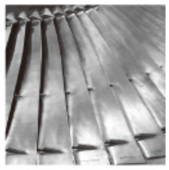
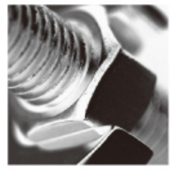
上海集优
SHANGHAI PRIME






2013 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)**

CONTENTS

CORPORATE INFORMATION

Executive Directors

Wang Qiang (Chairman)
(Appointed on 22 February 2013)
Zheng Yuanhu (Chairman)
(Resigned on 22 February 2013)
Zhou Zhiyan (Vice Chairman and CEO)
(Appointed on 14 June 2013)
Zhang Jianping
Xu Chao (Vice Chairman)
(Resigned on 14 June 2013)
Hu Kang
(Resigned on 14 June 2013)
Zhu Xi
Sun Wei
Chen Hui
(Appointed on 14 June 2013)

Independent Non-Executive Directors

Chan Chun Hong, Thomas
Ling Hong
Li Yin

Supervisors

Dong Jianhua
(Appointed on 14 June 2013)
Yuan Mifang
(Resigned on 14 June 2013)
Yu Yun
Wei Li
(Appointed on 14 June 2013)
Hu Peiming
(Resigned on 14 June 2013)

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)
Zhou Zhiyan
(Appointed on 14 June 2013)
Xu Chao
(Resigned on 14 June 2013)
Hu Kang
(Resigned on 14 June 2013)
Zhu Xi
Sun Wei
Chen Hui
(Appointed on 14 June 2013)
Li Yin

Nomination Committee

Wang Qiang
(Appointed on 22 February 2013)
Zheng Yuanhu
(Resigned on 22 February 2013)
Zhang Jianping
Chan Chun Hong, Thomas
Ling Hong
Li Yin

Authorised Representatives

Zhou Zhiyan
(Appointed on 14 June 2013)
Hu Kang
(Resigned on 14 June 2013)
Zhang Jianping

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
(To be moved to Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 31 March 2014)

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 2602, Tower One, Lippo Centre, 89 Queensway, Hong Kong

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

FINANCIAL SUMMARY

RMB (Million)	2009 (Restated)	2010 (Restated)	2011 (Restated)	2012 (Restated)	**2013**
Revenue and Profit					
Revenue	2,826	3,309	4,075	3,729	3,398
Profit before tax	196	209	262	105	95
Income tax expense	(10)	(18)	(38)	(4)	(26)
Profit for the year	186	191	225	101	69
Attributable to					
Owners of the Company	185	189	224	99	67
Minority interests	1	2	1	2	2
Dividends - proposed final	40	60	55	32	17
Earnings per share attributable to equity holders of the Company					
- Basic (RMB cents)	13.00	13.15	15.58	6.91	4.66
Assets and Liabilities					
Non-current assets	1,630	2,176	2,495	2,508	2,387
Current assets	2,866	3,052	3,561	3,526	3,357
Current liabilities	1,243	1,466	2,028	1,891	1,692
Net current assets/ (liabilities)	1,623	1,586	1,533	1,635	1,665
Total assets less current liabilities	3,253	3, 762	4,028	4,143	4,052
Non-current liabilities	238	668	743	831	795
Net assets	3,015	3,094	3,285	3,312	3,257
Equity attributable to owners of the Company	3,000	3, 079	3,268	3,276	3,221
Minority interests	15	15	17	36	36

The financial information previously reported by the Group in 2009, 2010, 2011 and 2012 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 2013 (the "Year") was RMB3,398 million (2012: RMB3,729 million).

Profit attributable to owners of Shanghai Prime Machinery Company Limited (the "Company") for the Year was RMB67 million (2012: RMB99 million).

Basic earnings per share for the Year was RMB4.66 cents (2012: RMB6.91 cents). The board of directors proposed a final dividend for 2013 of RMB1.16 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 Company Limited	100%
	Shanghai High Strength Bolt Factory Company Limited	100%
	Shanghai Fastener and Welding Material Technology Research Centre Company Limited	100%
General Machinery Business	Shanghai Dalong Machinery Works Company Limited	100%
Other Businesses	Morgan Advanced Materials Technology (Shanghai) 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 2013 (the "Year"). The Group's annual results have been audited by Ernst & Young.

BUSINESS REVIEW

Looking back 2013, the economic growth of China further slowed down. Due to insufficient local demand and weak export, the machine component industry experienced a difficult year. In view of the challenging environment and rising labour costs, the Company modified its profit model and sought new sources of profits during the year. The results were significant and the sustainability of the Company was improved.

1. Business development. The Group conducted product development in pace with the construction of new vehicle production lines and successfully developed 49 new vehicle bearing products, of which 5 products have commenced mass production. Our first self-developed vehicle engine was adopted by BYD. Leveraging on the advantages of its brand and channels, the cutting tool business of the Group maintained a steady growth by exploring market demands in accordance with its marketing strategies.

2. Transformantion development. In respect of the railway bearing market, the Group further expanded its railway maintenance bearing market and continued to secure its leading position in the local market. Sales of railway bearing products for the year amounted to RMB93 million. Our fastener business was put online and generated revenue of RMB16.7 million. Our turbine blade business recognized overseas sales of RMB257 million, representing 29% increase over last year, due to our closer relationship with Mitsubishi and other major customers. The general machinery business further promoted the asset-light business mode, facilitating the Group’s transformation to asset-light business mode.

3. Business restructure optimization. The Group made a strategic acquisition of 65% equity interest in Shanghai Cyeco Environmental Technology Co., Ltd., a high technology company engaged in the production of marine environmental protection equipment. The Group strategically expanded its business coverage to environmental protection and marine engineering through the acquisition. On the other hand, the Group disposed of the entire equity interest in Shanghai Electric Insulating Material Company Limited so as to focus its resources to other business with significant growth potential.

In 2013, the Group recorded turnover of RMB3,398 million (2012: RMB3,729 million), representing a decrease of 9% over last year. Profit attributable to the owners of the Company was RMB67 million (2012: RMB99 million), representing a decrease of 32% over last year. Basic earnings per share was RMB4.66 cents (2012: RMB6.91 cents).

As at 31 December 2013, total assets of the Group amounted to RMB5,744 million (31 December 2012: RMB6,034 million), while total liabilities were RMB2,487 million (31 December 2012: RMB2,722 million). Total equity of the Group was RMB3,257 million (31 December 2012: RMB3,312 million), of which RMB3,221 million (31 December 2012: RMB3,276 million) was attributable to the owners of the Company.

OUTLOOK AND PROSPECTS

It is expected that the global economy will see a moderate growth in 2014. The central government has adopted economic policies to maintain a steady growth and to change its economic structure for transformation. Under such policies, companies are encouraged to develop new technologies, products, business structures and models and to explore new markets. The Group will focus on technology development to facilitate business restructuring and to enhance product offering. The Group will also change its business model to service-oriented production through the introduction of high end products so as to develop its niche market of parts and components. The Group will focus on the following areas to facilitate the change in development direction and the growth in business.

Efficient utilization of capital and optimized business structure. As a listed entity, the Group will make use of its accessibility to capital market to optimize its business structure so as to improve the efficiency in utilization of capital. In line with the change in government policies, the Group will further expand its existing markets in relation to the construction of city infrastructures for vehicles and trains. The Group will also explore the parts and component markets in emerging strategic industries, including railway transportation, new energy, aviation, military, arsenal, environmental facilities, medical apparatus, marine equipment as new growth points.

Share incentive scheme to encourage structural innovation. The Group will continue to implement the share incentive plan. Incentives will be provided upon the achievement of certain financial indicators of shareholders' concern and to targets with contributions to the profitability of the Group. The Group aims to link the performance of the management and core employees with the share price performance and interests of shareholders to give full play to the entrepreneurial passion of its core team and encourage the management to focus on the long-term development and shareholder value of the Company.

Development of high-end products and independent development capacity. The Group will focus on the development and production of high-end parts and components to compete with imported goods. The Group will also increase the sales and independent development capacity of high-end products. The independent research and development capacity will also be improved through the implementation of various projects, including the Additional Investment for Improvement of the Industrial Robot Precise Angular Contact Ball Bearing Production Line, Technical Improvement in Production Capacity of Small Bearing, Technical Improvement in Special Bearing for Vehicles of the bearing sector and the Testing Platform of Mid to High Pressure Screw and High Flow Diaphragm Pumps of the general machine sector. The Group will further improve the quality and production engineering of high-end and high margin products and promote the commercialization of high and new technologies.

Leveraging on brand privilege and adoption of innovative business model. The Group will allocate more resources to improve front line sales, to build up sales channels and to strengthen its capacity in development and examination of backyard operation. The Group intends to reduce the capital investment of the Company by sourcing out the production process. The new business model will leverage on our brand privilege by using third parties resources on OEM basis to improve operation efficiency.

Finally, I would like to take this opportunity to express my gratitude to all the shareholders and investors 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 will strive to leverage on our strengths to maintain a long-term steady growth in profit in a prudent manner with an aim to reward the shareholders with excellent operating results.

Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
7 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2013 (the "Year"), turnover of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") amounted to RMB3,398 million (2012: RMB3,729 million), representing a decrease of 9% over last year. Profit attributable to owners of the Company for 2013 was RMB67 million (2012: RMB99 million), representing a decrease of 32% over last year. Basic earnings per share was RMB4.66 cents (2012: RMB6.91 cents).

As of 31 December 2013, total assets of the Group amounted to RMB5,744 million (31 December 2012 RMB6,034 million) while total liabilities amounted to RMB2,487 million (31 December 2012: RMB2,722 million). Total equity of the Group was RMB3,257 million (31 December 2012: RMB3,312 million), of which equity attributable to the owners of the Company amounted to RMB3,221 million (31 December 2012: RMB3,276 million).

Operation Analysis

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

	Revenue		Segment Results	
RMB (million)	**2013**	**2012**	**2013**	**2012**
Turbine blade	**810**	829	**53**	57
Percentage of total	**24%**	22%	**34%**	37%
Bearing	**700**	765	**14**	35
Percentage of total	**20%**	21%	**9%**	22%
Cutting tool	**614**	607	**82**	78
Percentage of total	**18%**	16%	**52%**	50%
Fastener	**859**	1,018	**-**	20
Percentage of total	**25%**	27%	**-**	13%
General Machinery	**362**	510	**9**	(34)
Percentage of total	**11%**	14%	**6%**	(22%)
Others	**53**	-	**(1)**	-
Percentage of total	**2%**	-	**(1%)**	-
Total	**3,398**	3,729	**157**	156

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.

Affected by the macroeconomic environment in 2013, the development progress of the major projects was slower than expected. As a result, new production capacity was not effectively used to achieve economies of scale timely, which affected the overall profitability of turbine blade business.

In future, the Group will focus on its two-way strategy to develop into "a global supplier of top-class turbine blades" and "manufacturer of top-class aviation components in China". The Group will develop forging and pressing production capability mainly for aviation industry. The Group will further develop the international and local markets for power businesses to facilitate the upgrade and restructuring of business structure and to optimize the sales proportion of its three major business segments, namely, domestic and international power plant turbine blades and aviation components. The Group will strive to become a world-class manufacturer of specialized turbine blades and a outstanding manufacturer of aviation components .

In 2013, turnover of the turbine blade business was RMB810 million (2012: RMB829 million), representing a year-on-year decrease of 2%. The segment results was RMB53 million (2012: RMB57 million), representing a year-on-year decrease of 7%. Gross profit margin was 20% (2012: 20%). In 2013, export sales amounted to RMB257 million (2012: RMB200 million), representing a year-on-year increase of 29%, while export sales represented 32% (2012: 24%) 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 many globally well-known electric machines and automobile parts suppliers.

In future, the Group will put more efforts in developing high-end products of the bearing business with significant market potential, such as automobile tension pulley bearings, automobile transmission bearings, medical equipment and electric dental engine bearings, electric tool bearings and robot angular contact ball bearings, for emerging strategic industries as alternatives for imported goods. This will further strengthen the competitive edges of the products of the Group. In addition, the Group will actively promote the sharing of resources of bearing business through centralized management of the research and development, marketing activities, customer base, generic technologies and processes, so as to further improve the overall competitiveness and return on assets of such business.

In 2013, the turnover of the bearing business was RMB700 million (2012: RMB765 million), decreased by 8% year-on-year. Segment results amounted to RMB14 million (2012: RMB35 million), representing a year-on-year decrease of 60%. Gross profit margin was 21% (2012: 21%). In 2013, export sales amounted to RMB102 million (2012: RMB131 million), a decrease of 22% year-on-year and representing 15% (2012: 17%) of the total business sales.

Cutting tool business

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

In 2013, despite the economic downturn, the profitability of cutting tool business remained stable with strong risk resistance capacity by leveraging on its brand, market advantages and marketing strategies. In future, the Group will maintain its leading position in the industry by mitigating the influence of weak market demand with its competitive edges in brands and integrated production and marketing strategy. In addition, the Group intends to expand the production of high-end cutting tool to compete with imported goods. The development of high-end cutting tool market will further increase sale revenue and optimize the product mix.

In 2013, turnover of the cutting tool business was RMB614 million (2012: RMB607 million), increased by 1% year-on-year. Segment results amounted to RMB82 million (2012: RMB78 million), representing a year-on-year increase of 5%. Gross profit margin was 26% (2012: 28%). In 2013, export sales amounted to RMB14 million (2012: RMB39 million), down 64% year-on-year. Export sales represented 2% (2012: 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.

In 2013, progress was made in the development of local productive service market of the fastener business of the Group. An online e-commerce platform was introduced. The platform was established for specified industries and brands and can cater for local and overseas sales. Inventory management and IT management functions are also integrated into the platform. In 2013, 145 customers placed online orders, representing 25% of the total number of customers. The online sales recorded RMB16.7 million.

In future, the Group will continue to improve the supporting network of the platform and logistic system. The products, logistics, quality and information functions of the platform will be further improved. Data analysis function will also be integrated into the platform to facilitate the transformation and development of traditional business and to encourage innovation of business model and the shifting of production model from existing product processing to information exchange.

In 2013, turnover of the fastener business was RMB859 million (2012: RMB1,018 million), representing a decreased of 16% year-on-year. Segment results was nil (2012: RMB20 million). The impairment of equipment was RMB9 million in this year, which led to the decrease of segment results. Gross profit margin was 13% (2012:13%). In 2013, export sales amounted to RMB617 million (2012: RMB666 million), down 7% year-on-year. Export sales represented 72% (2012: 65%) of the total business sales.

General machinery business

The general machinery business of the Group 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 major suppliers of process compressors, the products manufactured by which are mainly applied in petroleum and chemical industries.

In 2013, upon the completion of acquisition of Shanghai Dalong Machinery Works Company Limited, the Group restructured its business and eliminated certain low-ended products, so as to increase the overall yield of general machinery business. Despite the decrease in sales in 2013, the overall profitability improved, and segment results turned around. In future, while consolidating its market shares in petrochemical market and markets where the Group has leading position, the Group will focus on the expansion in new coal chemical industry. The Group aims to expand its business into new markets through innovative and new products, such as the research and development of extra large mid-to-high pressure screw series machineryand diaphragm pump with large flow.

In 2013, turnover of the general machinery business was RMB362 million (2012: RMB510 million), representing a decrease of 29% year-on-year. Segment results amounted to RMB9 million (2012: loss of RMB34 million) Gross profit margin was 17% (2012: 11%).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Financial Position

Share of Profits of Associates

During the year 2013, the Group's share of profits of associates was RMB10 million (2012: RMB16 million).

Finance Costs

Finance costs for the year 2013 were RMB54 million (2012: RMB51 million).

Profit Attributable to Shareholders of the Company

Profit attributable to owners of the Company was RMB67 million in 2013 (2012: RMB99 million), a decrease of 32% over last year. Basic earnings per share was RMB4.66 cents (2012: RMB6.91 cents).

Cash Flow

As at 31 December 2013, the Group's cash and bank balances were RMB924 million (31 December 2012: RMB1,348 million), of which RMB40 million (31 December 2012: RMB64 million) were restricted deposits, representing a decrease of RMB24 million in restricted deposit from the beginning of the year. During the Year, the Group had a net cash inflow from operating activities of RMB60 million (2012: RMB388 million), a net cash outflow from investing activities of RMB98 million (2012: RMB340 million), and a net cash outflow from financing activities of RMB338 million (2012: inflow RMB94 million).

Assets and Liabilities

As at 31 December 2013, the Group had total assets of RMB5,744 million (31 December 2012: RMB6,034 million), representing a decrease of RMB290 million or 5% as compared with the beginning of the Year, of which total current assets amounted to RMB3,357 million (31 December 2012: RMB3,526 million), accounting for 58% of the total assets, representing a decrease of RMB169 million as compared with the beginning of the Year. Total non-current assets were RMB2,387 million (31 December 2012: RMB2,508 million), accounting for 42% of the total assets and representing a decrease of RMB121 million as compared with the beginning of the Year.

As at 31 December 2013, the total liabilities of the Group were RMB2,487 million (31 December 2012: RMB2,722 million), of which total current liabilities amounted to RMB1,692 million (31 December 2012: RMB1,891 million), accounting for 68% of the total liabilities. Total non-current liabilities amounted to RMB795 million (31 December 2012: RMB831 million), accounting for 32% of total liabilities.

As at 31 December 2013, the net current assets of the Group were RMB1,665 million (31 December 2012: RMB1,635 million), representing an increase of RMB30 million or 2% as compared with the beginning of the Year whereas current ratio increased from 1.86 to 1.98.

MANAGEMENT DISCUSSION AND ANALYSIS

Sources of Funding and Indebtedness

As at 31 December 2013, the Group had bank and other borrowings with an aggregate amount of RMB653 million (31 December 2012: RMB903 million), representing a decrease of RMB250 million or 28% as compared with the beginning of the Year. Borrowings repayable by the Group within one year were RMB158 million (31 December 2012: RMB410 million), representing a decrease of RMB252 million from the beginning of the Year, whereas borrowings repayable after one year were RMB495 million (31 December 2012: RMB493 million). The Group repaid the loans due on schedule during the Year.

As at 31 December 2013, all bank and other borrowings of the Group were interest bearing at fixed rates.

Gearing Ratio

As at 31 December 2013, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 20% (31 December 2012: 27%).

Restricted Deposits

As at 31 December 2013, bank deposits of RMB40 million (31 December 2012: RMB64 million) of the Group were restricted.

Pledges of Assets

As at 31 December 2013, except for restricted deposits, trade receivables of RMB55 million (2012: Nil) were pledged.

Contingent Liabilities

As at 31 December 2013, the Group has no significant contingent liabilities (2012: Nil).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB154 million (2012: RMB174 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 2013, the Group's bank deposits comprised USD2.6 million. JPY13.9 million, EUR0.1 million. Save as disclosed above, the Company was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Event

On 6 December 2013, the Board passed a resolution in respect of the proposed adoption of the incentive scheme in which eligible participants will be entitled to participate in. Pursuant to the incentive scheme, incentives will be awarded to the eligible participants in the form of (i) cash instalments; and (ii) the shares. The Board shall entrust qualified agent(s) to act as Trustee(s) under the incentive scheme, pursuant to which the shares will be acquired by the trustee(s) from the market out of cash contributed by the Group and to be held in the trust for eligible participants. The resolution for the adoption of the incentive scheme was passed at the extraordinary general meeting on 17 January 2014.

On 27 December 2013, the Board of the Company passed a resolution in respect of a proposed acquisition of the 65% equity of Shanghai Cyeco Environmental Technology Compan y Limited ("Cyeco Environmental"). On 28 December 2013, the Company signed an agreement with the existing shareholder of Cyeco Environmental upon the acquisition of the 65% equity of Cyeco Environmental at a consideration of RMB165,800,000. The acquisition has not been completed by the date of approval of these financial statements.

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

Employees

As at 31 December 2013, the Group please update had 3,295 employees (2012: 3,580). The Group has implemented all statutory pension schemes required by the PRC government as well as incentive schemes and training programs to stimulate staff and assist them in their self-development.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth certain information concerning our directors, supervisors and senior management. There are no family relationships between any director, supervisor or senior management of the Company.

Name	Age	Position
Wang Qiang (Appointed on 22 February 2013)	56	Executive director and chairman
Zheng Yuanhu (Resigned on 22 February 2013)	47	Executive director and chairman
Zhou Zhiyan (Appointed on 14 June 2013)	50	Executive director, vice chairman and chief executive officer
Zhang Jianping	57	Executive director
Xu Chao (Resigned on 14 June 2013)	58	Executive director and vice chairman
Hu Kang (Resigned on 14 June 2013)	50	Executive director and chief executive officer
Zhu Xi	49	Executive director
Sun Wei	44	Executive director
Chen Hui (Appointed on 14 June 2013)	45	Executive director and vice president
Chan Chun Hong, Thomas	50	Independent non-executive director
Ling Hong	53	Independent non-executive director
Li Yin	50	Independent non-executive director
Dong Jianhua (Appointed on 14 June 2013)	48	Supervisor and chairman of the supervisory committee
Yuan Mifang (Resigned on 14 June 2013)	61	Supervisor and chairman of the supervisory committee
Yu Yun	45	Supervisor
Wei Li (Appointed on 14 June 2013)	42	Supervisor
Hu Peiming (Resigned on 14 June 2013)	56	Supervisor
Xiao Weifeng	59	Vice president
Xia Sicheng	50	Vice president
Wang Pin	40	Chief financial officer
Li Wai Chung	36	Secretary to the Board, certified public accountant and company secretary

Directors

Mr. Wang Qiang, aged 56, is a senior economist and senior political affair officer. He was appointed as the executive director and chairman of Shanghai Prime Machinery Company Limited ("the Company") in February 2013. He currently serves as the director, deputy secretary of committee of Communist Party of China and executive vice president of Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), 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 Corporation, the deputy secretary of committee of Communist Party of China of Shanghai Electric Group Company Limited and Shanghai Electric 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 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.

Mr. Zhou Zhiyan, aged 50, is a senior accountant and the general manager of the Company. He was appointed as the executive director and the vice chairman of the Company in 2013. Mr. Zhou Zhiyan joined Shanghai Electric Corporation in August 1983 and joined the Company since September 2005. From September 2005 to October 2007, he worked as the chairman and executive director of the Company. Mr. Zhou served as chief financial officer for one of the business departments of Shanghai Electric Corporation from 1999 to 2000; the vice general accountant of Shanghai Electric Corporation from 2000 to 2003; mainly being the president of Shanghai Electric Industrial Corporation from 2003 to 2009; the head of investment management department, investment director and chief financial officer of Shanghai Electric Assets Management Company Limited from 2004 till now; mainly being the executive vice head of overseas business department and head of financial budget department of Shanghai Electric Corporation from 2009 to 2013. Mr. Zhou Zhiyan graduated from the School of Accounting of Shanghai Industry and Commerce Institute in 1988 majoring in finance and accounting and obtained a MBA degree from Shanghai Jiao Tong University in 1994.

Mr. Zhang Jianping, aged 57, 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 Work Company Limited ("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.

Ms. Zhu Xi, aged 49, is a senior accountant. She was appointed as the executive director of the Company in 2008 and was re-elected and appainted 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 2006, she served as the deputy head and head of the asset and finance department of Shanghai Electric Assets Management Company Limited. From 2007 to April 2012, Ms. Zhu was 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. From April 2012 to November 2013, she acted as the deputy head and head of the asset and finance department of Shanghai Electric Group Company Limited. Currently, Ms. Zhu acts as the head of the audit department of Shanghai Electric Group 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 has been the director of asset financial department of Shanghai Electric Group Company Limited since 2012, the director of Shanghai Rail Traffic Equipment Development Co., Ltd. and the supervisor of Shanghai Electric Financial Leasing Co., Ltd. since December 2013. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. Sun Wei, aged 44, 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 Group Company Limited 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 and has concurrently acted as the head of the industrial development department of Shanghai Electric Group Company Limited. since 2012. 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.

Mr. Chen Hui, aged 45, is an engineer and a senior economist. He was appointed as the executive director of the Company in 2013 and vice president and secretary to the board of the Company in 2005. He is currently the vice president of the Company. From September 2005 to October 2008, he worked as the executive director of the Company. 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.

Mr. Chan Chun Hong, Thomas, aged 50, 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.

Mr. Ling Hong, aged 53, was appointed as the independent non-executive director of the Company in 2010 and was reelected 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.

Directors

Mr. Li Yin, aged 50, 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.

Supervisors

Mr. Dong Jianhua, aged 48, is a senior economist. He was appointed as the chairman of the supervisory committee and supervisor of the Company in 2013. He joined Shanghai Electric Group Company Limited in December 2010 and is the chief supervisor of Shanghai Electric Group Company Limited. Mr. Dong Jianhua joined Shanghai Electric Corporation as chief financial officer in April 2008. Mr. Dong has extensive experience in internal audit and supervision. Prior to joining Shanghai Electric Corporation, Mr. Dong was the assistant to the head and deputy head of Infrastructure Office of Shanghai Municipal Audit Bureau, deputy head and head of Fixed Assets Investment and Audit Office, as well as head of Audit Office between 1987 and 2008. Mr. Dong has been involved in professional auditing for more than 25 years. Mr. Dong graduated from Shanghai Tongji University with a bachelor's degree in engineering. He also obtained a master's degree in business administration from Shanghai Jiao Tong University.

Mr. Yu Yun, aged 45, is a political affair officer. He was appointed as the executive 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.

Ms. Wei Li, aged 42, is an engineer. She has been the vice chairlady of the labour union of the Company. She was appointed as the supervisor of the Company in 2013. From July 1993 to July 2001, she had been the tutor of the Workers University of Shanghai Machine Tool Works Company Ltd and the secretary of the Basic Organization of Communist Youth League. She was the chairlady of the labor union of the Department of the Technical Centre, the head of Information Department of the Technical Centre, the deputy head and head of Party-Masses Relationship, chairlady of the labor union and assistant of the secretary of committee of Communist Party of China of Shanghai Tool Work Company Limited since July 2001. Ms. Wei Li graduated from the Shanghai Second Polytechnic University, majoring in mechatronic engineering.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

Mr. Xiao Weifeng, aged 59, 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.

Mr. Xia Sicheng, aged 50, was appointed as the vice president and party committee member of the Company as well as the legal representative and executive director of Wuxi Turbine Blade Company Limited in March 2014. Mr. Xia joined Shanghai Electric (Group) Corporation in 1982 and served as the factory of Shanghai Tool Works director responsible for the management of the cutting tool business of Shanghai Electric (Group) Corporation from 1998 to 2003 before its reorganization. From 2003 to 2009, he worked as the executive director of Shanghai Tool Works. He was the vice president of the Company from 2005 to 2009. He acted as the chief executive officer and deputy secretary of committee of Communist Party of China of Pacific Mechatronic (Group) Co., Ltd. from 2010 to 2012. Since 2012, he has been the deputy director of the strategic planning department of Shanghai Electric Corporation. Mr. Xia graduated from the Central Party School of the Communist Party in 2002 with a bachelor’s degree in economic management.

Mr. Wang Pin, aged 40, 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.

Mr. Li Wai Chung, aged 36, 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 and secretary to the board of the Company in 2013. 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 ensure 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 2013 to 31 December 2013 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 2013 (the "Year"), there is no major amendment to the Articles of Association.

Model Code for Securities Transaction by Directors

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. Since 14 June 2013, Mr, Zhou Zhiyan was appointed as the executive director, vice chairman and CEO of the Company and Mr. Chen Hui was appointed as the executive director of the Company. On the same day, Mr. Xu Chao ceased to be the executive director and vice chairman of the Company and Mr. Hu Kang ceased to be the executive director and CEO 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:

Mr. Wang Qiang (Chairman)
Mr. Zhou Zhiyan (Vice chairman and chief executive officer)
Mr. Zhang Jianping
Ms. Zhu Xi
Mr. Sun Wei
Mr. Chen Hui

Independent non-executive directors:

Mr. Chan Chun Hong, Thomas
Mr. Ling Hong
Mr. Li Yin

CORPORATE GOVERNANCE REPORT

Twelve 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 Attendance		Attendance Rate	
	Board	General Meeting	Board	General Meeting	Board	General Meeting
Mr. Wang Qiang[ø]	11	2	11	2	100%	100%
Mr. Zheng Yuanhu[ø]	1	1	1	1	100%	100%
Mr. Zhou Zhiyan[△]	7	1	7	1	100%	100%
Mr. Zhang Jianping	12	2	12	2	100%	100%
Mr. Xu Chao[△]	5	1	5	1	100%	100%
Mr. Hu Kang[△]	5	1	5	1	100%	100%
Ms. Zhu Xi	12	2	12	2	100%	100%
Mr. Sun Wei	12	2	12	2	100%	100%
Mr. Chen Hui[△]	7	1	7	1	100%	100%
Mr. Chan Chun Hong, Thomas[#]	12	2	12	2	100%	100%
Mr. Ling Hong[#]	12	2	12	2	100%	100%
Mr. Li Yin[#]	12	2	12	2	100%	100%

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

△ Since 14 June 2013, Mr, Zhou Zhiyan was appointed as the executive director and vice chairman of the Company and Mr. Chen Hui was appointed as the executive director of the Company. On the same day, Mr. Xu Chao ceased to be the executive director and vice chairman of the Company and Mr. Hu Kang ceased to be the executive director of the Company.

Independent non-executive director

Each Board member is offered to submit resolution proposals before the regular Board meeting. The Board meeting notification shall be 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.

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 2013:

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)	√	√
Zhou Zhiyan (Appointed on 14 June 2013)	√	√
Zhang Jianping	√	√
Xu Chao (Resigned on 14 June 2013)	√	√
Hu Kang (Resigned on 14 June 2013)	√	√
Zhu Xi	√	√
Sun Wei	√	√
Chen Hui (Appointed on 14 June 2013)	√	√
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. Zhou Zhiyan 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.

CORPORATE GOVERNANCE REPORT

Committees Under the Board

Remuneration Committee

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, Mr. Chan Chun Hong, Thomas and Mr. Li Yin were re-elected and re-appointed as the independent non-executive directors 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 two meetings during the Year and the attendance of each member is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong	2	2
Mr. Chan Chun Hong, Thomas	2	2
Mr. Li Yin	2	2

During the Year, the remuneration committee reviewed and approved the proposed 2013 remuneration package of Board members and key management personnel of the Company as well as share incentive scheme. 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 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 2012 and unaudited interim condensed consolidated financial statements of 2013 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.

Nomination Committee

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)	3	3
Mr.Zheng Yuanhu (Resigned on 22 February 2013)	0	0
Mr.Zhang Jianping	3	3
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. Zhou Zhiyan and Mr. Chen Hui as the proposed executive directors of the Company during the Year. The nomination committee introduced Board diversity policy, reviewed the appropriateness of the structure of the Board and verified independency of independent non-executive director during the Year.

Strategic Committee

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. Zhou Zhiyan, Ms. Zhu Xi, Mr. Sun Wei, Mr. Chen Hui and Mr.Li Yin 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. Mr. Wang Qiang held office from 22 February 2013; Mr. Zhou Zhiyan and Mr. Chen Hui held office from 14 June 2013; and Ms. Zhu Xi and Mr. Sun Wei held office from 20 January 2012; and Mr.Li Yin held office from 16 August 2013. All of their tenures will be effective until the date of the meeting for the election of the next session of the Board.

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

Member	Number of meetings	Attendance
Mr.Wang Qiang (Appointed on 22 February 2013)	2	2
Mr.Zheng Yuanhu (Resigned on 22 February 2013)	0	0
Mr.Zhou Zhiyan (Appointed on 14 June 2013)	2	2
Mr.Xu Chao (Resigned on 14 June 2013)	0	0
Mr.Hu Kang (Resigned on 14 June 2013)	0	0
Ms.Zhu Xi	2	2
Mr.Sun Wei	2	2
Mr.Chen Hui (Appointed on 14 June 2013)	2	2
Mr.Li Yin (Appointed on 16 August 2013)	2	2

The strategic committee considered and approved the resolutions on the acquisition of 65% of the equity of Shanghai Cyeco Environmental Technology Co., Ltd. and a series of investment projects.

Board Diversity Policy

Purpose

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives

Selection of candidates for Directors of the Company will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender and age) will be disclosed in the annual report of the Company annually.

Monitoring and Reporting

The nomination committee will review annually the Board's composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy.

CORPORATE GOVERNANCE REPORT

Independent Auditors' Remuneration

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

Remuneration for services	Paid/payable amount (RMB)
Audit service	3.0
Non-audit services	-

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 2013, 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.

Auditors' Reporting Responsibilities

The responsibilities of the auditors are set out on page 42.

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 securities department under 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 securities 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 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. In 2013, we engaged Deloitte Touche Tohmatsu Huayong Certified Public Accountants to review the internal control of the newly acquired company, Shanghai Dalong Machinery Works Company Limited, in order to improve its internal control.

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 securities 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 securities department has completed year-end stock check and management of trade receivables and work in process for controlled subsidiaries, effectively strengthening the control on the security and integrity of the assets. Under the supervision of the internal control securities 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 securities 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.

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 for inspection of the aforesaid information or asking for collection of 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 Internal Control 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.

Corporate Social Responsibility

During the Year, the Group was committed to the following corporate social responsibilities.

- **Working environment of employees**

  The Group provided comprehensive trainings for employees, including offering orientation and guiding handbook for new employees; arranging necessary professional trainings for employees changing positions; and establishing individual training selection mechanism which provided appropriate development opportunities for all employees. Each employee participated at least one training course throughout the Year, and an average of 1.5 training opportunities were provided to each employee during the Year.

  The Company has provided sound fitness facilities for employees and organizes yearly performance-enhancing competitions to encourage the participation of all employees.

  The Company has collected feedbacks of employees on the existing services and facilities provided by the Company in order to understand the needs of the employees. All feedbacks were duly analyzed and the results would be taken as reference for planning, formulating and implementing innovations or improvement of the services and facilities so as to optimize the working environment.

- **Community**

  The Group organized employees to provide volunteer services to particular communities, including popularizing social welfare, providing consultancy services, offering free housekeeping services for special families and providing basic cleaning services to enhance its social value while establishing the corporate brand image.

  The Group organizes charity fund-raising activities once a year and has been granted honorary certificates and titles by several beneficial charitable organizations. On 13 October 2013, the Group participated in the annual "Amway Nutrilite Health and Charity Jogging Activity" as volunteer and sponsor. Mr. Zhang Jianping, chairman of the labour union, and Mr. Zhou Zhiyan, chief executive officer of the Group, organized 100 runners of the Group participating in the activity, and all of the proceeds from the activity were donated to Shanghai Charity Fund Commission.

CORPORATE GOVERNANCE REPORT

Corporate Social Responsibility

- **Community**

  The Group launches "Warm & Care" campaign each year and arranges visits to families with special difficulties which heavily depend on social subsidies or services to comfort their feelings.

- **Environment**

  The Group sets annual and five-year energy-saving and emission reduction targets each year and assigns individuals to take separate responsibility in achieving the targets, which will be included in performance evaluation of related individuals.

  The Group has endeavoured to increase the green coverage of office premises, and established sewage and pollution treatment facilities to mitigate the negative impact on environment.

  The Group has promoted paperless office and all reports, approval documents and meeting materials will be transferred electronically. In addition, employees were advised to enhance the efficiency of utilization of office resources so as to reduce waste.

  The Group has established waste recycling system and formulated specific requirement on the production waste rate. Relevant responsibilities were directly allocated to individuals and remuneration-linked performance evaluations were carried out on such individuals.

  Adhering to the targets of supporting environment preservation, pollution prevention and sustained improvement, the Group actively applied for the ISO14000 environmental certification, further strengthened the establishment of corporate environment management system and enhanced the corporate environment management.

- **Public and investors**

  The Group provided corporate website service for the public and investors to disclose the development of the Company, major arrangements of the Company, changes in directors, supervisors and senior management of the Company and other corporate information at the concern of public and investors on a timely manner.

  Public relations department was also established with dedicated staff which promoted the communication between the Company and the public as well as investors.

- **Suppliers and consumers**

  The Company provided free product brochures and exhibition platforms for suppliers and consumers to strengthen the interaction between each other. In addition, technical support was rendered for suppliers and consumers in conducting online sales and procurement by setting up e-commerce platform which resulted in reduced costs.

- **Technology development responsibility**

  The contribution of advanced technology development towards economic growth was still relatively low in China. Recently, the central government has been encouraging enterprises to possess proprietary intelligence properties with core competitiveness. The Group has the obligation to develop products with low input but high output through technology innovation, so as to further strengthen the profitability of the Company, deepen the understanding of core technology and enhance the competitiveness of the Company as well as the country.

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
7 March 2014

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 2013, the following persons had interests of 5% or more in the 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, Hong Kong ("SFO"):

Name of substantial shareholder	Class of shares	No. of shares	Note	Capacity	Nature of interest	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
	H	34,744,000	(1)	Beneficial owner	Long position	4.57	2.42
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Others	Long position	100.00	47.18
	H	34,744,000	(1)	Others	Long position	4.57	2.42
Atlantis Capital Holdings Limited	H	67,340,000	(2)	Interest of controlled corporation	Long position	8.86	4.68
Liu Yang	H	67,340,000	(2)	Interest of controlled corporation	Long position	8.86	4.68
Government of Singapore Investment Corporation Pte Ltd.	H	51,682,052		Investment manager	Long position	6.80	3.59
Templeton Asset Management Ltd.	H	45,600,000		Investment manager	Long position	6.00	3.17

OTHER INFORMATION

Notes:

(1) Shanghai Electric (Group) Corporation (the"Shanghai Electric Corporation") is wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, thus State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is deemed to be interested in the 678,576,184 domestic shares and 34,744,000 H shares of the Company held by Shanghai Electric Corporation.

As at 31 December 2013, except for the domestic shares of the Company, Shanghai Electric Corporation has also held 34,744,000 H shares of the Company, representing 4.57% of the H share class and 2.42% of the issued shares of the Company as disclosed by the Shanghai Electric Corporation to the Company. Shanghai Electric Corporation holds 713,320,184 issued shares of the Company in aggregate, representing 49.60% of the issued shares of the Company.

(2) Atlantis Capital Holdings Limited was wholly owned by Liu Yang. Accordingly, Liu Yang was deemed to be interested in the 67,340,000 H shares of the Company in which Atlantis Capital Holdings Limited had interest.

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2013 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, underlying shares and debentures

As at 31 December 2013, none of the directors, supervisors or chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified by the directors, supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules. Also, as at 31 December 2013, no right to acquire the aforementioned interests had been granted to the directors, supervisors or chief executives or their respective associates of the Company.

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 (To be moved to 22/F, Hopewell Centre,183 Queen's Road East, Hong Kong, with effect from 31 March 2014).

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 2013 (the "Year").

Principal activities

The principal activities of the Group is the design, manufacture and sale of turbine blades, bearings, cutting tools, electric motors, fasteners and others, the provision of related technical consultancy services, domestic trade, the provision of manpower service, industrial investment 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 2013 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 131.

The directors proposed the payment of a final dividend of RMB1.16 cents (2012:RMB2.20 cents) per share in respect of the Year to shareholders whose names appear on the register of members on Monday,14 July 2014. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

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 the annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

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

Share capital

There were no movements in either the Company's 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 2013, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB399 million, of which RMB17 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 20% of the total sales for the Year and sales to the largest customer included therein amounted to less than 10%. Purchases from the Group's five largest suppliers accounted for less than 20% 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, directors of the Company include executive directors, namely Mr. Wang Qiang, Mr. Zhou Zhiyan, Mr. Zhang Jianping, Mr. Sun Wei, Ms. Zhu Xi, Mr. Chen Hui, and independent non-executive directors, namely Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin.

With effect from 22 February 2013, Mr. Wang Qiang was appointed as and Mr. Zheng Yuanhu ceased to be an executive director and the Chairman of the Board of the Company. On 14 June 2013, Mr. Zhou Zhiyan was appointed as and Mr. Xu Chao ceased to be an executive director and vice chairman of the Board of the Company, and Mr. Chen Hui was appointed as and Mr. Hu Kang ceased to be an executive director of the Company.

The terms of office of independent non-executive directors shall be three years. The Company has received annual independence statement from Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin. As at the date of this report, the Company believes that the above independent non-executive directors 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 18 to 22 of the annual report.

Directors' service contracts

Mr. Wang Qiang, a director of the Company, entered into a service contract with the Company on 22 February 2013 while Mr. Zhou Zhiyan, Mr. Zhang Jianping and Mr. Chen Hui, directors of the Company, entered into service contracts with the Company on 14 June 2013, 7 December 2012 and 14 June 2013, respectively. All other 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 directors agreed to act as a 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 Articles of Association of the Company 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 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 2013, none of the Directors, Supervisors and Chief Executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' and supervisors' rights to acquire shares or debentures

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

Contract of significance

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

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

As at 31 December 2013, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of substantial shareholder	Class of shares	No. of shares	Capacity	Percentage of total number of shares issued (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	Beneficial owner	47.18
	H	34,744,000	Beneficial owner	2.42
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	Others	47.18
	H	34,744,000	Others	2.42

Save as disclosed above, details have been listed on the page 31 to 32 of this Annual Report.

REPORT OF THE DIRECTORS

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 18 January 2013, the Group acquired the 100% equity interest in Dalong Machinery under common control from Shanghai Electric Corporation through Shanghai United Assets and Equity Exchange, at a cash consideration of RMB89,622,000. Dalong Machinery engages in the production of reciprocating compressors, helical-lobe compressors, and high-pressure pumps.

Continuing Connected Transactions

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 ended 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 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 2013 amounted to RMB7.9 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 ended 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 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 2013 amounted to RMB3.7 million.

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 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 2013 was RMB22.7 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 ended 31 December 2013 is RMB13.7 million.

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 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 2013 amounted to RMB297.3 million.

REPORT OF THE DIRECTORS

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 ended 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 ended 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 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 2013 amounted to RMB10.4 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 ended 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.

The annual cap limit, representing the maximum aggregate processing fees payable as agreed between the parties, for the years ended 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 2013.

Framework Financial Services Agreement with Shanghai Electric Group Finance Company Limited ("Shanghai Electric Finance")

The Company entered into a framework financial services agreement dated 12 August 2011 with Shanghai Electric Finance, which is a 79.62%-owned subsidiary of Shanghai Electric Company, 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 ended 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 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 2013 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 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 2013 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 31 December 2012 and 2013 are RMB11.0 million and RMB12.1 million, respectively. The Group's integrated banking services fee payable to Shanghai Electric Finance incurred during the year ended 31 December 2013 did not exceed the approval cap limit.

The Independent Non-executive Directors of the Company have reviewed the continuing connected transactions set out above and in note 41 to the financial statements and have confirmed that these continuing connected transactions were entered into:

- 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.

REPORT OF THE DIRECTORS

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.

Events after the reporting period

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

Independents auditors

Ernst & Young will retire according to the Company's Articles of Association and a resolution for their reappointment as the independent auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Wang Qiang
Chairman
Shanghai, the PRC
7 March 2014

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, the supervisory committee of Shanghai Prime Machinery Company Limited (the "Company") has convened six 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, effectively protected the interests of our shareholders and the Company.

During the reporting period, the supervisory committee has attended two general meetings, five directors' meetings, conducted on-site 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 2013, 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 comprehensive 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 approved annual cap during 2013.

- 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 2014, 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
Dong Jianhua
Chairman of the Supervisory Committee
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
7 March 2014

INDEPENDENT AUDITORS' REPORT

To the shareholders of Shanghai Prime Machinery Company Limited

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

We have audited the consolidated financial statements of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 131, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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 2013, 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

7 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
REVENUE	5	**3,398,311**	3,728,522
Cost of sales		**(2,745,920)**	(3,051,794)
Gross profit		**652,391**	676,728
Other income and gains	5	**136,725**	127,442
Selling and distribution expenses		**(154,991)**	(153,276)
Administrative expenses		**(310,596)**	(326,637)
Other expenses		**(184,021)**	(185,400)
Finance costs	7	**(54,394)**	(50,507)
Share of profits and losses of associates		**10,226**	16,315
PROFIT BEFORE TAX	6	**95,340**	104,665
Income tax expense	10	**(26,406)**	(3,640)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**68,934**	101,025
Profit and total comprehensive income attributable to:			
Owners of the Company	11	**66,987**	99,402
Non-controlling interests		**1,947**	1,623
		68,934	101,025
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	13	**4.66**	6.91

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	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	14	**1,921,239**	1,963,206	2,034,469
Prepaid land premiums/land lease payments	15	**156,965**	160,604	182,246
Goodwill	16	**8,818**	8,818	8,818
Other intangible assets	17	**30,579**	30,661	24,367
Investments in associates	19	**195,818**	185,592	196,180
Available-for-sale investments	20	**872**	872	1,335
Long-term prepayments	21	**147**	87,188	8,290
Deferred tax assets	22	**72,250**	70,668	39,259
Total non-current assets		**2,386,688**	2,507,609	2,494,964
CURRENT ASSETS				
Inventories	23	**730,321**	823,245	1,035,916
Trade receivables	24	**1,123,486**	885,089	856,780
Bills receivable	25	**425,416**	326,853	397,268
Prepayments, deposits and other receivables	26	**153,840**	142,875	208,309
Restricted deposits	28	**39,673**	63,909	82,175
Cash and cash equivalents	28	**884,688**	1,283,865	980,471
Total current assets		**3,357,424**	3,525,836	3,560,919
CURRENT LIABILITIES				
Trade payables	29	**875,608**	842,022	936,832
Bills payable	30	**310,267**	220,134	135,494
Other payables and accruals	31	**307,720**	379,218	548,274
Tax payable		**40,371**	39,388	60,777
Interest-bearing bank and other borrowings	32	**158,257**	410,261	346,590
Total current liabilities		**1,692,223**	1,891,023	2,027,967
NET CURRENT ASSETS		**1,665,201**	1,634,813	1,532,952
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,051,889**	4,142,422	4,027,916

	Notes	31 December 2013 RMB'000	31 December 2012 RMB'000 (Restated)	1 January 2012 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,051,889**	4,142,422	4,027,916
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	32	**-**	-	380,000
Government grants		**290,318**	317,805	329,106
Other long-term payables		**408**	11,785	18,377
Company bonds	33	**494,704**	493,363	-
Deferred tax liabilities	22	**9,381**	7,818	15,733
Total non-current liabilities		**794,811**	830,771	743,216
Net assets		**3,257,078**	3,311,651	3,284,700
EQUITY				
Equity attributable to owners of the Company				
Issued capital	34	**1,438,286**	1,438,286	1,438,286
Reserves	35(a)	**1,766,102**	1,805,996	1,775,155
Proposed final dividend	12	**16,684**	31,642	54,655
		3,221,072	3,275,924	3,268,096
Non-controlling interests		**36,006**	35,727	16,604
Total equity		**3,257,078**	3,311,651	3,284,700

Wang Qiang
Director

Zhou Zhiyan
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	Special 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
At 1 January 2012											
As previously reported		1,438,286	702,945	(9,283)	2,624	207,129	760,074	54,655	3,156,430	16,604	3,173,034
Acquisition of Dalong Machinery [2]	36	-	-	153,728	-	-	(42,062)	-	111,666	-	111,666
As restated		1,438,286	702,945	144,445	2,624	207,129	718,012	54,655	3,268,096	16,604	3,284,700
Total comprehensive income for the year		-	-	-	-	-	99,402	-	99,402	1,623	101,025
Final 2011 dividend declared		-	-	-	-	-	-	(54,655)	(54,655)	-	(54,655)
Proposed final 2012 dividends	12	-	-	-	-	-	(31,642)	31,642	-	-	-
Capital injiction		-	-	-	-	-	-	-	-	17,500	17,500
Amendment of the acquisition cost of Research Centre [2]		-	-	517	-	-	-	-	517	-	517
Acquisition of Shanghai Insulating [2]		-	-	(37,436)	-	-	-	-	(37,436)	-	(37,436)
Transfer from retained profits		-	-	-	2,418	22,234	(24,652)	-	-	-	-
At 31 December 2012		1,438,286	702,945 [1]	107,526 [1]	5,042 [1]	229,363 [1]	761,120 [1]	31,642	3,275,924	35,727	3,311,651

	Notes	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Special 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
		Attributable to owners of the Company									
1 January 2013											
As previously reported		1,438,286	702,945	(46,202)	5,042	229,363	829,878	31,642	3,190,954	35,727	3,226,681
Acquisition of Dalong Machinery [2]	36	-	-	153,728	-	-	(68,758)	-	84,970	-	84,970
As restated		1,438,286	702,945	107,526	5,042	229,363	761,120	31,642	3,275,924	35,727	3,311,651
Total comprehensive income for the year		-	-	-	-	-	66,987	-	66,987	1,947	68,934
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	(1,668)	(1,668)
Final 2012 dividend declared		-	-	-	-	-	-	(31,642)	(31,642)	-	(31,642)
Proposed final 2013 dividends	12	-	-	-	-	-	(16,684)	16,684	-	-	-
Acquisition of Dalong Machinery [2]	36	-	-	(89,622)	-	-	-	-	(89,622)	-	(89,622)
Transfer from retained profits		-	-	-	449	23,792	(24,241)	-	-	-	-
Others		-	-	(575)	-	-	-	-	(575)	-	(575)
At 31 December 2013		1,438,286	702,945 [1]	17,329 [1]	5,491 [1]	253,155 [1]	787,185 [1]	16,684	3,221,072	36,006	3,257,078

Notes:

1 These reserve accounts comprise the consolidated reserves of RMB1,766,102,000 (2012: RMB1,805,996,000) in the consolidated statement of financial position.

2 Research Centre, Shanghai Insulating and Dalong Machinery refer to Shanghai Fastener and Welding Material Technology Research Centre Company Limited, Shanghai Electric Insulating Materials Company Limited, and Shanghai Dalong Machinery Works Company Limited, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**95,340**	104,665
Adjustments for:			
Finance costs	7	**54,394**	50,507
Share of profits and losses of associates		**(10,226)**	(16,315)
Interest income from loans receivable, bank balances and deposits and other financial assets	5	**(17,625)**	(20,530)
Dividend income from available-for-sale investments	5	**(94)**	-
(Gain)/loss on disposal of items of property, plant and equipment, net	5	**(3,870)**	1,086
Gain on write-back of long-aged payables	5	**(1,217)**	(15,543)
Depreciation	6	**165,893**	173,546
Amortisation of prepaid land premiums/land lease payments	6	**3,645**	3,824
Amortisation of other intangible assets	6	**8,724**	6,887
Foreign exchange differences, net		**1,591**	80
Impairment of receivables	6	**6,282**	20,387
Impairment of investment in an associate	6	**-**	463
Impairment of property, plant and equipment	6	**9,142**	1,822
Impairment of intangible assets	6	**351**	-
Write-down of inventories to net realisable value	6	**34,768**	34,020
		347,098	344,899
Decrease in inventories		**58,156**	178,652
(Increase) /decrease in trade receivables, bills receivable, prepayments, deposits and other receivables		**(334,166)**	97,342
Increase /(decrease) in trade payables, bills payable, other payables and accruals		**53,468**	(166,798)
Decrease in other long-term payables		**(11,377)**	(5,442)
Decrease in government grants		**(27,487)**	(12,451)
Cash generated from operations		**85,692**	436,202
Taxes paid		**(25,666)**	(48,128)
Net cash flows from operating activities		**60,026**	388,074

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		**60,026**	388,074
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**18,787**	20,305
Dividend income from available-for-sale investments	5	**94**	-
Dividends received from associates		**4,000**	14,743
Purchases of items of property, plant and equipment		**(145,921)**	(151,197)
Purchases of prepaid land premiums/land lease payments		**-**	(6,680)
Proceeds from disposal of items of property, plant and equipment		**17,681**	54,651
Proceeds from disposal of prepaid land premiums/land lease payments		**-**	24,935
Parchases of other intangible assets		**(8,993)**	(13,181)
Acquisition of subsidiaries	36	**(4,863)**	(37,660)
Prepayment for acquisition of a subsidiary	21	**-**	(84,759)
Decrease /(increase) in non-restricted deposits with original maturity of over three months when acquired		**21,344**	(160,754)
Net cash flows used in investing activities		**(97,871)**	(339,597)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of company bonds	33	**-**	492,923
Capital injection by non-controlling shareholders		**-**	17,500
New bank and other borrowings		**177,996**	435,000
Repayment of bank and other borrowings		**(430,000)**	(751,329)
Dividends paid		**(33,310)**	(54,655)
Interest paid		**(53,083)**	(45,196)
Net cash flows from/(used in) financing activities		**(338,397)**	94,243
NET/DECREASE INCREASE IN CASH AND CASH EQUIVALENTS		**(376,242)**	142,720
Cash and cash equivalents at beginning of year		**1,081,439**	938,799
Effect of foreign exchange rate changes, net		**(1,591)**	(80)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**703,606**	1,081,439
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	**422,606**	476,863
Non-restricted time deposits with original maturity of less than three months when acquired		**281,000**	604,576
Cash and cash equivalents as stated in the statement of cash flows		**703,606**	1,081,439

STATEMENT OF FINANCIAL POSITION

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**6,930**	3,112
Other intangible assets	17	**1,576**	2,219
Investments in subsidiaries	18	**2,317,431**	2,278,054
Investments in associates	19	**119,845**	119,845
Long-term prepayments	21	**-**	84,759
Loans receivable	27	**400,000**	400,000
Deferred tax assets	22	**-**	6,162
Total non-current assets		**2,845,782**	2,894,151
CURRENT ASSETS			
Trade receivables	24	**70,964**	20,304
Bills receivable	25	**-**	180
Prepayments, deposits and other receivables	26	**239,454**	284,883
Loans receivable	27	**125,000**	125,000
Cash and cash equivalents	28	**483,308**	612,515
Total current assets		**918,726**	1,042,882
CURRENT LIABILITIES			
Trade payables	29	**207,516**	64,033
Other payables and accruals	31	**432,997**	622,759
Interest-bearing bank and other borrowings	32	**9,996**	200,000
Total current liabilities		**650,509**	886,792
NET CURRENT ASSETS		**268,217**	156,090
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,113,999**	3,050,241
NON-CURRENT LIABILITIES			
Company bonds	33	**494,704**	493,363
Government grants		**420**	700
Total non-current liabilities		**495,124**	494,063
Net assets		**2,618,875**	2,556,178
EQUITY			
Issued capital	34	**1,438,286**	1,438,286
Reserves	35(b)	**1,163,905**	1,086,250
Proposed final dividends	12	**16,684**	31,642
Total equity		**2,618,875**	2,556,178

Wang Qiang
Director

Zhou Zhiyan
Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORFATION

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 2013. 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 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.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 - *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 Presentation of Financial Statements - *Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 Impairment of Assets - *Recoverable Amount Disclosures for Non-financial Assets* (early adopted)
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 12 and HKAS 1 Amendments, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

(a) HKFRS 12 sets out the disclosure requirements for subsidiaries and associates previously included in HKAS 27 *Consolidated and Separate Financial Statements,* HKAS 28 *Investments in Associates and HKAS19 (2011)*. It also introduces a number of new disclosure requirements for these entities. Details of the disclosures for subsidiaries and associates are included in notes 18 and 19 to the financial statements.

(b) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. In addition, the Group has chosen to use the new title "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

(c) 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. As the Group does not have any defined benefit plan or employee termination plan and the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period, the adoption of the revised standard has had no effect on the financial position or performance of the Group.

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 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) - *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 Employee Benefits - Defined Benefit Plans: *Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: *Presentation - Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and measurement - Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]

Annual Improvements 2010-2012 Cycle
Annual Improvements 2011-2013 Cycle

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] No mandatory effective date yet determined but is available for adoption

NOTES TO FINANCIAL STATEMENTS (continued)

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

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

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

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as 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 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.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 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)

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

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 2012, 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 profit or loss and other comprehensive income includes the results of the Group and the Acquired Subsidiary from 1 January 2012, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combination not under common control (continued)

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

Where goodwill 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 of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole;

Level 1- based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2- based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3- based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, 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 of disposal, 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 statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

(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);

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(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 statement of profit or loss and other comprehensive income 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%

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 the statement of profit or loss and other comprehensive income 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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the statement of profit or loss and other comprehensive income as incurred.

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income 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 are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 statement of profit or loss and other comprehensive income. 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 as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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 as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss and other comprehensive income. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in other expenses for receivables.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold 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 statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income 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 as 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 statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income in other gains or losses. 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 statement of profit or loss and other comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

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

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 statement of profit or loss and other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 risks and rewards 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss and other comprehensive income. 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 statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income, is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income.

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. "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 statement of profit or loss and other comprehensive income – is removed from other comprehensive income and recognised in the statement of profit or loss and other comprehensive income. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss and other comprehensive income. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition 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.

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, company bords and other long-term payables.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Initial recognition and subsequent measurement (continued)

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss and other comprehensive income except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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.

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 statement of profit or loss and other comprehensive income.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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 statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services (continued)

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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 statement of profit or loss and other comprehensive income. 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 4.75% and 5.60% 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of profit or loss and other comprehensive income.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income 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 statement of profit or loss and other comprehensive income. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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 at 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).

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was RMB8,818,000 (2012: 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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) Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2013, the best estimate of the carrying amount of capitalised development costs was RMB22,521,000 (2012: RMB19,700,000).

(iv) 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 on the carrying value of the receivables and impairment loss/reversal of impairment in the period in which such an estimate has been changed.

NOTES TO FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(v) 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 2013 was RMB4,216,000 (2012: RMB9,123,000). The amount of unrecognised tax losses at 31 December 2013 was RMB 78,972,000 (2012: RMB22,512,000). 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 six 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) the general machinery segment is engaged in the production and sale of general machinery; and

(vi) "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 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.

4. OPERATING SEGMENT INFORMATION (continued)

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	General machinery RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2013							
Segment revenue:							
Sales to external customers	699,732	810,211	614,602	859,114	361,851	52,801	3,398,311
Inter-segment sales	1,075	-	-	1,021	-	-	2,096
Other revenue	22,377	61,756	21,917	6,726	5,467	466	118,709
Total	723,184	871,967	636,519	866,861	367,318	53,267	3,519,116
Reconciliation:							
Elimination of intersegment sales							(2,096)
Revenue							3,517,020
Segment results	14,235	52,736	82,308	100	9,041	(1,410)	157,010
Reconciliation:							
Interest and dividend income and unallocated gains							18,016
Corporate and other unallocated expenses							(35,518)
Finance costs							(54,394)
Share of profits and losses of associates	725	-	(974)	-	-	10,475	10,226
Profit before tax							95,340
Segment assets	1,234,726	2,519,451	631,979	744,176	414,078	790,069	6,334,479
Reconciliation:							
Elimination of intersegment receivables							(1,223,997)
Investments in associates	93,790	-	18,799	-	-	83,229	195,818
Corporate and other unallocated assets							437,812
Total assets							5,744,112

NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	General machinery RMB'000	Others RMB'000	Total RMB'000
Segment liabilities	344,955	1,275,542	191,294	378,716	320,254	1,042,013	3,552,774
Reconciliation:							
Elimination of intersegment payables							(1,223,997)
Corporate and other other unallocated liabilities							158,257
Total liabilities							2,487,034
Other segment information:							
Impairment losses recognised in profit or loss	9,342	6,196	14,132	12,051	8,822	-	50,543
Depreciation and amortisation	26,672	87,415	30,809	22,723	8,577	2,066	178,262
Capital expenditure	51,275	80,218	9,520	6,148	627	5,802	153,590*

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

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	General machinery RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2012 (restated)							
Segment revenue:							
Sales to external customers	764,490	828,916	607,343	1,017,794	509,979	-	3,728,522
inter-segment sales	-	-	-	2,202	-	-	2,202
Other revenue	20,987	58,494	16,384	6,454	4,184	-	106,503
Total	785,477	887,410	623,727	1,026,450	514,163	-	3,837,227
Reconciliation:							
Elimination of intersegment sales							(2,202)
Revenue							3,835,025

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	General machinery RMB'000	Others RMB'000	Total RMB'000
Segment results	35,322	57,350	78,155	19,632	(34,139)	-	156,320
Reconciliation:							
Interest and dividend income and unallocated gains							20,939
Corporate and other unallocated expenses							(38,402)
Finance costs							(50,507)
Share of profits and and losses of associates	4,467	-	962	-	-	10,886	16,315
Profit before tax							104,665
Segment assets	1,364,751	2,489,056	663,457	853,757	454,148	903,141	6,728,310
Reconciliation:							
Elimination of intersegment receivables							(1,430,487)
Investments in associates	93,065	-	19,773	-	-	72,754	185,592
Corporate and other unallocated assets							550,030
Total assets							6,033,445
Segment liabilities	385,487	1,209,080	202,440	434,917	369,178	1,140,918	3,742,020
Reconciliation:							
Elimination of intersegment payables							(1,430,487)
Corporate and other unallocated liabilities							410,261
Total liabilities							2,721,794
Other segment information:							
Impairment losses recognised in profit or loss	21,880	21,766	714	4,599	7,733	-	56,692
Other non-cash expenses	(2,150)	-	-	-	-	-	(2,150)
Depreciation and amortisation	26,660	81,153	39,083	27,032	8,281	2,048	184,257
Capital expenditure	31,071	87,769	16,540	11,531	24,949	1,982	173,842

NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2013			2012 (Restated)		
	PRC	Outside PRC	Total	PRC	Outside PRC	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	**2,408,402**	**989,909**	**3,398,311**	2,692,773	1,035,749	3,728,522

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

(b) Non-current assets

	2013	2012
	RMB'000	RMB'000 (Restated)
PRC	**2,313,566**	2,436,069

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

Information about a major customer

Revenue of approximately RMB171,500,000 (2012: RMB282,272,000) was derived from sales by the turbine blade segment of the Group to a single 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:

	2013 RMB'000	2012 RMB'000 (Restated)
Revenue		
Sale of goods	**3,352,652**	3,683,018
Rendering of services	**45,659**	45,504
	3,398,311	3,728,522
Other income		
Dividend income from available-for-sale investment	**94**	-
Interest income from loans receivable, bank balances and deposits, and other financial assets	**17,625**	20,530
Gross rental income	**5,703**	1,512
Profit on sales of raw materials, spare parts and semi-finished goods	**20,272**	19,225
Government grants *	**73,274**	52,522
Compensation income	**4**	4,507
Technical service income	**2,993**	3,890
Others	**11,673**	9,713
	131,638	111,899
Gains		
Gain on disposal of items of property, plant and equipment, net	**3,870**	-
Gain on write-back of long-aged payables	**1,217**	15,543
	5,087	15,543
	136,725	127,442

* Various government grants have been received during the years ended 31 December 2013 and 2012. There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO FINANCIAL STATEMENTS (continued)

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2013 RMB'000	2012 RMB'000 (Restated)
Cost of inventories sold		**2,535,157**	2,828,730
Cost of services provided		**38,516**	38,314
Depreciation	14	**165,893**	173,546
Amortisation of prepaid land premiums/land lease payments	15	**3,645**	3,824
Amortisation of other intangible assets *	17	**8,724**	6,887
Write-down of inventories to net realisable value		**34,768**	34,020
Impairment of receivables *		**6,282**	20,387
Impairment of property, plant and equipment *	14	**9,142**	1,822
Impairment of other intangible assets *	17	**351**	-
Research and development costs:*			
Current year expenditure		**132,223**	115,644
Minimum lease payments under operating leases:			
Land and buildings		**31,405**	27,453
Vehicles		**2,310**	2,841
Auditors' remuneration:			
Audit services		**2,980**	2,700
Non-audit services		**60**	920
Employee benefit expense (including directors' and supervisors' remuneration – note 8):			
Wages and salaries		**343,212**	387,681
Defined contribution pension scheme (note i)		**49,430**	50,446
Medical benefits (note iii)		**20,026**	23,708
Housing fund (note iv)		**16,850**	18,485
Cash housing subsidies		**206**	342
		429,724	480,662
Foreign exchange differences, net		**4,946**	2,446

* These items are included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

6. PROFIT BEFORE TAX (continued)

Notes:

(i) Defined contribution pension scheme

All of the Group's full-time employees in the Mainland China 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:

	2013 RMB'000	2012 RMB'000 (Restated)
Interest on bank and other loans wholly repayable within five years	**54,394**	53,291
Less: Interest capitalised	**-**	(2,784)
	54,394	50,507

NOTES TO FINANCIAL STATEMENTS (continued)

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Directors		Supervisors	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Fees	**476**	485	**-**	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	**870**	1,067	**550**	402
Performance related bonuses	**-**	473	**-**	66
Pension scheme contributions	**69**	99	**66**	66
Total	**1,415**	2,124	**616**	534

(a) Independent non-executive directors

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

	2013 RMB'000	2012 RMB'000
Chan Chun Hong, Thomas	**190**	195
Li Yin	**143**	145
Ling Hong	**143**	145
	476	485

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and supervisors

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2013				
Executive directors:				
Wang Qiang	-	-	-	-
Zheng Yuanhu	-	-	-	-
Zhou Zhiyan	-	-	-	-
Xu Chao	-	-	-	-
Hu Kang	209	-	15	224
Zhang Jianping	429	-	36	465
Zhu Xi	-	-	-	-
Sun Wei	-	-	-	-
Chen Hui	232	-	18	250
	870	-	69	939
Supervisors:				
Hu Peiming	120	-	12	132
Wei Li	261	-	18	279
Yu Yun	169	-	36	205
	550	-	66	616
	1,420	-	135	1,555

NOTES TO FINANCIAL STATEMENTS (continued)

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and supervisors (continued)

	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
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

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2012: Nil).

(c) Remuneration of senior executives

There are six senior executives in the Company, one senior executive has remuneration beyond RMB700,000; two senior executives have remuneration between RMB550,000 and RMB600,000; and three senior executive have remuneration below RMB500,000.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2012: one), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2012: the remaining four) highest paid employees who are neither a director nor superviors of the Company are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	**2,828**	1,335
Performance related bonuses	**731**	962
Pension scheme contributions	**174**	130
	3,733	2,427

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

10. INCOME TAX

The Group is subject to the statutory corporate income tax rate of 25% for the year (2012: 25%) under the income tax rules and regulations in the PRC.

Four subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Zhenhua Bearing Factory Company Limited ("Zhenhua 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 year ended 31 December 2013.

Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") , Dalong Machinery and Shanghai Tian An Bearing Company Limited ("Tian An Bearing") were granted the HNTEs qualification by the relevant government authority on 6 August 2012, 23 September 2012 and 18 November 2012 respectively and accordingly are subject to a preferential corporate income tax rate of 15% for the year ending 31 December 2014.

Shanghai High Strength Bolt Company Limited ("Bolt") had submitted its application for its HNTEs qualification for three years ending 31 December 2015. 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 ended/ ending 31 December 2013,2014 and 2015.

NOTES TO FINANCIAL STATEMENTS (continued)

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.

	2013 RMB'000	2012 RMB'000 (Restated)
Group:		
Current – the Mainland China		
Charge for the year	**30,990**	41,896
Overprovision in prior years	**(4,341)**	(18)
Deferred (note 22)	**(243)**	(38,238)
Total tax charge for the year	**26,406**	3,640

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:

	2013 RMB'000	2012 RMB'000 (Restated)
Profit before tax	**95,340**	104,665
Tax at the statutory tax rate of 25% (2012: 25%)	**23,835**	26,167
Preferential tax rate for certain subsidiaries	**(14,061)**	(10,754)
Effect of tax rate change:		
On opening deferred tax	**4,240**	1,223
Adjustments in respect of current tax of previous period	**(4,341)**	(18)
Profits and losses attributable to associates	**(2,654)**	(3,983)
Income not subject to tax	**(4,988)**	(12,199)
Expenses not deductible for tax	**2,782**	2,846
Deductible temporary differences not recognised	**9,521**	427
Tax losses not recognised	**14,050**	1,730
Effect of tax incentive	**(1,978)**	(1,799)
Tax charge at the Group's effective rate	**26,406**	3,640
The Group's effective income tax rate	**27.70%**	3.48%

The share of tax attributable to associates amounting to RMB3,271,000 (2012: RMB4,033,000), respectively, is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other 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 2013 includes a loss of RMB33,959,000 (2012: a profit of RMB8,571,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Proposed final – RMB1.16 cents (2012: RMB2.20 cents) per ordinary share	**16,684**	31,642

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 2013 and 2012 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2013 RMB'000	2012 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	**66,987**	99,402

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,438,286,184**	1,438,286,184

NOTES TO FINANCIAL STATEMENTS (continued)

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 2013							
Cost:							
At 1 January 2013							
As previously reported	532,851	2,112,258	23,075	27,187	106,553	29,754	2,831,678
Acquisition of Dalong Machinery	838	90,221	1,109	4,585	705	-	97,458
As restated	533,689	2,202,479	24,184	31,772	107,258	29,754	2,929,136
Additions	1,562	8,339	1,232	945	114,046	20,755	146,879
Disposals	(1,463)	(38,431)	(4,842)	(1,481)	-	-	(46,217)
Transfers	3,672	129,397	344	430	(133,843)	-	-
At 31 December 2013	537,460	2,301,784	20,918	31,666	87,461	50,509	3,029,798
Accumulated depreciation and impairment:							
At 1 January 2013							
As previously reported	43,662	834,608	12,969	20,229	408	18,908	930,784
Acquisition of Dalong Machinery	113	31,046	751	3,236	-	-	35,146
As restated	43,775	865,654	13,720	23,465	408	18,908	965,930
Depreciation provided during the year	16,634	138,669	2,162	3,054	-	5,374	165,893
Impairment	-	9,142	-	-	-	-	9,142
Disposals	(1,014)	(26,733)	(3,675)	(984)	-	-	(32,406)
At 31 December 2013	59,395	986,732	12,207	25,535	408	24,282	1,108,559
Net book value:							
At 31 December 2013	478,065	1,315,052	8,711	6,131	87,053	26,227	1,921,239

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 2012							
Cost:							
At 1 January 2012							
As previously reported	497,810	1,794,372	23,627	26,333	401,660	28,962	2,772,764
Acquisition of Dalong Machinery	38,754	75,154	2,432	5,955	839	-	123,134
As restated	536,564	1,869,526	26,059	32,288	402,499	28,962	2,895,898
Additions	-	15,727	445	2,915	139,963	792	159,842
Disposals	(37,916)	(79,088)	(3,815)	(4,142)	(1,643)	-	(126,604)
Transfers	35,041	396,314	1,495	711	(433,561)	-	-
At 31 December 2012	533,689	2,202,479	24,184	31,772	107,258	29,754	2,929,136
Accumulated depreciation and impairment:							
At 1 January 2012							
As previously reported	27,589	749,247	12,884	18,950	408	13,707	822,785
Acquisition of Dalong Machinery	6,682	27,173	1,390	3,399	-	-	38,644
As restated	34,271	776,420	14,274	22,349	408	13,707	861,429
Depreciation provided during the year	16,865	144,969	2,291	4,220	-	5,201	173,546
Impairment	-	1,635	-	6	181	-	1,822
Disposals	(7,361)	(57,370)	(2,845)	(3,110)	(181)	-	(70,867)
At 31 December 2012	43,775	865,654	13,720	23,465	408	18,908	965,930
Net book value:							
At 31 December 2012	489,914	1,336,825	10,464	8,307	106,850	10,846	1,963,206

NOTES TO FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2013					
Cost:					
At 1 January 2013	1,590	8,973	-	2,872	13,435
Additions	-	526	4,693	-	5,219
Disposals	(449)	-	-	-	(449)
At 31 December 2013	1,141	9,499	4,693	2,872	18,205
Accumulated depreciation:					
At 1 January 2013	649	6,802	-	2,872	10,323
Depreciation provided during the year	219	1,163	-	-	1,382
Disposals	(430)	-	-	-	(430)
At 31 December 2013	438	7,965	-	2,872	11,275
Net book value:					
At 31 December 2013	703	1,534	4,693	-	6,930

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 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

As at 31 December 2013, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB1,779,000 (2012: RMB1,891,000).

As at 31 December 2013, the Group was in the process of obtaining the real estate title certificates for some buildings located in Wuxi Jiangsu province with net carrying value of approximately RMB391,563,000 (2012: RMB396,215,000),

As at 31 December 2013, certain Group's machinery equipment with a net carrying amount of RMB10,262,000 is pending for disposal. The recoverable amount of these machinery equipment is measured using the market disposal price RMB1,120,000. The Group recorded impairment of RMB9,142,000 on those machinery equipment.

NOTES TO FINANCIAL STATEMENTS (continued)

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	2013 RMB'000	2012 RMB'000
At cost:		
As previously reported	**179,433**	179,284
Acquisition of Dalong Machinery	**-**	21,631
As restated	**179,433**	200,915
Additions	**-**	6,680
Disposals	**-**	(28,162)
At end of year	**179,433**	179,433
Accumulated amortisation:		
As previously reported	**15,178**	12,166
Acquisition of Dalong Machinery	**-**	2,415
As restated	**15,178**	14,581
Recognised during the year	**3,645**	3,824
Disposals	**-**	(3,227)
At end of year	**18,823**	15,178
Net book value:		
At end of year	**160,610**	164,255
Of which:		
Current portion included in prepayments, deposits and other receivables (note 26)	**3,645**	3,651
Non-current portion	**156,965**	160,604
	160,610	164,255

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

16. GOODWILL

Group

	RMB'000
Cost and net carrying amount at 31 December 2013 and 2012	**8,818**

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the infrastructure cash-generating unit, for impairment testing.

In 2013,the recoverable amount of the infrastructure cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 14% and cash flows beyond the seven-year period were extrapolated using a growth rate of 1% which was the same as the long term average growth rate of the infrastructure industry.

Assumptions were used in the value in use calculation of the bearing cash-generating unit for 31 December 2013 and 2012. 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 infrastructure cash-generating unit.

NOTES TO FINANCIAL STATEMENTS (continued)

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs RMB'000	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2013				
At cost:				
At 1 January 2013	23,488	5,464	17,277	46,229
Additions	7,771	-	1,222	8,993
At 31 December 2013	31,259	5,464	18,499	55,222
Accumulated depreciation and impairment:				
At 1 January 2013	3,788	2,348	9,432	15,568
Amortisation provided during the year	4,950	853	2,921	8,724
Impairment	-	351	-	351
At 31 December 2013	8,738	3,552	12,353	24,643
Net book value:				
At 31 December 2013	22,521	1,912	6,146	30,579
31 December 2012				
At cost:				
At 1 January 2012	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
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

17. OTHER INTANGIBLE ASSETS (continued)

Company

	Software RMB'000
31 December 2013	
At cost:	
At 1 January 2013	5,233
Additions	584
At 31 December 2013	5,817
Accumulated amortisation:	
At 1 January 2013	3,014
Amortisation provided during the year	1,227
At 31 December 2013	4,241
Net book value:	
At 31 December 2013	1,576

	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

NOTES TO FINANCIAL STATEMENTS (continued)

18. INVESTMENTS IN SUBSIDIARIES

Company

	2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	**2,184,431**	2,095,054
Due from a subsidiary	**133,000**	183,000
	2,317,431	2,278,054

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 RMB133,000,000 (2012: 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 Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Shanghai Tian An Bearing Company Limited 上海天安軸承有限公司	PRC	RMB159,389	100%	-	Production and sale of precision and other bearings and ancillary appliances
Wuxi Turbine Blade Company Limited 無錫透平葉片有限公司	PRC	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

18. INVESTMENTS IN SUBSIDIARIES (continued)

Company (continued)

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Electric Bearing Company Limited 上海電气軸承有限公司	PRC	RMB250,000	100%	-	Production and sale of bearing products
Shanghai High Strength Bolt Company Limited 上海高強度螺栓廠有限公司	PRC	RMB11,865	100%	-	Production and sale of high strength bolts
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 上海電气絕緣材料有限公司	PRC	RMB39,500	100%	-	Production and sale of electrical insulating materials
Shanghai Dalong Machinery Works Company Limited 上海大隆機器廠有限公司	PRC	RMB149,229	100%	-	Production and sale of compressors and other general machinery

* Duing the year, the Group acquired 100% equity interest in Dalong Machinery form Shanghai Electric Corporation. Further details of the acquisition are included in note 36 to the financial statement.

19. INVESTMENTS IN ASSOCIATES

Group

	2013 RMB'000	2012 RMB'000
Share of net assets	**195,818**	185,592

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:

NOTES TO FINANCIAL STATEMENTS (continued)

19. INVESTMENTS IN ASSOCIATES (continued)

Group (continued)

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(i, ii)	PRC	US$23,750	40%	Production and sale of bearings and spare parts
Morgan Advanced Materials Technology (Shanghai) Company Limited 摩根新材料(上海)有限公司 (i, ii, iii)	PRC	US$17,941	30%	Production and sale of carbolic products
S.U. Machine Tool (Shanghai) Company Limited (i) 上海機床工具(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

i. Sino-foreign equity joint ventures
ii. The equity interests of these companies are directly owned by the Company.
iii. Morgan Advanced Materials Technology (Shanghai) Company Limited acquired 100% of the equity of Shanghai Morganite Electrical Carbon Company Limited in 2013.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2013 RMB'000	2012 RMB'000
Share of the associates' profit for the year	**10,226**	16,315
Share of the associates' total comprehensive income	**10,226**	16,315
Aggregate carrying amount of the Group's investments in the associates	**195,818**	185,592

Company

	2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	**119,845**	119,845

20. AVAILABLE-FOR-SALE INVESTMENTS

	2013 RMB'000	2012 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

	2013 RMB'000	2012 RMB'000 (Restated)
Other long-term prepayments	**147**	2,429
Due from the ultimate holding company *	**-**	84,759
	147	87,188

Company

	2013 RMB'000	2012 RMB'000
Due from the ultimate holding company *	**-**	84,759

* Long-term prepayment due from the ultimate holding company represents prepayment made in relation to the acquisition of Dalong Machinery.

NOTES TO FINANCIAL STATEMENTS (continued)

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 profits 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 2013					
As previously reported	2,469	20,243	874	29,875	53,461
Acquisition of Dalong Machinery	6,654	9,818	-	735	17,207
As restated	9,123	30,061	874	30,610	70,668
Charged to equity	-	(224)	-	-	(224)
Credited/(charged) to profit or loss during the year	(4,907)	4,225	639	1,849	1,806
At 31 December 2013	4,216	34,062	1,513	32,459	72,250

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary RMB'000
At 1 January 2013	7,818
Charged to profit or loss during the year	1,563
At 31 December 2013	9,381

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 2012					
As previously reported	218	16,002	307	15,287	31,814
Acquisition of Dalong Machinery	-	8,118	-	99	8,307
As restated	218	24,210	307	15,386	40,121
Credited to equity	-	224	-	-	224
Credited to profit or loss during the year	8,905	5,627	567	15,224	30,323
At 31 December 2012	9,123	30,061	874	30,610	70,668

Deferred tax liabilities

	Fair value adjustments arising from acquisition of a subsidiary RMB'000
At 1 January 2012	15,733
Credited to profit or loss during the year	(7,915)
At 31 December 2012	7,818

As at 31 December 2013, the Group had tax losses of RMB 78,972,000 (2012: RMB22,512,000), of which deferred tax asset has not been recognised as management considered it is not probable that taxable profits would be available to utilise the tax losses within five years.

NOTES TO FINANCIAL STATEMENTS (continued)

22. DEFERRED TAX (continued)

Company

As at 31 December 2013, the Company did not recognise any deferred tax assets. As at 31 December 2012, the Company's deferred tax assets related to accrued expenses, depreciation in excess of related depreciation allowance, impairment of assets and losses available for offsetting against future profit.

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

23. INVENTORIES

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Raw materials	**179,116**	191,688
Work in progress	**263,939**	274,570
Finished goods	**287,266**	356,987
	730,321	823,245

24. TRADE RECEIVABLES

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Trade receivables	**1,241,126**	999,378
Impairment	**(117,640)**	(114,289)
	1,123,486	885,089

24. TRADE RECEIVABLES (continued)

Group (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally for a period of three to six 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 aged analysis of trade receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Within 3 months	**709,062**	617,944
Over 3 months but within 6 months	**211,382**	137,094
Over 6 months but within 1 year	**135,451**	101,527
Over 1 year but within 2 years	**65,874**	28,370
Over 2 years but within 3 years	**1,716**	154
	1,123,486	885,089

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

	2013 RMB'000	2012 RMB'000 (Restated)
At 1 January	**114,289**	94,140
Impairment losses recognised	**11,806**	25,188
Impairment losses reversed	**(5,895)**	(4,836)
Amount written off as uncollectible	**(2,560)**	(203)
	117,640	114,289

NOTES TO FINANCIAL STATEMENTS (continued)

24. TRADE RECEIVABLES (continued)

Group (continued)

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 RMB 248,091,000 (2012: RMB203,071,000). 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 aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Neither past due nor impaired	**709,062**	617,944
Less than 3 months past due	**182,175**	124,471
3 to 6 months past due	**52,515**	46,050
6 to 9 months past due	**7,720**	2
9 months to 1 year past due	**39,885**	7,686
1 to 2 years past due	**1,524**	154
2 to 3 years past due	**154**	-
	993,035	796,307

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 the amounts due from associates included in the above can be analysed as follows:

24. TRADE RECEIVABLES (continued)

Group (continued)

	2013 RMB'000	2012 RMB'000 (Restated)
Due from SEC group companies	**127,414**	75,349
Due from associates	**2,545**	395
	129,959	75,744

Company

	2013 RMB'000	2012 RMB'000
Within 3 months	**67,472**	17,925
Over 3 months but within 6 months	**3,338**	2,140
Over 6 months but within 1 year	**-**	85
Over 1 year but within 2 years	**-**	154
Over 2 years but within 3 years	**154**	-
	70,964	20,304

	2013 RMB'000	2012 RMB'000
Due from SEC group companies	**154**	154

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

NOTES TO FINANCIAL STATEMENTS (continued)

25. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

Group

	2013	2012
	RMB'000	RMB'000
		(Restated)
Within 3 months	**192,646**	153,667
Over 3 months but within 6 months	**232,720**	173,186
Over 6 months but within 1 year	**50**	-
	425,416	326,853

Included in the above balance are bills of RMB71,271,000 (2012: RMB50,180,000) issued by SEC group companies.

Company

	2013	2012
	RMB'000	RMB'000
Within 3 months	**-**	180

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

	2013 RMB'000	2012 RMB'000 (Restated)
Prepayments	**90,718**	75,280
Deposits	**8,454**	4,536
Prepaid land premiums/land lease payments (note 15)	**3,645**	3,651
Value-added tax refunds and prepaid value-added tax	**28,755**	28,753
Other receivables	**13,608**	8,161
Due from the ultimate holding company	**-**	9,636
Due from associates	**8,160**	12,160
Due from SEC group companies	**500**	698
	153,840	142,875

Company

	2013 RMB'000	2012 RMB'000
Prepayments	**1,927**	2,086
Deposits	**317**	149
Value-added tax refunds and prepaid value-added tax	**6,693**	5,541
Other receivables	**4,312**	3,587
Due from the ultimate holding company	**-**	2,324
Due from associates	**8,160**	12,160
Due from subsidiaries	**218,045**	259,036
	239,454	284,883

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.

NOTES TO FINANCIAL STATt(continued)

27. LOANS RECEIVABLE

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

The current balance of RMB125,000,000 (2012: RMB125,000,000) represents entrusted loans provided by the Company to Wuxi Turbine Blade through China Construction Bank and Shanghai Electric Group Finance Co., Ltd.. The loans are unsecured, bear interest at rates ranging from 4.92% to 5.90% (2012: from 4.92% to 5.90%) per annum and for periods of one year beginning from 26 March 2013, 25 July 2013 and 14 December 2013 (2012: from 26 March 2012, 14 June 2012 and 26 July 2012).

28. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Cash and bank balances	**422,606**	476,863
Unpledged time deposits with maturity within 3 months	**281,000**	604,576
Unpledged time deposits with maturity over 3 months	**181,082**	202,426
Pledged time deposits with maturity over 3 months	**39,673**	63,909
	924,361	1,347,774
Less: Restricted deposits	**39,673**	63,909
Cash and cash equivalents as stated in the statement of financial position	**884,688**	1,283,865
Less: Unpledged time deposits with maturity over 3 months	**181,082**	202,426
Cash and cash equivalents as stated in the statement of cash flows	**703,606**	1,081,439

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

Group (continued)

The restricted deposits can be analysed as follows:

	2013 RMB'000	2012 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	**39,673**	63,909

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

	2013		2012	
	Original currency '000	RMB equivalent '000	Original currency '000	RMB equivalent '000
Cash and bank balances:				
USD	**2,614**	**15,928**	12,842	80,718
EUR	**88**	**737**	101	838
JPY	**13,876**	**802**	4,885	357

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

Company

	2013 RMB'000	2012 RMB'000
Cash and bank balances	**483,308**	612,515

As at 31 December 2013, the Company's cash and bank balances are denominated in RMB, except for an amount of US$317,000 and Euro88,000. 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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

29. TRADE PAYABLES

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

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Within 3 months	**718,709**	671,334
Over 3 months but within 6 months	**53,059**	77,105
Over 6 months but within 1 year	**51,715**	62,957
Over 1 year but within 2 years	**39,858**	25,590
Over 2 years	**12,267**	5,036
	875,608	842,022

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

	2013 RMB'000	2012 RMB'000 (Restated)
Due to SEC group companies	**8,647**	11,444
Due to associates	**25**	-
	8,672	11,444

Company

	2013 RMB'000	2012 RMB'000
Within 3 months	**207,516**	64,033

An amount due to a subsidiary of RMB206,495,000 (2012: RMB62,657,000) 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

The maturity profiles of the bills payable are as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Within 3 months	**143,183**	130,610
Over 3 months but within 6 months	**167,084**	89,524
	310,267	220,134

The amounts due to the ultimate holding company and SEC group companies included in above are as follows:

	2013 RMB'000	2012 RMB'000
Due to the ultimate holding company	**1,000**	-
Due to SEC group companies	**267**	-
	1,267	-

31. OTHER PAYABLES AND ACCRUALS

Group

	2013 RMB'000	2012 RMB'000 (Restated)
Advance from customers	**95,516**	151,803
Other tax payables	**23,738**	26,067
Staff costs payable	**63,382**	74,619
Interest payable	**9,288**	9,258
Payables for purchases of non-trade assets	**10,185**	5,856
Accruals	**74,645**	53,289
Other payables	**13,032**	20,309
Due to the ultimate holding company	**4,500**	23,678
Due to SEC group companies	**13,434**	14,339
	307,720	379,218

NOTES TO FINANCIAL STATEMENTS (continued)

31. OTHER PAYABLES AND ACCRUALS (continued)

Company

	2013 RMB'000	2012 RMB'000
Advance from customers	**7,748**	5,293
Other tax payables	**2,772**	804
Staff costs payable	**7,712**	9,800
Interest payable	**8,609**	8,715
Payables for purchases of non-trade assets	**-**	400
Accruals	**2,311**	2,376
Other payables	**72**	-
Due to ultimate holding company	**3,392**	-
Due to the subsidiaries	**400,381**	595,371
	432,997	622,759

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

	2013			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	**4.75-5.40**	**2014**	**103,257**	4.20.-5.90	2013	410,261
- secared	**5.60**	**2014**	**55,000**			-
			158,257			410,261

	2013 RMB'000	2012 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**158,257**	410,261

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

Company

	2013			2012		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecored	**4.75**	**2014**	**9,996**	4.90	2013	200,000

	2013 RMB'000	2012 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**9,996**	200,000

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 Company issued five-year 500,000,000 company bonds with a nominal value of RMB500,000,000. The bonds carry interest at a rate of 5.08% per annum, which is payable annually on 31 August.

	2013 RMB'000	2012 RMB'000
Nominal value of bonds issued during the year	**500,000**	500,000
Direct transaction costs	**(7,077)**	(7,077)
Liability balance at issue date	**492,923**	492,923
Interest expense	**10,271**	8,930
Interest reclassified under other payables	**(8,490)**	(8,490)
Liability balance at 31 December	**494,704**	493,363

The fair value of the company bonds is categorised within the fair value hierarchy level 3, which is measured based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. In the opinion of director, the interest rate of the company bonds is similar to the market interest rate. The carrying amount of the company bonds approximates to its fair value.

NOTES TO FINANCIAL STATEMENTS (continued)

34. ISSUED CAPITAL

	2013		2012	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed				
– State-owned shares	**678,576**	**678,576**	678,576	678,576
H Shares of RMB1.00 each	**759,710**	**759,710**	759,710	759,710
	1,438,286	**1,438,286**	1,438,286	1,438,286

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

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

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

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.

35. RESERVES (continued)

(a) Group (continued)

Capital reserve

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

Distributable reserves

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and HKFRSs. As at the end of the reporting period, the Company had distributable reserves amounting to RMB399,325,000 (2012: RMB346,579,000), of which RMB16,684,000 (2012: RMB31,642,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB691,217,000 (2012: RMB691,217,000) may be distributed in the form of fully paid bonus shares.

(b) Company

	Capital reserve RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 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 and 1 January 2013	692,553	78,760	314,937	1,086,250
Profit for the year	-	-	94,934	94,934
Appropriation to surplus reserves	-	10,546	(10,546)	-
Others	-	(595)	-	(595)
Proposed final 2013 dividend (note 12)	-	-	(16,684)	(16,684)
At 31 December 2013	692,553	88,711	382,641	1,163,905

The capital reserve account balance as at 31 December 2013 included the Company's share premium of RMB691,217,000 (2012: RMB691,217,000).

NOTES TO FINANCIAL STATEMENTS (continued)

36. BUSINESS COMBINATION UNDER COMMON CONTROL

On 18 January 2013, the Group acquired the 100% equity interest in Dalong Machinery under common control from Shanghai Electric Corporation through Shanghai United Assets and Equity Exchange, for a cash consideration of RMB89,622,000. Dalong Machinery engages in the production of reciprocating compressors, helical-lobe compressors, and high-pressure pumps.

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.

The reconciliation of the effect arising from the common control combination on the consolidated statement of financial position as at 31 December 2013 and 31 December 2012 is as follows:

31 December 2013

	The Group excluding Dalong Machinery RMB'000	Dalong Machinery RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Cash and cash equivalents	851,060	33,628	-	884,688
Other current assets	2,199,337	312,318	(38,919)	2,472,736
Investment in subsidiaries	84,970	-	(84,970)	-
Other non-current assets	2,318,556	68,132	-	2,386,688
Current liabilities	(1,410,888)	(320,254)	38,919	(1,692,223)
Non-current liabilities	(794,811)	-	-	(794,811)
Net assets	3,248,224	93,824	(84,970)	3,257,078
Equity				
Equity attributable to owners of the Company				
Issued/paid-up capital	1,438,286	146,229	(146,229)	1,438,286
Reserves	1,757,248	(52,405)	61,259	1,766,102
Proposed final dividend	16,684	-	-	16,684
	3,212,218	93,824	(84,970)	3,221,072
Non-controlling interests	36,006	-	-	36,006
Total equity	3,248,224	93,824	(84,970)	3,257,078

36. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

31 December 2012

	The Group excluding Dalong Machinery RMB'000	Dalong Machinery RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Cash and cash equivalents	1,197,893	85,972	-	1,283,865
Other current assets	1,954,792	288,657	(1,478)	2,241,971
Other non-current assets	2,428,090	79,519	-	2,507,609
Current liabilities	(1,525,133)	(367,368)	1,478	(1,891,023)
Non-current liabilities	(828,961)	(1,810)	-	(830,771)
Net assets	3,226,681	84,970	-	3,311,651
Equity				
Equity attributable to owners of the Company				
Issued/paid-up capital	1,438,286	146,229	(146,229)	1,438,286
Reserves	1,721,026	(61,259)	146,229	1,805,996
Proposed final dividend	31,642	-	-	31,642
	3,190,954	84,970	-	3,275,924
Non-controlling interests	35,727	-	-	35,727
Total equity	3,226,681	84,970	-	3,311,651

The above adjustments represent adjustments to eliminate the paid-up capital of Dalong Machinery against the Group's investment cost in Dalong Machinery as at 31 December 2013 and 31 December 2012; and the cash deposited in the cash pool of the Company as at 31 December 2013.

37. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2013, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the "Endorsed Bills") with a carrying amount of RMB89,814,000 (31 December 2012: RMB69,892,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

NOTES TO FINANCIAL STATEMENTS (continued)

37. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety (continued)

(b) As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Arrangement") and transferred certain trade receivables to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment of certain days. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Arrangement that have not been settled as at 31 December 2013 amounted to RMB179,179,000. The carrying amount of the assets that the Group continued to recognise as at 31 December 2013 amounted to RMB94,179,000.

Transferred Financial Assets That Are Derecognised In Their Entirety

At 31 December 2013 the Group endorsed/discounted certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") by bank or to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB94,329,000. The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

38. OPERATING LEASE ARRANGEMENTS

(a) The Group

(i) As lessor

The Group leases its machinery (note 14 to the financial statements) under an operating lease arrangement, with a lease negotiated for a term of 5 years.

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

38. OPERATING LEASE ARRANGEMENTS (continued)

(a) The Group (continued)

(i) As lessor (continued)

	2013 RMB'000	2012 RMB'000
Within one year	**4,729**	-
In the second to fifth years, inclusive	**14,187**	-
Total	**18,916**	-

(ii) As lessee

The Group leases certain land, buildings and motor vehicles under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 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:

	2013 RMB'000	2012 RMB'000 (Restated)
Within one year	**29,636**	17,387
In the second to fifth years, inclusive	**20,923**	22,279
Total	**50,559**	39,666

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2013, the Company had future minimum lease payments under non-cancellable operating leases of RMB3,454,000 (2012: RMB3,040,000).

NOTES TO FINANCIAL STATEMENTS (continued)

39. COMMITMENTS

(a) The Group

In addition to the operating lease commitments detailed in note 38(a)(ii) above, the Group had the following capital commitments at the end of the reporting period:

	2013 RMB'000	2012 RMB'000
Contracted, but not provided for:		
Acquisition of a subsidiary	**165,800**	-
Plant and machinery	**40,537**	114,972
Intangible assets	**4,981**	-
	211,518	114,972

(b) The Company

	2013 RMB'000	2012 RMB'000
Contracted, but not provided for:		
Acquisition of a subsidiary	**165,800**	-

40. CONTINGENT LIABILITIES

(a) The Group

At the end of the reporting period, the Group did not have any significant contingent liabilities (2012: Nil).

(b) The Company

At the end of the reporting period, the Company did not have any significant contingent liabilities (2012: Nil).

41. RELATED PARTY TRANSACTIONS

The Company is controlled by Shanghai Electric Corporation, the parent company and a state-owned enterprise established in the PRC. Shanghai Electric Corporation itself is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 (Revised) "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include Shanghai Electric Corporation and its subsidiaries (other than the Group), other government-related entities and their subsidiaries ("other state-owned enterprises"), other entities and corporations over which the Company is able to control or exercise significant influence and key management personnel of the Company and Shanghai Electric Corporation as well as their close family member.

(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	2013 RMB'000	2012 RMB'000 (Restated)
Purchase of materials from:	(i)		
Associates		**482**	315
SEC group companies		**14,174**	19,021
		14,656	19,336
Sales of goods to:	(i)		
Associates		**1,255**	1,755
SEC group companies		**294,392**	387,967
		295,647	389,722
Rendering manpower services from:	(i)		
The ultimate holding company		**14**	30
SEC group companies		**5,493**	7,205
		5,507	7,235
Providing manpower services to:	(i)		
Associates		**-**	90
Purchase of items of plant and equipment from:			
SEC group companies		**115**	-

NOTES TO FINANCIAL STATEMENTS (continued)

41. 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	2013 RMB'000	2012 RMB'000 (Restated)
Sales of items of property, plant and equipment to:	(i)		
The ultimate holding company		**-**	46,100
Associates		**4,261**	-
		4,261	46,100
Purchase of items of other intangible assets from:	(i)		
SEC group companies		**-**	140
Rental fee payable to:	(ii)		
The ultimate holding company		**8,976**	5,801
SEC group companies		**13,678**	18,606
		26,654	24,407
Receiving relocation compensation from:	(iii)		
The ultimate holding company		**1,834**	38,584
Bills dicounted from:	(iv)		
SEC group comparies		**110,251**	217,079

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 year 2013, Bolt moved to the site located at No.175 Gongxiang Road, which is being rented by Shanghai Biaowu High Tensile Fasteners Company ("Biaowu Fasteners"). Shanghai Electric Corporation agreed to pay RMB57,671,000 to Bolt as compensation for the expenses and losses incurred during the relocation. During the year, Bolt has received RMB1,834,000 relocation compensation, and as at 31 December 2013, Bolt has received an accumulated amount of RMB40,418,000 relating to the relocation compensation.

iv The bills discounted were based on mutually agreed terms with reference to market rates.

41. RELATED PARTY TRANSACTIONS (continued)

(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 metres.

(ii) During the year, the ultimate holding company leased certain properties to Tool Works and Zhenhua Bearing for no consideration with a total area of 42,083 square meters.

(c) Balances due from/to related parties

(i) As at 31 December 2013, the cash deposited in SEC group companies is RMB66,234,000 (2012 restated: RMB 141,921,000).

(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 and 30 to the financial statements.

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

	2013 RMB'000	2012 RMB'000
Fees	**476**	485
Short-term employee benefits	**1,420**	2,008
Post-employment benefits	**135**	165
	2,031	2,658

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

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

NOTES TO FINANCIAL STATEMENTS (continued)

42. 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

	2013			2012 (Restated)		
	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale investments RMB'000	Total RMB'000
Available-for-sale investments	**-**	**872**	**872**	-	872	872
Trade receivables and bills receivable	**1,548,902**	**-**	**1,548,902**	1,211,942	-	1,211,942
Financial assets included in prepayments, deposits and other receivables	**30,722**	**-**	**30,722**	35,191	-	35,191
Restricted deposits	**39,673**	**-**	**39,673**	63,909	-	63,909
Cash and cash equivalents	**884,688**	**-**	**884,688**	1,283,865	-	1,283,865
	2,503,985	**872**	**2,504,857**	2,594,907	872	2,595,779

Financial liabilities

	Financial liabilities at amortised cost	
	2013 RMB'000	2012 RMB'000 (Restated)
Trade payables and bills payable	**1,185,875**	1,062,156
Financial liabilities included in other payables and accruals	**182,874**	191,560
Interest-bearing bank, other borrowings and company bords	**652,961**	903,624
Other long-term payables	**408**	11,785
	2,022,118	2,169,125

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2013		2012	
	Loans and receivables RMB'000	Total RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables and bills receivable	**70,964**	**70,964**	20,484	20,484
Financial assets included in prepayments, deposits and other receivables	**230,834**	**230,834**	277,256	277,256
Loans receivable	**525,000**	**525,000**	525,000	525,000
Cash and cash equivalents	**483,308**	**483,308**	612,515	612,515
	1,310,106	**1,310,106**	1,435,255	1,435,255

Financial liabilities

	Financial liabilities at amortised cost	
	2013 RMB'000	2012 RMB'000
Trade payables	**207,516**	64,033
Interest-bearing bank, other borrowings and company bords	**504,700**	693,363
Financial liabilities included in other payables and accruals	**422,441**	616,628
	1,134,657	1,374,024

NOTES TO FINANCIAL STATEMENTS (continued)

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The 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 notes 32 and 33 above. The Group has no significant exposure to interest rate risk as all the current 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
2013		
If US$ weakens against RMB	5	(5,549)
If EUR weakens against RMB	5	(654)
If US$ strengthens against RMB	(5)	5,549
If EUR strengthens against RMB	(5)	654

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Foreign currency risk (continued)

	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

(iii) Credit risk

The carrying amount of trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group does not have a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for only 30% of the Group's total trade receivables as at 31 December 2013.

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, bills receivable, restricted deposits, amounts due from associates, 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:

NOTES TO FINANCIAL STATEMENTS (continued)

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Group

	2013					
	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	718,709	247,957	219,209	-	-	1,185,875
Financial liabilities included in other payables and accruals	87,789	60,919	34,166	-	-	182,874
Interest-bearing bank and other borrowings	-	71,175	115,157	576,200	-	762,532
Other long-term payables	-	-	-	408	-	408
	806,498	380,051	368,532	576,608	-	2,131,689

	2012 (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	474,676	404,373	183,107	-	-	1,062,156
Financial liabilities included in other payables and accruals	89,377	63,145	39,038	-	-	191,560
Interest-bearing bank and other borrowings	-	48,892	398,540	593,110	-	1,040,542
Other long-term payables	-	-	-	11,785	-	11,785
	564,053	516,410	620,685	604,895	-	2,306,043

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Company

	2013					
	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	**1,021**	**-**	**206,495**	**-**	**-**	**207,516**
Interest-bearing bank and other borrowings	**-**	**16,349**	**19,137**	**576,200**	**-**	**611,686**
Financial liabilities included in other payables and accruals	**406,232**	**7,719**	**8,490**	**-**	**-**	**422,441**
	407,253	**24,068**	**234,122**	**576,200**	**-**	**1,241,643**

	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	8,890	-	-	616,628
	599,123	18,680	294,539	593,110	-	1,505,452

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 or it is estimated using an equivalent market interest rate for similar financial instruments.

NOTES TO FINANCIAL STATEMENTS (continued)

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2013 and 2012.

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

	2013 RMB'000	2012 RMB'000 (Restated)
Company bonds, interest-bearing bank and other borrowings	**652,961**	903,624
Equity attributable to owners of the Company	**3,221,072**	3,275,924
Gearing ratio	**20.27%**	27.58%

44. EVENTS AFTER THE REPORTING PERIOD

On 6 December 2013, the Board of the Company passed a resolution in relation to the disposal of the entire equity interest of Shanghai Insulating, a subsidiary as at 31 December 2013, which was implemented by way of a public tender on the Shanghai United Assets and Equity Exchange. On 12 February 2014, the Company and the transferee, an independent third party, signed an agreement upon which the 100% equity interest of Shanghai Insulating was to be sold to the transferee for a total consideration of RMB43,370,000. The gain on disposal before tax is expected to be RMB5,710,000.

On 27 December 2013, the Board of the Company passed a resolution in respect of a proposed acquisition of the 65% equity of Shanghai Cyeco Environmental Technology Company Limited ("Cyeco Environmental"). On 28 December 2013, the Company signed an agreement with the existing shareholder of Cyeco Environmental upon the acquisition of the 65% equity of Cyeco Environmental for a consideration of RMB165,800,000. The acquisition has not been completed by the date of approval of these financial statements.

45. 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 2012. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 March 2014.

PMC 上海集优
SHANGHAI PRIME