600**	-
Plant and machineries	**238,903**	635,099
Leasehold improvements	**-**	5,902
	240,503	641,001
Authorised, but not contracted for:		
Plant and machineries	**14,450**	136,299
Total	**254,953**	777,300

(b) The Company

At the end of the reporting period, the Company did not have any significant commitments (2010: Nil).

37. CONTINGENT LIABILITIES

(a) The Group

At the end of the reporting period, the Group did not have any significant contingent liabilities (2010: Nil).

(b) The Company

At the end of the reporting period, the Company did not have any significant contingent liabilities (2010: Nil).

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	2011 RMB'000	2010 RMB'000 (Restated)
Purchase of materials from:	(i)		
Associates		186	195
SEC group companies		4,725	2,216
		4,911	2,411
Sales of goods to:	(i)		
Associates		2,506	1,850
SEC group companies		412,944	220,833
		415,450	222,683
Receiving agent services from:	(i)		
SEC group companies		-	1,780
Receiving other manpower services from:	(i)		
Ultimate holding company		100	28
SEC group companies		2,059	1,612
Associates		267	98
		2,426	1,738
Rendering manpower services to:	(i)		
Associates		350	-
SEC group companies		1,321	282
		1,671	282
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies		19,681	83
Sales of items of property, plant and equipment to:	(ii)		
Ultimate holding company		9,702	-
Rental fee payable to:	(iii)		
Ultimate holding company		2,344	2,137
SEC group companies		10,983	15,900
		13,327	18,037
Receiving relocation compensation from:	(iv)		
Ultimate holding company		6,770	32,000

38. RELATED PARTY TRANSACTIONS (continued)

(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 (continued):

Notes:

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

ii. In May 2011, Bolting signed a contract with Shanghai Electric Corporation, agreed to transfer the ownership of the plant, together with its appurtenance located in No.621 Longchang Road, Shanghai, to Shanghai Electric Corporation at the price of RMB9,702,000, which was equal to the net book value of the assets mentioned. By the issue date of the auditor's report, the transfer has been completed on accounting basis but not on legal basis yet.

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

iv. 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 2011, Tian An Bearing has received RMB38,770,000 (2010: 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 for no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to the market rate is RMB1,406,000 per annum.

(ii) During the year, the ultimate holding company leased certain properties to Tool Works, a wholly-owned subsidiary of the Company, for no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to the market rate is RMB4,279,000 per annum.

(iii) During the year, the ultimate holding company leased certain properties to Zhenhua Bearing, a wholly-owned subsidiary of the Company, for no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to market rate is RMB3,908,000 per annum.

(iv) From 1 January to 30 September 2011, the SEC group companies leased certain properties to Tian An Bearing, a wholly-owned subsidiary of the Company, for no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to market rate is RMB5,033,000 for a 9-month period.

(c) Guarantees provided to related companies of the Group

As disclosed in note 37(a), the Group provided no corporate guarantees (2010: nil) to related companies as at 31 December 2011.

(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.

38. RELATED PARTY TRANSACTIONS (continued)

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

	2011 RMB'000	2010 RMB'000
Fees	**509**	536
Short-term employee benefits	**1,882**	1,576
Post-employment benefits	**120**	111
	2,511	2,223

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

The related party transactions with ultimate holding company and 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

	2011			2010		
	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**	-	4,372	4,372
Trade receivables and bills receivable	**1,059,734**	**-**	**1,059,734**	513,060	-	513,060
Financial assets included in prepayments, deposits and other receivables	**82,852**	**-**	**82,852**	18,748	-	18,748
Restricted deposits	**56,595**	**-**	**56,595**	102,899	-	102,899
Cash and cash equivalents	**867,968**	**-**	**867,968**	986,280	-	986,280
	2,067,149	**872**	**2,068,021**	1,620,987	4,372	1,625,359

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Trade payables and bills payable	814,019	715,612
Financial liabilities included in other payables and accruals	158,237	99,774
Interest-bearing bank and other borrowings	726,590	450,200
Other long-term payables	18,377	14,863
	1,717,223	1,280,449

Company

Financial assets

	2011		2010	
	Loans and receivables	Total	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables and bills receivable	67,552	67,552	58,162	58,162
Financial assets included in prepayments, deposits and other receivables	284,244	284,244	347,240	347,240
Loans receivable	100,000	100,000	142,000	142,000
Cash and cash equivalents	483,404	483,404	531,739	531,739
	935,200	935,200	1,079,141	1,079,141

Financial liabilities

	Financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Trade payables	64,717	10,505
Interest-bearing bank and other borrowings	170,000	100,000
Financial liabilities included in other payables and accruals	374,255	383,444
	608,972	493,949

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.

(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 and Euro exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in US$ or EUR rate %	Increase/ (decrease) in profit before tax RMB'000
2011		
If US$ weakens against RMB	5	(4,718)
If EUR weakens against RMB	5	(575)
If US$ strengthens against RMB	(5)	4,718
If EUR strengthens against RMB	(5)	575
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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 40% of the Group's total trade receivables as at 31 December 2011.

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

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

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

(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

	2011					
	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	452,967	280,304	72,785	7,963	-	814,019
Financial liabilities included in other payables and accruals	32,054	82,044	14,126	30,013	-	158,237
Interest-bearing bank and other borrowings	-	111,049	268,562	426,722	-	806,333
Other long-term payables	-	-	-	18,377	-	18,377
	485,021	473,397	355,473	483,075	-	1,796,966

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Group (continued)

	2010 (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	408,802	250,871	50,831	5,108	-	715,612
Financial liabilities included in other payables and accruals	53,486	41,614	2,246	2,428	-	99,774
Interest-bearing bank and other borrowings	-	5,209	126,562	376,875	-	508,646
Other long-term payables	-	-	-	14,863	-	14,863
	462,288	297,694	179,639	399,274	-	1,338,895

Company

	2011					
	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	-	3,679	61,038	-	-	64,717
Interest-bearing bank and other borrowings	-	2,297	174,262	-	-	176,559
Financial liabilities included in other payables and accruals	366,019	8,236	-	-	-	374,255
	366,019	14,212	235,300	-	-	615,531

	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

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 2011 and 2010.

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 ratio as at the end of the reporting period was as follows:

Group

	2011 RMB'000	2010 RMB'000 (Restated)
Interest-bearing bank and other borrowings	**726,590**	450,200
Equity attributable to owners of the Company	**3,114,173**	2,974,880
Gearing ratio	**23.33%**	15.13%

41. EVENTS AFTER THE REPORTING PERIOD

On 24 February 2012, the Company successfully bid for the 100% equity interest of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") disposed by Shanghai Electric Development Co., Ltd. (" Shanghai Electric Development"), a wholly-owned subsidiary of Shanghai Electric Corporation through Shanghai United Assets and Equity Exchange. The successful bid price for Shanghai Insulating was RMB40,000,000. On 5 March 2012, the Company entered into the Shanghai Insulating Acquisition Agreement with Shanghai Electric Development at the successful bid price. Further details are available in the Company's press announcement dated 5 March 2012.

42. 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 2010. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 March 2012.

上海集优
SHANGHAI PRIME