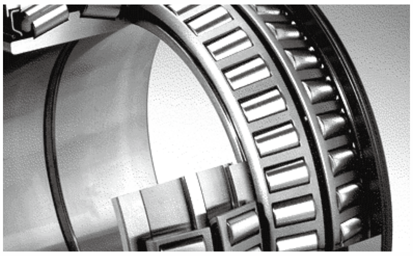
PMC 上海集优
SHANGHAI PRIME

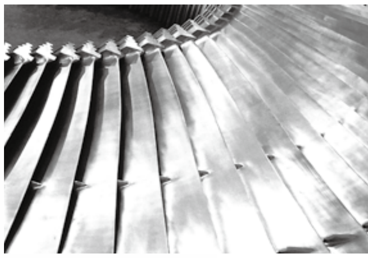
2014 ANNUAL REPORT

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

SHANGHAI PRIME MACHINERY COMPANY LIMITED

CONTENTS





CORPORATE INFORMATION

Executive Directors

Wang Qiang (Chairman)
Zhou Zhiyan (Vice chairman and CEO)
Zhang Jianping
Zhu Xi
Sun Wei
Chen Hui

Independent Non-Executive Director

Chan Chun Hong, Thomas
(Resigned on 27 June 2014)
Chan Oi Fat
(Appointed on 27 June 2014)
Ling Hong
Li Yin

Supervisors

Dong Jianhua
Yu Yun
Wei Li

Company Secretary

Li Wai Chung
(Certified Public Accountant)

Audit Committee

Chan Chun Hong, Thomas
(Resigned on 27 June 2014)
Chan Oi Fat
(Appointed on 27 June 2014)
Ling Hong
Li Yin

Remuneration Committee

Ling Hong
Chan Chun Hong, Thomas
(Resigned on 27 June 2014)
Chan Oi Fat
(Appointed on 27 June 2014)
Li Yin

Strategic Committee

Wang Qiang
Zhou Zhiyan
Zhu Xi
Sun Wei
Chen Hui
Li Yin

Nomination Committee

Wang Qiang
Zhang Jianping
Chan Chun Hong, Thomas
(Resigned on 27 June 2014)
Chan Oi Fat
(Appointed on 27 June 2014)
Ling Hong
Li Yin

Authorised Representatives

Zhou Zhiyan
Zhang Jianping

Alternative Authorised Representatives

Chan Chun Hong, Thomas
(Resigned on 27 June 2014)
Chan Oi Fat
(Appointed on 27 June 2014)
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
Level 22,Hopewell Centre,183 Queen's Road East,Hong Kong

Investor and Media Relations Consultant

iPR Ogilvy Ltd.

Statutory Chinese Name

上海集優機械股份有限公司

Statutory English Name

Shanghai Prime Machinery Company Limited

Registered Address

Room 1501, Jidian Edifice, 600 Heng Feng Road, Shanghai, The People's Republic of China
Postal Code: 200070

Principal Place of Business in Hong Kong

Room 2602, 26/F 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)	2010	2011	2012	2013	**2014**
Revenue and Profit					
Revenue	3,309	4,075	3,729	3,398	**4,827**
Profit before tax	209	262	105	95	**99**
Income tax expense	(18)	(38)	(4)	(26)	**(18)**
Profit for the year	191	225	101	69	**81**
Attributable to					
Owners of the Company	189	224	99	67	**81**
Minority interests	2	1	2	2	**0**
Dividends — proposed final	60	55	32	17	**20**
Earnings per share attributable to equity holders of the Company — Basic (RMB cents)	13.15	15.58	6.91	4.66	**5.60**
Assets and Liabilities					
Non-current assets	2,176	2,495	2,508	2,387	**4,603**
Current assets	3,052	3,561	3,526	3,357	**4,582**
Current liabilities	1,466	2,028	1,891	1,692	**2,421**
Net current assets/ (liabilities)	1,586	1,533	1,635	1,665	**2,161**
Total assets less current liabilities	3,762	4,028	4,143	4,052	**6,764**
Non-current liabilities	668	743	831	795	**3,516**
Net assets	3,094	3,285	3,312	3,257	**3,248**
Equity attributable to owners of the Company	3,079	3,268	3,276	3,221	**3,142**
Minority interests	15	17	36	36	**106**

PERFORMANCE HIGHLIGHTS

For the year ended 31 December 2014 (the "Year"), the revenue of Shanghai Prime Machinery Company Limited (the "Company") was RMB4,827 million, representing an increase of 42% as compared to RMB3,398 million in 2013. Profit attributable to owners of the Company for the Year was RMB81 million, representing an increase of 21% as compared to RMB67 million in 2013.

Basic earnings per share for the Year was RMB5.60 cents (2013: RMB4.66 cents). The board of directors of the Company (the "Board") proposed a final dividend for 2014 of RMB1.40 cents per share.

Segment results of fastener business for the Year amounted to RMB56 million, representing a great increase as compared with 2013, primary attributable to our acquisition of Nedfast Investment B.V. (together with its subsidiaries, the "Nedschroef ") and the initial benefits from integration.

Segment results of bearing business for the Year amounted to RMB30 million, representing an increase of 114% as compared to RMB14 million in 2013. The bearing business has become one of the fastest growing segments of the Group.

Segment results of cutting tool business for the Year amounted to RMB90 million, representing an increase of 10% as compared to RMB82 million in 2013. Domestic market share of our cutting tool business increased, further consolidating our competitive strengths over major domestic competitors.

CORPORATE STRUCTURE

荷蘭	Netherlands
德國	Germany
丹麥	Denmark
法國	France
西班牙	Spain
英國	United Kingdom
瑞典	Sweden
斯洛伐克	Slovakia
比利時	Belgium
波蘭	Poland
俄羅斯	Russia

Factory

Helmond (Netherlands)
Altena (Germany)
Fraulautem (Germany)
Berlin (Germany)
Plettenberg (Germany)
Langeskov (Denmark)
Barcelona (Spain)
Kunshan (China)

Trade, Service and Logistics

Helmond (Netherlands)
Altena (Germany)
Billdal (Sweden)
Paris (France)
Madrid (Spain)
Oxford (UK)
Södertälje (Sweden)
Tarazona (Spain)

Sales Office

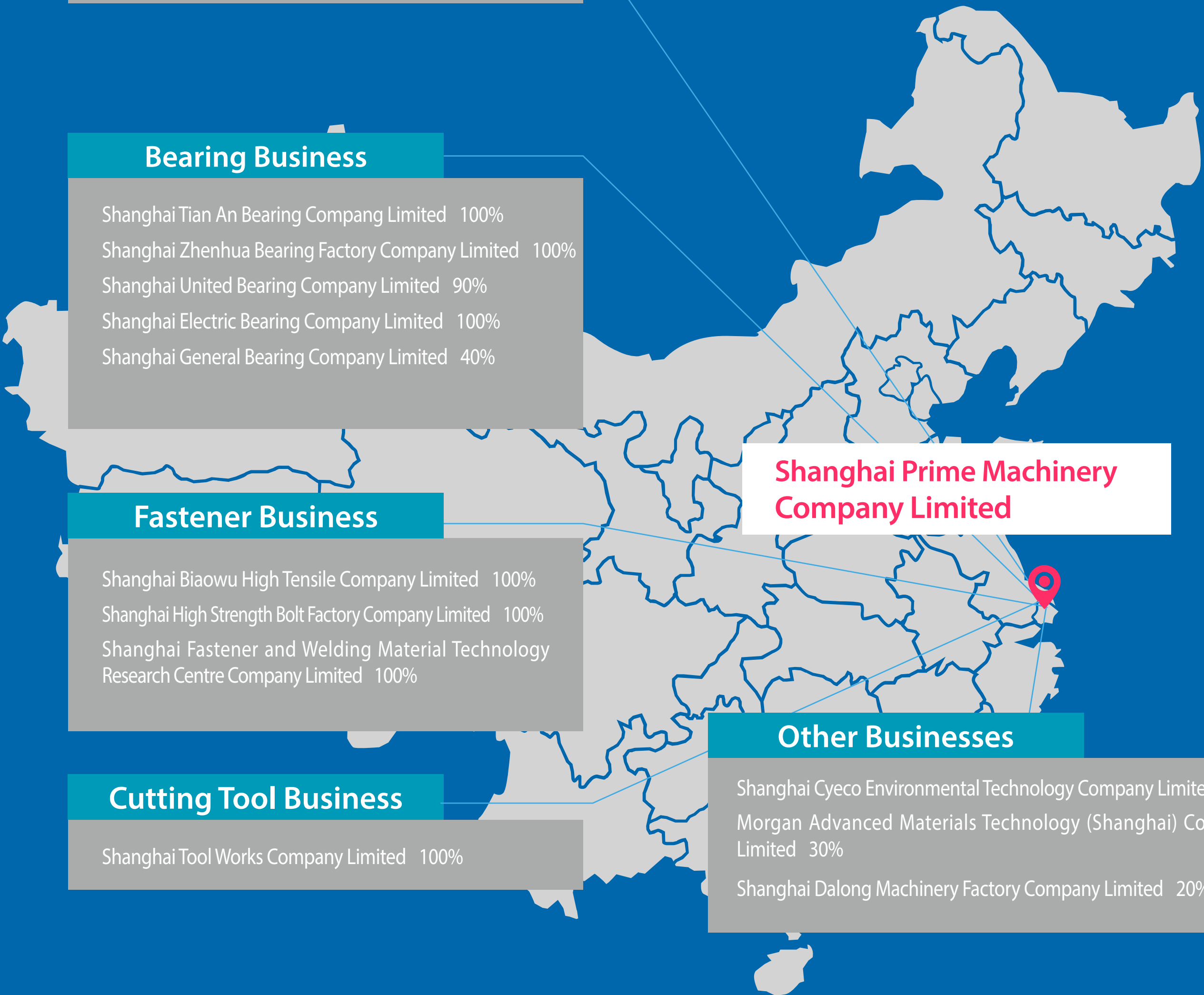
Bratislava (Slovakia)
Rzeszow (Poland)
Detroit (USA)
Wolfsburg (Germany)
Stuttgart (Germany)
Munich (Germany)
Neckarsulm (Germany)
Moscow (Russia)

Joint Ventures

Plettenberg (DE) Nedright
Bekasi (ID) I.T.T

Machinery And Tools

Herentals (BE)
Helmond (NL) SMF Tools B.V.



Shanghai Prime Machinery Company Limited

Turbine Blade Business

Wuxi Turbine Blade Company Limited 100%

Bearing Business

Shanghai Tian An Bearing Compang 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%

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%

Cutting Tool Business

Shanghai Tool Works Company Limited 100%

Other Businesses

Shanghai Cyeco Environmental Technology Company Limited 65%
Morgan Advanced Materials Technology (Shanghai) Company Limited 30%
Shanghai Dalong Machinery Factory Company Limited 20%

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 2014 (the "Year"). The Group's annual results have been audited by Ernst & Young.

Business Review

Looking back at 2014, the macro-economy of China was stable in general and the economic growth was reasonable. However, the pressure of economic downturn remained relatively high due to declining investment growth, notably tight financing restrictions, increasing labour cost and excess production capacity of equipment manufacturing industry. The development of traditional machine manufacturing industry and parts and component industry was moderate due to changes in market. Despite the competitive market, the Group maintained stable business development and enhanced its corporate value by committing to transformation and development, restructuring its major businesses and pursuing new approach of development and growth point. We are well positioned to grasp opportunities for future growth.

1. Promoting internationalization of the Company. Internationalization is the path to success for every enterprise. In August 2014, the Company completed the strategic acquisition of the Nedschroef, representing a step towards internationalization. The Nedschroef is one of the largest fastener companies in Europe with more than 100 years of history. Attributed to its advanced technology and research and development efforts as well as sophisticated management experience, it has significant influence in the industry. After the acquisition, the Company will push forward the technology development of high-end fasteners through the Nedschroef for the sake of expansion in the automobile market in China. The Company will also learn from the advanced management experience of the Nedschroef to facilitate its overseas business expansion and improve the management of the Group.

2. Business structure optimization. Adhering to the strategies of "going global" and "focusing on high-end products", the Company completed two acquisitions in 2014, including the acquisition of 100% equity interest in the Nedschroef and 65% equity interest in Shanghai Cyeco Environmental Technology Co., Ltd (上海船研環保技術有限公司). These mergers and acquisitions contributed operating income of approximately RMB1,457million and net profit of RMB16 million, accounting for 30% and 20% of the operating income and net profit of the Group respectively. On the other hand, the Company disposed of its equity interests in two companies with insufficient synergy effect with the Company and declining business performance: (1) disposal of 100% equity interest in Shanghai Electric Insulating Material Company Limited (上海電氣絕緣材料有限公司), and (2) disposal of 80% equity interest in Shanghai Dalong Machinery Factory Company Limited (上海大隆機器廠有限公司). The two acquisitions and two disposals of equity interests enabled the Company to ensure good operating results in the financial year of 2014, optimized its business and product structures, which laid a solid foundation for sustainable development of the Company.

3. Innovative incentive scheme. The Company is engaged in the incredibly competitive machine component industry. In 2014 the Company has to carry out structural reform and innovation so as to survive and grow. It implemented incentive schemes in two subsidiaries, namely Shanghai Tool Works Co., Ltd. (上海工具廠有限公司) and Shanghai Zhenhua Bearing Factory Co., Ltd. (上海振華軸承總廠有限公司). Such schemes effectively stimulated the entrepreneurial potential of the management of the two subsidiaries and encouraged them to increase profitability of both subsidiaries. These two subsidiaries achieved satisfactory operating results in 2014. The incentive scheme was also a meaningful experience for the Company to deepen its reform and strengthen its innovative incentive scheme in 2015.

4. Vigorous market expansion. In 2014, the Company captured the opportunities of the revival of wind power industry and increasing demand of bearings in railroad, aviation and military industries to expand its market and sales and improve its service quality. As a result, the sales income from bearing business amounted to RMB846 million, representing an increase of 21% as compared to 2013. By consolidating the competitive edge of traditional cutting tools, focusing on the development of numerically controlled tools and adopting new business model of "developing industrial chain for tools with excellent quality", The Group developed its cutting tool business with steady growth, which strengthened its competitive edge in the industry when compared with the general decline of sales of its competitors. The Turbine business of the Group actively expanded its oversea aviation market. It has successfully become the strategic supplier of international aviation giants. The achievement is significant as it is the first time in history that the aviation giants ever purchased heat-resisting superalloy moving parts from China and Asia. In addition, our turbine blade business further expanded the domestic market of high-end clients in aviation, military and power plants segments in order to enrich its varieties of product and upgrade its customer base.

In 2014, the Group recorded turnover of RMB4,827 million (2013: RMB3,398 million), representing an increase of 42% over last year. Profit attributable to the owners of the Company was RMB81 million (2013: RMB67 million), representing an increase of 21% over last year. Basic earnings per share was RMB5.60 cents (2013: RMB4.66 cents).

As at 31 December 2014, total assets of the Group amounted to RMB9,185 million (31 December 2013: RMB5,744 million), while total liabilities were RMB5,937 million (31 December 2013: RMB2,487 million). Total equity of the Group was RMB3,248 million (31 December 2013: RMB3,257 million), of which RMB3,142 million (31 December 2013: RMB3,221 million) was attributable to the owners of the Company.

CHAIRMAN'S STATEMENT

Outlook And Prospects

In 2015, the macro-economy and market demand will remain challenging. The PRC economy will further transform and upgrade with a slower growth rate. The main industrial structure will see further adjustment and change. Prioritizing in "synergy" and "reform", the Company will accelerate its business cooperation and management integration with the Nedschroef. The Company will focus on reforms and innovation and operate in response to the market demand in order to boost the competitiveness of its subsidiaries and upgrade its corporate value.

Quickening the synergy with the Nedschroef. The Company aims to increase Nedschroef's market share in China through assisting Nedschroef Fasteners Kunshan Co., Ltd (內德史羅夫緊固件(昆山)有限公司).in developing its business in the automobile market in China. Tool and bearing businesses of the Company will also be expanded to Europe through the Nedschroef. Moreover, the Company will maintain effective communication with the Nedschroef for the smooth integration of management approaches and cultures. Business performance of the Company is expected to hit new records by quickening the coordination with the Nedschroef and ensuring the sound development of the Nedschroef.

Accelerating technical innovation. The Company will increase investment in the research and development of technology and enhance its research capabilities so as to facilitate the application of research achievements and accelerate the production of high-end products. The Company will focus on developing turbine blade, bearing and high-end or new products to establish an effective product pipeline with adequate products under development and production in order to meet market demands and upgrade its competitiveness.

Enhancing innovation of management system and organization structure. The Company will consistently amend and refine its development strategies and carry out evaluation on performance of various businesses in order to dispose business with poor performance and concentrate resources to major businesses. The Company will strengthen its investment and financing capacity by integrating its industry assets and financial assets. Through the implementation of incentive scheme and innovating management system and organization structure, the competitiveness of the Company is expected to be enhanced.

In 2014, the Company successfully took the first step towards internationalization and upgraded its value through accelerating transformation and development with a proactive approach. 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 2015, the Company will adhere to the strategies of transformation and internationalization and maintain stable and sound operation, striving for the next milestone of development.

Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
20 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the year ended 31 December 2014 (The "Year") During the Year, turnover of the Group amounted to RMB4,827 million (2013: RMB3,398 million), representing an increase of 42% over last year. Profit attributable to owners of the Company for 2014 was RMB81 million (2013: RMB67 million), representing an increase of 21% over last year. After deducting the one-off acquisition costs of RMB39 million in 2014, the profit attributable to the owners of the Company for 2014 was RMB81 million, representing an increase of 21% over last year. Basic earnings per share was RMB5.60 cents (2013: RMB4.66 cents).

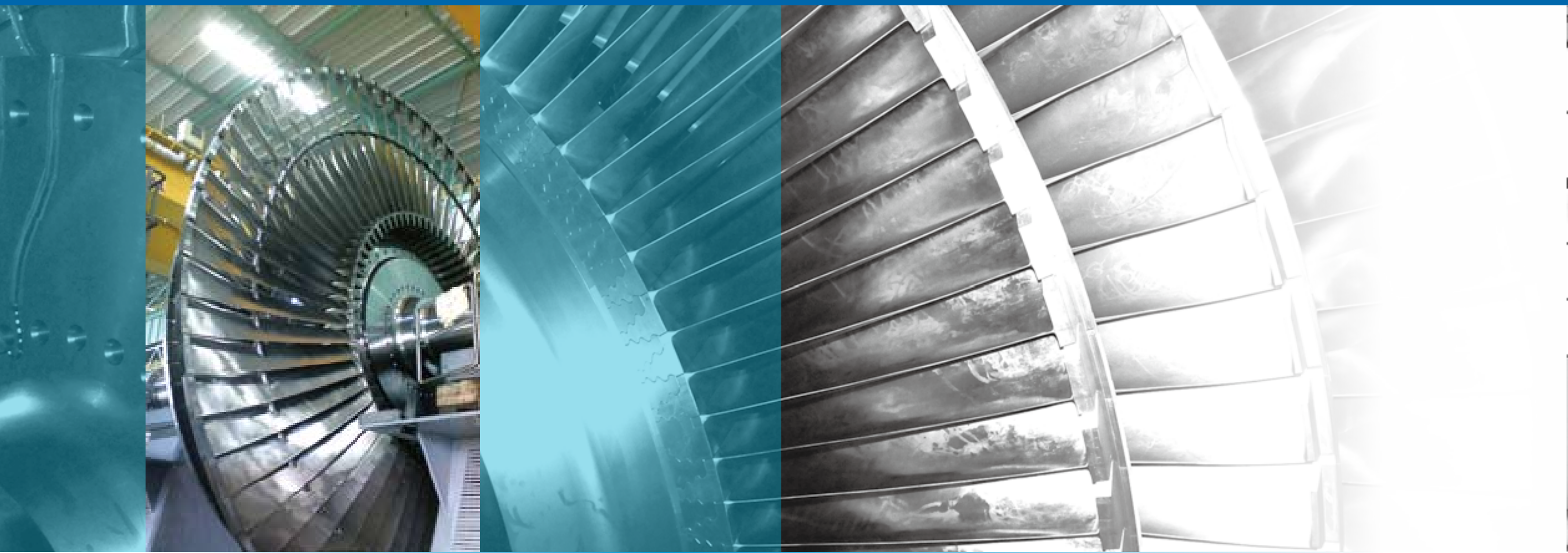
As of 31 December 2014, total assets of the Group amounted to RMB9,185 million (31December 2013: RMB5,744 million) while total liabilities amounted to RMB5,937 million (31 December 2013: RMB2,487 million). Total equity of the Group was RMB3,248 million (31 December 2013: RMB3,257 million), of which equity attributable to the owners of the Company amounted to RMB3,142 million (31 December 2013: RMB3,221 million).

Operation Analysis

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

	Revenue		Segment Results	
RMB (million)	**2014**	2013	**2014**	2013
Turbine blade	**856**	810	**44**	53
Percentage of total	**18%**	24%	**22%**	34%
Bearing	**846**	700	**30**	14
Percentage of total	**18%**	20%	**15%**	9%
Cutting tool	**631**	614	**90**	82
Percentage of total	**13%**	18%	**45%**	52%
Fastener	**2,332**	859	**56**	-
Percentage of total	**48%**	25%	**27%**	-
Others	**162**	415	**-18**	8
Percentage of total	**3%**	13%	**-9%**	5%
Total	**4,827**	3,398	**202**	157

MANAGEMENT DISCUSSION AND ANALYSIS



Turbine Blade Business

The Group is one of the largest domestic specialized manufacturers of turbine blade for sizable power generators, specializing in the process development and manufacturing of turbine blades for power generator as well as parts and components for aviation and aerospace. It is also a leading domestic and world-renowned high-end provider of power units for the energy and aviation industries. Leveraging on its advanced technology and professional management, the Group enjoyed a relatively high domestic market share in respect of the turbine blade for power generators. It has the capability of developing relevant technique for manufacturing MW grade ultra-super-critical steam turbine and sizable blade for MW nuclear power unit. In respect of the energy industry, the Company has become the strategic supplier of the three largest companies in China and enjoys a remarkable reputation in providing premium services for various globally renowned electric companies.

In 2014, the business growth of the Group was hindered by the sluggish macroeconomic environment. Coupled with the failure to effectively utilize new production capacity for better economies of scale, the overall profitability of turbine blade business was weakened. However, the Group began to stand out in the international aviation market in 2014 and receive orders for high-temperature alloy rotational components from the world's aviation giants, which had never ordered similar items from enterprises in China as well as other Asian countries. It marked a milestone of and bolstered opportunities for the development of the Group.

From 2015 to 2016, the Group will focus on its two major strategies of becoming a "global supplier of top-class turbine blades" and "domestic manufacturer of top-class aviation components". It will capitalize on the opportunities brought about by the international aviation giants and make steady improvement by enhancing production efficiency, reducing costs, seeking internal development potential and tapping into broader market. It will also strive to upgrade and transform its business structure and become a world-class manufacturer of specialized turbine blades as well as outstanding and professional domestic provider of aviation power components.

In 2014, turnover of the turbine blade business was RMB856 million (2013: RMB810 million), representing a year-on-year increase of 6%. The segment results was RMB44 million (2013: RMB53 million), representing a year-on-year decrease of 17%. Gross profit margin was 20% (2013: 20%). In 2014, overseas sales amounted to RMB272 million (2013: RMB257 million), representing a year-on-year increase of 6%, while overseas sales represented 32% (2013: 32%) of the total business sales.

Bearing Business

The Group is specialized in manufacturing and selling different kinds of bearing products, including wind power, railway and general bearings which are widely used in the areas of wind power, railway transportation, vehicles, cargo transportation equipments, aerospace and aviation, electric motors and electrical appliances. In 2014, the Group seized opportunities arising from the recovery of the wind power industry and the increasing demand in the railway industry, aviation and military sectors for market expansion, sales improvement and service quality enhancement. As such, a significant growth in sales revenue was recorded. As one of the bearing and related repairing and maintenance service suppliers designated by the Ministry of Railway, the Group further optimized its production technology, process and equipment and started to develop new products for future development of its railway bearing business. Currently, the Group is providing various kinds of bearing products to many globally well- known electric machines and automobile parts suppliers. In 2015, the Group will make better use of its competitive edges through tapping into high potential market and reducing the reliance on imported products, so as to further improve the overall competitiveness and investment return of its bearing business.

In 2014, the turnover of the bearing business was RMB846 million (2013: RMB700 million), increased by 21% year-on-year. Segment results amounted to RMB30 million (2013: RMB14 million), representing a year-on-year increase of 114%. Gross profit margin was 23% (2013:21%). In 2014, overseas sales amounted to RMB87 million (2013: RMB102 million), a decrease of 15% year-on-year and representing 10% (2013: 15%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Cutting Tool Business

The Group is one of the best cutting tool manufacturing enterprises in terms of production scale, product variety and supportive facilities. It mainly engages in production of high speed steel cutting tools such as bore cutting tools, screw thread cutting tools, milling and hinging cutting tools, gear cutting tools and broach cutting tools. It also produces hard alloy cutting tools, super-hard material cutting tools, coating cutting tools, numerically controlled handles and cutting rods, measuring tools and high-performance hard-alloys. The Group adopted Excellent Performance Evaluation Standard (《卓越績效評價準則》) in the entire production process of its tool business. It is committed to production scale, lean production and high quality production. Excel at professional product design, it provides tailor-made services to customers. The tool business of the Group has been provided to high-end manufacturing industries such as aerospace, automobile and moulding. In addition, the Group also cooperated with renowned enterprises. Its advanced manufacturing ability and stable quality control ability were well received and recognized by customers.

In 2014, with an overall decrease in sales of the cutting tool business in the industry as compared with the previous year, the Group stood out from its competitors with its competitive edges. In 2015, the Group will develop its cutting tool business in line with market needs. It will also strive for technological advancement to raise its competitiveness, and maintain its leading position in the industry by leveraging on its advantages of brand portfolio.

In 2014, the turnover of the cutting tool business was RMB631 million (2013: RMB614 million), increased by 3% year-on-year. Segment results amounted to RMB90 million (2013: RMB82 million), representing a year-on-year increase of 10%. Gross profit margin was 28% (2013: 26%). In 2014, overseas sales amounted to RMB26 million (2013: RMB14 million), increased by 86% year-on-year. Overseas sales represented 4% (2013: 2%) 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. Capitalizing on the acquisition of Nedfast Investment B.V. (together with its subsidiaries, the "Nedschroef") in 2014, the Company expanded its fastener business to the international market with an emphasis on high-end mobile fastener products.

Traditional fastener business of the Group focused on the development of core strengths and sales in domestic and overseas market. The Group promoted the sales strategy of "prioritizing local products over imported products" to boost the sales in domestic market while maintaining stable sales in overseas market through e-commerce. However, under the impacts from the slow recovery in the world economy, increasing labour cost, material cost and environmental protection cost, two-way volatility in exchange rates and depreciation of relevant currencies such as Japanese yen, the fastener business exports in China remains challenging and complicated.

In August 2014, the Group completed the acquisition of 100% equity interest in the Nedschroef. Headquartered in the Netherlands, the Nedschroef is one of the largest leading suppliers of automobile fasteners in the world as well as a long-term partner of various well- known automobile manufacturers. Over the past 100 years, in addition to its business in the development, production and supply of fastener and special components for the automobile industry, the Nedschroef has also been developing and producing quality metal forming machines and tools for the metal forming industry.

In 2014, the turnover of the fastener business was RMB2,332 million (2013: RMB859 million), among which turnover of the Nedschroef was RMB1,445 million, representing an increase of 171% year-on-year. Segment results amounted to RMB56 million (2013: Nil). Gross profit margin of the fastener business was 17% (2013:13%). In 2014, overseas sales amounted to RMB2,022 million (2013: RMB617 million), up 228% year-on-year. Overseas sales represented 87% (2013: 72%) of the total business sales.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Financial Position

Share of Profits of Associates

During the year 2014, the Group's share of profits of associates was RMB0 million (2013: RMB10 million).

Finance Costs

Finance costs for the year 2014 were RMB90 million (2013: RMB54 million).

Profit Attributable to Shareholders of the Company

Profit attributable to owners of the Company was RMB81 million in 2014 (2013: RMB67 million), an increase of 21% over last year. Basic earnings per share was RMB5.60 cents (2013: RMB4.66 cents).

Cash Flow

As at 31 December 2014, the Group's cash and bank balances were RMB1,122 million (31 December 2013: RMB924 million), of which RMB87 million (31 December 2013: RMB40 million) were restricted deposits, representing an increase of RMB47 million in restricted deposit from the beginning of the Year. During the Year, the Group had a net cash inflow from operating activities of RMB230 million (2013: Inflow RMB60 million), a net cash outflow from investing activities of RMB1,368 million (2013: outflow RMB98 million), and a net cash inflow from financing activities of RMB1,199 million (2013: outflow RMB338 million).

Assets and Liabilities

As at 31 December 2014, the Group had total assets of RMB9,185 million (31 December 2013: RMB5,744million), representing an increase of RMB3,441 million or 60% as compared with the beginning of the Year, of which total current assets amounted to RMB4,582million (31 December 2013: RMB3,357 million), accounting for 50% of the total assets, representing an increase of RMB1,225 million as compared with the beginning of the Year. Total non-current assets were RMB4,603 million (31 December 2013: RMB2,387million), accounting for 50% of the total assets and representing an increase of RMB2,216million as compared with the beginning of the Year.

As at 31 December 2014, the total liabilities of the Group were RMB5,937million (31 December 2013: RMB2,487million), of which total current liabilities amounted to RMB2,421 million (31 December 2013: RMB1,692million), accounting for 41% of the total liabilities. Total non-current liabilities amounted to RMB3,516 million (31 December 2013: RMB795 million), accounting for 59% of total liabilities.

As at 31 December 2014, the net current assets of the Group were RMB2,161million (31 December 2013: RMB1,665 million), representing an increase of RMB496 million or 30% as compared with the beginning of the Year whereas current ratio decreased from 1.98 to1.89.

Sources of Funding and Indebtedness

As at 31 December 2014, the Group had bank and other borrowings with an aggregate amount of RMB3,180 million (31 December 2013: RMB653 million), representing an increase of RMB2,527 million or 387% as compared with the beginning of the Year, mainly due to the borrowings amounting to RMB2,616 million for the acquisition of the Nedschroef. Borrowings repayable by the Group within one year were RMB150 million (31 December 2013: RMB158 million), representing a decrease of RMB8 million from the beginning of the Year, whereas borrowings repayable after one year were RMB3,030 million (31 December 2013: RMB495 million). The Group repaid the loans due on schedule during the Year.

Gearing Ratio

As at 31 December 2014, the gearing ratio of the Group, which represents the ratio of interest- bearing bank and other borrowings to total shareholders' equity, was 101% (31 December 2013: 20%).

Restricted Deposits

As at 31 December 2014, bank deposits of RMB87 million (31 December 2013: RMB40 million) of the Group were restricted deposits.

Pledges Of Assets

As at 31 December 2014, save as restricted deposits, trade receivables of RMB16 million (2013: RMB55 million), bills receivable of RMB124 million (2013: Nil) and the equities held by the Company in certain of its subsidiaries were pledged assets.

Contingent Liabilities

As at 31 December 2014, the Group has no contingent liabilities (2013: Nil).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB211 million (2013: RMB154 million) which was principally invested in the upgrading of production technologies and equipments, and the expansion of production capacity.

Risk Of Foreign Exchange

To satisfy the capital requirement for projects acquisition, the Group borrowed a loan of USD300 million from Shanghai Electric (Group) Corporation with a term of 5 years at an interest rate of 3.3% per annum. Given that the Group uses Renminbi ("RMB") as record keeping currency, it is likely to face the USD/RMB foreign exchange risk.

As the acquired the Nedschroef was denominated in EUR while the reporting currency of the Group is RMB, there will be potential foreign exchange risk when preparing consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group uses RMB as the reporting currency. Appreciation of RMB will result in higher prices for products of the Group which are exported to overseas market, but may result in a positive influence on import of raw materials and equipment from overseas.

Incentive Scheme

On 17 January 2014, the Company approved the incentive scheme for the grant of shares and/or cash incentives to eligible participants, including the senior management, managers and other key employees of the Group from time to time. During the reporting period, the eligible participants were granted with funds to purchase certain equity interests of the Company in 2014. Based on the operating results of the Group for 2014, a total amount of RMB22,909,500 can be used for the incentive scheme, and the actual amount of RMB19,447,800 can be distributed. The Company will make distribution and adjustment (if necessary) in accordance with the incentive scheme.

Significant Event

The acquisition of 100% equity interest in the Nedschroef by the Company was completed in August 2014, and the Company disposed of its 80% equity interest in Shanghai Dalong Machinery Factory Company Limited (上海大隆機器廠有限公司) in November 2014.

The Group entered into the Investment Framework Agreement with the Individual Shareholders of Shanghai Tianhong Miniature Bearing CO., Ltd. (上海天虹微型軸承有限公司) ("Shanghai Tianhong") and Shanghai Tianhong to acquire 70% equity interest in Shanghai Tianhong on 6 March 2015. For details, please see the announcement on the same date.

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

Employees

As at 31 December 2014, the Group had 4,332 employees (2013: 3,295). The Group has implemented all statutory pension schemes required by local government and related laws as well as incentive schemes and training programs to stimulate staff and assist them in their self development.

Outlook And Prospects

In 2015, the overall macro-economy and market demands affecting the Company will remain challenging. Focusing on coordination and reform, the Company will quicken the business integration and consolidation with Nedschroef. The Company will closely monitor the market trend and boost the potential strength of its subsidiaries to further enhance its own value.

The Company aims to increase the Nedschroef's market share in China through assisting the Nedschroef in developing its business in the automobile market in China. Tool and bearing businesses of the Company will also be expanded to Europe through the Nedschroef. Moreover, the Company will maintain effective communication with the Nedschroef for the smooth integration of management approaches and cultures. Business performance of the Company is expected to hit new records by ensuring the sound development of the Nedschroef.

The Company will increase investment to the research and development of technology and enhance its research capabilities so as to facilitate the application of research achievements and accelerate the production of high-end products. The Company will establish an effective product pipeline with adequate products under development and production in order to meet market demands and upgrade its competitiveness.

The Company will consistently amend and refine its development strategies and carry out evaluation on performance of various businesses in order to quit business with poor performance and concentrate resources to major businesses. The Company will also strengthen its investment and financing capacity. Through the implementation of incentive scheme and innovating mechanisms and systems, competitiveness of the Company is expected to be enhanced.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Name	Age	Position
Wang Qiang	57	Executive director and chairman
Zhou Zhiyan	51	Executive director, vice chairman and chief executive officer
Zhang Jianping	58	Executive director
Zhu Xi	50	Executive director
Sun Wei	45	Executive director
Chen Hui	46	Executive director and vice president
Chan Chun Hong,Thomas (Resigned on 27 June 2014)	51	Independent non-executive director
Chan Oi Fat (Appointed on 27 June 2014)	36	Independent non-executive director
Ling Hong	54	Independent non-executive director
Li Yin	51	Independent non-executive director
Dong Jianhua	49	Supervisor and chairman of the supervisory committee
Yu Yun	46	Supervisor
Wei Li	43	Supervisor
Xiao Weifeng (Resigned on 14 November 2014)	60	Vice president
Wang Pin	41	Chief financial officer
Li Wai Chung	37	Vice president, secretary to the Board, company secretary and certified public accountant

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

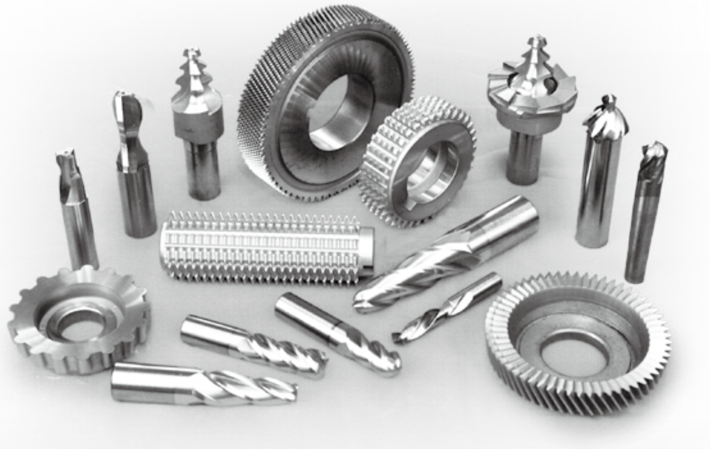
Directors

Mr. Wang Qiang, aged 57, is a senior economist and senior political affair officer. He was appointed as the executive director and chairman of the Company in February 2013 and was re-elected and appointed as executive director of the Company in 2014. He currently serves as the director and president of Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), the vice chairman of Shanghai Electric Group Company Limited. Mr. Wang Qiang held various positions in his career including the deputy director of Cadres Section of Shanghai Industry Party Committee from June 1995 to March 2001, the head of the Human Resources Department, the head of Cadres Section and the head of Cadres and Human Resources Department, the executive vice president of Shanghai Electric (Group) Corporation, the executive director, the head of Human Resources Department, the chairman of the labor union of Shanghai Electric Group Company Limited from March 2001 till today. 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 51, 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 and was re-elected and appointed as the executive director of the Company in 2014. 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 to 2013; mainly being the executive deputy 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 58, is a political affair officer. He was appointed as the supervisor of the Company in 2008 and was re-elected and appointed as the supervisor of the Company in 2011. He resigned as the supervisor of the Company effective from December 2012 and was appointed as the executive director of the Company. He worked in Shanghai Tool Works Company Limited 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 Company Limited. He has been the chairman of the labour union of Shanghai Tool Works Company Limited from 2005 to December 2012 and the vice chairman of the labour union of the Company from 2006 to 2013. He has been secretary of the party committee of the Company since September 2012 and the chairman of labour union and secretary of the disciplinary committee of the Company since August 2013. Mr. Zhang graduated from East China University of Political Science and Law with a major in business laws.

Ms. Zhu Xi, aged 50, is a senior accountant. She was appointed as the executive director of the Company in 2008 and was re-elected and appointed as the executive director in 2011 and 2014. 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. From 2004 to 2012, she served as the head of the budget department and the deputy head of the financial budget department of Shanghai Electric Corporation and the deputy head and 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. Since May 2013, she has been serving as the director and supervisor of a number of companies. Ms. Zhu has also been serving as the head of the audit department of Shanghai Electric Company Limited, and the head of the audit department, head of office of the supervisory committee and an employee representative supervisor of Shanghai Electric Corporation since November 2013. Ms. Zhu graduated from the adult education college, East China Normal University, with a major in economic management. She also obtained an EMBA degree from Shanghai National Accounting Institute and Arizona State University in the United States in June 2012.



Mr. Sun Wei, aged 45, is a senior engineer. He was appointed as the executive director of the Company in 2011 and was re-elected and appointed as the executive director of the Company in 2014. Mr. Sun joined Shanghai Electric Corporation in 1993. From 2003 to 2005, he worked as the deputy general manager of Shanghai Faiveley Transportation Equipment Company Limited. From 2005 to 2010, Mr. Sun worked as the manager of the industrial development department of Shanghai Electric Group Company Limited and the assistant to general manager in Shanghai Rail Traffic Equipment Co., Ltd. From 2006 to 2010, he was promoted to the position of deputy general manager of Shanghai Rail Traffic Equipment Co., Ltd. and general manager of Shanghai Rail Traffic Equipment Co., Ltd. Screen Door Engineering Company. From 2010 till now, he 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 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. He also obtained an EMBA degree from Shanghai National Accounting Institute and Arizona State University in June 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. Chen Hui, aged 46, is an engineer and a senior economist. He was appointed as the executive director of the Company in 2013 and was re-elected and appointed as the executive director of the Company in 2014 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. He also obtained an EMBA degree from Shanghai Jiao Tong University in 2014.

Mr. Chan Oi Fat, aged 36, was appointed as an independent non-executive director of the Company in 2014. He is currently the financial officer and the company secretary of the Ta Yang Group Holdings Limited (Stock code: 1991), which is listed on the Main Board of the Stock Exchange in Hong Kong. Mr. Chan has held position in Deloitte Touche Tohmatsu for over eight years. He graduated from The City University of Hong Kong with a bachelor in accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has extensive experience in professional accounting, auditing and corporate financial services.

Mr. Ling Hong,aged 54, was appointed as an independent non-executive director of the Company in 2010 and was re-elected and appointed as an independent non-executive director of the Company in 2011 and 2014. Mr. Ling 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.

Mr. Li Yin, aged 51, is a senior engineer. He was appointed as an independent non-executive director of the Company in 2011 and was re-elected and appointed as the independent non-executive director of the Company in 2014. 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 49, is a senior economist. He was appointed as the chairman of the supervisory committee and supervisor of the Company in 2013 and was re-elected and appointed as a supervisor in 2014. 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 has acted as the chairman of the board of supervisors of Shanghai Haili (Group) Limited since April 2013, and the chairman of the board of directors of Shanghai Electric Group HONGKONG Company Limited since September 2014. 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 46, is a political affair officer. He was appointed as the supervisor of the Company in 2012 and was re-elected and appointed as a supervisor in 2014. From 1986 to 2001, he worked as the deputy head of the training division, deputy secretary of the Communist Youth League 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 43, is an engineer. She is the vice chairlady of the labor union of the Company and was appointed as a supervisor of the Company in 2013 and was re-elected and appointed as a supervisor in 2014. From July 1993 to July 2001, she had been the tutor and general secretary of the Communist Youth League of the Workers College under the Machine Tool Branch of Shanghai University of Mechanical and Electrical Technology (上海機電工業大學機床分校). She has served as the technician, chairlady of the labor union and deputy secretary of the party sub-branch 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, assistant to the secretary of the Committee of Communist Party and deputy secretary of the Committee of Communist Party of Shanghai Tool Works since July 2001. Ms. Wei graduated from the Shanghai Second Polytechnic University, majoring in mechatronic engineering.

Senior Management

Mr. Wang Pin, aged 41, 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 37, 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, secretary to the board of the Company in 2013 and vice president of the Company in 2014. 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) and obtained a master degree in business administration (International) from the University of Hong Kong in 2014.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Board of 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 laws and regulations and operation transparency.

The Board believes that the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") 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 2014 to 31 December 2014 and there have been no 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 in 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 provision D.3.1 of the Corporate Governance Code.

Amendments to the Articles Of Association

The Company confirms that, for the year ended 31 December 2014 (the "Year"), there is no amendments to the Articles of Association.

Model Code For Securities Transaction By Directors And Supervisors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 of the Listing Rules (the "Model Code"), which has been in force throughout the Year, as the code of conduct for directors' and supervisors' securities transactions of the Group. All directors and supervisors of the Group 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 27 June 2014, Mr. Chan Chun Hong, Thomas ceased to be the independent non-executive director of the Company. On the same day, Mr. Chan Oi Fat was appointed as the independent non-executive director of the Company. As at the date of this annual report, the Board consists of nine directors, including six executive directors and three independent non-executive directors. There is no financial, business, family or other relationship between the members of the Board.

The three independent non-executive directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive directors are independent in accordance with the definition of the term "independence" set out in Rule 3.13 of the Listing Rules. As at 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 Oi Fat
Mr. Ling Hong
Mr. Li Yin

During the Year, nine board meetings and three general meetings were held during the period. 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	9	3	9	1	100%	33%
Mr. Zhou Zhiyan	9	3	9	2	100%	67%
Mr. Zhang Jianping	9	3	9	3	100%	100%
Ms. Zhu Xi	9	3	9	2	100%	67%
Mr. Sun Wei	9	3	9	1	100%	33%
Mr. Chen Hui	9	3	9	3	100%	100%
Mr. Chan Chun Hong, Thomas△#	4	1	4	0	100%	0%
Mr. Chan Oi Fat△#	5	2	5	2	100%	100%
Mr. Ling Hong#	9	3	9	2	100%	67%
Mr. Li Yin#	9	3	9	2	100%	67%

△ Mr. Chan Chun Hong, Thomas ceased to be the independent non-executive director of the Company with effect from 27 June 2014.

△ Mr. Chan Oi Fat was appointed as the independent non-executive director from 27 June 2014.

\# Independent non-executive director.

Each Board member is offered to submit resolution proposals before the regular Board meeting. The regular 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 2014:

Directors	Corporate Governance/ Updates on Laws Rules and Regulations	
	Read Materials	Attended Seminars/ Briefings
Wang Qiang	√	√
Zhou Zhiyan	√	√
Zhang Jianping	√	√
Zhu Xi	√	√
Sun Wei	√	√
Chen Hui	√	√
Chan Chun Hong, Thomas (Resigned on 27 June 2014)	√	√
Chan Oi Fat (Appointed on 27 June 2014)	√	√
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 provision A.2.1 of the Corporate Governance code 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 the general meeting of shareholders.

As at this date of this report, the remuneration committee currently consists of three independent non-executive directors. It is chaired by Mr. Ling Hong and with Mr. Chan Oi Fat and Mr. Li Yin as members. Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Li Yin were re-elected and re-appointed as the independent non-executive directors of the Company at the annual general meeting held on 27 June 2014. 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 is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong	2	2
Mr. Chan Chun Hong, Thomas (Resigned on 27 June 2014)	1	1
Mr. Chan Oi Fat (Appointed on 27 June 2014)	1	1
Mr. Li Yin	2	2

During the Year, the remuneration committee reviewed and approved the proposed 2014 remuneration package of Board members and key management personnel of the Company. The remuneration of directors and senior executives is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other domestic and international companies and prevailing market conditions.

Audit Committee

The major responsibility of the audit committee of the Company is to oversee the relationship with the external auditors, to review the Group's interim and audited annual financial statements, to monitor the 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 comprises three members, namely Mr. Chan Oi Fat as the chairman, Mr. Ling Hong and Mr. Li Yin. Three of them were appointed by the Board of the Company as members of the audit committee after their appointments as the independent non-executive directors were approved by the general meeting held on 27 June 2014. The audit committee held two meetings during the Year and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Chan Chun Hong, Thomas (Resigned on 27 June 2014)	1	1
Mr. Chan Oi Fat (Appointed on 27 June 2014)	1	1
Mr. Ling Hong	2	2
Mr. Li Yin	2	2

During the two meetings, the audit committee approved the audited consolidated financial statements of 2013 and unaudited interim condensed consolidated financial statements of 2014 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.

The annual results for the year ended 31 December 2014 has been reviewed by the audit committee.

Nomination Committee

The key responsibility of the nomination committee of the Company 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 Oi Fat, Mr. Ling Hong and Mr. Li Yin served as members of the nomination committee. Mr. Wang Qiang has been appointed as the chairman of the nomination committee. They held office from 27 June 2014 to the date of the meeting for the election of the next session of the Board. The nomination committee held one meeting during the Year and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Wang Qiang	1	1
Mr. Zhang Jianping	1	1
Mr. Chan Chun Hong, Thomas (Resigned on 27 June 2014)	1	1
Mr. Chan Oi Fat (Appointed on 27 June 2014)	0	0
Mr. Ling Hong	1	1
Mr. Li Yin	1	1

The nomination committee reviewed and approved the proposal regarding the nomination of Mr. Wang Qiang, Mr. Zhou Zhiyan, Mr. Zhang Jianping, Ms. Zhu Xi, Mr. Sun Wei and Mr. Chen Hui as candidates for the executive directors of the Company, and the proposal regarding the nomination of Mr. Ling Hong, Mr. Li Yin and Mr. Chan Oi Fat as candidates for the independent non-executive directors of the Company during the Year. The nomination committee also reviewed the appropriateness of the structure of the Board and verified independency of independent director during the Year.

Strategy Committee

As a specialized unit formed by the Board, the strategy committee of the Company 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 served as members of the strategy committee. Mr. Wang Qiang has been appointed as the chairman of the strategy committee. They held office from 27 June 2014 to the date of the meeting for the election of the next session of the Board. The strategy committee held one meeting during the Year and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Wang Qiang	1	1
Mr. Zhou Zhiyan	1	1
Ms. Zhu Xi	1	1
Mr. Sun Wei	1	1
Mr. Chen Hui	1	1
Mr. Li Yin	1	1

The strategy committee has reviewed and approved the strategic M&A and major investment plans of the Group during the Year.

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.

Monitoring and Reporting

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

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 (in RMB million)
Audit service	3.8
Non-audit services	5.1

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

Directors' Responsibilities For Account

The directors of the Company 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 2014, 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 accordance with the Basic Standards for Enterprise Internal Control and its guidelines issued by the Ministry of Finance, China Securities Regulatory Commission, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission of the PRC, as well as relevant laws and regulations such as the Listing Rules , the Board strengthened the design and management of the Group's procedures regarding five different areas, namely control environment, risk assessment, control activities, information and communications and ongoing monitoring.

The Group's internal control system includes a defined management and organizational structure with operating policies and procedures, delegated authority and limits of responsibility. Through the internal control and securities department under the audit committee, the Group monitored and improved the internal control policies and procedures put in place for risk identification, elusion and management in order 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. In 2014, the internal control and securities department examined ten procedures including sales, procurement, inventory, funds, cost accounting, fixed assets, equity investment, remuneration management, information system and contract management, and refined their control standards, in order to strengthen the internal control and risk management. It continued to regulate the occupational ethics of middle and senior management staffs of the Company and its subsidiaries through the "Annual Personal Declaration Statement", conduct comprehensive risk assessments on subsidiaries, raise the awareness of operating risk among management through the circulation of assessment reports, and follow and monitor the remedial measures taken in response to management recommendations.

During the Year, the internal control and securities department reviewed the internal authorization policies for different levels and approval procedures of policies and principal operations of internal departments at different levels of the newly acquired the Nedschroef and Shanghai Cyeco Environmental Technology Company Limited, and supervised, established and improved the internal control policies and risk management system. The internal control and securities department has completed year-end stock check and management of trade receivables and work in process for subsidiaries, effectively strengthening the control on the security and integrity of the assets. Under the supervision of the internal control securities department, all subsidiaries continued to utilize the internal and risk management system to monitor and manage risks.

The Board believes that the internal control is effective as at the date of this report.

Rights Of Shareholders

According to the Articles of Association of the Company, the procedures for convening an extraordinary general meeting or a meeting for a class of shares, 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

(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

According to the Articles of Association, 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**

In addition to regular trainings, such as orientation for new employees, the Group also provided special trainings for its employees. In 2014, upon the acquisition of the Nedschroef by the Comany, the Group arranged cross-cultural communication training for its employees. The Group also provided professional trainings in respect of finance, legal affair, internal control and compliance, for employees at different positions to support their pursuit of career development. An average of 1.5 training opportunities were provided to each employee during the Year. These trainings provided opportunities to the career development of employees, and also facilitated the enhancement of management of the Company.

The Company has always attached highest emphasis on its employees and strived to maintain a comfortable and healthy working environment. In addition to various fitness facilities, the Company organizes sports competitions every year to encourage the participation of all employees to improve communication and cohesion.

The Company has established a suggestion box to collect opinions on the development of the Company from employees from time to time, so that they can fully express their ideas, and the Company will make improvements according to their reasonable suggestions, which enable us to keep optimizing our working environment and strengthen the loyalty of employees.

- **Community**

As a member of the community, the Group is committed to making contributions to the society and community. It organizes charity donations, provides consultancy services and offers support for special families from time to time 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 various beneficial charitable organizations. On 18 October 2014, 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, 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.

In the "Day of Donation" campaign launched by Shanghai Zhenhua Bearing Factory Company Limited, the Company Limited and its employees expressed care for staff with difficulties by making donations. Shanghai Tool Works Company provided social services for residents in the community and arranged return-home buses for migrant workers at the approach of the Chinese New Year. On the eve of Chinese New Year, leaders of the Group extended care to staff with difficulties by visiting their families.

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**

With the emphasis on environmental protection, the Group focused and monitored the effective operation of its environmental management system and strictly controlled pollutant emission. Through the implementation of annual energy-saving and emission reduction targets and relevant performance appraisal methods, pollutant emission was effectively controlled. By further improving production processes, and cancelling or substituting certain high energy-consuming equipment, the Group reduced energy consumption and prevented pollution.

The Group attached high importance to the improvement of office environment. It encouraged paperless office by using email to issue notices and reports, in order to improve the efficient use of materials and reduce waste of resources. With separate garbage boxes for batteries, tubes and other wastes, resource consumption and environmental pollution were reduced.

Adhering to the targets of supporting environment preservation, pollution prevention and sustained improvement, the Group 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 chief executives 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 by patiently answering questions raised by the public and investors.

- **Suppliers and consumers**

More convenient methods were rendered for suppliers and consumers in conducting online sales and procurement by further improving e-commerce platform. The Company provided free product brochures and exhibition platforms for suppliers and consumers, and occasionally held talks for suppliers or consumers to strengthen the interaction between each other and improve its services.

- **Technology development responsibility**

In addition to economic benefits, the Group also paid attention to technical development responsibilities. The Group developed more products with low input but high output through its own technology innovation, so as to drive development with technology, further strengthen the profitability of the Company, deepen the understanding of core technology and enhance the competitiveness of the Company.

CORPORATE GOVERNANCE REPORT

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
20 March 2015

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 of the Company

As at 31 December 2014, to the best information/knowledge of the Company, 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 shareholde	Class of shares	No. of shares	Notes	Capacity	Nature of interests	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	36,906,000	(2)	Interest of controlled corporation	Long position	4.86	2.57
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	36,906,000	(1) (2)	Interest of controlled corporation	Long position	4.86	2.57
GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte Ltd)	H	44,826,887		Investment manager	Long position	5.90	3.12

Notes:

(1) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government was deemed to be interested in the 678,576,184 domestic shares of the Company held by Shanghai Electric (Group) Corporation by virtue of its 100% ownership in Shanghai Electric (Group) Corporation.

(2) Shanghai Electric (Group) Corporation was deemed to be interested in the 36,906,000 H Shares of the Company held by Shanghai Electric Group HONGKONG Company Limited by virtue of its 100% ownership in Shanghai Electric Group HONGKONG Company Limited.

OTHER INFORMATION

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 2014 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

As at 31 December 2014, 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 2014, 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, Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong.

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company") herein present the report of the directors of the Company and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014 (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 2014 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 143.

The Board proposed the payment of a final dividend of RMB1.40 cents (2013: RMB1.16 cents) per ordinary share in respect of the Year to shareholders whose names appear on the register of members of the Company on Wednesday, 24 June 2015. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section in the statement of financial position. The dividend will be distributed on 31 July 2015 upon approval of shareholders at the forthcoming annual general meeting to be held on 5 June 2015.

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 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 36 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the laws of the People's Republic of China ("PRC") or the Company's Articles of Association 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 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB436 million, of which RMB20 million has been proposed as a final dividend for the Year. In addition, the Company's share premium account, in the amount of RMB693 million, may be distributed in the form of fully paid bonus shares.

REPORT OF THE DIRECTORS

Major customers and suppliers

In the Year, sales to the Group's five largest customers accounted for less than 20% of the total sales for the Year. 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 or five largest suppliers.

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 Oi Fat, Mr. Ling Hong and Mr. Li Yin.

With effect from 27 June 2014, Mr. Chan Chun Hong, Thomas ceased to be an independent non-executive director of the Company. On the same day, Mr. Chan Oi Fat was appointed as an independent non-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 Oi Fat, 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' and supervisors' and senior management's biographies

Biographical details of the Directors, Supervisors and Senior Management of the Company are set out on pages 20 to 23 of the annual report.

Directors' service contracts

Each director of the Company entered into a service contract with the Company on 27 June 2014. 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 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' , 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', supervisors' interests in contracts

No Director or Supervisor had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the Year.

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

As at 31 December 2014, 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 Group 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 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 2014, to the best Information/knowledge of the Company, the following interests of 5% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	No. of ordinary shares	Percentage of total number of shares issued (%)	Class of shares
Shanghai Electric (Group) Corporation	Beneficial owner	678,576,184	47.18	Domestic
	Interest of controlled corperation	36,906,000	2.57	H
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Interest of controlled corperation	678,576,184	47.18	Domestic
	Interest of controlled corperation	36,906,000	2.57	H
GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte Ltd)	Investment manager	44,826,887	3.12	H

Details have been listed on the page 33 to 34 of this Annual Report.

Save as disclosed above, as at 31 December 2014, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO.

Connected transactions and continuing connected transactions

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

Continuing Connected Transactions

During the year ended 30 December 2014, the Group had continuing connected transactions entered into in accordance with the following agreements.

<u>Framework Sales Agreement with Shanghai Electric (Group) Corporation "Shanghai Electric Corporation"</u>

The Company entered into a framework sales agreement dated 30 October 2013 with Shanghai Electric Corporation and its associates, pursuant to which the Group has agreed to sell certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts 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 3 years from 1 January 2014 up to the financial year ending 31 December 2016. 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 materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the Framework Sales Agreement shall be in the order of standards as following:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

The annual cap limit, representing the maximum aggregate sales amount as agreed between the parties, for the year ended 31 December 2014 and the years ending 31 December 2015, 2016 are RMB27.3 million, RMB40.8 million and RMB57.1 million, respectively. The Group's actual sales to the Parent Group for the year ended 31 December 2014 amounted to RMB17.4 million.

<u>Framework Sales Agreement with Shanghai Electric Company</u>

The Company entered into a framework sales agreement dated 30 October 2013 with Shanghai Electric Company and its associates, pursuant to which the Group agreed to sell certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts, to Shanghai Electric Company and its associates. This framework sales agreement covers a period of 3 years from 1 January 2014 up to the financial year ending 31 December 2016. 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 materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the Shanghai Electric Company Framework Sales Agreement shall be in the order of standards as following:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

The annual cap limit, representing the maximum aggregate sales amount as agreed between the parties, for the year ended 31 December 2014 and the years ending 31 December 2015, 2016 are RMB613.4 million, RMB737.1 million and RMB910.9 million, respectively. The Group's actual sales to Shanghai Electric Companies for the year ended 31 December 2014 amounted to RMB347.0million.

Framework Purchase Agreement with Shanghai Electric Corporation

The Company entered into a framework purchase agreement dated 30 October 2013 with Shanghai Electric Corporation, pursuant to which the Group agreed to buy certain raw materials, spare parts and other related or similar items, from the Parent Group. This framework purchase agreement covers a period of 3 years from 1 January 2014 up to the financial year ending 31 December 2016. 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);
- if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any),
- if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

The annual cap limit, representing the maximum aggregate purchase price as agreed between the parties, for the year ended 31 December 2014 and the years ending 31 December 2015, 2016 are RMB21.0 million, RMB23.3 million and RMB26.8 million, respectively. The Group's actual purchases from the Parent Group for the year ended 31 December 2014 amounted to RMB5.7 million.

Framework Property Lease Agreement with Shanghai Electric Corporation

The Company entered into a supplemental framework property lease agreement dated 30 October 2013 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 and the second supplemental property lease agreement dated 11 August 2011), pursuant to which the Company agreed to lease of certain properties as offices and production sites located in various districts in Shanghai, the PRC, with an aggregate gross floor area of approximately 196,347 square meters by the Company from Shanghai Electric Corporation.

The annual cap limit, representing the maximum aggregate rental payable as agreed between the parties, for the year ended 31 December 2014 and the years ending 31 December 2015, 2016 are RMB39.9 million, RMB38.4 million and RMB41.0 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 2014 was RMB22.2 million.

Framework Comprehensive Service Agreement with Shanghai Electric Corporation

The Company entered into a framework comprehensive service agreement dated 30 October 2013 with Shanghai Electric (Group) 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, systemic services and other services.

The pricing basis of the Framework Comprehensive Service Agreement shall be in the order of standards as following:

- prices as may be stipulated by the PRC government (if any);
- if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices nor such pricing

guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin

The annual cap limit, representing the comprehensive service fees as agreed between the parties for the year ended 31 December 2014 and the years ending 31 December 2015, 2016 are RMB10.9 million, RMB11.2 million and RMB11.7 million, respectively. The actual comprehensive service fee to the Parent Group for the year ended 31 December 2014 was RMB4.6 million.

<u>Framework Purchase Agreement with Shanghai Electric Company</u>

The Company entered into a framework purchase agreement dated 30 October 2013 with Shanghai Electric Company, pursuant to which the Group agreed to buy certain raw materials, spare parts and other related or similar items, from Shanghai Electric Companies and its associates. This framework purchase agreement covers a period of 3 years from 1 January 2014 up to the financial year ending 31 December 2016. 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);
- if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any),
- if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

The annual cap limit, representing the maximum aggregate purchase price as agreed between the parties, for the year ended 31 December 2014 and the years ending 31 December 2015, 2016 are RMB19.5 million, RMB19.5 million and RMB19.5 million, respectively. The Group's actual purchases from Shanghai Electric Companies for the year ended 31 December 2014 amounted to RMB2.8 million.

The independent non-executinve directors of the Company have reviewed aforementioned continuing connected transactions for the year 2014 and confirmed that the transations have been entered into in the ordinary and usual courses of business of the Group, on normal commercial terms or better, and the transactions have been entered into according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.

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 47 to the financial statements.

Independents auditors

Ernst & Young will retire according to the Company's Articles of Association and the appointment of Deloitte Touche Tohmatsu as the auditors of the Company will be proposed at the forthcoming annual general meeting.

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

By order of the Board
Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
20 March 2015

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, the supervisory committee of Shanghai Prime Machinery Company Limited (the "Company") has convened three thematic meetings in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Articles of Association of the Company and the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), and has actively and effectively carried out all its duties with diligence and prudence, and has supervised all operating and management activities of the Company in a legal, timely and effective manner in compliance with the Company's Standing Order of the supervisory committee, effectively protected the interests of our shareholders and the Company.

In 2014, the supervisory committee has attended three general meetings, nine 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 2014, 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 transactions have not exceed the approved annual cap during 2014.

- 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 2015, 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
20 March 2015

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 143, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 require zsuch 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 2014, 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

20 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	4,827,179	3,398,311
Cost of sales		(3,869,633)	(2,745,920)
Gross profit		957,546	652,391
Other income and gains	5	153,038	136,725
Selling and distribution expenses		(268,788)	(154,991)
Administrative expenses		(463,761)	(310,596)
Other expenses		(189,038)	(184,021)
Finance costs	7	(90,136)	(54,394)
Share of profits and losses of associates		136	10,226
PROFIT BEFORE TAX	6	98,997	95,340
Income tax expense	10	(18,319)	(26,406)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		80,678	68,934
Profit and total comprehensive income attributable to:			
Owners of the Company	11	80,612	66,987
Non-controlling interests		66	1,947
		80,678	68,934
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (RMB cents)			
– For profit for the year	13	5.60	4.66

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 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	2,406,730	1,921,239
Prepaid land premiums/land lease payments	15	146,313	156,965
Goodwill	16	1,473,545	8,818
Other intangible assets	17	217,052	30,579
Investments in joint venture		1,484	-
Investments in associates	19	179,727	195,818
Available-for-sale investments	20	872	872
Long-term prepayments	21	572	147
Deferred tax assets	22	176,351	72,250
Total non-current assets		4,602,646	2,386,688
CURRENT ASSETS			
Inventories	23	1,457,020	730,321
Trade receivables	24	1,268,462	1,123,486
Bills receivable	25	501,474	425,416
Prepayments, deposits and other receivables	26	233,496	153,840
Restricted deposits	28	86,730	39,673
Cash and cash equivalents	28	1,035,335	884,688
Total current assets		4,582,517	3,357,424
CURRENT LIABILITIES			
Trade payables	29	1,396,870	875,608
Bills payable	30	325,047	310,267
Other payables and accruals	31	471,275	307,720
Derivative financial instruments		3,239	-
Tax payable		74,352	40,371
Interest-bearing bank and other borrowings	32	150,455	158,257
Total current liabilities		2,421,238	1,692,223
NET CURRENT ASSETS		2,161,279	1,665,201
TOTAL ASSETS LESS CURRENT LIABILITIES		6,763,925	4,051,889

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT LIABILITIES			
Shareholder's loan	33	1,682,725	-
Interest-bearing bank and other borrowings	32	851,056	-
Government grants		278,206	290,318
Other long-term payables		18,831	408
Company bonds	34	496,117	494,704
Deferred tax liabilities	22	85,547	9,381
Post-employment benefits	35	103,193	-
Total non-current liabilities		3,515,675	794,811
Net assets		3,248,250	3,257,078
EQUITY			
Equity attributable to owners of the Company			
Issued capital	36	1,438,286	1,438,286
Reserves	37(a)	1,834,444	1,766,102
Proposed final dividend	12	20,136	16,684
Foreign currency statements translation differences		(150,732)	-
		3,142,134	3,221,072
Non-controlling interests		106,116	36,006
Total equity		3,248,250	3,257,078

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 reserves RMB'000	Surplus reserves RMB'000	Hedge reserves RMB'000	Actuarial results RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Foreign currency statements translation difference RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 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]	38	-	-	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 dividend	12	-	-	-	-	-	-	-	(16,684)	16,684	-	-	-	-
Acquisition of Dalong Machinery[2]		-	-	(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]	-[1]	-[1]	787,182[1]	16,684	-	3,221,072	36,006	3,257,078

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTIUED)

		Attributable to owners of the Company												
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Hedge reserves RMB'000	Actuarial results RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Foreign currency statements translation difference RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014														
As previously reported		1,438,286	702,945[1]	17,329[1]	5,491[1]	253,155[1]	-[1]	-[1]	787,182[1]	16,684	-	3,221,072	36,006	3,257,078
Total comprehensive income for the year		-	-	-	-	-	-	-	80,612	-	-	80,612	66	80,678
Dividends paid to														
non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	-	(200)	(200)
Final 2013 dividend declared	12	-	-	-	-	-	-	-	-	(16,684)	-	(16,684)	-	(16,684)
Proposed final 2014 dividend	12	-	-	-	-	-	-	-	(20,136)	20,136	-	-	-	-
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	-	-	-	-	70,215	70,215
Transfer from retained profits		-	-	-	(5,491)	19,962	-	-	(14,432)	-	-	39	-	39
Hedge reserves		-	-	-	-	-	(2,429)	-	-	-	-	(2,429)	-	(2,429)
Actuarial results	35	-	-	-	-	-	-	11,177	-	-	-	11,177	-	11,177
Statements translation difference		-	-	-	-	-	-	-	-	-	(150,732)	(150,732)	29	(150,703)
Others		-	-	(921)	-	-	-	-	-	-	-	(921)	-	(921)
At 31 December 2014		1,438,286	702,945[1]	16,408[1]	-[1]	273,117[1]	(2,429)[1]	11,177[1]	833,226[1]	20,136	(150,732)	3,142,134	106,116	3,248,250

Notes:

1 These reserve accounts comprise the consolidated reserves of RMB1,834,444,000 (2013: RMB1,766,102,000) in the consolidated statement of financial position.

2 Shanghai Insulating and Dalong Machinery refer to Shanghai Electric Insulating Materials Company Limited and Shanghai Dalong Machinery Works Company Limited, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		98,997	95,340
Adjustments for:			
Finance costs	7	89,326	54,394
Share of profits and losses of associates		(136)	(10,226)
Interest income from loans receivable, bank balances and deposits and other financial assets	5	(19,653)	(17,625)
Dividend income from available-for-sale investments	5	(60)	(94)
Gain on disposal of items of property, plant and equipment, net	5	(11,979)	(3,870)
Gain on disposal of a subsidiaries	39	(21,191)	-
Loss on derivative financial instrument		810	-
Gain on write-back of long-aged payables	5	(550)	(1,217)
Depreciation	6	202,678	165,893
Amortisation of prepaid land premiums/land lease payments	6	3,474	3,645
Amortisation of other intangible assets	6	21,084	8,724
Foreign exchange differences, net		3,994	1,591
Impairment of receivables	6	(2,751)	6,282
Impairment of property, plant and equipment	6	87	9,142
Impairment of intangible assets	6	-	351
Write-down of inventories to net realisable value	6	35,609	34,768
		399,739	347,098
Decrease / (Increase) in inventories		(36,684)	58,156
Increase in trade receivables, bills receivable, prepayments, deposits and other receivables		(117,248)	(334,166)
Increase in trade payables, bills payable, other payables and accruals		115,679	53,468
Decrease in other long-term payables		1,404	(11,377)
Decrease in government grants		(12,112)	(27,487)
Cash generated from operations		290,778	85,692
Taxes paid		(60,527)	(25,666)
Net cash flows from operating activities		230,251	60,026

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		20,501	18,787
Dividend income from available-for-sale investments	5	60	94
Dividends received from associates		46,731	4,000
Purchases of items of property, plant and equipment		(195,605)	(145,921)
Proceeds from disposal of items of property, plant and equipment		26,604	17,681
Purchases of other intangible assets		(17,069)	(8,993)
Acquisition of subsidiaries	38	(1,205,008)	(4,863)
Acquisition of joint venture		(1,543)	
Acquisition of other current assets	26	(31,000)	-
Disposal of subsidiaries	39	91,927	-
Decrease/(increase) in non-restricted deposits with original maturity of over three months when acquired		(103,442)	21,344
Net cash flows used in investing activities		(1,367,844)	(97,871)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		1,397,256	177,996
Repayment of bank and other borrowings		(115,608)	(430,000)
Dividends paid		(16,884)	(33,310)
Interest paid		(65,512)	(53,083)
Net cash flows from/(used in) financing activities		1,199,252	(338,397)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		61,659	(376,242)
Cash and cash equivalents at beginning of year		703,606	1,081,439
Effect of foreign exchange rate changes, net		(14,454)	(1,591)
CASH AND CASH EQUIVALENTS AT END OF YEAR		750,811	703,606
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	527,893	422,606
Non-restricted time deposits with original maturity of less than three months when acquired		222,918	281,000
Cash and cash equivalents as stated in the statement of cash flows		750,811	703,606

STATEMENT OF FINANCIAL POSITION

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	18,338	6,930
Other intangible assets	17	1,059	1,576
Investments in subsidiaries	18	2,326,975	2,317,431
Investments in associates	19	103,616	119,845
Loans receivable	27	-	400,000
Deferred tax assets	22	-	-
Total non-current assets		2,449,988	2,845,782
CURRENT ASSETS			
Trade receivables	24	59,265	70,964
Bills receivable	25	14,000	-
Prepayments, deposits and other receivables	26	30,087	199,970
Loans receivable	27	550,000	125,000
Dividends receivable	26	76,452	39,484
Cash and cash equivalents	28	324,603	483,308
Total current assets		1,054,407	918,726
CURRENT LIABILITIES			
Trade payables	29	42,916	207,516
Other payables and accruals	31	304,392	432,997
Interest-bearing bank and other borrowings	32	-	9,996
Total current liabilities		347,308	650,509
NET CURRENT ASSETS		707,099	268,217
TOTAL ASSETS LESS CURRENT LIABILITIES		3,157,087	3,113,999
NON-CURRENT LIABILITIES			
Company bonds	34	496,117	494,704
Deferred tax liabities		1,316	-
Government grants		140	420
Total non-current liabilities		497,573	495,124
Net assets		2,659,514	2,618,875
EQUITY			
Issued capital	36	1,438,286	
Reserves	37(b)	1,201,092	1,163,905
Proposed final dividend	12	20,136	16,684
Total equity		2,659,514	2,618,875

Wang Qiang
Director

Zhou Zhiyan
Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Shanghai Prime Machinery Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") on 30 September 2005. The registered office of the Company is located at Room 1501, Jidian Edifice, No. 600 Hengfeng Road, Shanghai, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, manufacture and sale of turbine blades, precision bearings, highly durable fasteners, numerical control machine cutting tools and others, the provision of related technical services, the provision of manpower services, industrial investment, domestic trade and entrepot trade of goods and technical services.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), a wholly-state-owned enterprise established in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment, derivative financial instruments and equity investments which have been measured at fair value. 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 2014 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, 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 not adopted the following revised standards and new interpretaion, that have been issued but are not yet effective in these fiancial statments.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

[1] Effective from 1 July 2014

Other than explained below regarding the impact of HK(IFRIC)-Int 21, HKFRS 3 Amendment, and HKFRS 13 Amendment, the adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 Provisions, Contingent Liabilities and Contingent Assets which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(b) The HKFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 or HKAS 39. The amendment has had no impact on the Group.

(c) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

The Group has not adopted the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate Joint Venture*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

NOTES TO FINANCIAL STATEMENTS (continued)

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

[1] Effective for annual periods beginning on or after 1 July 2014
[2] Effective for annual periods beginning on or after 1 January 2016
[3] Effective for annual periods beginning on or after 1 January 2017
[4] Effective for annual periods beginning on or after 1 January 2018
[5] Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) will come into operation as from the Company's first financial year commencing after 3 March 2014 in accordance with section 358 of that Ordinance, which will be the year ending 31 December 2015. The Group is in the process of making an assessment of the expected impact of the changes in the period of initial application of Part 9 of the Ordinance. So far it has concluded that the impact is unlikely to be significant and will primarily affect the presentation and disclosure of information in the consolidated financial statements.

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The Annual Improvements to HKFRSs 2010-2012 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

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 Non-current Assets Held for Sale and Discontinued Operations 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.

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

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-related 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 of 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 and other comprehensive income.

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 combinations and goodwill (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 investment properties, derivative financial instruments and 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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 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 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 in the period in which it arises (only if there are revalued assets in the financial statements), 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

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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.

Land is not depreciated, depreciation on the assets 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:

Freehold land	Not depreciated
Leasehold buildings	2% to 8%
Machinery and equipment	4% to 24%
Motor vehicles	7% to 24%
Office and other equipment	10% to 34%
Leasehold improvements	10% to 20%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Included in machinery and equipment are two spire-pressure machines (10KT-clutch mode / 35KT- clutch mode) which are depreciated on the unit-of-production method to write off their cost to the residual value over their estimated working hours.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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) are 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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Software

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

Patents and licences

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

Research and development costs

All research costs are charged to the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

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 investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, 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.

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.

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

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 and other payables, an amount due to the ultimate holding company, derivative financial instruments, company bonds and interest-bearing bank and other borrowings.

Subsequent measurement

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

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 and hedging activities

Initial recognition and subsequent measurement

The group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The group documents at the inception of the transaction the relationship between the hedging instrument and hedged item, as well as its risk management objectives and strategy in undertaking the hedge transaction. The group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging activities (continued)

Cash flow hedge (continued)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance income/cost'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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 and moving weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services

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

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

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

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

Other employee benefits

Pension scheme

The employees of the Group participate in pension insurance administered by local governments. The relevant expenditure is recognized, when incurred, in the costs of relevant assets or the profit and loss for the current period. Details of the government-regulated pension scheme are set out in note 6(i) below.

Incentive Scheme

On 17 January 2014, the Company announced that the Extraordinary General Meeting of Shareholders passed a resolution in respect of the proposed adoption of the Incentive Scheme 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 installments; 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 purchased 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 Incentive Scheme shall be subject to the administration of the Board or its delegated authorities, and the Trustee(s) in accordance with the rules governing the operation of the Incentive Scheme and the Trust Deed. The Board may make cash contributions to the Trust as it may determine from time to time.

The total number of all Shares to be purchased by the Trustee(s) under the Incentive Scheme must not exceed 10% of the issued Shares as at the Adoption Date unless the Board otherwise decides.

The maximum number of Shares which may be awarded to an Eligible Participant under the Incentive Scheme shall not exceed 10% of the issued Shares as at the Adoption Date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Incentive Scheme (continued)

The scope of Eligible Participants for the Incentive Scheme shall include Directors (including without limitation any executive and non-executive Directors), senior management and other key employees of the Group who, in the opinion of the Board, contribute directly to the overall business performance and sustainable development of the Group.

The list of Eligible Participants and the number of Shares to be granted shall be determined by the Board. All Eligible Participants must be employees of the Group, who have entered into labor contracts with the Company or its holding subsidiaries and branches, during the appraisal period of the Incentive Scheme.

Nedfast Investment B.V. (a subsidiary of the Company) and its subsidiaries (together, the "Nedschroef") operates various post-employment schemes. The Nedschroef also has a number of commitments to pay long-service benefits and severance payments on termination of employment in countries where such payments are usual.

Short-term employee plans

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Nedfast Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a plan providing for the payment of post-retirement benefits under which the Nedfast Group pays fixed contributions into a separate entity. The Nedfast Group has no legal or constructive obligations to pay further contributions. For defined contribution plans, the Nedfast Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Nedfast Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefit plans

Defined benefit schemes are all plans providing for the payment of post-retirement benefits other than defined contribution plans. The Nedschroef companies in the Netherlands are covered by the industry pension funds for the mechanical and electrical engineering industries (Metalektro – PME) and the metal and engineering industries (Metaal en Techniek). The pension plans operated by these industry pension funds are classified as defined benefit plans according to the accountants' body, although in the event of a deficit in the industry pension funds Nedschroef is not obliged to make any additional contributions other than higher premiums in the future. In that case, (former) employees also lose the right to indexation of their pension entitlements. The industry pension funds feel that they cannot and are not obliged to provide any information concerning the net pension commitments of their participants according to the method prescribed by IAS 19. Consequently, the plans are recognised in the financial statements as defined contribution plans. With effect from 1 January 2008, Nedschroef is only a member of PME for the basic pension scheme. For the supplementary scheme (in excess of the salary ceiling of 28 approx. RMB522k) the company has joined a defined contribution scheme. The other defined benefit pension plans involve mainly the pension obligations to employees in the Netherlands, Germany and Belgium.

The liability recognised in the balance sheet in respect of the defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

Long-service benefits

The long-service benefits involve commitments to employees in the Netherlands, Germany and Belgium. The provision is determined using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and past-service costs are charged or credited to the income statement in the period in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Termination benefits

Severance payments are paid if an employee's employment is terminated by the Nedfast Group before the normal retirement date or if an employee accepts such a benefit in compensation for their resignation. The Nedfast Group recognises severance payments if it has a demonstrable obligation to terminate the employment of employees as part of a formal and irrevocable plan, or if the payment of a severance payment is the result of an offer made to an employee to encourage their voluntary resignation. Payments that will be made more than twelve months after the balance sheet date are stated at face value. The Nedfast Group recognizes a liability in the balance sheet for bonus and profit-sharing plans which are based on a formula that takes into account the profit imputable to the Nedfast Group's shareholders, bearing in mind certain adjustments. The Nedfast Group includes a provision if there is a legally enforceable or constructive obligation to make such payments.

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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss 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. 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).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

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

(i) Classification of leases

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

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

Estimation uncertainty

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

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2014 was RMB 1,473,545,000 (2013: 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.

NOTES TO FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(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 2014, the best estimate of the carrying amount of capitalised development costs was RMB185,290,000 (2013: RMB22,521,000).

(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.

(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 2014 was RMB59,361,000 (2013: RMB4,216,000). The amount of unrecognised tax losses at 31 December 2014 was RMB138,128,000 (2013: RMB78,972,000). 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 a subsidiary which engages in technology development, transfer and consultation of environmental protection engineering and anti-corrosion and anti-pollution of ships and an investment in an associate, which engages in the production and sale of carbolic products, and trading activities carried out by the Company.

4. OPERATING SEGMENT INFORMATION (continued)

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

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

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

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

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
Year ended 31 December 2014							
Segment revenue:							
Sales to external customers	846,138	856,330	630,177	2,332,030	150,365	12,139	4,827,179
Inter-segment sales	1,105	-	-	815	-	1,491	3,411
Other revenue and gains	9,976	34,819	18,482	27,532	10,998	25	101,832
Total	857,219	891,149	648,659	2,360,377	161,363	13,655	4,932,422
Reconciliation:							
Elimination of intersegment sales							(3,411)
Revenue							4,929,011
Segment results	30,180	43,546	90,593	56,103	(11,101)	(7,129)	202,192
Reconciliation:							
Interest and dividend income and unallocated gains							51,206
Corporate and other unallocatedexpenses							(64,401)
Finance costs							(90,136)
Share of profits and losses of associates	6,161	-	(336)	-	174	(5,863)	136
Profit before tax							98,997
Segment assets	1,248,626	2,591,228	669,761	4,185,750	-	2,448,197	11,143,562
Reconciliation:							
Elimination of intersegment receivables							(2,542,956)
Investments in associates	99,952	-	18,463	-	22,518	38,794	179,727
Investments in joint venture	-	-	-	1,484	-	-	1,484
Corporate and other unallocated assets							403,346
Total assets							9,185,163
Segment liabilities	493,457	1,504,051	207,523	2,693,399	-	897,203	5,795,633
Reconciliation:							
Elimination of intersegment payables							(2,542,956)
Corporate and other unallocated liabilities							2,684,236
Total liabilities							5,936,913
Other segment information:							
Impairment losses recognised / (reversed) in the statement of profit or loss	2,145	27,866	2,467	1,538	(673)	(407)	32,945
Depreciation and amortisation	35,484	92,356	29,298	50,519	6,327	13,252	227,236
Capital expenditure	21,476	34,096	14,734	125,390	904	13,950	210,550*

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

4. OPERATING SEGMENT INFORMATION (continued)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	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
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 unallocated liabilities							158,257
Total liabilities							2,487,034
Other segment information:							
Impairment losses recognised in the statement of 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

NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2014			2013		
	PRC	Outside PRC	Total	PRC	Outside PRC	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sales to external customers	2,419,212	2,407,967	4,827,179	2,408,402	989,909	3,398,311

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

(b) Non-current assets

	2014	2013
	RMB'000	RMB'000
PRC	2,345,164	2,313,566
Outside PRC	2,080,259	-
	4,425,423	2,313,566

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 RMB 151,527,000 (2013: RMB171,500,000) 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:

	2014 RMB'000	2013 RMB'000
Revenue		
Sale of goods	4,761,066	3,352,652
Rendering of services	66,113	45,659
	4,827,179	3,398,311
Other income		
Dividend income from available-for-sale investments	60	94
Interest income from loans receivable, bank balances and deposits, and other financial assets	19,653	17,625
Gross rental income	5,869	5,703
Profit on sales of raw materials, spare parts and semi-finished goods	24,022	20,272
Government grants *	27,565	73,274
Compensation income	-	4
Technical service income	13,837	2,993
Others	19,858	11,673
	110,864	131,638
Gains		
Gain on disposal of subsidiaries	21,191	-
Gain on disposal of items of property, plant and equipment, net	11,979	3,870
Foreign exchange differences, net	8,454	3,870
Gain on write-back of long-aged payables	550	1,217
	42,174	5,087
	153,038	136,725

* Various government grants have been received during the years ended 31 December 2014 and 2013. 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	2014 RMB'000	2013 RMB'000
Cost of inventories sold		3,600,085	2,535,157
Cost of services provided		57,724	38,516
Depreciation	14	202,678	165,893
Amortisation of prepaid land premiums/land lease payments	15	3,474	3,645
Amortisation of other intangible assets *	17	21,084	8,724
Write-down of inventories to net realisable value		35,609	34,768
Impairment of receivables / (reversed) *		(2,751)	6,282
Impairment of property, plant and equipment *	14	87	9,142
Impairment of other intangible assets *	17	-	351
Research and development costs:*			
Current year expenditure		121,254	132,223
Minimum lease payments under operating leases:			
Land and buildings		33,077	31,405
Plant and machinery		15	-
Vehicles		-	2,310
Auditors' remuneration:			
Audit services		3,780	2,980
Non-audit services		5,105	60
Employee benefit expense (including directors' and supervisors' remuneration – note 8):			
Wages and salaries		622,789	343,212
Defined contribution pension scheme (note i)		54,092	49,430
Medical benefits (note ii)		24,348	20,026
Housing fund (note iii)		16,976	16,850
Cash housing subsidies		-	206
		718,205	429,724
Foreign exchange differences, net		(8,454)	4,946

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

6. PROFIT BEFORE TAX (continued)

Notes:

(i) Defined contribution pension scheme

The employees of the Group participate in pension insurance administered by local governments. The relevant expenditure is recognized, when incurred, in the costs of relevant assets or the profit and loss for the current period.

(ii) 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.

(iii) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2014 RMB'000	2013 RMB'000
Interest on bank and other loans wholly repayable within five years	90,136	54,394
Less: Interest capitalised	-	-
	90,136	54,394

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Directors		Supervisors	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Fees	400	476	-	-
Other emoluments:				
Salaries, housing benefits, other allowances and benefits in kind	1,662	870	771	550
Pension scheme contributions	111	69	74	66
Total	2,173	1,415	845	616

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2014 RMB'000	2013 RMB'000
Chan Chun Hong, Thomas	47	190
Li Yin	141	143
Ling Hong	141	143
Chen Oi fat	71	-
	400	476

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

NOTES TO FINANCIAL STATEMENTS (continued)

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
2014				
Executive directors:				
Wang Qiang	-	-	-	-
Zhou Zhiyan	563	-	37	600
Zhang Jianping	601	-	37	638
Zhu Xi	-	-	-	-
Sun Wei	-	-	-	-
Chen Hui	498	-	37	535
	1,662	-	111	1,773
Supervisors:				
Dong Jianhua	-	-	-	-
Wei Li	463	-	37	500
Yu Yun	308	-	37	345
	771	-	74	845
	2,433	-	185	2,618

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors and supervisors (continued)

2013	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:				
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

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2013: Nil).

(c) Remuneration of senior executives

There are five senior executives in the Company, one senior executive has remuneration beyond RMB700,000; one senior executive has remuneration between RMB600,000 and RMB650,000; one senior executive has remuneration between RMB550,000 and RMB600,000; and two senior executives have remuneration between RMB500,000 and RMB550,000.

(d) Incentive scheme

On 17 January 2014, the Company approved the incentive scheme for the grant of shares and/or cash incentives to eligible participants, including the senior management, managers and other key employees of the Group from time to time. During the reporting period, the eligible participants were granted with funds to purchase certain equity interests of the Company in 2014. Based on the operating results of the Group for 2014, a total amount of RMB22,909,500 can be used for the incentive scheme. The Company will make distribution and adjustment (if necessary) in accordance with the incentive scheme. Till this report date, detailed distribution plan was pending.

NOTES TO FINANCIAL STATEMENTS (continued)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2013: nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2013: the five) highest paid employees who are neither a director nor supervisor of the Company are as follows.

	2014 RMB'000	2013 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	3,872	2,828
Performance-related bonuses	1,638	731
Pension scheme contributions	132	174
	5,642	3,733

Only one of the five non-director and non-supervisor highest paid employees' remuneration exceeds RMB1,000,000.

10. INCOME TAX

The Group is subject to the statutory corporate income tax rate of 25% for the year (2013: 25%) under the income tax rules and regulations in the PRC. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2014 RMB'000	2013 RMB'000
Group:		
Current – Mainland China		
Charge for the year	32,112	30,990
Overprovision in prior years	(4,004)	(4,341)
Current – Elsewhere	8,598	-
Deferred (note 22)	(18,387)	(243)
Total tax charge for the year	18,319	26,406

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:

10. INCOME TAX (continued)

	2014 RMB'000	2014 %	2013 RMB'000	2013 %
Profit before tax	98,997		95,340	
Tax at the statutory tax rate	24,749	25.0	23,835	25.0
Lower tax rate(s) for specific provinces or enacted by local authority	(10,390)	(10.5)	(14,061)	(14.7)
Effect of tax rate change On opening deferred tax	(4,750)	(4.8)	4,240	4.4
Adjustments in respect of current tax of previous periods	(4,004)	(4.0)	(4,341)	(4.5)
Profits and losses attributable to joint ventures and associates	(68)	(0.1)	(2,654)	(2.8)
Income not subject to tax	(1,549)	(1.6)	(4,988)	(5.2)
Expenses not deductible for tax	4,640	4.7	2,782	2.9
Effect of tax incentive	(5,832)	(5.9)	(1,978)	(2.1)
Deductible temporary differences not recognised	8	0.0	9,521	10.0
Tax losses utilised from previous periods	(744)	(0.8)		
Tax losses not recognised	16,259	16.4	14,050	14.7
Tax charge/(credit) at the Group's effective rate	18,319	18.5	26,406	27.7

The share of tax attributable to associates amounting to RMB5,770,000 (2013: RMB3,271,000), respectively, is included in "Share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS (continued)

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2014 includes a loss of RMB40, 597,000 (2013: a loss of RMB33,959,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Proposed final – RMB 1.40 cents (2013: RMB1.16 cents) per ordinary share	20,136	16,684

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 2014 and 2013 as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2014 RMB'000	2013 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	80,612	66,987

	Number of shares	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,438,286,184	1,438,286,184

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and 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 2014							
Cost:							
At 1 January 2014	537,460	2,301,784	20,918	31,666	87,461	50,509	3,029,798
Additions	89,883	18,524	1,871	1,318	72,147	9,313	193,056
Disposals	(5,527)	(25,008)	(3,226)	(649)	-	-	(34,410)
Transfers	23,968	70,148	740	1,594	(102,717)	6,267	-
Acquisition of subsidiaries (note 38)	506,312	54,289	7,530	182	52,518	-	620,831
Disposal of subsidiaries (note 39)	(12,597)	(91,646)	(1,360)	(4,856)	-	-	(110,459)
Exchange realignment	(45,978)	(4,994)	(566)	(12)	(4,175)	-	(55,725)
At 31 December 2014	1,093,521	2,323,097	25,907	29,243	105,234	66,089	3,643,091
Accumulated depreciation and impairment:							
At 1 January 2014	59,395	986,732	12,207	25,535	408	24,282	1,108,559
Depreciation provided during the year	41,324	146,333	2,534	2,465	-	10,022	202,678
Impairment (note 6)	-	10	-	-	77	-	87
Disposals	(54)	(17,072)	(2,297)	(362)	-	-	(19,785)
Disposal of subsidiaries (note 39)	(1,544)	(43,690)	(1,027)	(3,839)	-	-	(50,100)
Exchange realignment	(4,653)	(403)	(22)	-	-	-	(5,078)
At 31 December 2014	94,468	1,071,910	11,395	23,799	485	34,304	1,236,361
Net book value:							
At 31 December 2014	999,053	1,251,187	14,512	5,444	104,749	31,785	2,406,730

NOTES TO FINANCIAL STATEMENTS (continued)

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 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)

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 2014					
Cost:					
At 1 January 2014	1,141	9,499	4,693	2,872	18,205
Additions	-	47	12,324	-	12,371
Disposals	-	-	-	-	-
At 31 December 2014	1,141	9,546	17,017	2,872	30,576
Accumulated depreciation:					
At 1 January 2014	438	7,965	-	2,872	11,275
Depreciation provided during the year	219	744	-	-	963
Disposals	-	-	-	-	-
At 31 December 2014	657	8,709	-	2,872	12,238
Net book value:					
At 31 December 2014	484	837	17,017	-	18,338

NOTES TO FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

	Motor vehicles RMB'000	Office and other equipment RMB'000	Construction inprogress 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

As at 31 December 2014, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB1,219,000 (2013: RMB1,779,000).

As at 31 December 2014, 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 RMB380,355,000 (2013: RMB391,563,000). And the Group obtained the real estate title certificates on 15 January 2015

As at 31 December 2014, 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.

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

Group

	2014 RMB'000	2013 RMB'000
At cost:		
At beginning of year	179,433	179,433
Additions	-	-
Disposal of subsidiaries (note 39)	(7,691)	-
At end of year	171,742	179,433
Accumulated amortisation:		
At beginning of year	18,823	15,178
Recognised during the year	3,474	3,645
Disposal of subsidiaries (note 39)	(342)	-
At end of year	21,955	18,823
Net book value:		
At end of year	149,787	160,610
Of which:		
Current portion included in prepayments, deposits and other receivables (note 26)	3,474	3,645
Non-current portion	146,313	156,965
	149,787	160,610

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

NOTES TO FINANCIAL STATEMENTS (continued)

16. GOODWILL

Group

	2014 RMB'000	2013 RMB'000
Cost and net carrying amount at 1January	8,818	8,818
Acquisitions of subsidiaries (note 38)	1,592,660	-
Exchange realignmen	(127,933)	-
Cost and net carrying amount at 31 December	1,473,545	8,818

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Shanghai Cyeco Technology Co.,Ltd;
- Nedschroef; and
- Shanghai United Bearing Company Limited.

In 2014, the recoverable amount of the units were determined based on a value in use calculation using cash flow projections based on financial budgets covering a range of four to ten years' period approved by subsidiaries' management. The discount rate applied to the cash flow projections were in a range form 10.2% to 15.47%. and cash flows beyond the budgeting period were extrapolated using a growth rate of 1% which was the same as the long term average growth rate of the infrastructure industry and 0%.

Assumptions were used in the value in use calculation of the units for 31 December 2014 and 2013. 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 related cash-generating unit.

The values assigned to the key assumptions on market development of related industries, discount rates related are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

Group

	Deferred development costs RMB'000	Patents and licences RMB'000	Software RMB'000	Other RMB'000	Total RMB'000
31 December 2014					
At cost:					
At 1 January 2014	31,259	5,464	18,499	-	55,222
Additions	13,821	-	3,248	-	17,069
Acquisition of subsidiaries (note 38)	165,554	10,800	-	14,134	190,488
Disposal of subsidiaries (note 39)	-	(440)	-	-	(440)
At 31 December 2014	210,634	15,824	21,747	14,134	262,339
Accumulated amortization and impairment:					
At 1 January 2014	8,738	3,552	12,353	-	24,643
Amortisation provided during the year	16,606	1,125	2,349	1,004	21,084
Disposal of subsidiaries (note 39)	-	(440)	-	-	(440)
At 31 December 2014	25,344	4,237	14,702	1,004	45,287
Net book value:					
At 31 December 2014	185,290	11,587	7,045	13,130	217,052

NOTES TO FINANCIAL STATEMENTS (continued)

17. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

	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

17. OTHER INTANGIBLE ASSETS (continued)

Company

	Software RMB'000
31 December 2014	
At cost:	
At 1 January 2014	5,817
Additions	200
At 31 December 2014	6,017
Accumulated amortisation:	
At 1 January 2014	4,241
Amortisation provided during the year	717
At 31 December 2014	4,958
Net book value:	
At 31 December 2014	1,059
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

NOTES TO FINANCIAL STATEMENTS (continued)

18. INVESTMENTS IN SUBSIDIARIES

Company

	2014 RMB'000	2013 RMB'000
Unlisted investments, at cost	2,137,801	2,184,431
Due from subsidiaries	189,174	133,000
	2,326,975	2,317,431

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 subsidiaries included in the interests in subsidiaries above totalling RMB189,174,000 (2013: RMB133,000,000) 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 subsidiaries. The carrying amount of the balance approximates to its fair value.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Tian An Bearing Company Limited 上海天安轴承有限公司 ("Tian An Bearing")	PRC	RMB159,389	100%	-	Production and sale of precision and other bearings and ancillary appliances
Wuxi Turbine Blade Company Limited 无锡透平叶片有限公司 ("Wuxi Turbine Blade")	PRC	RMB713,450	100%	-	Production and sale of turbine blades
Shanghai Tool Works Company Limited 上海工具厂有限公司 ("Tool Works")	PRC	RMB340,910	99.80%	0.20%	Production and sale of cutting tools and accessories
Shanghai Biaowu High Tensile Fasteners Company Limited 上海标五高强度紧固件有限公司 (" Biaowu")	PRC	RMB233,100	98.93%	1.07%	Production and sale of high tensile fasteners and related equipment
Shanghai Zhenhua Bearing Factory Company Limited 上海振华轴承总厂有限公司 ("Zhenhua")	PRC	RMB54,500	100%	-	Production and sale of bearings and related specific equipment
Shanghai United Bearing Company Limited 上海联合滚动轴承有限公司 ("United Bearing")	PRC	RMB176,380	90%	-	Production and sale of bearings and related specific equipment

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (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 上海电气轴承有限公司 ("Electric Bearing")	PRC	RMB100,000	100%	-	Production and sale of bearing products
Shanghai High Strength Bolt Company Limited 上海高强度螺栓厂有限公司 ("Bolt")	PRC	RMB11,865	100%	-	Production and sale of high strength bolts
Shanghai Fastener and Welding Material Technology Research Centre Company Limited 上海市紧固件和焊接材料技术研究所有限公司 ("Research Centre")	PRC	RMB5,000	100%	-	Research and development, provision of services of expertise and quality testing for fasteners and related equipment
Shanghai Cyeco Technology Co., Ltd * 上海船研环保技术有限公司 ("Cyeco Environmental") *	PRC	RMB6,071	65%	-	Environmental protection water treatment engineering, anti-corrosion field of pollution prevention
Shanghai Prime (HK) Investment Management Company Limited	HK	HKD7,500	100%	-	Holding financing and trading activities
Shanghai Prime Netherlands B.V.	NL	EUR5	-	100%	Holding and financing activities
Nedfast Investment B.V. (the "Nedfast") *	NL	EUR1,038	-	100%	Holding and financing activities
Nedfast Holding B.V.	NL	EUR 20	-	100%	Holding and financing activities
Nedschroef Helmond B.V.	NL	EUR2,725	-	100%	Manufacturing of fasteners
Nedschroef Altena GmbH	DEU	EUR25	-	100%	Manufacturing of fasteners
Nedschroef Fraulautern GmbH	DEU	EUR1,023	-	100%	Manufacturing of fasteners

NOTES TO FINANCIAL STATEMENTS (continued)

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows (continued):

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Nedschroef Plettenberg GmbH	DEU	EUR1,000	-	100%	Manufacturing of fasteners.
Nedschroef Herentals-N.V.	BEL	EUR2,042	-	100%	Manufacturing of machines
Nedschroef Fasteners S.A.S.	FRA	EUR2,898	-	100%	Trade of fasteners
Nedschroef Fasteners Kunshan Co. (" Ned Kunshan")	PRC	RMB46,929	-	100%	Manufacturing of fasteners
Nedschroef Langeskov ApS	DNK	DKK295	-	100%	Manufacturing of fasteners
Nedschroef Fasteners Spain S.A.	ESP	EUR260	-	100%	Trade of fasteners
Nedschroef Barcelona SAU	ESP	EUR1,000	-	100%	Manufacturing of fasteners

* During the year, the Group acquired 65% equity interest in Cyeco Environmental and 100% equity interest in the Nedfast from a third party of the Group. Further details of the acquisitions are included in note 38 to the financial statement.

During the year, the Group disposed 80% equity interest in Shanghai Dalong Machinery Works Company Limited and 100% equity interest in Shanghai Electric Insulating Materials Company Limited. Further details of the acquisitions are included in note 39 to the financial statement.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN ASSOCIATES

Group

	2014 RMB'000	2013 RMB'000
Share of net assets	179,727	195,818

The Group's balances of trade receivables and other payables and accruals with its associates are disclosed in notes 24 and 31 to the financial statements.

Particulars of the associates of the Group are as follows:

Name	Place of incorporation/ registration and operations	Registered capital (in '000)	Percentage of ownership interest attributable to the Group	Principal activities
Shanghai General Bearing Company Limited (i, ii) 上海通用轴承有限公司(i, ii)	PRC	US$23,750	40%	Production and sale of bearings and spare parts
Morgan Advanced Materials Technology (Shanghai) Company Limited (i, ii, iii) 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) 上优机床工具(上海)有限公司(i)	PRC	EUR3,685	40%	Design, production and sale of numerical control machine tools with three dimensions and above, and related tools
Shanghai Dalong Machinery Works Company Limited (ii) 上海大隆机器厂有限公司(ii)	PRC	RMB146,229	20%	Production and sale of compressors and other general machinery

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:

NOTES TO FINANCIAL STATEMENTS (continued)

19. INVESTMENTS IN ASSOCIATES (continued)

	2014 RMB'000	2013 RMB'000
Share of the associates' profit for the year	136	10,226
Share of the associates' total comprehensive income	136	10,226
Aggregate carrying amount of the Group's investments in the associates	179,727	195,818

Company

	2014 RMB'000	2013 RMB'000
Unlisted investments, at cost	103,616	119,845

20. AVAILABLE-FOR-SALE INVESTMENTS

	2014 RMB'000	2013 RMB'000
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

	2014 RMB'000	2013 RMB'000
Other long-term prepayments	572	147

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 2014	4,216	34,062	1,513	32,459	72,250
Charged to equity	-	-	-	842	842
Disposal of subsidiaries (note 39)	(6,033)	(9,967)	(1,433)	-	(17,433)
Acquisition of subsidiaries (note 38)	54,168	4,605	1,043	83,670	143,486
Credited/(charged) to profit or loss during the year	11,782	2,815	691	(27,225)	(11,937)
Exchange differences	(4,772)	(303)	(92)	(5,690)	(10,857)
At 31 December 2014	59,361	31,212	1,722	84,056	176,351

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries 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 2014	9,381	-	-	-	9,381
Disposal of subsidiaries	(227)	-		-	(227)
Acquisition of subsidiaries	57,219	1,221	52,718	-	111,158
Credited/(charged) to profit or loss during the year	(11,631)	825	(3,980)	(11,996)	(26,782)
Effect of tax rate change	(3,542)				(3,542)
Exchange differences	(571)	(132)	(4,198)	460	(4,441)
At 31 December 2014	50,629	1,914	44,540	(11,536)	85,547

NOTES TO FINANCIAL STATEMENTS (continued)

22. DEFERRED TAX (continued)

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 subsidiaries 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)

As at 31 December 2014, the Group had tax losses of RMB138,128,000 (2013: RMB78,972,000), 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.

Company

As at 31 December 2014 and 2013, the Company did not recognise any deferred tax assets.

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

23. INVENTORIES

Group

	2014 RMB'000	2013 RMB'000
Raw materials	457,616	179,116
Work in progress	414,819	263,939
Finished goods	584,585	287,266
	1,457,020	730,321

24. TRADE RECEIVABLES

Group

	2014 RMB'000	2013 RMB'000
Trade receivables	1,291,641	1,241,126
Impairment	(23,179)	(117,640)
	1,268,462	1,123,486

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.

NOTES TO FINANCIAL STATEMENTS (continued)

24. TRADE RECEIVABLES (continued)

Group (continued)

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:

	2014 RMB'000	2013 RMB'000
Within 3 months	899,793	709,062
Over 3 months but within 6 months	219,461	211,383
Over 6 months but within 1 year	116,241	135,451
Over 1 year but within 2 years	12,288	65,874
Over 2 years	20,679	1,716
	1,268,462	1,123,486

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

	2014 RMB'000	2013 RMB'000
At 1 January	117,640	114,289
Impairment losses recognised	7,951	11,806
Impairment losses reversed	(10,298)	(5,895)
Disposal of subsidiaries	(91,285)	-
Amount written off as uncollectible	(1,145)	(2,560)
Exchange realignment	316	-
	23,179	117,640

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 118,538,000 (2013: RMB248,091,000). 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.

24. TRADE RECEIVABLES (continued)

Group (continued)

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

	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	865,570	709,062
Less than 3 months past due	213,106	182,175
3 to 6 months past due	81,016	52,515
6 to 9 months past due	12,961	7,720
9 months to 1 year past due	27	39,885
1 to 2 years past due	269	1,524
Over 2 years past due	154	154
	1,173,103	993,035

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 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:

	2014 RMB'000	2013 RMB'000
Due from SEC group companies	148,310	127,414
Due from associates	80	2,545
	148,390	129,959

NOTES TO FINANCIAL STATEMENTS (continued)

24. TRADE RECEIVABLES (continued)

Company

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:

	2014 RMB'000	2013 RMB'000
Within 3 months	55,138	67,472
Over 3 months but within 6 months	3,934	3,338
Over 6 months but within 1 year	39	-
Over 1 year but within 2 years	-	-
Over 2 years	154	154
	59,265	70,964

	2014 RMB'000	2013 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.

25. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

Group

	2014 RMB'000	2013 RMB'000
Within 3 months	241,501	192,646
Over 3 months but within 6 months	202,770	232,720
Over 6 months but within 1 year	57,203	50
	501,474	425,416

25. BILLS RECEIVABLE

Group (continued)

The amounts due from the related companies included in the above can be analysed as follows:

	2014 RMB'000	2013 RMB'000
Due from SEC group companies	66,847	71,271
Due from associates	15,000	-
	81,847	71,271

Company

	2014 RMB'000	2013 RMB'000
Within 3 months	14,000	-

	2014 RMB'000	2013 RMB'000
Due from associates	14,000	-

Except for the secured bill receivable of RMB124,041,000 (2013 Nil), the Group's and the Company's bill receivable balances are mainly unsecured, non-interest-bearing and are repayable as the bills fall due.

NOTES TO FINANCIAL STATEMENTS (continued)

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2014 RMB'000	2013 RMB'000
Prepayments	103,809	90,718
Other Current asset	31,000	-
Deposits	3,962	8,454
Prepaid land premiums/land lease payments (note 15)	3,474	3,645
Value-added tax refunds and prepaid value-added tax	47,137	28,755
Other receivables	43,569	13,608
Due from ultimate holding company	535	-
Due from associates	-	8,160
Due from SEC group companies	10	500
	233,496	153,840

Company

	2014 RMB'000	2013 RMB'000
Prepayments	1,536	1,927
Deposits	317	317
Value-added tax refunds and prepaid value-added tax	9,298	6,693
Other receivables	1,675	4,312
Due from ultimate holding company	535	-
Due from associates	-	8,160
Due from subsidiaries	93,178	218,045
Including: dividents receivable	*76,452*	*39,484*
	106,539	239,454

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

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

27. LOANS RECEIVABLE

The current balance of RMB550,000,000 (2013: RMB125,000,000) represents entrusted loans provided by the Company to Wuxi Turbine Blade and Ned Kunshan through China Construction Bank, Shanghai Electric Group Finance Co., Ltd. and Bank of Communications. The loans are unsecured, bear interest at rates ranging from 4.92% to 5.40% (2013: from 4.92% to 5.90%) per annum and for periods of one year to three years beginning from 13 September 2012, 14 September 2012, 24 March 2014, 24 July 2014, 12 August 2014, 17 September 2014 and 3 November 2014 (2013: from 26 March 2013, 25 July 2013 and 14 December 2013).

28. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

Group

	2014 RMB'000	2013 RMB'000
Cash and bank balances	527,893	422,606
Unpledged time deposits with maturity within 3 months	222,918	281,000
Unpledged time deposits with maturity over 3 months	284,524	181,082
Pledged time deposits with maturity over 3 months	86,730	39,673
	1,122,065	924,361
Less: Restricted deposits	86,730	39,673
Cash and cash equivalents as stated in the statement of financial position	1,035,335	884,688
Less: Unpledged time deposits with maturity over 3 months	284,524	181,082
Cash and cash equivalents as stated in the statement of cash flows	750,811	703,606

The restricted deposits can be analysed as follows:

	2014 RMB'000	2013 RMB'000
Pledged bank balances and time deposits secured for:		
Trade finance facilities	86,730	39,673

NOTES TO FINANCIAL STATEMENTS (continued)

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

Group (continued)

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

	2014		2013	
	Original currency '000	RMB equivalent '000	Original currency '000	RMB equivalent '000
Cash and bank balances:				
USD	18,530	113,311	2,614	15,928
EUR	28,826	214,918	88	737
JPY	399	21	13,876	802
GBP	152	1,449	-	-
HKD	2,268	1,789	-	-
SEK	4,230	3,387	-	-

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

	2014 RMB'000	2013 RMB'000
Cash and bank balances	324,603	483,308

As at 31 December 2014, the Company's cash and bank balances are denominated in RMB, except for an amount of US$15,746,000. 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 EUR 88, 000.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods within six months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

29. TRADE PAYABLES

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

Group

	2014 RMB'000	2013 RMB'000
Within 3 months	1,186,749	718,709
Over 3 months but within 6 months	109,885	53,059
Over 6 months but within 1 year	35,196	51,715
Over 1 year but within 2 years	54,065	39,858
Over 2 years	10,975	12,267
	1,396,870	875,608

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

	2014 RMB'000	2013 RMB'000
Due to SEC group companies	3,717	8,647
Due to associates	5	25
	3,722	8,672

Company

	2014 RMB'000	2013 RMB'000
Within 3 months	42,916	207,516

An amount due to subsidiaries of RMB37,042,000 (2013: RMB206,495,000) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30. BILLS PAYABLE

The maturity profiles of the bills payable are as follows:

	2014 RMB'000	2013 RMB'000
Within 3 months	176,384	143,183
Over 3 months but within 6 months	148,663	167,084
	325,047	310,267

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

	2014 RMB'000	2013 RMB'000
Due to the ultimate holding company	-	1,000
Due to SEC group companies	-	267
	-	1,267

31. OTHER PAYABLES AND ACCRUALS

Group

	2014 RMB'000	2013 RMB'000
Advance from customers	41,143	95,516
Other tax payables	25,153	23,738
Staff costs payable	189,233	63,382
Including: incentive scheme (note i)	*8,265*	-
Interest payable	41,877	9,288
Payables for purchases of non-trade assets	12,309	10,185
Accruals	148,422	74,645
Other payables	9,500	13,032
Due to the ultimate holding company	1,678	4,500
Due to SEC group companies	1,960	13,434
	471,275	307,720

31. OTHER PAYABLES AND ACCRUALS (continued)

Company

	2014 RMB'000	2013 RMB'000
Advance from customers	7,247	7,748
Other tax payables	4,277	2,772
Staff costs payable	8,603	7,712
Including: incentive scheme (note i)	*2,924*	-
Interest payable	8,490	8,609
Accruals	8,065	2,311
Other payables	669	72
Due to the ultimate holding company	-	3,392
Due to subsidiaries	267,041	400,381
	304,392	432,997

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.

note i: During the year 2014, the Group's and the Company's staff cost under incentive scheme were RMB8,265,000 and RMB2,924,000 respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2014			2013		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	0.00 - 5.40	2015	85,162	4.75 - 5.40	2014	103,257
- secured	3 months EURIBOR+3.25%- 3 months EURIBOR+3.5%	2015	65,293	5.60	2014	55,000
			150,455			158,257
Non-current						
Bank loans						
- secured	3 months EURIBOR+3.25%- 3 months EURIBOR+3.5%	2019-2020	851,056			-

	2014 RMB'000	2013 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	150,455	158,257
In the second year	80,879	-
In the third to fifth years, inclusive	241,039	-
Beyond five years	529,138	-

As at 31 December 2014,the Group's secured bank loans are secured by the pledge of the Company's shares held in certain of its subsidiaries:

Company

	2014			2013		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured			-	4.75	2014	9,996

	2014 RMB'000	2013 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	-	9,996

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

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

33. SHAREHOLDER'S LOAN

Group

	2014 RMB'000	2013 RMB'000
Shareholder's loan	1,682,725	-
Accumulated interest on shareholder's loan	22,571	-
	1,705,296	-

The shareholder's loan is unsecured, interest bearing at per 3.3% per annum, denominated in USD and will expire on 11 Auguest, 2019. Interest has been paid to lender in time.

34. 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.

	2014 RMB'000	2013 RMB'000
Nominal value of bonds issued	500,000	500,000
Direct transaction costs	(7,077)	(7,077)
Liability balance at issue date	492,923	492,923
Interest expense	11,684	10,271
Interest reclassified under other payables	(8,490)	(8,490)
Liability balance at 31 December	496,117	494,704

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 directors, 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)

35. POST-EMPLOYMENT BENEFITS

The composition was as follows:

	2014 RMB'000
Non-current liability	103,193
Current liability	5,910
Total employee benefits	109,103

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2014
Discount rate (%)	0.5% up to 3.4%
Expected rate of future pension cost increases (%)	1% up to 2.3%
Expected rate of salary increases (%)	1% up to 3.0%

The movements in the present value of the defined benefit obligations are as follows:

	2014 RMB'000
At 1 January	-
Acquisition of subsidiaries	131,025
Current service cost	2,068
Interest cost	986
Actuarial (gains)/losses on obligation	(7,235)
Benefit paid	(1,495)
Exchange differences on a foreign plan	10,288
At 31 December	135,637

35. POST-EMPLOYMENT BENEFITS (continued)

The movements in the fair value of plan assets are as follows:

	2014 RMB'000
At 1 January	-
Acquisition of subsidiaries	(25,532)
Expected return	3
Actuarial gains/(losses)	(3,942)
Benefits paid	(333)
Exchange differences on a foreign plan	40
At 31 December	(26,534)

Expected contributions to the defined benefit plan in future years are as follows:

	2014 RMB'000
Within the next 12 months	5,910
Between 2 and 5 years	21,276
Between 5 and 10 years	23,640
Over 10 years	-
Total expected payments	50,826

NOTES TO FINANCIAL STATEMENTS (continued)

36. ISSUED CAPITAL

	2014		2013	
	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.

37. 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.

37. RESERVES(continued)

(a) Group

Capital reserve

The capital reserve of the Group includes the Company's share premium of RMB692,553,000 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 RMB435,613,000 (2013: RMB399,325,000), of which RMB20,136,000 (2013: RMB16,684,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB692,553,000 (2013: 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 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 and 1 January 2014	692,553	88,711	382,641	1,163,905
Profit for the year	-	-	58,243	58,960
Appropriation to surplus reserves	-	5,271	(5,271)	-
Others	-	(920)	-	(920)
Proposed final 2014 dividend (note 12)	-	-	(20,136)	(20,136)
At 31 December 2014	692,553	93,062	415,477	1,201,092

The capital reserve account balance as at 31 December 2014 included the Company's share premium of RMB692,553,000 (2013: RMB691,217,000).

NOTES TO FINANCIAL STATEMENTS (continued)

38. BUSINESS COMBINATION

On 30 April 2014, the the Group acquired a 65% interest in Cyeco Environmental from third parties of the Company. Cyeco Environmental is mainly engaged in technology development, transfer and consultation of environmental protection engineering and anti-corrosion and anti-pollution of ships, design and research of electrolytic anti-marine biology device, ship cathodic protection device and ballast water treatment device, sales of ship equipment, parts, instruments and meters and water-based paint, and installation, maintenance and services of ship, electrical and mechanical, chemical engineering and environment protection equipment and projects. The purchase consideration for the acquisition was in the form of cash, with RMB45,000,000 paid at the acquisition date, RMB120,800,000 paid on 7 May 2014 and the remaining 3,070,000 paid on 31 January 2015.

The Company has elected to measure the non-controlling interest in Cyeco Environmental at the non-controlling interests' proportionate share of Cyeco Environmental's identifiable net assets.

On 28 August 2014, the Group acquired a 100% interest in the Nedfast from third parties of the Company. The Nedfast is one of the world's largest suppliers of automotive fasteners and special parts. In addition, the Nedschroef develops and produces high quality metal forming machines and tools for the metal forming industry. The purchase consideration for the acquisition was in the form of cash, with EUR190,414,000 paid at the acquisition date, including EUR150,184,000 (RMB1,220,394,000) for shares and EUR40,230,000 (RMB326,905,000) for shareholder's loan.

The fair values of the identifiable net assets and liabilities of Cyeco Environmental and the Nedschroef as at the date of acquisition were as follows:

Fair value recognised on acquisition

38. BUSINESS COMBINATION (continued)

	Cyeco Environmental RMB'000	Nedschroef RMB'000	Total RMB'000
Property, plant and equipment	1,015	619,816	620,831
Other intangible assets	190,488	-	190,488
Deferred tax assets	-	143,486	143,486
Inventories	2,651	857,738	860,389
Bills receivable	132	-	132
Trade receivables	8,405	352,759	361,164
Prepayments, deposits and other receivables	316	82,571	82,887
Cash and cash equivalents	46,648	137,608	184,256
Interest-bearing bank and other borrowings	-	(1,331,610)	(1,331,610)
Trade payables	(602)	(660,860)	(661,462)
Other payables and accruals	(8,684)	(269,467)	(278,151)
Tax payable	(677)	(63,575)	(64,252)
Other long-term payables and accruals	-	(130,181)	(130,181)
Deferred tax liabilities	(44,455)	(66,703)	(111,158)
Total identifiable net assets at fair value	195,237	(328,418)	(133,181)
Non-controlling interests	(68,333)	(1,882)	(70,215)
Goodwill on acquisition	41,966	1,550,694	1,592,660
	168,870	1,220,394	1,389,264
Satisfied by cash	168,870	1,220,394	1,389,264

The Company incurred transaction costs of RMB39,321,000 for these acquisitions. These transaction costs have been expensed and are included in the consolidated statement of comprehensive income for the year.

NOTES TO FINANCIAL STATEMENTS (continued)

38. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisitions of the subsidiaries is as follows:

	Cyeco Environmental RMB'000	Nedschroef RMB'000	Total RMB'000
Cash consideration	(168,870)	(1,220,394)	(1,389,264)
Cash and bank balances acquired	46,648	137,608	184,256
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(122,222)	(1,082,786)	(1,205,008)
Transaction costs of the acquisition	(610)	(38,711)	(39,321)
	(122,832)	(1,121,497)	(1,244,329)

Since the acquisition, Cyeco Environmental contributed RMB12,139,000 to the Group's turnover and a loss of RMB4,616,000 to the consolidated profit attributable to the owners of the Company for the Period. The Nedschroef contributed RMB1,444,637,000 to the Group's turnover and a gain of RMB20,871,000 to the consolidated profit attributable to the owners of the Company for the Period.

31 December 2013

On 18 January 2013, the Group acquired 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 RMB 89,622,000. 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 is as follows:

38. BUSINESS COMBINATION (continued)

31 December 2013 (contiuned)

	The Group excluding Dalong Machinery RMB'000	Dalong Machinery RMB'000	Adjustments RMB'000	Consolidated RMB'0004
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
Investments 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

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 the cash deposited in the cash pool of the Company as at 31 December 2013.

NOTES TO FINANCIAL STATEMENTS (continued)

39. DISPOSAL OF SUBSIDIARIES

On 18 February 2014, the Company disposed its 100% equity interest in Shanghai Insulating and transferred its control thereof to Shanghai Xinzhi Investment Company Limited. As a result, the Group deconsolidated Shanghai Insulating since the date of losing control.

On 31 October 2014, the Company disposed its 80% equity interest in Dalong Machinery and transferred its control thereof to Shanghai QiYao technology Group Limited. As a result, the Group deconsolidated Dalang Machinery since the date of losing control.

The carrying amounts of the assets and liabilities of the subsidiaries as at the date of the disposal were as follows:

	2014 RMB'000
Net assets disposed of:	
Property, plant and equipment	60,359
Prepaid land premiums/land lease payments	7,349
Cash and bank balances	30,583
Trade and notes receivables	222,496
Prepayments and other receivables	22,020
Deferred tax assets	17,433
Inventories	68,424
Trade and notes payables	(214,790)
Accruals and other payables	(86,798)
Tax payable	(284)
Other long-term payables	(2,902)
Deferred tax liabilities	(227)
	123,663
20% shares of Dalong as associate	(22,344)
Gain on disposal of subsidiaries	21,191
	122,510
Satisfied by:	
Cash	122,510

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2014 RMB'000
Cash consideration	122,510
Cash and bank balances disposed of	(30,583)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	91,927

40. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2014, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the "Endorsed Bills") with a carrying amount of RMB110,944,000 (31 December 2013: RMB89,814,000) 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.

(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 2014 amounted to RMB67, 247,000. The carrying amount of the assets that the Group continued to recognise as at 31 December 2014 amounted to RMB16, 247,000.

Transferred financial assets that are derecognised in their entirety

At 31 December 2014 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 RMB107,171,000. 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 2014, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

41. OPERATING LEASE ARRANGEMENTS

(a) The Group

(i) As lessor

The Group leases its machinery under an operating lease arrangement, with a lease negotiated for a term of five 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:

	2014 RMB'000	2013 RMB'000
Within one year	4,729	4,729
In the second to fifth years, inclusive	9,458	14,187
Total	14,187	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:

	2014 RMB'000	2013 RMB'000
Within one year	62,144	29,636
In the second to fifth years, inclusive	130,344	20,923
After five years	31,790	-
Total	224,278	50,559

(b) The Company

The Company leases certain offices under operating lease arrangements with a lease term of one year. As at 31 December 2014, the Company had future minimum lease payments under non-cancellable operating leases of RMB831,000 (2013: RMB3,454,000).

42. COMMITMENTS

(a) The Group

In addition to the operating lease commitments detailed in note 41(a)(ii) above, the Group had the following capital commitments at the end of the reporting period:

	2014 RMB'000	2013 RMB'000
Contracted, but not provided for:		
Acquisition of subsidiaries	-	165,800
Plant and machineries	37,926	40,537
Intangible assets	-	4,981
Land and Buildings	2,945	-
	40,871	211,518

(b) The Company

Contracted, but not provided for:		
Acquisition of subsidiaries	-	165,800

43. CONTINGENT LIABILITIES

(a) The Group

At the end of the reporting period, the Group did not have any significant contingent liabilities (2013: Nil).

(b) The Company

At the end of the reporting period, the Company did not have any significant contingent liabilities (2013: Nil).

44. 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 HKAS 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 members.

NOTES TO FINANCIAL STATEMENTS (continued)

44. 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:

	Notes	2014 RMB'000	2013 RMB'000
Purchase of materials from:	(i)		
Associates		648	482
SEC group companies		8,573	14,174
		9,221	14,656
Sales of goods to:	(i)		
Associates		552	1,255
SEC group companies		344,362	294,392
		344,914	295,647
Receiving manpower services from:	(i)		
The ultimate holding company		31	14
SEC group companies		5,156	5,493
		5,187	5,507
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies		82	115
Sales of items of property, plant and equipment to:	(i)		
Associates		-	4,261
Rental fee payable to:	(ii)		
The ultimate holding company		20,132	8,976
SEC group companies		2,026	13,678
		22,158	22,654
Receiving relocation compensation from:	(iii)		
The ultimate holding company		903	1,834
Bills discounted from:	(iv)		
SEC group companies		25,000	110,251

44. RELATED PARTY TRANSACTIONS (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year (continued):

Notes:

i. The sales and purchases were conducted in accordance with mutually agreed terms with reference to the market conditions.
ii. The rental fee was based on mutually agreed terms with reference to market rates.
iii. In year 2013, Bolt moved to the site located at No.175 Gongxiang Road, which is being rented by Biaowu. 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 2014, Bolt has received RMB903,000 relocation compensation, and as at 31 December 2014, Bolt has received an accumulated amount of RMB41,321,000 relating to the relocation compensation.
iv. The bills discounted were based on mutually agreed terms with reference to market rates.

(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 2014, the cash deposited in SEC group companies is RMB9,473,000 (2013: RMB66,234,000).

(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 26, 27, 28, 31, 32 and 33 to the financial statements.

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

	2014 RMB'000	2013 RMB'000
Fees	400	476
Short-term employee benefits	2,433	1,420
Post-employment benefits	185	135
	3,018	2,031

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)

45. 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

	2014			2013		
	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	1,769,936	-	1,769,936	1,548,902	-	1,548,902
Financial assets included in prepayments, deposits and other receivables	79,076	-	79,076	30,722	-	30,722
Restricted deposits	86,730	-	86,730	39,673	-	39,673
Cash and cash equivalents	1,035,335	-	1,035,335	884,688	-	884,688
	2,971,077	872	2,971,949	2,503,985	872	2,504,857

Financial liabilities

	Financial liabilities at amortised cost	
	2014 RMB'000	2013 RMB'000
Trade payables and bills payable	1,721,917	1,185,875
Financial liabilities included in other payables and accruals	400,153	182,874
Interest-bearing bank, other borrowings and company bonds	3,180,353	652,961
Derivative financial instrument	3,239	-
Other long-term payables	18,831	408
	5,324,493	2,022,118

45. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

Financial assets

	2014		2013	
	Loans and receivables RMB'000	Total RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade receivables and bills receivable	73,265	73,265	70,964	70,964
Financial assets included in prepayments, deposits and other receivables	95,705	95,705	230,834	230,834
Loans receivable	550,000	550,000	525,000	525,000
Cash and cash equivalents	324,603	324,603	483,308	483,308
	1,043,573	1,043,573	1,310,106	1,310,106

Financial liabilities

	Financial liabilities at amortised cost	
	2014 RMB'000	2013 RMB'000
Trade payables	42,916	207,516
Interest-bearing bank, other borrowings and company bonds	496,117	504,700
Financial liabilities included in other payables and accruals	292,694	422,441
	831,727	1,134,657

NOTES TO FINANCIAL STATEMENTS (continued)

46. 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, 33 and 34 above. The Group's domestic subsidiaries have no significant exposure to interest rate risk as the current interest-bearing bank and other borrowings are subject to fixed interest rates.The Group's interest rate risk arises from long-term borrowings of oversea subsidiaries. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

(ii) Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and EUR . Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The following table demonstrates the sensitivity of subsidiaries in Mainland and Hong Kong 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) and equity.

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

	Increase/ (decrease) in US$ or EUR rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2014			
If US$ weakens against RMB	5	70,183	-
If EUR weakens against RMB	5	(801)	-
If US$ strengthens against RMB	(5)	(70,183)	-
If EUR strengthens against RMB	(5)	801	-
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	-

* Excluding retained profits

Except for the subsidiaries in Mainland and Hong Kong, other foreign currency risk rises from the Nedschroef. Currency risk will not be included in the foreign currency risk calculation unless financial instruments are dominated in currencies other than the reporting currency of the subsidiaries, i.e. exchange fluctuation reserve resulted from translation of the financial statements prepared in a foreign currency is not included. The sales and purchases of the Nedschroef are mainly invoiced in Euro. A 5 cent rise of the main underlying currency US dollar would not materially impact profit for the year. All other things being equal, a 5 cent rise in the Euro/US dollar exchange rate as of 31 December 2014 would have had an impact on profit for the year of nil as a result of currency translation of financial instruments.

(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 24% of the Group's total trade receivables as at 31 December 2014.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other loans. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2014					
	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	567,717	945,414	208,786	-	-	1,721,917
Financial liabilities included in other payables and accruals	117,180	263,773	19,200	-	-	440,153
Interest-bearing bank and other borrowings	17,162	101,343	59,676	3,190,085	564,988	3,933,253
Other long-term payables	-	-	-	18,831	-	18,831
	702,059	1,310,530	287,662	3,208,916	564,988	6,074,154

	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

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Company

	2014					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	5,874	-	37,042	-	-	42,916
Interest-bearing bank and other borrowings	-	6,263	27,627	576,200	-	610,090
Financial liabilities included in other payables and accruals	272,763	10,001	9,930	-	-	292,694
	278,637	16,264	74,559	576,200	-	945,700

	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

NOTES TO FINANCIAL STATEMENTS (continued)

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of financial instruments of the Group and of the Company approximated to their fair values due to the short term to maturity at the end of each reporting period or it is estimated using an equivalent market interest rate for similar financial instruments.

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. The group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

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

	2014 RMB'000	2013 RMB'000
Company bonds, interest-bearing bank and other borrowings	3,180,353	652,961
Equity attributable to owners of the parent	3,142,134	3,221,072
Gearing ratio	101.22%	20.27%

47. EVENTS AFTER THE REPORTING PERIOD

On 6 March 2015, the Group acquired a 70% interest in Shanghai Tianhong Miniature Bearing Co., Ltd.("Shanghai Tianhong"), which is engaged in the research and development, production and sales of aerospace bearings. The Group has acquired Shanghai Tianhong to facilitate the exploration of medical equipment market and the expansion of market coverage of the Group. The purchase consideration of RMB20,370,000 for the acquisition was in the form of cash. The Group plans to measure the non-controlling interest in Shanghai Tianhong at fair value.

Because the acquisition of Shanghai Tianhong was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2015.

PMC 上海集优
SHANGHAI PRIME