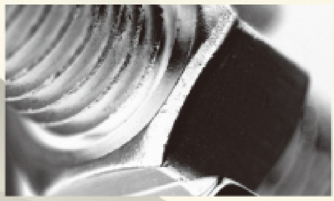
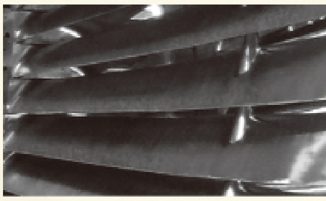
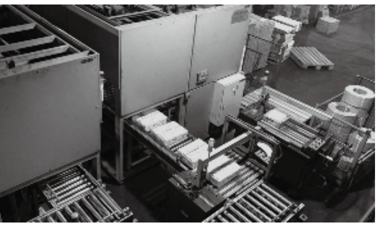
上海集优
SHANGHAI PRIME

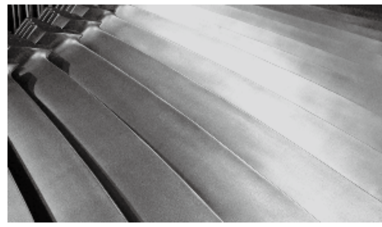
2012 SHANGHAI PRIME MACHINERY COMPANY LIMITED
ANNUAL REPORT



(A joint stock limited company incorporated in the People's Republic of China with limited liability) **(Stock Code: 02345)**



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CORPORATE INFORMATION

Executive Directors
Wang Qiang (Chairman)
(Appointed on 22 February 2013)
Zheng Yuanhu
(Resigned Chairman on 22 February 2013)
Xu Chao (Vice Chairman)
(Appointed on 7 December 2012)
Zhu Weiming
(Resigned on 7 December 2012)
Hu Kang
Zhang Jianping
(Appointed on 7 December 2012)
Yuan Mifang
(Resigned on 7 December 2012)
Zhu Xi
Sun Wei

Independent Non-Executive Directors
Chan Chun Hong (Thomas)
Ling Hong
Li Yin

Supervisors
Yuan Mifang (Chairman of the supervisory committee)
(Appointed on 7 December 2012)
Xu Chao
(Resigned on 7 December 2012)
Hu Peiming
Yu Yun
(Appointed on 30 November 2012)
Zhang Jianping
(Resigned on 30 November 2012)

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
Wang Qiang
(Appointed on 22 February 2013)
Zheng Yuanhu
(Resigned on 22 February 2013)
Xu Chao
(Appointed on 7 December 2012)
Hu Kang
Zhu Xi
Sun Wei
Yuan Mifang
(Resigned on 7 December 2012)

Nomination Committee
Wang Qiang
(Appointed on 22 February 2013)
Zheng Yuanhu
(Resigned on 22 February 2013)
Zhang Jianping
(Appointed on 7 December 2012)
Zhu Weiming
(Resigned on 7 December 2012)
Chan Chun Hong (Thomas)
Ling Hong
Li Yin

Authorised Representatives
Hu Kang
Zhang Jianping
(Appointed on 7 December 2012)
Zhu Weiming
(Resigned on 7 December 2012)

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)	2008	2009	2010	2011	2012
	(Restated)	(Restated)	(Restated)	(Restated)	**(Restated)**
Revenue and Profit					
Revenue	3,610	2,420	2,855	3,634	**3,221**
Profit before tax	314	192	203	256	**137**
Income tax expense	(66)	(9)	(17)	(37)	**(9)**
Profit for the year	248	183	186	219	**128**
Attributable to					
Owners of the Company	246	182	184	218	**126**
Minority interests	2	1	2	1	**2**
Dividends - proposed final	60	40	46	55	**32**
Earnings per share attributable to equity holders of the Company					
- Basic (RMB cents)	17.13	12.64	12.76	15.19	**8.77**
Assets and Liabilities					
Non-current assets	1,520	1,508	2,060	2,384	**2,428**
Current assets	2,269	2,525	2,663	2,994	**3,153**
Current liabilities	960	898	1,089	1,462	**1,525**
Net current assets/ (liabilities)	1,309	1,627	1,574	1,532	**1,628**
Total assets less current liabilities	2,829	3,135	3,634	3,916	**4,056**
Non-current liabilities	64	238	668	743	**829**
Net assets	2,765	2,897	2,966	3,173	**3,227**
Equity attributable to owners of the Company	2,751	2,882	2,951	3,156	**3,191**
Minority interests	14	15	15	17	**36**

The financial information previously reported by the Group in 2008, 2009, 2010 and 2011 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 2012 (the "Year") was RMB3,221 million (2011: RMB3,634 million).

Profit attributable to owners of Shanghai Prime Machinery Company Limited (the "Company") for the Year was RMB126 million (2011: RMB218 million).

Basic earnings per share for the Year was RMB8.77 cents (2011: RMB15.19 cents). The board of directors proposed a final dividend for 2012 of RMB2.20 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 Bearing Factory Company Limited **100%**
- Shanghai United Bearing Company Limited **90%**
- Shanghai Electric Bearing 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

- Morgan Advanced Materials Technology (Shanghai) Company Limited (Formerly "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: **Wang Qiang**

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 2012 (the "Year"). The Group's annual results have been audited by Ernst & Young.

Business review

Looking back 2012, the annual GDP growth rate of the PRC was only 7.8% which was lower than the average growth rate of 10.7% for the past decade, indicating a notable downward trend and rate. The slowdown growth of macro-economy has directly weakened the market demand in respect of the four major business segments in which the Group is engaged, with the dramatic decrease in the industrial growth. In particular, the market demand of the thermal power and nuclear power industries of the PRC experienced a significant drop in 2012.

Under the new situation that each of our segments was facing a decline trend at different degrees, in order to minimize the adverse impact brought by the economic environment, the Group strives to leverage our long-established advantages on branding and sale channels. In respect of the bearing business, the Group took advantage of the significant brand effect on the development of the key markets such as railway and automobile. Sales revenue was essentially at the same level as last year. While many local largesize cutting tool manufacturers experienced a significant drop in sales and net profit, the sales revenue and net profit of the Group's cutting tool segment were basically similar to those of last year.

Having predicted that the severe conditions as a result of the downtrend of the thermal power and nuclear power markets and slowdown of macro-economy, the Group strives to develop the high-end products such as components of aero engines and aero structural parts and made achievement as four products have entered into batch production process. The sales revenue of aviation business for the Year amounted to RMB137 million, representing an increase of 37% year-on-year. Bearing business has been focusing on the expansion into high-end miniature bearings for precise aviation and aerospace market and realized sales revenue of RMB36 million, representing an increase of 13% year-on-year. The prototype of the building platform of tensioning wheel has been formed. In respect of the cutting tool business, some high effective, high performance numerically controlled cutting tools developed by us have been used by the auto mobile clients to substitute imports.

The issuance of corporate bonds in the PRC with an aggregate amount of not exceeding RMB1,000 million for a term not more than 5 years were approved by the China Securities Regulatory Commission and was successfully raised a funding of RMB500 million for the Year. The proceeds are used for repayment of bank loans and general working capital purposes. The interest rate of this corporate bonds issuance is lower than that of the bank interest rate for the corresponding period. By repaying the bank loans, the finance cost is lowered and the short-term loan repayment capability is enhanced.

In 2012, the Group recorded turnover of RMB3,221 million (2011: RMB3,634 million), representing a decrease of 11% over last year.

Profit attributable to the owners of the Company was RMB126 million (2011: RMB218 million), representing a decrease of 42% over last year.

Earnings per share was RMB8.77 cents (2011: space RMB15.19 cents).

As at 31 December 2012, total assets of the Group amounted to RMB5,581 million (31 December 2011: RMB5,378 million), while total liabilities were RMB2,354 million (31 December 2011: RMB2,205 million).

Total equity of the Group was RMB3,227 million (31 December 2011: RMB3,173 million), of which RMB3,191 million (31 December 2011: RMB3,156 million) was attributable to the owners of the Company.

Outlook and Prospects

In the meeting convened in December 2012, the Central Economic working conference expressly stated " the world economic is entering into adjustment period of deep transformation stage from the stage of pre-crisis rapid development period". In the meeting, it emphasized "the enhancement of economic growth and efficiency". Despite a series of traditional means such as expanding infrastructure investment have been deployed and macro-economy has showed an initial sign of recovering, some deep-rooted issues that restrict economic growth, such as excess production capacity, unbalanced economic growth, rising production and operation costs, are far from being solved and the economy outlook remains uncertain. To respond to the new situation of macro-economic development, the Group will adhere to its development strategy of"focusing on quality development and improving management efficiency". By actively implementing the following measures to cope with the new economic situations, we will be able to overcome the economic difficulties and secure a steady growth for the Group.

Innovating commercial model and implementing branding strategy.

In order to enhance economic growth and efficiency, the Group will fortify its effort on innovating commercial model, explore win-win business solutions with authorised dealers. Starting with the fastener business , the Group will optimize productive service industry featuring new business mode of "end-user-oriented,quick response, standardized procedures, one-stop service and low transaction cost". Such mode will help the Group to change into a manufacturing model which is digitalized, network connected, intelligent and service oriented. The Group will carry forward the branding strategy and focus on brand building, with an aim to enhance brand management and promote the brand image. Investments and 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 development, etc., to develop the complementary competencies on the research and sales network, the methods and ways of resources sharing, in an attempt to enhance and increase the advantage of sales network.

Focusing on high-end products and strengthening technology advancement.

To enhance risk resilience, the Group will focus on its target of"product upgrade"with an aim to establish and build up a competitive advantage for its high-end products. Regarding turbine blade business, capturing the emerging business opportunities arising from the development of nuclear power, gas turbine and overseas markets, innovating the development of aviation business, mastering the precision forging technology and gradually building up the technology of aero structural parts manufacturing, a diversified business portfolio involving nuclear power station business, overseas business and aviation business will be realized. Bearing business will continue to march into the high-end market segment so as to differentiate itself from competitors. By focusing on the research and development of high precision, high performance, high reliability bearing, the industrialization process will accelerated. The Group will expedite the comprehensive industrialization of its

CHAIRMAN'S STATEMENT

high-end product like the numerically controlled, carbide cutting tools, coated cutting tools, enhance the service capabilities for high-end cutting tools market, and strive to expand the market share. To speed up the development process of advanced technologies from introduction to self-development and to industrialization, the Group will formulate and implement a management approach which links with the results of its R&D and sales performance to form synchronous design and manufacturing capabilities.

Lowering operation costs and improving operation quality.

To enhance operation quality and secure the Group's steady growth and healthy development, the Group will emphasis on the management of trade receivables, lessening the slow-moving inventories as rigid target for its operation performance appraisals. The Group will incorporate the "foreign currency pool" management in the "cash pool" and "note pool" management so as to reduce the loss of import enterprises resulted from the currency fluctuation. Meanwhile, by issuance of long-term bonds, the Group further optimizes its debt structure, lower the finance cost and thus, the maturity matching of the term and structure of assets and liabilities is realized.

Enhancing operation efficiency and increasing competitive capabilities.

To increase the integrated competitive capabilities, the Group will excel its production management so as to raise production efficiency, shorten production cycle, enable quicker response to the ever-changing market situation. By trial implementation of robot production line, the numerical, intelligent manufacturing process is gradually formed, increasing the asset operation efficiency. Resources will be deployed to crucial, core and high profitability products and sessions. 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 efficiency of resources.

Finally, I would like to take this opportunity to express my gratitude to all the shareholders for their continuous trust and long-term support to the Group, as well as to the board of directors, supervisors, senior management and all staff for their dedicated contribution and devoted hard work. In the coming year, the Company strives to enhance the risk management capability and mitigate the impacts of external adverse factors on the Group. The Group will maintain a steady growth, work diligently, and develop creativity, with an aim to reward the shareholders with excellent operating results.

Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
15 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2012 (the "Year"), turnover of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") amounted to RMB3,221 million (2011: RMB3,634 million), representing a decrease of 11% over last year. Profit attributable to owners of the Company for 2012 was RMB126 million (2011: RMB218 million), representing a decrease of 42% over last year. Basic earnings per share was RMB8.77 cents (2011: RMB15.19 cents).

As of 31 December 2012, total assets of the Group amounted to RMB5,581million (31 December 2011: RMB5,378 million) while total liabilities amounted to RMB2,354 million (31 December 2011: RMB2,205 million). Total equity of the Group was RMB3,227 million (31 December 2011: RMB3,173 million), of which equity attributable to the owners of the Company amounted to RMB3,191 million (31 December 2011: RMB3,156 million).

Operation Analysis

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

	Revenue		Segment Results	
RMB (million)	2012	2011	2012	2011
Turbine blade	829	1,001	57	123
Percentage of total	26%	28%	30%	47%
Bearing	765	753	35	47
Percentage of total	24%	21%	18%	18%
Cutting tool	607	603	78	70
Percentage of total	19%	16%	41%	27%
Fastener	1,020	1,277	20	21
Percentage of total	31%	35%	11%	8%
Total	3,221	3,634	190	261

Revenue

Segment Results

Turbine blade Bearing Cutting tool Fastener

Turbine blade Bearing Cutting tool Fastener

MANAGEMENT DISCUSSION AND ANALYSIS

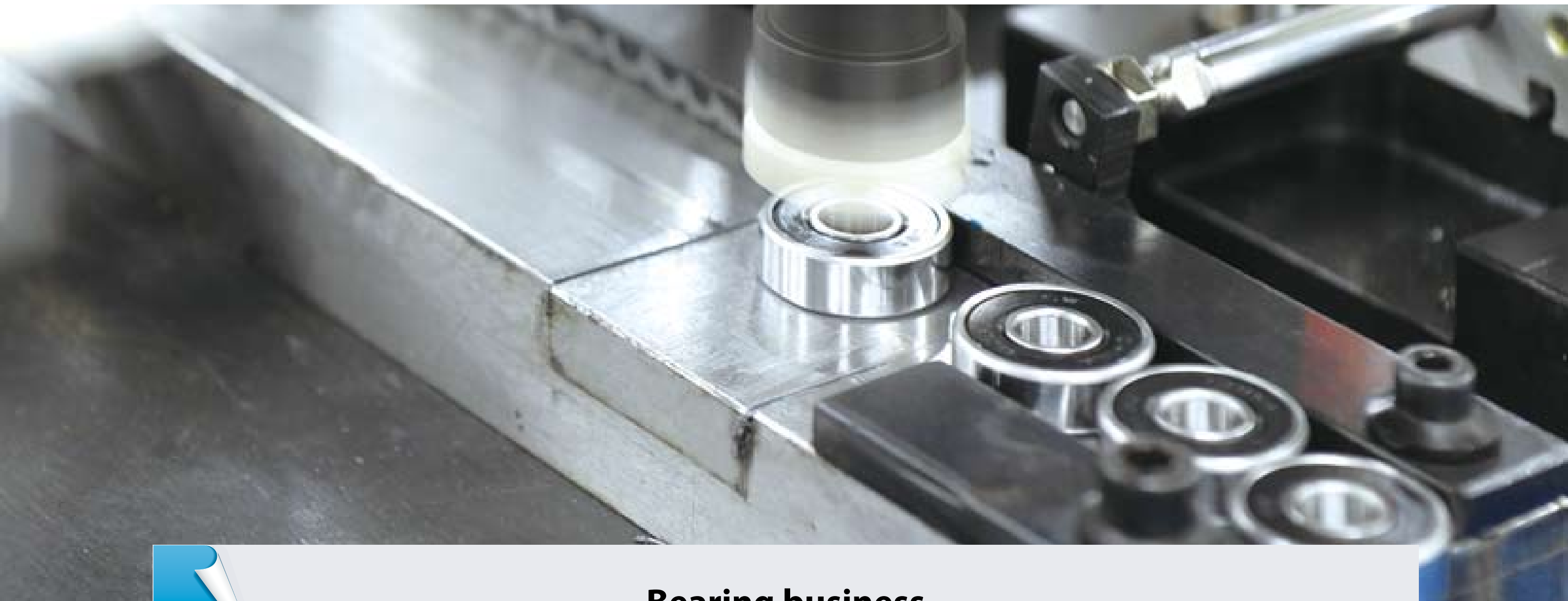
Turbine blade business

The Group is one of the largest domestic specialized manufacturers 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, electricity, 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 Co., Ltd.,DEC Dongfang Steam Turbine Co. Ltd., Siemens, Toshiba and Mitsubishi Group.

2012 was the toughest year for the Group since the strategic transformation of turbine blade business. The significant decrease in the additional installed capacity of thermal power and nuclear power during the Year directly dragged down the domestic demand for thermal and nuclear turbine blade. Moreover, since the operating costs, such as depreciation and interest fees, etc., were significantly increased after the completion of plant relocation in 2011, the profitability was down to a certain level.

The Group spared effort in improving the technology standard and processes, standardizing the management and enhancing the operation quality. Through adjustment of organization structure and upgraded technical management, the research and development capability of the aviation business is strengthened with mutual support of the manufacturing process R&D and product design and better new product development efficiency. The sales structure of blade section continues to optimize toward the high-end key aviation components, disc type and structure of aviation business growed rapidly, while the Group will strive to keep developing aviation forging products, dedicated to fulfill the two strategic targets of "global supplier of top-class turbine blades" and "domestic manufacturer of top-class aviation components".

In 2012, turnover of the turbine blade business was RMB829 million (2011: RMB1,001 million), representing a year-on-year decrease of 17%. The segment results was RMB57 million (2011: RMB123 million), slipped 54% year-on-year. Gross profit margin was 20% (2011: 23%). In 2012, export sales amounted to RMB200 million (2011: RMB220 million), representing a year-on-year decrease of 9%, while export sales represented 24% (2011: 22%) of the total business sales.



Bearing business

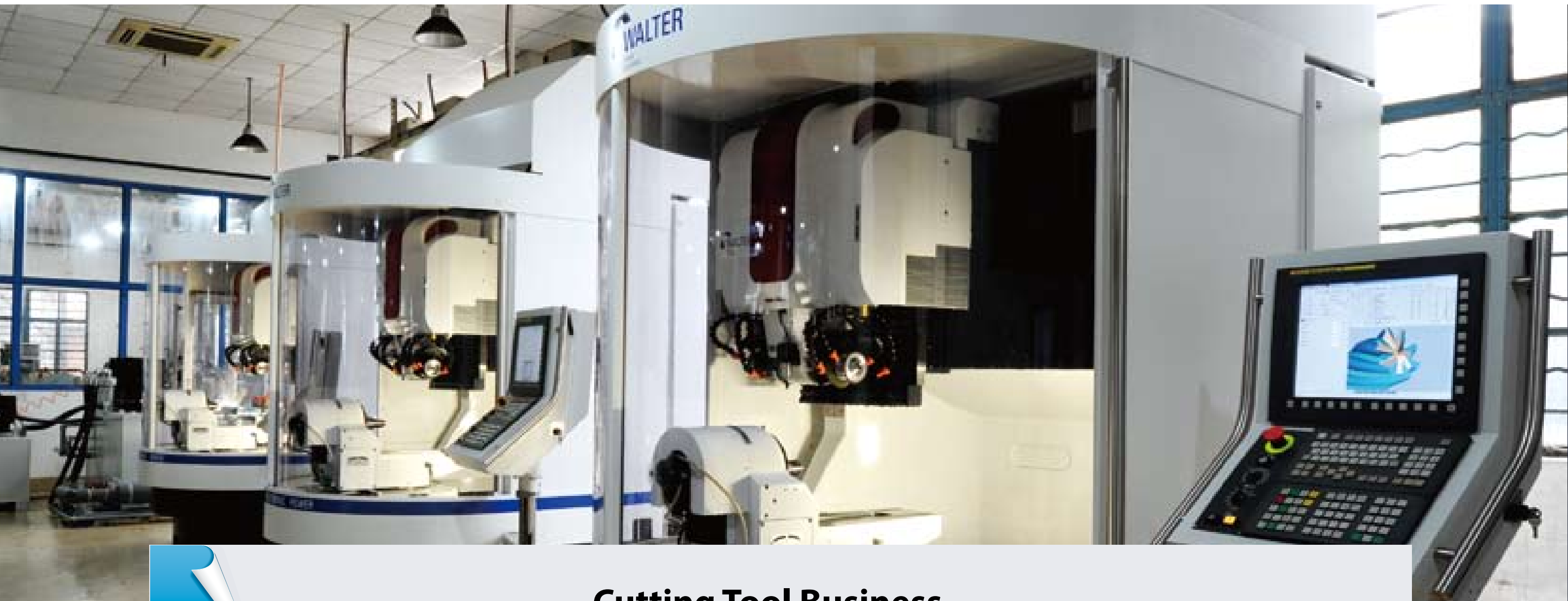
The Group is specialized in manufacturing and selling different kinds of bearing products, which are widely used in the areas of railway transportation, vehicles, cargo equipments, electric motors, electrical appliances, aerospace, aviation and navigation equipments. The Group is one of the bearing and related repairing and maintenance service suppliers designated by the Ministry of Railway. Presently, the Group is supplying various kinds of bearing products to globally well-known electric machines and automobile parts suppliers such as Johnson Electric Holdings Limited and GKN Group, etc.

The Group captured the opportunity of thriving demand in railway bearing market by expanding the railway sales channels aggressively and enhancing the operation quality. The sales revenue of railway bearing for the Year reached to RMB312 million, representing a year-on-year increase of 21%. In particular, the sales revenue of major-repaired bearings amounted to RMB72 million, representing a year-on-year inerease of 62%.

In automobile bearing market, the construction of tension pulley R&D platform is taken as a key project. Currently, the platform was initially equipped with the ability to develop a complete set of gear train of engines, keeping up with the trend of packaging development of a complete gear train required by main engine plants. By taking use of the continuous extension of globalized procurement platform of automobile drive shaft roller products, the Group had expanded the whole roller sales region to many countries, invested more in the roller production equipments and test equipments to maintain a good quality condition and enhance the product competitiveness. In 2012, the realized sales revenue of rollers amounted to RMB85 million, a growth of 42% year-on-year.

In 2012, the turnover of the bearing business was RMB765 million (2011: RMB753 million), increased by 2% year-on-year. Segment results amounted to RMB35 million (2011: RMB47 million), representing a year-on-year decrease of 26%. Gross profit margin was 21% (2011: 21%). In 2012, export sales amounted to RMB131 million (2011: RMB120 million), an increase of 9% year-on-year and representing 17% (2011: 16%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS



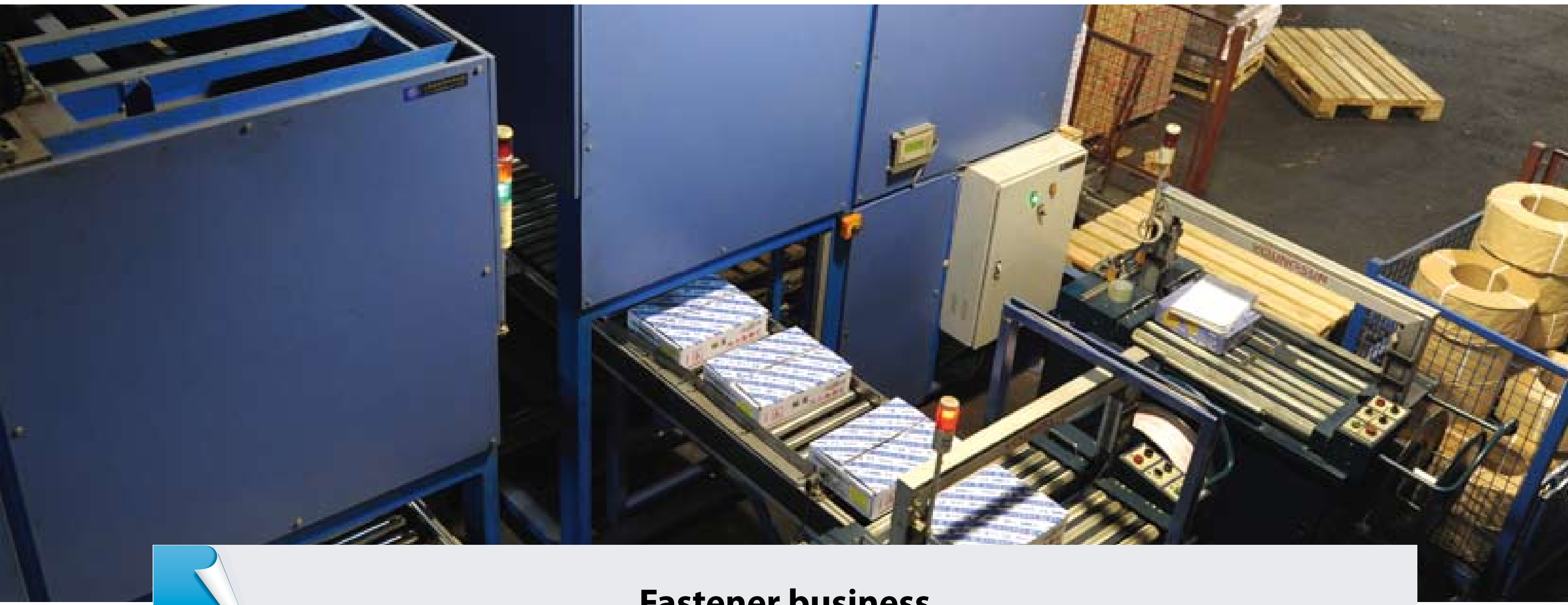
Cutting Tool Business

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.

The tool business of the Group was capable to optimize its brand advantage to gather social resources, not only maintaining the leadership in the cutting tool products sales industry, but also expanding its product lines to the areas of measuring tools and machine tool accessories. The Group has integrated a group of valuable cooperative enterprises and continuously enriched the types of operation to initially form a prototype of tool industry chain with its brand as core alongside with suppliers, cooperative enterprises and franchised distributors.

The Group has developed new products rapidly in respond to the market demand. New products launched in the market including special stainless products with various specifications and numerically controlled arbors series. The useful life of cutting tools has been improved by upgrading materials. To enhance the recognition of high-end numerically controlled cutting tools of the Group in the market, and to substitute the import through well-developed sales channels of distributors, the Group was able to equip the modern numerically controlled machine tools machining center with high-performance bore-machining cutting tools, focusing on the auto market and expanding the aerospace market actively.

In 2012, turnover of the cutting tool business was RMB607 million (2011: RMB603 million), increased by 1% year-on-year. Segment results amounted to RMB78 million (2011: RMB70 million), representing a year-on-year increase of 11%. Gross profit margin was 28% (2011: 27%). In 2012, export sales amounted to RMB39 million (2011: RMB37 million), up 5% year-on-year. Export sales represented 6% (2011: 6%) of the total business sales.



Fastener business

The Group is one of the biggest service providers in the country for fasteners, and is principally engaged in trading of all kinds of standard and specialized fasteners, manufacturing high strength fastener. 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.

The Group has stripped out the manufacturing process with relatively low-added value in the industrial chain. Having merged into high strength bolt product, the manufacturing capacity of mid-to-high end fasteners was strengthened, the distribution channels of mid-to-high end fasteners were expanded, and the comprehensive competitiveness of fastener business was also solidified.

In 2012, turnover of the fastener business was RMB1,020 million (2011: RMB1,277 million), representing a decrease of 20% year-on-year. Segment results amounted to RMB20 million (2011: RMB21 million), a decrease of 5% year-on-year. Gross profit margin was 13% (2011: 11%). In 2012, export sales amounted to RMB666 million (2011: RMB873 million), down 24% year-on-year. Export sales represented 65% (2011: 68%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Financial Position

Share of Profits of Associates

During the year 2012, the Group's share of profits of associates was RMB16 million (2011: RMB27 million).

Finance Costs

Finance costs for the year 2012 were RMB51 million (2011: RMB18 million).

Profit Attributable to Shareholders of the Company

Profit attributable to owners of the Company was RMB126 million in 2012 (2011: RMB218 million), a decline of 42% over last year. Basic earnings per share were RMB8.77 cents (2011: RMB15.19 cents).

Cash Flow

As at 31 December 2012, the Group's cash and bank balances were RMB1,262 million (31 December 2011: RMB936 million), of which RMB64 million (31 December 2011: RMB57 million) were restricted deposits, representing a increase of RMB7 million in restricted deposit from the beginning of the year. During the Year, the Group had a net cash inflow from operating activities of RMB431 million (2011: RMB56 million), a net cash outflow from investing activities of RMB357 million (2011: RMB305 million), and a net cash inflow from financing activities of RMB94 million (2011: RMB179 million).

Assets and Liabilities

As at 31 December 2012, the Group had total assets of RMB5,581 million (31 December 2011: RMB5,378 million), representing an increase of RMB203 million or 4% as compared with the beginning of the Year, of which total current assets amounted to RMB 3,153 million (31 December 2011: RMB2,994 million), accounting for 56% of the total assets, representing an increase of RMB159 million as compared with the beginning of the Year. Total non-current assets were RMB2,428 million (31 December 2011: RMB2,384 million), accounting for 44% of the total assets and representing a increase of 44 million as compared with the beginning of the Year.

As at 31 December 2012, the total liabilities of the Group were RMB2,354 million (31 December 2011: RMB2,205 million), of which total current liabilities amounted to RMB1,525 million (31 December 2011: RMB1,462 million), accounting for 65% of the total liabilities. Total non-current liabilities amounted to RMB829 million (31 December 2011: RMB743 million), accounting for 35% of total liabilities.

As at 31 December 2012, the net current assets of the Group were RMB1,628 million (31 December 2011: RMB1,532 million), representing an increase of RMB96 million or 6% as compared with the beginning of the Year whereas current ratio increased from 2.05 to 2.07.

Sources of Funding and Indebtedness

As at 31 December 2012, the Group had company bonds, interest-bearing bank and other borrowings with an aggregate amount of RMB903 million (31 December 2011: RMB727 million), representing an increase of RMB176 million or 24% as compared with the beginning of the Year. Borrowings repayable by the Group within one year were RMB410 million (31 December 2011: RMB347 million), representing an increase of RMB63 million from the beginning of the Year, whereas borrowings repayable after one year were RMB493 million (31 December 2011: RMB380 million). The Group repaid the loans due on schedule during the Year.

As at 31 December 2012, all company bonds, interest-bearing bank and other borrowings of the Group were interest bearing at fixed rates.

Gearing Ratio

As at 31 December 2012, the gearing ratio of the Group, which represents the ratio of company bonds, interest-bearing bank and other borrowings to total shareholders' equity, was 28% (31 December 2011: 23%).

Restricted Deposits

As at 31 December 2012, bank deposits of RMB64 million (31 December 2011: RMB57 million) of the Group were restricted.

Pledges of Assets

As at 31 December 2012, save as Restricted Deposits, the Group has no other pledges of assets (2011: Nil).

Contingent Liabilities

As at 31 December 2012, the Group has no significant contingent liabilities (2011: Nil).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB149 million (2011:RMB431 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 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 2012, the Group's bank deposits comprised USD12.8 million, JPY4.9 million and EUR0.1 million. Save as disclosed above, the Company was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Event

As of January 2013, the Group successfully completed the strategic acquisition of Shanghai Dalong machinery works Company Limited ("Dalong Machinery") at a price of RMB 85 million. Dalong machinery is principally engaged in designing and manufacturing various types of reciprocating compressors, screw compressors, diaphragm pumps and high-pressure reciprocating pumps, which is one of the largest domestic manufacturing bases for the aforesaid types of compressors and high-pressure pumps in the PRC, the products manufactured by which are mainly applied in petroleum and chemical industries. The acquisition of Dalong machinery has further enriched our product lines and further extended the Group's development in the manufacturing industry of high-end machinery and equipment in an attempt to strengthen the overall capability of the Group to resist risk.

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

Employees

As at 31 December 2012, the Group had 3,213 employees (2011: 3,576). 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.

The employees' total compensation will be managed according to the completion of economic goals. The basic salary of the employees comprises of job-based salary and performance-based salary, in which the former is set according to the position of the employee holds and the later is set according to his/her performance.

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
Wang Qiang (Appointed on 22 February 2013)	55	Executive director and chairman
Zheng Yuanhu (Resigned on 22 February 2013)	46	Executive director and chairman
Xu Chao (Appointed on 7 December 2012)	57	Executive director and vice chairman
Zhu Weiming (Resigned on 7 December 2012)	42	Executive director and vice chairman
Hu Kang	49	Executive director and chief executive officer
Zhang Jianping (Appointed on 7 December 2012)	56	Executive director
Zhu Xi	48	Executive director
Sun Wei	43	Executive director
Yuan Mifang (Resigned on 7 December 2012)	60	Executive director
Chan Chun Hong (Thomas)	49	Independent non-executive director
Ling Hong	52	Independent non-executive director
Li Yin	49	Independent non-executive director
Yuan Mifang (Appointed on 7 December 2012)	60	Supervisor and chairman of the supervisory committee
Xu Chao (Resigned on 7 December 2012)	57	Supervisor and chairman of the supervisory committee
Hu Peiming	55	Supervisor
Yu Yun (Appointed on 30 November 2012)	44	Supervisor
Zhang Jianping (Resigned on 30 November 2012)	56	Supervisor
Yan Qi	47	Vice president
Chen Hui	44	Vice president
Xiao Weifeng	58	Vice president
Wang Pin	39	Chief financial officer
Li Wai Chung	35	Certified public accountant and company secretary

Directors

Wang Qiang, aged 55, is a senior economist and senior political affair officer. He was appointed as the executive director and chairman of the company in February 2013. He currently serves as the director of Shanghai Electric (Group) Corporation, deputy secretary of committee of Communist Party of China and executive vice president of Shanghai Electric Group Company Limited, the deputy secretary of committee of Communist Party of China of Shanghai Electric Group Company Limited, and the secretary of committee of Communist Party of China of Shanghai Electric Assets Management Company Limited. From June 1990 to March 2001, he worked as the deputy director of Cadres Bureau of Shanghai Industry Committee Party of Communist Party of China. From March 2001 to May 2008, he worked as the head of the Human Resources Department, head of Cadres Bureau and the head of Cadres Bureau and Human Resources Department of Shanghai Electric (Group) Corporation the deputy secretary of committee of Communist Party of China of Shanghai Electric Group Company Limited and Shanghai Electric (Group) Corporation From May 2008 to February 2011, he worked as the deputy secretary of committee of Communist Party of China and head of Cadres Human Resources Department of Shanghai Electric (Group) Corporation the deputy secretary of committee of Communist Party of China and head of Human Resources Department of Shanghai Electric Group Company Limited and the secretary of committee of Communist Party of China of Shanghai Electric Assets Management Company Limited. Mr. Wang Qiang obtained a postgraduate qualification from the Central Party School of the Communist Party of China majoring in politics.

Xu Chao , aged 57, is a senior economist. He was appointed as the supervisor and chairman of the supervisory committee of the Company in 2010 and was re-elected and appointed as the supervisor and chairman of the supervisory committee of the Company in 2011. He resigned as the supervisor and chairman of the supervisory committee of the Company effective from December 2012 and was appointed as the executive director and vice chairman of the Company. He has been the chairman of Shanghai Highly (Group) Co., Ltd. the chairman of the supervisory committee of Shanghai Automation Instrument Co., Ltd and the director of Haitong Securities Company Limited. Mr.Xu has been the vice president and chief financial officer of Shanghai Electric Assets Management Company Limited since May 2008. He has also been serving 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Hu Kang , aged 49, is a senior economist. He was appointed as the executive director and chief executive officer of the Company in 2005 and was re-elected and appointed as the executive director and chief executive officer of the Company in 2011. He joined Shanghai Electric Corporation in 1982. Since 1996, he has been the factory director of Shanghai Zhenhua Bearing Factory Company Limited, the deputy chief executive officer of Shanghai Bearing (Group) Co., Ltd., the chief executive officer of Shanghai Shangling Electric Company Ltd., and the chief executive officer of the second management department of Shanghai Electric Assets Management Company Limited (one of our promoters). Mr. Hu graduated from Shanghai University of Finance & Economics in 1988 with a degree in statistics and graduated from the Shanghai College of the Chinese Communist Party in 1998 with a major in management. In 2001, he obtained an MBA degree from Macau University of Science and Technology.

Zhang Jianping , aged 56, is a political affair officer. He was appointed as the supervisor of the Company in 2008 and was re-elected and appointed as the supervisor of the Company in 2011.He resigned as the supervisor of the Company effective from December 2012 and was appointed as the executive director of the Company. He worked in Shanghai Tool Works from 1984 to 2003, during which he served as the chairman of the equipment automation labour union as well as the deputy head of workshop one. From 2003 to 2005, he acted as the vice chairman of the labour union of Shanghai Tool Works. He has been the chairman of the labour union of Shanghai Tool Works since 2005 and the vice chairman of the labour union of the Company since 2006. Mr. Zhang graduated from East China University of Political Science and Law with a major in business laws.

Zhu Xi , aged 48, is a senior accountant. She was appointed as the executive director of the Company in 2008 and was re- elected and appointed as the 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 the deputy head of the funding and planning department of Shanghai Electric Corporation . In 2003, she was appointed as the director of Shanghai Electric (Group) Corporation Heng Lian Enterprise Development Limited. In 2004, she was the head of the budget department of Shanghai Electric Corporation . From 2004 to 2005, she served as the deputy head of the asset and finance department of Shanghai Electric Assets Management Company Limited. Ms. Zhu is now the deputy head of financial budget department of Shanghai Electric Corporation as well as the head of the asset and finance department of Shanghai Electric Assets Management Company Limited. She has been serving as the supervisor of Shanghai Automation Instrumentation Co., Ltd. since May 2008. She has been the supervisor of Shanghai Electric Industry Corporation and Shanghai Electric International Fire Protection Equipments Co., Ltd since April 2010. She was appointed as the director of asset financial department of Shanghai Electric Group Company Limited and the director of Shanghai Mechanical And Electrical Industry Co., Ltd in 2012. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University.

Directors

Sun Wei , aged 43, is a senior engineer. He was appointed as the executive director of the Company in 2011. Mr. Sun joined Shanghai Electric Corporation in 1993. From 2003 to 2005, he worked as the deputy chief executive officer 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 the assistant to chief executive officer in Shanghai Rail Traffic Equipment Co., Ltd. From 2006 to 2010, he was promoted to the position of deputy chief executive officer of Shanghai Rail Traffic Equipment Co., Ltd. and chief executive officer of Shanghai Rail Traffic Equipment Co., Ltd. Screen Door Engineering Company. From 2010 till now, he has been working as the deputy head of the strategic planning department of Shanghai Electric Corporation and was promoted to the position of head of strategic planning department in 2011. He has also been serving 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 in industrial management and welding technology and equipment in 1993 and obtained a master degree in project management in 2010.

Chan Chun Hong , aged 49, was appointed as the independent non-executive director of the Company in 2005 and was re-elected and appointed as the independent non-executive director of the Company in 2011. Mr. Chan holds directorships in various listed companies in Hong Kong and is currently the chairman and managing director of China Agri-Products Exchange Limited and PNG Resources Holdings Limited as well as the managing director of Wang On Group Limited and Wai Yuen Tong Medicine Holdings Limited, in which he is responsible for the overall corporate management and supervision. 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 52, was appointed as the independent non-executive director of the Company in 2010 and was re-elected and appointed as the independent non-executive director of the Company in 2011. He is the head, a professor and tutor of doctoral students of the information management and information system department of the faculty of management in Fudan University. He is also an honorable guest professor of the Faculty of Business and Economics in 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 in 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 in Shanghai in 2000.

Li Yin , aged 49, is a senior engineer. He was appointed as the independent non-executive director of the Company in 2011. He worked as an editor and a reporter for the Chinese Academy of Agricultural Mechanization Sciences Farm Machinery Magazine from 1984 to 1996 as well as the vice president of the Magazine from 1997 to 2001. From 2000 to 2001, Mr. Li served as the Deputy Secretary General of China Construction Machinery Association. He has been working as the head for the China Construction Machinery Magazine and the 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 carried out further study in strategic manufacturing management for four months at the University of Warwick in Britain.

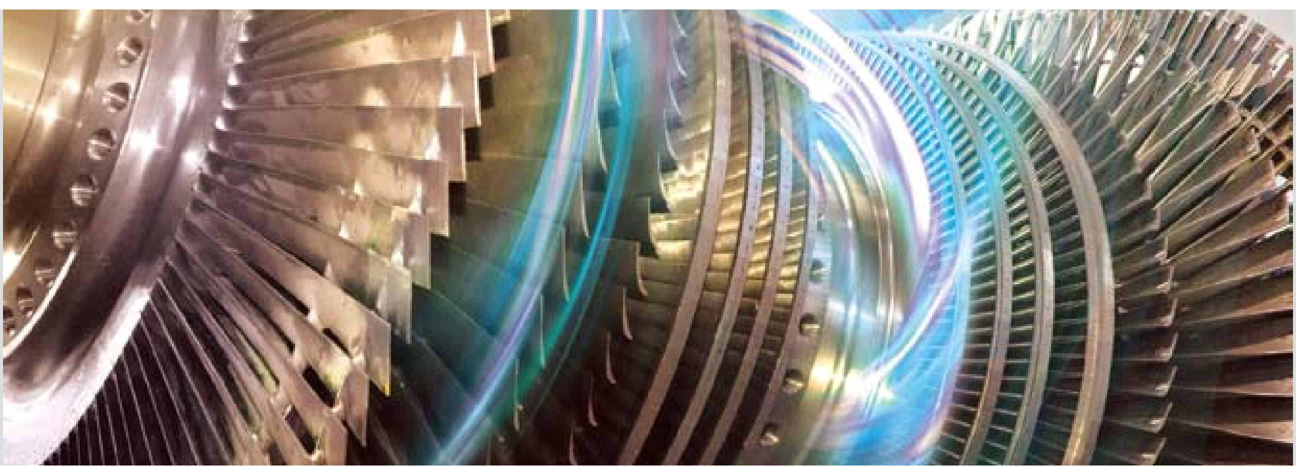
BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

Yuan Mifang , aged 60, is an accountant. He was appointed as the executive director of the Company in 2011. He resigned as the executive director of the Company effective from December 2012 and was appointed as the supervisor and chairman of the supervisory committee of the Company. Mr. Yuan joined Shanghai Electric Corporation in 1999. Mr. Yuan worked as the chief finance executive of the electricity transmission and distribution department of Shanghai Electric Corporation from 1999 to 2004 and the chief finance executive of Shanghai Electricity Transmission and Distribution Equipment Company Limited from 1999 to 2001. From 2000 to 2001, Mr. Yuan also served as the vice chairman of Chuanqi (China) Company Limited. Mr. Yuan has been working as the head of audit and inspection office of Shanghai Electric Corporation since 2004 and the head of audit department of Shanghai Electric Corporation since 2007. Since 2009, Mr. Yuan has been the supervisor of the sixth board of supervisors of Shanghai Mechanical & Electrical Industry Co., Ltd. From 2011, Mr. Yuan has also been working as the supervisor and 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 with a major in industrial accounting in 1982.

Hu Peiming , aged 55, was appointed as the supervisor of the Company in 2005 and was re-elected and appointed as the supervisor of the Company in 2011. Ms. Hu was the vice president of Shanghai Standard Component Import and Export Company Limited and the chairwoman of the company's labour union from 1988 to 2005. Ms. Hu graduated from Shanghai College of Electromechanics of the Chinese Communist Party in 1986 with a major in politics and management.

Yu Yun, aged 44, is a political affair officer. He was appointed as the supervisor of the Company in 2012. From 1986 to 2001, he worked as the deputy head of the training division, deputy secretary of the party committee and vice chairman of the labour union of Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as the director of the administration office, vice chairman of the labour union and manager of the human resources department of Shanghai Huatong Switch Co., Ltd. He has been the deputy secretary of committee of Communist Party of China, secretary of the disciplinary committee and chairman of the labour union of Shanghai Tian An Bearing Company Limited since 2005. Mr. Yu obtained a master degree in Business Administration from Asia International Open University (Macau) in 2007.



Senior Management

Yan Qi , aged 47, is a senior engineer. He was appointed as the vice president of the Company in 2005. He was appointed as the deputy factory director of one of our key subsidiaries, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") in 1997 and was later promoted to the position of factory director in 2001. He has been the 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 2003 and 2008 respectively. He was elected as member of the thirteenth People's Political Consultative Conference of Wuxi city in 2012. Mr. Yan graduated from Beijing Institute of Technology in 1988 with a degree in mechanical engineering and from Fudan University in Shanghai in 2000 with a MBA degree. He graduated with a doctoral degree in management from Southeast University in China in 2007.

Chen Hui , aged 44, is an engineer and a senior economist. He was appointed as the vice president and board secretary of the Company in 2005. He joined Shanghai Electric Corporation in July 1987. From 2002 to 2004, he served as the factory director and was responsible for the management of the bearing business division of Shanghai Electric Corporation before the reorganization. Mr. Chen was also the 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 in mechanical automation in October 1996 and from the Central College of the Communist Party in 2001 with a bachelor's degree in management. He obtained a master degree from Macau University of Science and Technology in 2002.

Xiao Weifeng , aged 58, is an engineer. He was appointed as the vice president of the Company in 2010. He began his career in 1973. During the period from 1992 to 2010, he worked as the deputy head and head of Shanghai No.2 Machine Tool Accessory Factory, the assistant to chief executive officer and the deputy chief executive officer of Shanghai Tool Works. Mr. Xiao is currently the deputy chief executive officer of the Company and the executive director (legal representative) and chief executive officer of Shanghai Tool Works. Mr. Xiao graduated from Workers University of Shanghai Machine Tool Works Ltd. with a major in machine tool design and manufacturing.

Wang Pin , aged 39, is a Certified Public Accountant in the PRC and a member of the Chinese Institute of Certified Public Accountants. He was appointed as the chief financial officer of the Company in 2006. Mr. Wang joined Shanghai Gong Xin Zhong Nan Accounting Firm in 1996 and took the role of lead auditor in auditing annual accounts for our bearing subsidiaries in 2001. Mr. Wang graduated from Shanghai University in 1996.

Li Wai Chung , aged 35, 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 the certified public accountant and company secretary of the Company in 2006. Prior to joining the Company, Mr. Li worked as the 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.

The Board believes that the Company has complied with the code provisions set out in the Code on Corporate Governance Practices as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "HK Stock Exchange") (the "Listing Rules") from 1 January 2012 to 31 March 2012 and there have been no material deviations; and from 1 April 2012 to 31 December 2012, the Company has complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Listing Rules and there have been no material deviations.

The Board will develop and review the company's policies and practices on corporate governance ; review and monitor the training and continuous professional development of directors and senior management; review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; and review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report, in accordance with the requirements set out in code provision D.3.1 of Appendix 14 of the Listing Rules.

Amendments To The Articles Of Association

The Company confirms that, for the year ended 31 December 2012 (the "Year"), there is no major amendment to the Articles of Association.

Model Code For Securities Transaction By Directors, Supervisors

The Board has 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"), which has been in force throughout the Year, as the code of conduct for directors' and supervisors' securities transactions of the Company and its subsidiaries (collectively referred to as the "Group"). All directors and supervisors of the Company confirmed that they have complied with the Model Code 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 business of the management . 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 the 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.

On 22 February 2013, Mr. Wang Qiang was appointed as the executive director and chairman of the Company and Mr. Zheng Yuanhu ceased to be the executive director and chairman of the Company. On 7 December 2012, Mr. Xu Chao was appointed as the executive director and vice chairman of the Company and Mr. Zhu Weiming ceased to be the executive director and vice chairman of the Company; Mr. Zhang Jianping was appointed as the executive director of the Company and Mr. Yuan Mifang ceased to be the 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 the date of this report, the members of the Company's directorship were listed as below:

Executive directors:	**Independent non-executive directors:**
Mr. Wang Qiang (Chairman)	Mr. Chan Chun Hong (Thomas)
Mr. Xu Chao (Vice Chairman)	Mr. Ling Hong
Mr. Hu Kang (Chief Executive Officer)	Mr. Li Yin
Ms. Zhu Xi	
Mr. Sun Wei	
Mr. Zhang Jianping	

Nine board meetings had been held during the Year, while two general meetings had been held during the period. The attendance of each director is summarized as follows:

Directors	Number of meeting		Actual Attendnace		Attendance Rate	
	Board	General Meeting	Board	General Meeting	Board	General Meeting
Mr. Wang Qiang §	-	-	-	-	-	-
Mr. Zheng Yuanhu §	9	2	9	1	100%	50%
Mr. Xu Chao△	2	1	2	1	100%	100%
Mr. Hu Kang	9	2	9	2	100%	100%
Ms. Zhu Xi	9	2	9	2	100%	100%
Mr. Sun Wei	9	2	9	1	100%	50%
Mr. Zhang Jianping△	2	1	2	1	100%	100%
Mr. Chan Chun Hong (Thomas)#	9	2	9	0	100%	0% ø
Mr. Ling Hong#	9	2	9	2	100%	100%
Mr. Li Yin#	9	2	9	1	100%	50% ø
Mr. Zhu Weiming*	7	1	7	1	100%	100%
Mr. Yuan Mifang*	7	1	7	1	100%	100%

§ Mr. Wang Qiang was appointed as the director of the Company with effect from 22 February 2013 and Mr. Zheng Yuanhu ceased to be the director of the Company with effect from 22 February 2013.

ø Mr. Chan Chun Hong (Thomas) and Mr. Li Yin, the independent non-executive director of the Company, didn't attend all general meetings of the company because of their job arrangement.

Independent non-executive directors.

△ Director who was appointed as directors of the Company with effect from 7 December 2012.

* Director who has resigned as directors of the Company with effect from 7 December 2012.

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 review 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 member, 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 directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Companies Ordinance/Act and corporate governance practices organized by professional bodies, independent auditors and/or chambers in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills. From time to time, the directors are provided with written training materials to develop and refresh their professional skills.

According to the records maintained by the Company, the current directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the revised code provisions on continuous professional development during the year ended 31 December 2012:

Directors	Corporate Governance/ Updates on Laws: Read Materials	Corporate Governance/ Updates on Laws: Attended Seminars/ Briefings
Wang Qiang (Appointed on 22 February 2013)	-	-
Zheng Yuanhu (Resigned on 22 February 2013)	√	√
Xu Chao (Appointed on 7 December 2012)	√	√
Zhu Weiming (Resigned on 7 December 2012)	√	√
Hu Kang	√	√
Zhang Jianping (Appointed on 7 December 2012)	√	√
Yuan Mifang (Resigned on 7 December 2012)	√	√
Zhu Xi	√	√
Sun Wei	√	√

Independent non-executive directors	Corporate Governance/ Updates on Laws: Read Materials	Corporate Governance/ Updates on Laws: Attended Seminars/ Briefings
Chan Chun Hong (Thomas)	√	-
Ling Hong	√	√
Li Yin	√	√

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 code provision A.2.1 of the Corporate Governance 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 initiating a culture of open forum and facilitating directors (especially non-executive directors) to make contribution to the Board. At present, Mr. Wang Qiang 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 tenure not exceeding three years.

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 and ensuring no executive directors participation in determination of their own remuneration. Pursuant to the Articles of Association of the Company, the remuneration package must be approved by general meeting of shareholders.

As at this date of the report, the remuneration committee currently consists of three independent non-executive directors. It is chaired by Mr. Ling Hong and with Mr. Chan Chun Hong (Thomas) and Mr. Li Yin as members. Mr. Ling Hong was elected and appointed as the independent non-executive director of the Company at the annual general meeting held on 28 May 2010. Mr. Chan Chun Hong (Thomas) was re-elected and re-appointed as the independent non-executive director of the Company at the extraordinary general meeting held on 10 October 2008. Mr. Li Yin was elected and appointed as the independent non-executive director of the Company at the extraordinary general meeting held on 21 October 2011. 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 held one meeting during the Year and the attendance of each member is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong	1	1
Mr. Chan Chun Hong (Thomas)	1	1
Mr. Li Yin	1	1

During the Year, the remuneration committee reviewed and approved the proposed 2012 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.

As at the date of this report, the audit committee 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 during the Year and the attendance 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	2	2

During the two meetings, the audit committee approved the audited consolidated financial statements of 2011 and unaudited interim condensed consolidated financial statements of 2012 of the Group. The committee 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

Upon approval by the Board, the nomination committee was duly formed on 20 January 2012. Please see the announcement issued on 20 January 2012 for details.

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.

As at the date of this report, Mr. Wang Qiang, Mr. Zhang Jianping, Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin were appointed as members of the third session of the nomination committee by the Board. Mr. Wang Qiang has been appointed as the chairman of the nomination committee and Mr. Li Wai Chung as the secretary of the committee. They will hold office from 22 February 2013, 20 January 2012 to the date of the meeting for the election of the next session of the Board respectively.

The nomination committee held three meetings during the Year and the attendance of each member is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Wang Qiang (Appointed on 22 February 2013)	-	-
Mr. Zheng Yuanhu (Resigned on 22 February 2013)	3	3
Mr. Zhang Jianping (Appointed on 7 December 2012)	1	1
Mr. Zhu Weiming (Resigned on 7 December 2012)	2	2
Mr. Chan Chun Hong (Thomas)	3	3
Mr. Ling Hong	3	3
Mr. Li Yin	3	3

The nomination committee has considered and approved the resolution of nominating Mr. Wang Qiang, Mr. Xu Chao and Mr. Zhang Jianping as the proposed executive directors of the Company during the Year. The nomination committee verified independency of independent non-executive director in 2012.

Strategic Committee

Upon approval by the Board, the strategic committee was duly formed on 20 January 2012. Please see the announcement issued on 20 January 2012 for details.

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.

As at the date of this report, Mr. Wang Qiang, Mr. Xu Chao, Mr. Hu Kang, Ms. Zhu Xi and Mr. Sun Wei were appointed as members of the third session of the strategic committee by the Board. Mr. Wang Qiang has been appointed as the chairman of the strategic committee and Mr. Chen Hui as the secretary of the committee. They will hold office from 22 February 2013, 20 January 2012 to the date of the meeting for the election of the next session of the Board respectively.

The strategic committee held two meetings during the Year and the attendance of each member is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Wang Qiang (Appointed on 22 February 2013)	-	-
Mr. Zheng Yuanhu (Resigned on 22 February 2013)	2	2
Mr. Xu Chao (Appointed on 7 December 2012)	0	0
Mr. Hu Kang	2	2
Ms. Zhu Xi	2	2
Mr. Sun Wei	2	2
Mr. Yuan Mifang (Resigned on 7 December 2012)	2	2

The strategic committee has heard and discussed the five-years strategic plan of the Group established in 2012 and heard the report of and made recommendation to the investment proposal, such as acquisition of Shanghai Dalong Machinery Works Company Limited and the relocation of fastener business.

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	RMB 2.7M
Non-auditing services	RMB 0.9M

Non-audit services refer to due diligence and subsequent audit business for the acquisition.

Directors' Responsibilities For Account

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 2012, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable and 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 full responsibility for the Group's system of internal control and the assessment on 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 and 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 and the "Implementation Guidelines for Enterprise Internal Control", 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 eight controlled subsidiaries, raising the awareness of operating risk among management through the circulation of assessment reports, continuing to monitor the remedial measures taken by the subsidiaries in response to management recommendations through on-site inspection and urging the management of the relevant subsidiaries to take proactive stance to improve if weaknesses were discovered. The "Procedures and Standards of Internal Control" of Shanghai Prime was amended in accordance with the "Implementation Guidelines for Enterprise Internal Control" (18 guidelines), further aligning the internal control of Shanghai Prime and its subsidiaries.

In addition, with reference to the "Implementation Guidelines for Enterprise 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 eight 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 as at the date of this annual report.

CORPORATE GOVERNANCE 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 a class 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 a class of shares, stating the subjects of the meeting. The Board shall call on an extraordinary general meeting or a meeting for a class of shares as soon as possible after receiving the aforementioned written requests. The said number of shareholding shall be calculated as at the date when written requests are submitted by the shareholders.

(ii) In the case that notice for calling on a meeting is not 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 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. The Securities Department of the Company can be reached via telephone Tel: +86 (21) 64729900.

(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 been dedicated to keeping the transparency of the Group on a high level and has been maintaining regular communication with investors and shareholders through different channels since the initial public offerings.

Through the Company's website (http://www.pmcsh.com), 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 from investors as well as the meeting with and the factory visit of the investors. It has 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 services for the investment industry by enhancing current investor relation activities.

By order of the Board
Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
15 March 2013

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 2012, 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 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	14,706,000	(1)	Beneficial owner	Long position	1.94	1.02
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of a controlled corporation	Long position	100.00	47.18
	H	14,706,000	(1)	Interest of a controlled corporation	Long position	1.94	1.02
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
Government of Singapore Investment Corporation Pte Ltd	H	60,624,052		Investment manager	Long position	7.98	4.22
Templeton Asset Management Ltd.	H	56,186,000		Investment manager	Long position	7.40	3.91
Citigroup Inc.	H	38,075,339	(3)	Trustee	Long position	5.01	2.65

OTHER INFORMATION

Notes:

(1) As at 31 December 2012, except for 678,576,184 domestic shares of the Company, Shanghai Electric (Group) Corporation has also held 14,706,000 H shares of the Company, representing 1.94% of the H share class and 1.02% of the issued shares of the Company as disclosed by the Shanghai Electric (Group) Corporation to the Company. Shanghai Electric (Group) Corporation holds 693,282,184 issued shares of the Company in aggregate, representing 48.2% of the issued shares of the Company. Shanghai Electric (Group) Corporation is wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, thus State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is deemed to be interested in the 678,576,184 domestic shares and 14,706,000 H shares of the Company held by Shanghai Electric (Group) Corporation.

(2) These 85,000,000 H shares were held by a controlled corporation of Atlantis Capital Holdings Limited. As 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.

(3) Citigroup Inc. is interested in 38,075,339 shares of the Company by virtue of its control over its 100% owned subsidiary Citicorp Holdings inc., which in turn held 100% interest in Citibank N.A.. Citibank N.A. in turn held the direct interests of 38,075,339 shares in the Company.

Save as disclosed above, no person had registered an interest or short positions in the shares and underlying shares of the Company as at 31 December 2012 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors',Supervisors' And Chief Executives' Interests And Short Positions In Shares And Underlying Shares

As at 31 December 2012, 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 set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. As at 31 December 2012, 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 2012 (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 2012 and the financial positions of the Company and the Group as at that date are set out in the financial statements on pages 42 to 125.

The directors proposed the payment of a final dividend of RMB2.20 cents per share (2011: RMB3.80 cents) in respect of the Year to shareholders whose names appear on the register of members on Friday, 28 June 2013. This recommendation has been incorporated in the financial statements as an allocation of retained profits under the equity section in the statement of financial position.

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.

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 34 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 the existing shareholders.

Purchase, redemption or sale of listed securities of the Company

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

Reserves

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

Distributable reserves

As at 31 December 2012, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB347 million, of which RMB32 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.

REPORT OF THE DIRECTORS

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, and 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. Wang Qiang, Mr. Xu Chao, Mr. Hu Kang, Mr. Sun Wei, Ms. Zhu Xi and Mr. Zhang Jianping as executive directors and Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin as independent non-executive directors.

With effect from 22 February 2013, Mr. Wang Qiang was appointed as the executive director and chairman of the Company and Mr. Zheng Yuanhu ceased to be the executive director and chairman of the Company . With effect from 7 December 2012, Mr. Xu Chao was appointed as the executive director and vice chairman of the Company and Mr. Zhang Jianping was appointed as the executive director of the Company. On the same date, Mr. Zhu Weiming ceased to be an executive director and vice chairman of the Company and Mr. Yuan Mifang ceased to be an executive director of the Company.

The independent non-executive directors held office 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 annual report.

Directors' service contracts

Mr. Wang Qiang, executive director of the Company entered into a service contract with the Company on 22 February 2013 while Mr. Xu Chao and Mr. Zhang Jianping, executive directors of the Company entered a service contract with the Company on 7 December 2012. Other executive directors of the Company entered into service contracts with the Company on 21 October 2011. According to the terms of the service contracts, each of the executive directors agreed to take up the office of executive 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 by either party 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, underlying shares and debentures

As at 31 December 2012, 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.

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 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

As at 31 December 2012, the persons who held 5% or more of the share capital of the Company and were required to be recorded in the register of the Company pursuant to Section 336 of the SFO were as follows:

Long positions:

Name of substantial Shareholder	Class of shares	Number of shares	Notes	Capacity	Percentage of total number of Domestic/H shares in issue (%)	Percetage of total number of shares in issue (%)
Shanghai Electric Corporation	Domestic	678,576,184	(1)	Beneficial owner	100.00	47.18
	H	14,706,000	(1)	Beneficial owner	1.94	1.02
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of a controlled corporation	100.00	47.18
	H	14,706,000	(1)	Interest of a controlled corporation	1.94	1.02
Atlantis Capital Holdings Limited	H	85,000,000	(2)	Interest of a controlled corporation	11.19	5.91
Liu Yang	H	85,000,000	(2)	Interest of a controlled corporation	11.19	5.91
Government of Singapore Investment Corporation Pte Ltd	H	60,624,052		Investment manager	7.98	4.22
Templeton Asset Management Ltd.	H	56,186,000		Investment manager	7.40	3.91
Citigroup Inc.	H	38,075,339	(3)	Trustee	5.01	2.65

Save as disclosed above, as at 31 December 2012, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by interests of the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

Notes:

(1) As at 31 December 2012, except for 678,576,184 domestic shares of the Company, Shanghai Electric Corporation has also held 14,706,000 H shares of the Company, representing 1.94% of the H share class and 1.02% of the issued shares of the Company as disclosed by the Shanghai Electric Corporation to the Company. Shanghai Electric Corporation holds 693,282,184 issued shares of the Company in aggregate, representing 48.20% of the issued shares of the Company. 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 14,706,000 H shares of the Company held by Shanghai Electric Corporation.

(2) These 85,000,000 H shares were held by a controlled corporation of Atlantis Capital Holdings Limited. As 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.

(3) Citigroup Inc. is interested in 38,075,339 shares of the Company by virtue of its control over its 100% owned subsidiary Citicorp Holdings inc., which in turn held 100% interest in Citibank N.A.. Citibank N.A. in turn held the direct interests of 38,075,339 shares in the Company.

Save as disclosed above, as at 31 December 2012, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register kept by 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 24 February 2012, the Group successfully bid for the 100% equity interest of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") disposed by Shanghai Electric Development Co., Ltd. ("SED") through the Equity Exchange. The successful bid price for Shanghai Insulating was RMB40.0 million. On 5 March 2012, the Group entered into the Shanghai Insulating Acquisition Agreement with SED to acquire 100% equity interest of Shanghai Insulating from SED at the successful bid price. The actual purchase price to merging Shanghai Insulating was RMB 37.7 million. Shanghai Electric Corporation is the controlling shareholder of the Company (as defined in the Listing Rules) holding approximately 47.18% equity interest in the total issued share capital of the Company as at 5 March 2012 and hence, is a connected person of the Company. SED is a wholly-owned company of Shanghai Electric Corporation and hence, is an associate of Shanghai Electric Corporation. Thus, SED is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transaction constitutes a connected transaction of the Company under the Listing Rules.

On 27 September 2012, the Group successfully won the bid for 100% equity interest in Shanghai Dalong Machinery Factory Company Limited ("Dalong Machinery") at the bid price of RMB84.8 million. Upon the successful bidding of Shanghai Dalong, on 28 September 2012, the Group entered into an acquisition agreement with Shanghai Electric Corporation, pursuant to which, the Group has agreed to acquire the 100% equity interest in Dalong Machinery. Shanghai Electric Corporation is the controlling shareholder of the Company (as defined in the Listing Rules) holding approximately 47.65% equity interest in the total issued share capital of the Company as at 28 September 2012 and hence, is a connected person of the Company.

Continuing connected transactions

Shanghai Electric Corporation is the controlling shareholder of the Company as defined in the Listing Rules holding approximately 47.18% and 47.65% equity interest in the total issued share capital of the Company as at 12 August 2011 and 28 September 2012 respectively and hence, is a connected person of the Company under Rule 14A.11(1) of the Listing Rules.

Framework Sales Agreement with Shanghai Electric Corporation

The Company entered into a framework sales agreement dated 12 August 2011 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 Shanghai Electric Corporation and its subsidiaries, excluding the Group and Shanghai Electric Companies (collectively referred to as "Parent Group"), Shanghai Electric Company and its subsidiaries are collectively referred to as "Shanghai Electric Companies", Shanghai Electric Group Company Limited is referred as "Shanghai Electric Company". This framework sales agreement covers a period of 2 years up to the financial year ending 31 December 2013. The framework sales agreement is renewable upon expiry of the term. Either party can terminate the framework sales agreement by giving at least three months' notice.

The pricing basis of certain bearings, turbine blades, cutting tools, fasteners and related components under the framework sales agreement shall be:

- 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,
- with reference to the 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 annual cap limit, representing the maximum aggregate sales amount as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB42.0 million and RMB52.2 million, respectively. The Group's actual sales to the Parent Group for the year ended 31 December 2012 amounted to RMB9.1 million.

Framework Purchase Agreement with Shanghai Electric Corporation

The Company entered into a framework purchase agreement dated 12 August 2011 with Shanghai Electric Corporation, pursuant to which the Group agreed to buy certain raw materials, component parts, and other related or similar items on a non-exclusive basis, from the Parent Group. This framework purchase agreement covers a period of 2 years up to the financial year ending 31 December 2013. The framework purchase agreement is renewable upon expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

The pricing basis of raw materials, components and other related or similar items under the framework purchase agreement shall be:

- 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,
- with reference to the 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 annual cap limit, representing the maximum aggregate purchase price as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB19.5 million and RMB24.1 million, respectively. The Group's actual purchases from the Parent Group for the year ended 31 December 2012 amounted to RMB2.0 million.

REPORT OF THE DIRECTORS

Framework Property Lease Agreement with Shanghai Electric Corporation

The Company entered into a supplemental framework property lease agreement dated 12 August 2011 with Shanghai Electric Corporation (which supplement the original framework property lease agreement dated 31 March 2006 and the first supplemental property lease agreement dated 25 April 2008), pursuant to which the Company agreed to lease certain properties as offices or production sites by the Company from Shanghai Electric Corporation.

The annual cap limit, representing the maximum aggregate rental payable as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB44.7 million and RMB52.7 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 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 2012 was RMB21.0 million.

Framework Comprehensive Service Agreement with Shanghai Electric Corporation

The Company entered into a framework comprehensive service agreement dated 28 September 2012 with Shanghai Electric Corporation, pursuant to which the Group agreed to accept the services of freight transportation, collection and payment of water, electricity and gas charges on agency basis, systematic services and other services. This framework comprehensive service agreement covers a period of 1 year from 1 January 2013 to 31 December 2013. The framework comprehensive service agreement is renewable upon expiry of the term.

The pricing basis of the framework comprehensive service agreement shall be:

- 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,
- with reference to the 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 annual cap limit, representing the maximum aggregate fee payable as agreed between the parties, for the year ending 31 December 2013 is RMB13.7 million.

Shanghai Electric Corporation is the controlling shareholder of the Company (as defined in the Listing Rules) holding approximately 47.18% equity interest in the total issued share capital of the Company as at 12 August 2011. Shanghai Electric Corporation is also the controlling shareholder of Shanghai Electric Company. Thus, Shanghai Electric Company is an associate of Shanghai Electric Corporation and hence, is a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Framework Sales Agreement with Shanghai Electric Company

The Company entered into a framework sales agreement dated 12 August 2011 with Shanghai Electric Company, pursuant to which the Group agreed to sell certain bearings, turbine blades, cutting tools, fasteners and related components, on a non-exclusive basis, to Shanghai Electric Companies. This framework sales agreement covers a period of 2 years up to the financial year ending 31 December 2013. The framework sales agreement is renewable upon expiry of the term. Either party may terminate the framework sales agreement by giving at least three months' notice.

The pricing basis of certain bearings, turbine blades, cutting tools, fasteners and related components under the framework sales agreement shall be:

- 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,

- with reference to the 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 annual cap limit, representing the maximum aggregate sales amount as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB749.4 million and RMB877.8 million, respectively. The Group's actual sales to Shanghai Electric Companies for the year ended 31 December 2012 amounted to RMB386.5 million.

Framework Purchase Agreement with Shanghai Electric Company

The Company entered into a framework purchase agreement dated 12 August 2011 with Shanghai Electric Company, pursuant to which the Group agreed to buy certain raw materials, component parts, and other related or similar items on a non-exclusive basis, from Shanghai Electric Companies. This framework purchase agreement covers a period of 2 years up to the financial year ending 31 December 2013. The framework purchase agreement is renewable upon expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

On 28 September 2012, the Company and Shanghai Electric Company entered into a supplemental framework purchase agreement, pursuant to which, both the Company and Shanghai Electric Company increased the annual cap of the transactions to be entered into under the framework purchase agreement for the year ending 31 December 2013 from RMB6.9 million to RMB29.6 million.

The pricing basis of certain raw materials, component parts, and other related or similar items under the framework purchase agreement shall be:

- 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,
- with reference to the 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 annual cap limit, representing the maximum aggregate purchase price as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB6.2 million and RMB29.6 million, respectively. The Group's actual purchases from Shanghai Electric Companies for the year ended 31 December 2012 amounted to RMB2.4 million.

Framework Processing Agreement with Shanghai Electric Company

The Company entered into a framework processing agreement dated 12 August 2011 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. This framework processing agreement covers a period of 2 years up to the financial year ending 31 December 2013. The framework processing agreement is renewable upon expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

The pricing basis of certain processing services of extra-large bearings and other products under the framework processing agreement shall be:

- 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,
- with reference to 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.

REPORT OF THE DIRECTORS

The annual cap limit, representing the maximum aggregate processing fees payable as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB5.2 million and RMB5.2 million, respectively. There was no processing fee payable to Shanghai Electric Companies incurred for the year ended 31 December 2012.

Shanghai Electric Corporation is the controlling shareholder of the Company (as defined in the Listing Rules) holding approximately 47.18% equity interest in the total issued share capital of the Company and 79.62% equity interest in Shanghai Electric Group Finance Co., Ltd ("Shanghai Electric Finance") as at 12 August 2011 respectively. Thus, Shanghai Electric Finance is an associate of Shanghai Electric Corporation and hence, is a connected person of the Company under Rule 14A.11(4) of the Listing Rules.

Framework Financial Services Agreement With Shanghai Electric Finance

The Company entered into a framework financial services agreement dated 12 August 2011 Shanghai Electric Finance. Pursuant to the provision of financial services which will include, among other matters, loan, deposit and integrated banking services, such as bill acceptance and discounting services, entrusted loan and investment services and financial consulting services, from Shanghai Electric Finance. This framework financial services agreement covers a period of 2 years up to the financial year ending 31 December 2013. The framework financial services agreement is renewable upon expiry of the term. Either party may terminate the framework purchase agreement by giving at least three months' notice.

Pursuant to the framework financial services agreement:

- Interest rates set by Shanghai Electric Finance for all loan services and purchase of discount bills provided to the Company will be in line with the relevant market rates published by the People's Bank of China.
- Interest rates set by Shanghai Electric Finance for all amount deposited by the Company to Shanghai Electric Finance will also be in line with the relevant interest rates published by the People's Bank of China from time to time.
- The pricing basis of the integrated banking services under the framework financial services agreement shall be not higher that the range of the market price and note less favourable than those prices charged by Shanghai Electric Finance to other companies.
- The interest rates offered by Shanghai Electric Finance in respect of obtaining loans or placing deposit and the fees in relation to the integrated banking services charged by Shanghai Electric Finance will be no less favourable than those offered or provided by other independent parties and are in the interests of the Company and its shareholders.

The annual cap limit, representing the maximum daily balance of loan balance and discount bills provided as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB440.0 million and RMB484.0 million, respectively. The Group's actual daily balance of loan balance and discount bills provided by Shanghai Electric Finance for the year ended 31 December 2012 did not exceed the approved cap limit.

The annual cap limit, representing the maximum daily balance deposited as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB330.0 million and RMB363.0 million, respectively. The Group's actual daily balance deposited to Shanghai Electric Finance during the year ended 31 December did not exceed the approved cap limit.

The annual cap limit, representing the maximum aggregate integrated banking services fee paid as agreed between the parties, for the years ended/ending 31 December 2012 and 2013 are RMB11.0 million and RMB12.1 million, respectively. There was no integrated banking services fee payable to Shanghai Electric Finance incurred during the year ended 31 December 2012.

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 interest 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

Details of post balance sheet events of the Group are set out in note 43 to the financial statements.

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
Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
15 March 2013

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, seven 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 2012, 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 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 2012.

- The supervisory committee has supervised duty fulfillment of the directors and management of the Company, and considers 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 2013, 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
Yuan Mifang
Chairman of the Supervisory Committee
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
15 March 2013

INDEPENDENT AUDITOR'S 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 125, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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

15 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
REVENUE	5	**3,220,745**	3,634,070
Cost of sales		**(2,598,183)**	(2,932,124)
Gross profit		**622,562**	701,946
Other income and gains	5	**126,918**	199,541
Selling and distribution expenses		**(136,267)**	(118,475)
Administrative expenses		**(302,444)**	(310,989)
Other expenses		**(139,733)**	(224,797)
Finance costs	7	**(50,507)**	(17,826)
Share of profits and losses of associates		**16,315**	27,046
PROFIT BEFORE TAX	6	**136,844**	256,446
Income tax expense	10	**(9,123)**	(36,505)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**127,721**	219,941
Profit and total comprehensive income attributable to:			
Owners of the Company	11	**126,098**	218,483
Non-controlling interests		**1,623**	1,458
		127,721	219,941
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	13	**8.77**	15.19

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	2012 RMB'000	2011 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,900,894**	1,949,979
Prepaid land premiums/land lease payments	15	**160,604**	163,464
Goodwill	16	**8,818**	8,818
Other intangible assets	17	**30,661**	24,367
Investments in associates	19	**185,592**	196,180
Available-for-sale investments	20	**872**	872
Long-term prepayments	21	**87,188**	8,290
Deferred tax assets	22	**53,461**	31,814
Total non-current assets		**2,428,090**	2,383,784
CURRENT ASSETS			
Inventories	23	**732,144**	800,035
Trade receivables	24	**717,473**	715,910
Bills receivable	25	**309,799**	373,974
Prepayments, deposits and other receivables	26	**131,467**	168,722
Restricted deposits	28	**63,909**	56,595
Cash and cash equivalents	28	**1,197,893**	878,832
Total current assets		**3,152,685**	2,994,068
CURRENT LIABILITIES			
Trade payables	29	**638,480**	705,185
Bills payable	30	**204,774**	124,210
Tax payable		**40,501**	63,807
Other payables and accruals	31	**231,117**	222,470
Interest-bearing bank and other borrowings	32	**410,261**	346,590
Total current liabilities		**1,525,133**	1,462,262
NET CURRENT ASSETS		**1,627,552**	1,531,806
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,055,642**	3,915,590

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,055,642**	3,915,590
NON-CURRENT LIABILITIES			
Company bonds	33	**493,363**	-
Interest-bearing bank and other borrowings	32	**-**	380,000
Government grants		**315,995**	328,446
Other long-term payables		**11,785**	18,377
Deferred tax liabilities	22	**7,818**	15,733
Total non-current liabilities		**828,961**	742,556
Net assets		**3,226,681**	3,173,034
EQUITY			
Equity attributable to owners of the Company			
Issued capital	34	**1,438,286**	1,438,286
Reserves	35(a)	**1,721,026**	1,663,489
Proposed final dividend	12	**31,642**	54,655
		3,190,954	3,156,430
Non-controlling interests		**35,727**	16,604
Total equity		**3,226,681**	3,173,034

Wang Qiang
Director

Hu Kang
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	Safety fund surplus reserve 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	(37,951)	-	178,814	646,761	46,025	2,974,880	15,146	2,990,026
Acquisition of Shanghai Insulating [2]	36	-	-	10,842	2,310	-	(35,316)	-	(22,164)	-	(22,164)
As restated		1,438,286	702,945	(27,109)	2,310	178,814	611,445	46,025	2,952,716	15,146	2,967,862
Total comprehensive income for the year		-	-	-	-	-	218,483	-	218,483	1,458	219,941
Appropriation to surplus reserves		-	-	-	314	32,347	(32,661)	-	-	-	-
Final 2010 dividend declared		-	-	-	-	-	(14,300)	(46,025)	(60,325)	-	(60,325)
Proposed final 2011 dividends	12	-	-	-	-	-	(54,655)	54,655	-	-	-
Research Center and Bolt reform		-	-	58,542	-	(4,032)	(7,050)	-	47,460	-	47,460
Acquisition of Research Centre and Bolt [2]		-	-	(69,374)	-	-	-	-	(69,374)	-	(69,374)
Acquisition of Shanghai Insulating [2]	36	-	-	28,658	-	-	38,812	-	67,470	-	67,470
At 31 December 2011		1,438,286	702,945 [1]	(9,283) [1]	2,624 [1]	207,129 [1]	760,074 [1]	54,655	3,156,430	16,604	3,173,034

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	Safety fund surplus reserve 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 2012											
As previously reported		1,438,286	702,945	(48,783)	-	207,129	759,941	54,655	3,114,173	16,604	3,130,777
Acquisition of Shanghai Insulating[2]	36	-	-	39,500	2,624	-	133	-	42,257	-	42,257
As restated		1,438,286	702,945	(9,283)	2,624	207,129	760,074	54,655	3,156,430	16,604	3,173,034
Total comprehensive income for the year		-	-	-	-	-	126,098	-	126,098	1,623	127,721
Appropriation to surplus reserves		-	-	-	2,418	22,234	(24,652)	-	-	-	-
Final 2011 dividend declared		-	-	-	-	-	-	(54,655)	(54,655)	-	(54,655)
Proposed final 2012 dividends	12	-	-	-	-	-	(31,642)	31,642	-	-	-
Capital injection of minority interest		-	-	-	-	-	-	-	-	17,500	17,500
Amendment of the investment cost of Research Centre[2]		-	-	517	-	-	-	-	517	-	517
Acquisition of Shanghai Insulating[2]	36	-	-	(37,436)	-	-	-	-	(37,436)	-	(37,436)
At 31 December 2012		1,438,286	702,945[1]	(46,202)[1]	5,042	229,363[1]	829,878[1]	31,642	3,190,954	35,727	3,226,681

Notes

1 These reserve accounts comprise the consolidated reserves of RMB1,721,026,000 (2011: RMB1,663,489,000) in the consolidated statement of financial position.

2 Bolt, Research Centre and Shanghai Insulating refer to Shanghai High Strength Bolt Factory Company Limited , Shanghai Fastener and Welding Material Technology Research Centre Company Limited and Shanghai Electric Insulating Materials Company Limited, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**136,844**	256,446
Adjustments for:			
Finance costs	7	**50,507**	17,826
Share of profits of associates		**(16,315)**	(27,046)
Interest income from loans receivable, bank balances and deposits and other financial assets	5	**(18,570)**	(20,077)
Dividend income from available-for-sale investments	5	**-**	(8,361)
Depreciation	6	**165,445**	130,641
Amortisation of prepaid land premiums/land lease payments	6	**3,644**	3,197
Amortisation of other intangible assets	6	**6,887**	2,934
Foreign exchange differences, net		**80**	1,234
Gain on disposal of items of property, plant and equipment, net	5	**(5,704)**	(6,468)
Gain on write-back of long-aged payables	5	**(15,288)**	(13,582)
Gain on disposal of available-for-sale investments	5	**-**	(3,632)
Impairment of receivables	6	**17,055**	1,053
Impairment of property, plant and equipment	6	**680**	10,171
Write-down of inventories to net realisable value	6	**31,224**	20,526
		356,489	364,862
Decrease in inventories		**36,667**	56,881
Decrease/ (increase) in trade receivables, bills receivable, prepayments, deposits and other receivables		**88,397**	(467,925)
Increase in trade payables, bills payable, other payables and accruals		**15,001**	151,397
(Decrease)/increase in other long-term payables		**(6,592)**	3,514
(Decrease) in government grants		**(12,451)**	(18,271)
Cash generated from operations		**477,511**	90,458
Taxes paid		**(46,629)**	(33,963)
Net cash flows from operating activities		**430,882**	56,495

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**18,345**	19,601
Dividend received from available-for-sale investments	5	**-**	8,361
Dividends received from associates		**14,743**	2,400
Purchases of items of property, plant and equipment		**(126,248)**	(364,772)
Proceeds from disposal of items of property, plant and equipment		**23,557**	77,127
Proceeds from disposal of prepaid land premiums/land lease payments		**5,899**	-
Prepaid land premiums/land lease payments		**(6,680)**	(17,650)
Additions to other intangible assets		**(13,181)**	(17,059)
Acquisition of subsidiaries	36	**(37,660)**	(69,374)
Prepayment for acquisition of subsidiary		**(84,759)**	-
Additional contribution to the share capital of an associate		**-**	(25,838)
Disposal of available-for-sale investments		**-**	7,132
(Increase)/decrease in non-restricted deposits with original maturity of over three months when acquired		**(150,754)**	74,587
Net cash flows used in investing activities		**(356,738)**	(305,485)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of company bonds		**492,923**	-
Capital injection by minority interests		**17,500**	-
New bank and other borrowings		**435,000**	496,590
Repayment of bank and other borrowings		**(751,329)**	(220,200)
Dividends paid		**(54,655)**	(60,325)
Interest paid		**(45,196)**	(37,002)
Net cash flows from financing activities		**94,243**	179,063
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		**168,387**	(69,927)
Cash and cash equivalents at beginning of year		**867,160**	938,321
Effect of foreign exchange rate changes, net		**(80)**	(1,234)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,035,467**	867,160
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**435,891**	398,045
Non-restricted time deposits with original maturity of less than three months when acquired		**599,576**	469,115
Cash and cash equivalents as stated in the statement of cash flows		**1,035,467**	867,160

STATEMENT OF FINANCIAL POSITION

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,112**	3,159
Other intangible assets	17	**2,219**	2,706
Investments in subsidiaries	18	**2,278,054**	2,083,410
Investments in associates	19	**119,845**	119,845
Long-term prepayments	21	**84,759**	-
Loans receivable	27	**400,000**	-
Deferred tax assets	22	**6,162**	1,306
Total non-current assets		**2,894,151**	2,210,426
CURRENT ASSETS			
Trade receivables	24	**20,304**	67,302
Bills receivable	25	**180**	250
Prepayments, deposits and other receivables	26	**284,883**	292,395
Loans receivable	27	**125,000**	100,000
Cash and cash equivalents	28	**612,515**	483,404
Total current assets		**1,042,882**	943,351
CURRENT LIABILITIES			
Trade payables	29	**64,033**	64,717
Tax payable		**-**	1,964
Other payables and accruals	31	**622,759**	382,900
Interest-bearing bank and other borrowings	32	**200,000**	170,000
Total current liabilities		**886,792**	619,581
NET CURRENT ASSETS		**156,090**	323,770
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,050,241**	2,534,196
NON-CURRENT LIABILITIES			
Company bonds	33	**493,363**	-
Government grants		**700**	980
Total non-current liabilities		**494,063**	980
Net assets		**2,556,178**	2,533,216
EQUITY			
Issued capital	34	**1,438,286**	1,438,286
Reserves	35(b)	**1,086,250**	1,040,275
Proposed final dividends	12	**31,642**	54,655
Total equity		**2,556,178**	2,533,216

Wang Qiang	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 2012. 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 it 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 revised HKFRSs for the first time for the current year's 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*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

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 – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]

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

HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments*: *Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1 January 2013.

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.

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

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. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

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 addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any impact on the currently held investments of 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.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities 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.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

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

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, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1 January 2013.

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 HKAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

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 HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

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

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

(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 exist. 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 2011, 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 2011, the earliest date presented, regardless of the date of the business combinations under common control.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

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 whether 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 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the 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 acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combination not under common control (continued)

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation 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, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), 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 an 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
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(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 are two spire-pressure machines (10KT-clutch mode / 35KT- clutch mode) which are depreciated on the unit-of-production method to write off their cost to the residual value over their 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 including 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 and capitalised borrowing costs on related borrowed funds during the period 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 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 life 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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

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

Operating leases

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

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. The lease terms of prepaid land premiums range from 45 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading 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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as 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.

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 them. 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 the income statement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 other income and gains 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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.

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)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. 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 write-off is later recovered, the recovery is credited to other expenses in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

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.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 the income statement 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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

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

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

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

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

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)

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 4.20% and 5.90% 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 other comprehensive income.

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 translation of a non-monetary item measured as fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(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 2012 was RMB8,818,000 (2011: RMB8,818,000). Further details are given in note 16.

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

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

(iii) Impairment of trade receivables and other receivables

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

(iv) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing, the applicable tax rates, and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2012 was RMB1,969,000 (2011: RMB218,000). The amount of unrecognised tax losses at 31 December 2012 was RMB22,512,000 (2011: RMB15,535,000). Further details are contained in note 22 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 an investment in an associate, which engages in the production and sale of carbolic products, and trading activities carried out by the Company.

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

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

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

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

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2012						
Segment revenue:						
Sales to external customers	764,490	828,916	607,343	1,019,996	-	3,220,745
Other revenue	21,408	58,494	16,926	10,667	-	107,495
Total	785,898	887,410	624,269	1,030,663	-	3,328,240
Reconciliation:						
Elimination of intersegment sales						-
Revenue						3,328,240

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 results	35,322	57,350	78,155	19,632	-	190,459
Reconciliation:						
Interest and dividend income and unallocated gains						19,423
Corporate and other unallocated expenses						(38,846)
Finance costs						(50,507)
Share of profits and losses of associates	4,467	-	962	-	10,886	16,315
Profit before tax						136,844
Segment assets	1,364,751	2,489,056	663,457	853,757	903,141	6,274,162
Reconciliation:						
Elimination of intersegment receivables						(1,429,009)
Investments in associates	93,065	-	19,773	-	72,754	185,592
Corporate and other unallocated assets						550,030
Total assets						5,580,775
Segment liabilities	385,487	1,209,080	202,440	434,917	1,140,918	3,372,842
Reconciliation:						
Elimination of intersegment payables						(1,429,009)
Corporate and other unallocated liabilities						410,261
Total liabilities						2,354,094
Other segment information:						
Impairment losses recognised in profit or loss	21,880	21,766	714	4,599	-	48,959
Other non-cash expenses	(2,150)	-	-	-	-	(2,150)
Depreciation and amortisation	26,660	81,153	39,083	27,032	2,048	175,976
Capital expenditure	31,071	87,769	16,540	11,531	1,982	148,893 *

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

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000 (Restated)	Others RMB'000	Total RMB'000 (Restated)
Year ended 31 December 2011 (Restated)						
Segment revenue:						
Sales to external customers	753,043	1,000,608	602,963	1,277,456	-	3,634,070
Other revenue	16,970	120,913	19,972	11,231	-	169,086
Total	770,013	1,121,521	622,935	1,288,687	-	3,803,156
Reconciliation:						
Elimination of intersegment sales						-
Revenue						3,803,156
Segment results	46,896	123,596	69,609	20,541	-	260,642
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						256,446
Segment assets	1,213,742	2,462,855	644,164	852,826	394,268	5,567,855
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						5,377,852
Segment liabilities	399,601	884,486	204,462	424,615	440,903	2,354,067
Reconciliation:						
Elimination of intersegment payables						(876,156)
Corporate and other unallocated liabilities						726,907
Total liabilities						2,204,818

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000 (Restated)	Others RMB'000	Total RMB'000 (Restated)
Other segment information:						
Impairment losses recognised in profit or loss	3,031	7,149	9,506	11,529	535	31,750
Other non-cash expenses	2,150	-	-	-	-	2,150
Depreciation and amortisation	21,501	50,988	31,280	30,292	2,711	136,772
Capital expenditure	65,023	268,599	61,415	34,044	2,160	431,241

Geographical information

(a) Revenue from external customers

	2012			2011 (Restated)		
	PRC RMB'000	Outside PRC RMB'000	Total RMB'000	PRC RMB'000	Outside PRC RMB'000	Total RMB'000
Sales to external customers	**2,184,996**	**1,035,749**	**3,220,745**	2,384,088	1,249,982	3,634,070

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

(b) Non-current assets

	2012 RMB'000	2011 RMB'000 (Restated)
PRC	**2,373,757**	2,351,098

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 RMB282,272,000 (2011: RMB329,237,000) was derived from sales by the turbine blade segment of the Group to a sigle customer.

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:

	2012 RMB'000	2011 RMB'000 (Restated)
Revenue		
Sale of goods	**3,175,241**	3,609,834
Rendering of services	**45,504**	24,236
	3,220,745	3,634,070
Other income		
Dividend income from available-for-sale investments	**-**	8,361
Interest income from loans receivable, bank balances and deposits, and other financial assets	**18,570**	20,077
Gross rental income	**1,198**	1,434
Profit on sales of raw materials, spare parts and semi-finished goods	**18,189**	25,978
Government grants *	**51,867**	109,512
Compensation income	**4,507**	295
Technical service income	**3,890**	4,020
Others	**7,705**	6,182
	105,926	175,859
Gains		
Gain on disposal of items of property, plant and equipment, net	**5,704**	6,468
Gain on disposal of available for sale investments	**-**	3,632
Gain on write-back of long-aged payables	**15,288**	13,582
	20,992	23,682
	126,918	199,541

* Various government grants have been received during the years ended 31 December 2012 and 31 December 2011. 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	2012 RMB'000	2011 RMB'000 (Restated)
Cost of inventories sold		**2,528,645**	2,891,757
Cost of services provided		**38,314**	19,841
Depreciation	14	**165,445**	130,641
Amortisation of prepaid land premiums/land lease payments	15	**3,644**	3,197
Amortisation of other intangible assets *	17	**6,887**	2,934
Write-down of inventories to net realisable value		**31,224**	20,526
Impairment of receivables *		**17,055**	1,053
Impairment of property, plant and equipment *	14	**680**	10,171
Research and development costs:			
Current year expenditure*		**93,554**	99,466
Minimum lease payments under operating leases:			
Land and buildings		**24,053**	17,063
Vehicles		**2,841**	2,268
Auditors' remuneration:			
Audit services		**2,700**	2,470
Non-audit services		**920**	1,455
Employee benefit expense (including directors' and supervisors' remuneration – note 8):			
Wages and salaries		**362,336**	349,930
Defined contribution pension scheme (note i)		**34,946**	28,881
Medical benefits (note iii)		**17,915**	14,802
Housing fund (note iv)		**16,794**	12,080
Cash housing subsidies		**342**	1,068
		432,333	406,761
Foreign exchange differences, net		**2,446**	8,474

* 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.

(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:

	2012 RMB'000	2011 RMB'000 (Restated)
Interest on company bonds, bank and other loans wholly repayable within five years	**53,291**	38,387
Less: Interest capitalised	**(2,784)**	(20,561)
	50,507	17,826

8. DIRECTORS' , SUPERVISORS' AND SENIOR EXECUTIVES' 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Fees	**485**	509	**-**	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	**1,067**	686	**402**	548
Performance related bonuses	**473**	414	**66**	234
Pension scheme contributions	**99**	60	**66**	60
Total	**2,124**	1,669	**534**	842

(a) Independent non-executive directors

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

	2012 RMB'000	2011 RMB'000
Chan Chun Hong, Thomas	**195**	199
Li Yin	**145**	36
Ling Hong	**145**	149
Liu Huangsong	**-**	125
	485	509

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

8. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' 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
2012				
Executive directors:				
Zheng Yuanhu	-	-	-	-
Zhu Weiming	369	37	33	439
Hu Kang	369	148	33	550
Zhu Xi	-	-	-	-
Sun Wei	-	-	-	-
Yuan Mifang	-	-	-	-
Wang Qiang	-	-	-	-
Xu Chao	-	-	-	-
Zhang Jianping	329	288	33	650
	1,067	473	99	1,639
Supervisors:				
Yuan Mifang	-	-	-	-
Hu Peiming	279	6	33	318
Yu Yun	123	60	33	216
	402	66	66	534
	1,469	539	165	2,173
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

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2011: Nil).

8. DIRECTORS' , SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (continued)

(c) Remuneration of senior executive

There are 5 senior executives in the company, 1 senior executive has remuneration beyond RMB 500,000, 2 senior executives have remuneration between RMB 500,000 and RMB 550,000, 1 senior executive has remuneration between RMB 550,000 and RMB 600,000, 1 senior executive has remuneration above RMB 650,000.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2011: two) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2011: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**1,335**	2,162
Performance related bonuses	**962**	1,087
Pension scheme contributions	**130**	149
	2,427	3,398

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

10. INCOME TAX

Four subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Zhenhua Bearing Factory Company Limited ("Zhenghua Bearing"), Shanghai Tool Works Company Limited ("Tool Works") and Research Centre were granted the High and New Technology Enterprises ("HNTEs") qualification by the relevant government authority on 20 October 2011 and accordingly are subject to a preferential corporate income tax rate of 15% for the years ending 31 December 2013.

Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") was subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2009, 2010 and 2011, as it was granted the HNTEs qualification by the relevant government authority on 27 May 2009. The subsidiary had submitted its application to renew its HNTEs qualification for another three years ending 31 December 2014. The Group is of the opinion that the subsidiary will be successful in the application and accordingly, the applicable corporate income tax rate is 15% for the years ending 31 December 2014.

Shanghai Tian An Bearing Company Limited ("Tian An Bearing") had submitted its application for its HNTEs qualification for three years ending 31 December 2014. The Group is of the opinion that the subsidiary will be successful in the application and accordingly, the applicable corporate income tax rate is 15% for the years ending 31 December 2014.

10. INCOME TAX (continued)

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

	2012 RMB'000	2011 RMB'000 (Restated)
Group:		
Current – the PRC		
Charge for the year	**38,479**	47,535
(Overprovision)/underprovision in prior years	**(18)**	65
Deferred (note 22)	**(29,338)**	(11,095)
Total tax charge for the year	**9,123**	36,505

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:

	2012 RMB'000	2011 RMB'000 (Restated)
Profit before tax	**136,844**	256,446
Tax at the statutory tax rate of 25% (2011: 25%)	**34,211**	64,112
Preferential tax rate for certain subsidiaries	**(13,972)**	(21,701)
Effect of tax rate change:		
On opening deferred tax	**1,223**	(1,024)
Adjustments in respect of current tax of previous period	**(18)**	65
Profits and losses attributable to associates	**(3,983)**	(6,214)
Income not subject to tax	**(9,864)**	(1,818)
Expenses not deductible for tax	**1,053**	4,241
Tax losses utilised from previous periods	**-**	(652)
Tax losses not recognised	**1,730**	1,393
Effect of tax incentive	**(1,257)**	(1,897)
Tax charge at the Group's effective rate	**9,123**	36,505
The Group's effective income tax rate	**6.7%**	14.2%

The share of tax attributable to associates amounting to RMB4,033,000 (2011: RMB9,235,000) 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 2012 includes a profit of RMB8,571,000 (2011: RMB2,400,000) which has been dealt with in the financial statements of the Company

12. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Proposed final – RMB2.2 cents (2011: RMB3.80 cents) per ordinary share	**31,642**	54,655

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 2012 and 31 December 2011 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2012 RMB'000	2011 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	**126,098**	218,483

	Number of shares	
	2012	2011
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 2012							
Cost:							
At 1 January 2012							
As previously reported	486,051	1,789,635	23,405	26,242	401,660	28,962	2,755,955
Acquisition of Shanghai Insulating	11,759	4,737	222	91	-	-	16,809
As restated	497,810	1,794,372	23,627	26,333	401,660	28,962	2,772,764
Additions	-	15,584	445	2,915	115,157	792	134,893
Disposals	-	(70,786)	(2,492)	(2,505)	(196)	-	(75,979)
Transfers	35,041	373,088	1,495	444	(410,068)	-	-
At 31 December 2012	532,851	2,112,258	23,075	27,187	106,553	29,754	2,831,678
Accumulated depreciation and impairment:							
At 1 January 2012							
As previously reported	27,589	749,247	12,884	18,950	408	13,707	822,785
Depreciation provided during the year	16,073	138,521	2,103	3,547	-	5,201	165,445
Impairment	-	499	-	-	181	-	680
Disposals	-	(53,659)	(2,018)	(2,268)	(181)	-	(58,126)
At 31 December 2012	43,662	834,608	12,969	20,229	408	18,908	930,784
Net book value:							
At 31 December 2012	489,189	1,277,650	10,106	6,958	106,145	10,846	1,900,894

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
31 December 2011 (Restated)							
Cost:							
At 1 January 2011							
As previously reported	141,063	1,431,587	27,843	31,862	385,789	23,570	2,041,714
Acquisition of Shanghai Insulating	3,439	17,399	680	423	-	-	21,941
As restated	144,502	1,448,986	28,523	32,285	385,789	23,570	2,063,655
Additions	9,873	38,162	4,279	2,437	820,592	8,494	883,837
Fair value adjustments arising from the corporate reform of Bolt and Research Centre	18,216	6,652	(543)	(296)	-	-	24,029
Fair value adjustments arising from the corporate reform of Shanghai Insulating (note 36)	960	(2,618)	(53)	(192)	-	-	(1,903)
Disposals	(51,315)	(93,734)	(9,700)	(3,071)	(246)	(3,102)	(161,168)
Offset against depreciation due to the corporate reform of Bolt and Research Centre	(587)	(16,003)	(862)	(5,051)	-	-	(22,503)
Offset against depreciation due to the corporate reform of Shanghai Insulating	(2,513)	(10,195)	(330)	(145)	-	-	(13,183)
Transfers	378,674	423,122	2,313	366	(804,475)	-	-
At 31 December 2011	497,810	1,794,372	23,627	26,333	401,660	28,962	2,772,764

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	35,901	707,332	18,384	23,463	408	12,136	797,624
Acquisition of Shanghai Insulating	1,273	12,495	604	329	-	-	14,701
As restated	37,174	719,827	18,988	23,792	408	12,136	812,325
Depreciation provided during the year	13,439	106,782	2,730	3,172	-	4,518	130,641
Fair value adjustments arising from the corporate reform of Bolt and Research Centre	(2,964)	3,368	(654)	(303)	-	-	(553)
Offset against depreciation due to the corporate reform of Bolt and Research Centre	(587)	(16,003)	(862)	(5,051)	-	-	(22,503)
Offset against depreciation due to the corporate reform of Shanghai Insulating (note 36)	(2,513)	(10,195)	(330)	(145)	-	-	(13,183)
Impairment	-	10,171	-	-	-	-	10,171
Disposals	(16,960)	(64,703)	(6,988)	(2,515)	-	(2,947)	(94,113)
At 31 December 2011	27,589	749,247	12,884	18,950	408	13,707	822,785
Net book value:							
At 31 December 2011	470,221	1,045,125	10,743	7,383	401,252	15,255	1,949,979

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Motor vehicles RMB'000	Office and other equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2012				
Cost:				
At 1 January 2012	1,590	7,926	2,872	12,388
Additions	-	1,503	-	1,503
Disposals	-	(456)	-	(456)
At 31 December 2012	1,590	8,973	2,872	13,435
Accumulated depreciation:				
At 1 January 2012	430	6,064	2,735	9,229
Depreciation provided during the year	219	1,147	137	1,503
Disposals	-	(409)	-	(409)
At 31 December 2012	649	6,802	2,872	10,323
Net book value:				
At 31 December 2012	941	2,171	-	3,112

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 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

As at 31 December 2012, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB1,891,000 (2011: RMB1,970,000).

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	2012 RMB'000	2011 RMB'000
At cost:		
As previously reported	**171,593**	137,207
Acquisition of Shanghai Insulating	**7,691**	-
As restated	**179,284**	137,207
Additions	**6,680**	17,650
Fair value adjustments arising from the corporate reform of Bolt and Research Centre	**-**	23,856
Fair value adjustments arising from the corporate reform of Shanghai Insulating (note 36)	**-**	585
Offset against depreciation due to the corporate reform of Shanghai Insulating	**-**	(14)
Disposals	**(6,531)**	-
At end of year	**179,433**	179,284
Accumulated amortisation:		
As previously reported	**12,166**	8,983
As restated	**12,166**	8,983
Recognised during the year	**3,644**	3,197
Offset against depreciation due to the corporate reform of Shanghai Insulating	**-**	(14)
Disposals	**(632)**	-
At end of year	**15,178**	12,166
Net book value:	**164,255**	167,118
Of which:		
Current portion included in prepayments, deposits and other receivables (note 26)	**3,651**	3,654
Non-current portion	**160,604**	163,464
	164,255	167,118

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 2011	
31 December and 2012	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.

Key assumptions were used in the value in use calculation of the bearing cash-generating unit for 31 December 2012 and 2011. 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 2012				
At cost:				
At 1 January 2012				
As previously reported	14,966	5,025	12,618	32,609
Acquisition of Shanghai Insulating	-	439	-	439
As restated	14,966	5,464	12,618	33,048
Additions	8,522	-	4,659	13,181
At 31 December 2012	23,488	5,464	17,277	46,229

17. OTHER INTANGIBLE ASSETS (continued)

Group **(continued)**

	Deferred development costs RMB'000	Patents and licences RMB'000	Software RMB'000	Total RMB'000
Accumulated amortisation:				
At 1 January 2012	517	1,495	6,669	8,681
Amortisation provided during the year	3,271	853	2,763	6,887
At 31 December 2012	3,788	2,348	9,432	15,568
Net book value:				
At 31 December 2012	19,700	3,116	7,845	30,661
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 the of Bolt and Research Centre the of (note 36)	263	2,525	-	2,788
Fair value adjustments arising from the of Shanghai Insulating the of (note 36)	-	443	-	443
Offset against deperciation due to the corporate reform of Shanghai Insulating	-	(4)	-	(4)
At 31 December 2011	14,966	5,464	12,618	33,048
Accumulated amortisation:				
At 1 January 2011	-	750	5,001	5,751
Amortisation provided during the year	517	749	1,668	2,934
Offset against deperciation due to the corporate reform of Shanghai Insulating	-	(4)	-	(4)
At 31 December 2011	517	1,495	6,669	8,681
Net book value:				
At 31 December 2011	14,449	3,969	5,949	24,367

17. OTHER INTANGIBLE ASSETS (continued)

Company

	Software RMB'000
31 December 2012	
At cost:	
At 1 January 2012	4,754
Additions	479
At 31 December 2012	5,233
Accumulated amortisation:	
At 1 January 2012	2,048
Amortisation provided during the year	966
At 31 December 2012	3,014
Net book value:	
At 31 December 2012	2,219
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

18. INVESTMENTS IN SUBSIDIARIES

Company

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	**2,095,054**	1,900,410
Due from a subsidiary	**183,000**	183,000
	2,278,054	2,083,410

The Company's other receivables, trade payables and other payables and accruals with subsidiaries are disclosed in notes 26, 29 and 31, respectively. The amount due from a subsidiary included in the interests in subsidiaries above totalling RMB183,000,000 (2011: RMB183,000,000) is in respect of non-trade balance, which is unsecured, non-interest-bearing and has no fixed terms of repayment. 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	RMB176,380	90%	-	Production and sale of bearings and related specific equipment
Shanghai Electric Bearing Company Limited 上海電氣軸承有限公司	PRC	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	RMB5,000	100%	-	Research and development, provision of services of expertise and quality testing for fasteners and related equipment
Shanghai Electric Insulating Materials Company Limited 上海電氣絕緣材料有限公司	PRC	RMB39,500	100%	-	Production of electrial insulating materials

19. INVESTMENTS IN ASSOCIATES

Group

	2012 RMB'000	2011 RMB'000
Share of net assets	**185,592**	196,180

The Group's balances of trade receivables and other payables and accruals with its associates are disclosed in note 24 and 31 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
Morgan Advanced Materials Technology (Shanghai) Company Limited (Formerly "Shanghai Morgan Carbon Crucible Company Limited") (i, ii) 摩根新材料（上海）有限公司 （原「上海摩根碳制品有限公司」）(i, ii)	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 (i)	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 (i, ii)	PRC	US$8,013	30%	Production and sale of various carbon products

i. Sino-foreign equity joint ventures

ii. The equity interests of these companies are directly owned by the Company.

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

	2012 RMB'000	2011 RMB'000
Assets	**767,528**	827,819
Liabilities	**(222,393)**	(256,758)
Revenue	**681,621**	865,183
Profit	**49,072**	83,639

19. INVESTMENTS IN ASSOCIATES (continued)

Company

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	**119,845**	119,845

20. AVAILABLE-FOR-SALE INVESTMENTS

	2012 RMB'000	2011 RMB'000 (Restated)
Unlisted investments, at cost	**872**	872

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. LONG-TERM PREPAYMENTS

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Other long-term prepayments	**2,429**	8,290
Due from ultimate holding company *	**84,759**	-
	87,188	8,290

Company

	2012 RMB'000	2011 RMB'000
Due from ultimate holding company *	**84,759**	-

* Long-term prepayment due from ultimate holding company represents prepayment made in relation to the acquisition of Shanghai Dalong Machinery Works Company Limited ("Dalong Machinery")(please refer to note 43 to the fiancal statements for detiaids).

22. 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 2012					
As previously reported	218	16,002	307	15,287	31,814
Credited to equity during the year	-	224	-	-	224
Credited to profit or loss during the year	1,751	4,017	567	15,088	21,423
At 31 December 2012	1,969	20,243	874	30,375	53,461

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiary RMB'000
At 1 January 2012	
As previously reported	8,832
Acquisition of Shanghai Insulating	6,901
As restated	15,733
Credited to profit or loss during the year	(7,915)
At 31 December 2012	7,818

22. 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 2011	1,340	11,675	177	8,372	21,564
Credited 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 subsidiary RMB'000
At 1 January 2011	9,677
Adjusting arising from Shanghai Insulating corprate reform	6,901
Credited to profit or loss during the year	(845)
At 31 December 2011	15,733

As at 31 December 2012, the Group had tax losses of RMB22,512,000 (2011: RMB15,535,000), 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, losses available for offretting against future profit.

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

23. INVENTORIES

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Raw materials	**173,584**	178,105
Work in progress	**213,837**	253,683
Finished goods	**344,723**	368,247
	732,144	800,035

24. TRADE RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Trade receivables	**753,393**	734,334
Impairment	**(35,920)**	(18,424)
	717,473	715,910

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:

	2012 RMB'000	2011 RMB'000 (Restated)
Within 3 months	**501,098**	517,450
Over 3 months but within 6 months	**124,471**	123,708
Over 6 months but within 1 year	**71,133**	68,141
Over 1 year but within 2 years	**20,617**	6,056
Over 2 years	**154**	555
	717,473	715,910

24. TRADE RECEIVABLES (continued)

Group (continued)

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

	2012 RMB'000	2011 RMB'000 (Restated)
At 1 January	**18,424**	20,908
Impairment losses recognised	**22,347**	3,651
Impairment losses reversed	**(4,836)**	(3,569)
Amount written off as uncollectible	**(15)**	(2,566)
	35,920	18,424

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 RMB73,932,000 (2011: RMB35,663,000). 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:

	2012 RMB'000	2011 RMB'000 (Restated)
Neither past due nor impaired	**501,098**	492,059
Less than 3 months past due	**124,471**	148,047
3 to 6 months past due	**46,050**	26,789
6 to 9 months past due	**2**	30,942
9 months to 1 year past due	**7,686**	-
1 to 2 years past due	**154**	834
	679,461	698,671

24. TRADE RECEIVABLES (continued)

Group (coutinued)

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

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

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

	2012 RMB'000	2011 RMB'000 (Restated)
Due from SEC group companies	**76,901**	110,281
Due from associates	**395**	1,806
	77,296	112,087

Company

	2012 RMB'000	2011 RMB'000
Within 3 months	**17,925**	63,006
Over 3 months but within 6 months	**2,140**	3,462
Over 6 months to 1 year past due	**85**	-
Over 1 year but within 2 years	**154**	834
	20,304	67,302

	2012 RMB'000	2011 RMB'000
Due from SEC group companies	**154**	834

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.

25. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Within 3 months	**141,063**	111,730
Over 3 months but within 6 months	**168,736**	262,244
	309,799	373,974

Included in the above balance are bills of RMB11,180,000 (2011: RMB132,059,000) issued by SEC group companies.

Company

	2012 RMB'000	2011 RMB'000
Within 3 months	**180**	250

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

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Prepayments	**72,824**	39,445
Deposits	**1,662**	2,937
Prepaid land premiums/land lease payments (note 15)	**3,651**	3,654
Value-added tax refunds and prepaid value-added tax	**23,228**	42,608
Other receivables	**7,911**	60,018
Due from ultimate holding company	**9,636**	20,017
Due from associates	**12,160**	-
Due from SEC group companies	**395**	43
	131,467	168,722

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Company

	2012 RMB'000	2011 RMB'000
Prepayments	**2,086**	1,849
Deposits	**149**	232
Value-added tax refunds and prepaid value-added tax	**5,541**	6,302
Other receivables	**3,587**	2,140
Due from ultimate holding company	**2,324**	20,017
Due from SEC group companies	**-**	4
Due from associates	**12,160**	-
Due from subsidiaries	**259,036**	261,851
	284,883	292,395

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

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

27. LOANS RECEIVABLE

The long-term balance of RMB400,000,000 (2011: Nil) represents entrusted loans provided by the Company to Turbine Blade through China Construction Bank and Shanghai Electric Group Finance Co., Ltd.. The loans are unsecured, bearing interest at 5.37% (2011: Nil) per annum and for periods of three years beginning from 13 September 2012 and 14 September 2012 (2011: Nil). The carrying amounts of the loans approximate to their fair value.

The current balance of RMB125,000,000 (2011: RMB100,000,000) represents entrusted loans provided by the Company to Turbine Blade through China Construction Bank and Shanghai Electric Group Finance Co., Ltd.. The loans are unsecured, bearing interest at rates ranging from 4.92% to 5.90% (2011: from 4.23% to 5.90%) per annum and for periods of one year beginning from 26 March 2012, 14 June 2012 and 26 July 2012 (2011: 25 July 2011, 28 September 2011 and 25 November 2011).

28. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Cash and bank balances	**435,891**	398,045
Unpledged time deposits with maturity within 3 months	**599,576**	469,115
Unpledged time deposits with maturity over 3 months	**162,426**	11,672
Pledged time deposits with maturity over 3 months	**63,909**	56,595
	1,261,802	935,427
Less: Restricted deposits	**63,909**	56,595
Cash and cash equivalents as stated in the statement of financial position	**1,197,893**	878,832
Less: unpledged time deposits with maturity over 3 months	**162,426**	11,672
Cash and cash equivalents as stated in the statement of cash flows	**1,035,467**	867,160

The restricted deposits can be analysed as follows:

	2012 RMB'000	2011 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	**63,909**	56,595

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

	2012		2011	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
USD	**12,842**	**80,718**	1,125	7,096
EUR	**101**	**838**	929	7,584
JPY	**4,885**	**357**	8,110	658

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.

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

Company

	2012 RMB'000	2011 RMB'000
Cash and bank balances	**612,515**	483,404

As at 31 December 2012, the Company's cash and bank balances are denominated in RMB, except for an amount of US$3,247,000 and Euro101,000. As at 31 December 2011, the Company's cash and bank balances are denominated in RMB, except for an amount of US$529,000.

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.

29. 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

	2012 RMB'000	2011 RMB'000 (Restated)
Within 3 months	**474,675**	580,785
Over 3 months but within 6 months	**77,105**	71,462
Over 6 months but within 1 year	**62,957**	44,756
Over 1 year but within 2 years	**19,535**	6,289
Over 2 years	**4,208**	1,893
	638,480	705,185

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

	2012 RMB'000	2011 RMB'000 (Restated)
Due to SEC group companies	**7,129**	15,058

29. TRADE PAYABLES (continued)

Company

	2012 RMB'000	2011 RMB'000
Within 3 months	**64,033**	64,197
Over 3 months but within 6 months	**-**	252
Over 6 months but within 1 year	**-**	268
	64,033	64,717

An amount due to a subsidiary of RMB62,657,000 (2011: RMB60,518,000) 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.

30. BILLS PAYABLE

Group

The maturity profiles of the bills payable are as follows:

	2012 RMB'000	2011 RMB'000
Within 3 months	**121,406**	67,110
Over 3 months but within 6 months	**83,368**	57,100
	204,774	124,210

31. OTHER PAYABLES AND ACCRUALS

Group

	2012 RMB'000	2011 RMB'000 (Restated)
Advance from customers	**23,737**	31,191
Other tax payables	**25,586**	11,362
Staff costs payable	**70,329**	65,538
Interest payable	**9,258**	1,586
Payables for purchases of non-trade assets	**3,721**	8,804
Accruals	**49,664**	42,086
Other payables	**18,271**	17,746
Due to ultimate holding company	**17,780**	26,841
Due to associates	**-**	343
Due to SEC group companies	**12,771**	16,973
	231,117	222,470

Company

	2012 RMB'000	2011 RMB'000
Advance from customers	**5,293**	8,098
Other tax payables	**804**	407
Staff costs payable	**9,800**	7,225
Interest payable	**8,715**	258
Payables for purchases of non-trade assets	**400**	40
Accruals	**2,376**	4,616
Other payables	**-**	564
Due to subsidiaries	**595,371**	361,443
Due to associates	**-**	249
	662,759	382,900

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.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2012			2011		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	**4.2.-5.9**	**2013**	**410,261**	4.5-6.7	2012	346,590
Non-current						
Bank loans						
- unsecured	**-**	**-**	**-**	6.2-6.7	2013-2015	380,000
			410,261			726,590

	2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**410,261**	346,590
In the second year	**-**	40,000
In the third to fifth years, inclusive	**-**	340,000
	410,261	726,590

Company

	2012			2011		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	**4.9**	**2013**	**200,000**	5.5	2012	170,000

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

Company (continued)

	2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**200,000**	170,000

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.

33. COMPANY BONDS

On 31 August 2012, the parent Company issued company bonds with a nominal value of RMB500,000,000 and a maturity period of 5 years. The bonds carry interest at a rate of 5.08% per annum, which is payable annually on 31 August.

	2012 RMB'000	2011 RMB'000
Nominal value of bonds issued during the period	**500,000**	-
Direct transaction costs	**(7,077)**	-
Liability component at issue date	**492,923**	-
Interest expense	**8,930**	-
Interest reclassified under other payable	**(8,490)**	-
Liability balance at 31 December	**493,363**	-

34. ISSUED CAPITAL

	2012		2011	
	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

34. ISSUED CAPITAL (continued)

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

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

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

35. RESERVES

(a) Group

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

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 RMB346,579,000 (2011: RMB330,156,000), of which RMB31,642,000 (2011: RMB54,655,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB691,217,000 (2011: RMB691,217,000 may be distributed in the form of fully paid bonus shares.

35. RESERVES (continued)

(b) Company

	Capital reserve RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 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 and 1 January 2012	692,553	72,221	275,501	1,040,275
Profit for the year	-	-	77,617	77,617
Appropriation to surplus reserves	-	6,539	(6,539)	-
Proposed final 2012 dividend (note 12)	-	-	(31,642)	(31,642)
At 31 December 2012	692,553	78,760	314,937	1,086,250

The capital reserve account balance as at 31 December 2012 included the Company's share premium of RMB691,217,000 (2011: RMB691,217,000).

36. BUSINESS COMBINATION UNDER COMMON CONTROL

On 31 March 2012, the Company acquired 100% equity interest in Shanghai Insulating disposed by Shanghai Electric Development Co., Ltd. ("Shanghai Electric Development"), at a cash consideration of RMB37,660,000. Shanghai Insulating engages in the production of insulating materials used in generator sets, electrical machines, transformers, switches and electromechanical appliances, etc.

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, the results of Shanghai Insulating was combined since 1 January 2011, 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 2012 and 31 December 2011 is as follows:

36. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

31 December 2012

	The Group excluding Shanghai Insulating RMB'000	Shanghai Insulating RMB'000	Adjustments RMB'000	Consolidated RMB'000 (Restated)
Assets and liabilities				
Cash and cash equivalents	1,192,992	4,901	-	1,197,893
Other current assets	1,916,574	38,368	(150)	1,954,792
Investment in subsidiary	37,660	-	(37,660)	-
Other non-current assets	2,401,248	26,842	-	2,428,090
Current liabilities	(1,495,537)	(29,746)	150	(1,525,133)
Non-current liabilities	(828,719)	(242)	-	(828,961)
Net assets	3,224,218	40,123	(37,660)	3,226,681
Equity				
Equity attributable to owners of the Company				
share capital /paid-up capital	1,438,286	39,500	(39,500)	1,438,286
Reserves	1,718,563	623	1,840	1,721,026
Proposed final dividend	31,642	-	-	31,642
	3,188,491	40,123	(37,660)	3,190,954
Non-controlling interests	35,727	-	-	35,727
Total equity	3,224,218	40,123	(37,660)	3,226,681

36. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

31 December 2011

	The Group excluding Shanghai Insulating RMB'000	Shanghai Insulating RMB'000	Adjustments RMB'000	Consolidated RMB'000 (Restated)
Assets and liabilities				
Cash and cash equivalents	867,968	10,864	-	878,832
Other current assets	2,073,849	41,387	-	2,115,236
Other non-current assets	2,359,016	24,768	-	2,383,784
Current liabilities	(1,434,401)	(27,861)	-	(1,462,262)
Non-current liabilities	(735,655)	(6,901)	-	(742,556)
Net assets	3,130,777	42,257	-	3,173,034
Equity				
Equity attributable to owners of the Company				
share capital /paid-up capital	1,438,286	39,500	(39,500)	1,438,286
Reserves	1,621,232	2,757	39,500	1,663,489
Proposed final dividend	54,655	-	-	54,655
	3,114,173	42,257	-	3,156,430
Non-controlling interests	16,604	-	-	16,604
Total equity	3,130,777	42,257	-	3,173,034

The above adjustments represent adjustments to eliminate the paid-up capital of Shanghai Insulating against the Group's investment cost in Shanghai Insulating as at 31 December 2012 and 31 December 2011; and the cash deposited in the cash pool of the Company as at 31 December 2012.

Shanghai Insulating was state-owned enterprise prior to 31 December 2011. In accordance with the PRC regulations, Shanghai Insulating undertook a corporate reform exercise ("Corporate Reform") and was converted from a state-owned enterprise to a limited liability company on 31 December 2011. According to the relevant regulations, Shanghai Insulating 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 December 2011, the fair values of its property, plant and equipment, trade payables and other payables decreased by RMB1,903,000, RMB22,664,000, and RMB2,162,000, respectively. The fair values of its prepaid land premiums/land lease payments, intangible assets and other assets increased by RMB586,000, RMB443,000 and RMB3,169,000, respectively. The increase in the related deferred tax liability amounted to RMB6,901,000. The management adopted the fair value on the reform date as the deemed cost and recorded a net fair value gain of RMB15,299,000 in the contributed surplus account. In addition, RMB4,921,000 was returned to its original shareholders.

37. OPERATING LEASE COMMITMENTS

(a) The Group

(i) 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:

	2012 RMB'000	2011 RMB'000
Within one year	**13,987**	14,266
In the second to fifth years, inclusive	**22,279**	16,710
Total	**36,266**	30,976

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2012, the Company had future minimum lease payments under non-cancellable operating leases of RMB3,040,000 (2011: RMB2,401,000).

38. COMMITMENTS

(a) The Group

In addition to the operating lease commitments detailed in note 37(a)(ii) above, the Group had the following capital commitments at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
Land and buildings	**-**	1,600
Plant and machinery	**114,972**	238,903
	114,972	240,503
Authorised, but not contracted for:		
Plant and machinery	**-**	14,450
Total	**114,972**	254,953

38. COMMITMENTS (continued)

(b) The Company

At the end of the reporting period, the Company did not have any significant commitments (2011: Nil).

39. CONTINGENT LIABILITIES

(a) The Group

At the end of the reporting period, the Group did not have any significant contingent liabilities (2011: Nil).

(b) The Company

At the end of the reporting period, the Company did not have any significant contingent liabilities (2011: Nil).

40. 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	2012 RMB'000	2011 RMB'000 (Restated)
Purchase of materials from:	(i)		
Associates		**315**	186
SEC group companies		**4,384**	4,725
		4,699	4,911
Sales of goods to:	(i)		
Associates		**1,755**	2,506
SEC group companies		**390,228**	418,516
		391,983	421,022
Receiving other manpower services from:	(i)		
Ultimate holding company		**30**	100
SEC group companies		**-**	267
Associates		**1,493**	2,059
		1,523	2,426

40. 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	2012 RMB'000	2011 RMB'000 (Restated)
Rendering manpower services to:	(i)		
Associates		**90**	350
SEC group companies		**-**	1,321
		90	1,671
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies			19,681
Purchase of items of licences from:	(i)		
SEC group companies		**140**	-
Rental fee payable to:	(ii)		
Ultimate holding company		**2,401**	2,344
SEC group companies		**18,606**	10,983
		21,007	13,327
Sales of items of property, plant and equipment to:	(iii)		
Ultimate holding company		**-**	9,702
Receiving relocation compensation from:	(iii)		
Ultimate holding company		**38,584**	6,770

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

iii In May 2011, Bolt 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 31 December 2012, the transfer has been completed. Bolt will move to the site located in No.175 Gongxiang Road, which is being rented by Shanghai Biaowu High Tensile Fasteners Company ("Biaowu Fastners"). Shanghai Electric Corporation agreed to pay RMB57,671,000 to Bolt as compensation for the expenses and losses incurred during the relocation. The management of Bolt expected that the relocation process would begin in March 2013. As at 31 December 2012, Bolt has received RMB38,584,000 relating to the relocation compensation.

(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 with an area of 5,560 square meters.

(ii) During the year, the ultimate holding company leased certain properties to Tool Works, Zhenhua Bearing and Bolt for no consideration with total area of 58,742 square meters.

(c) Balances due from/to related parties

(i) As at 31 December 2012, the cash deposited in SEC group companies is RMB78,856,000 (2011: space zNil).

(ii) Other 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 24, 25, 26, 29, 30 and 31 to the financial statements.

40. RELATED PARTY TRANSACTIONS (continued)

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

	2012 RMB'000	2011 RMB'000
Fees	**485**	509
Short-term employee benefits	**2,008**	1,882
Post-employment benefits	**165**	120
	2,658	2,511

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.

41. 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

	2012			2011		
	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**	-	872	872
Trade receivables and bills receivable	**1,027,272**	**-**	**1,027,272**	1,089,884	-	1,089,884
Financial assets included in prepayments, deposits and other receivables	**31,764**	**-**	**31,764**	83,015	-	83,015
Restricted deposits	**63,909**	**-**	**63,909**	56,595	-	56,595
Cash and cash equivalents	**1,197,893**	**-**	**1,197,893**	878,832	-	878,832
	2,320,838	**872**	**2,321,710**	2,108,326	872	2,109,198

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Group (continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000 (Restated)
Trade payables and bills payable	**843,254**	829,395
Financial liabilities included in other payables and accruals	**170,904**	169,669
Interest-bearing bank and other borrowings	**903,624**	726,590
Other long-term payables	**11,785**	18,377
	1,929,567	1,744,031

Company

Financial assets

	2012		2011	
	Loans and receivables RMB'000	Total RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables and bills receivable	**20,484**	**20,484**	67,552	67,552
Financial assets included in prepayments, deposits and other receivables	**277,256**	**277,256**	284,244	284,244
Loans receivable	**525,000**	**525,000**	100,000	100,000
Cash and cash equivalents	**612,515**	**612,515**	483,404	483,404
	1,435,255	**1,435,255**	935,200	935,200

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Trade payables	**64,033**	64,717
Interest-bearing bank and other borrowings	**693,363**	170,000
Financial liabilities included in other payables and accruals	**616,628**	374,255
	1,374,024	608,972

42. 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 32 and 33 above. The Group has no significant exposure to interest rate risk as all the company bonds, interest-bearing bank and other borrowings are subject to fixed interest rates.

(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
2012		
If US$ weakens against RMB	5	(8,971)
If EUR weakens against RMB	5	(1,470)
If US$ strengthens against RMB	(5)	8,971
If EUR strengthens against RMB	(5)	1,470
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

42. 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 28% of the Group's total trade receivables as at 31 December 2012.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from associates and jointly-controlled entities, other receivables and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(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

	2012					
	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	474,675	198,511	146,325	23,743	-	843,254
Financial liabilities included in other payables and accruals	84,421	59,451	22,455	4,577	-	170,904
Interest-bearing bank and other borrowings	-	48,892	398,540	593,110	-	1,040,542
Other long-term payables	-	-	-	11,785	-	11,785
	559,096	306,854	567,320	633,215	-	2,066,485

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Group (continued)

	2011 (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	452,967	280,304	87,974	8,150	-	829,395
Financial liabilities included in other payables and accruals	32,054	82,044	22,191	33,380	-	169,669
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	378,727	486,629	-	1,823,774

Company

	2012					
	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	1,376	-	62,657	-	-	64,033
Interest-bearing bank and other borrowings	-	8,689	222,992	593,110	-	824,791
Financial liabilities included in other payables and accruals	597,747	9,991	8,490	400	-	616,628
	599,123	18,680	294,139	593,510	-	1,505,452

	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

42. 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 2012 and 2011.

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

	2012 RMB'000	2011 RMB'000 (Restated)
Company bonds, Interest-bearing bank and other borrowings	**903,624**	726,590
Equity attributable to owners of the Company	**3,190,954**	3,156,430
Gearing ratio	**28.32%**	23.02%

43. EVENTS AFTER THE REPORTING PERIOD

On 27 September 2012, the Company successfully won the bid for 100% equity interest in Dalong Machinery at the bid price of RMB84,759,000. Upon the successful bidding of Dalong Machinery, on 28 September 2012, the Company entered into the Acquisition Agreement with Shanghai Electric Corporation in respect of the proposed acquisition, pursuant to which, the Company has conditionally agreed to acquire the 100% equity interest in Dalong Machinery at a consideration of RMB84,759,000. This acquisition has been completed on 31 January 2013 and it would be included in the consolidated financial statements since the date.

44. COMPARATIVE AMOUNTS

Due to the business combination under common control as detailed in note 36, 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 2011. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2013.

上海集优
SHANGHAI PRIME

SHANGHAI PRIME MACHINERY COMPANY LIMITED

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

(Stock Code: 02345)