上海集优
SHANGHAI PRIME

SHANGHAI PRIME MACHINERY COMPANY LIMITED

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

ANNUAL REPORT 2015

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Zhou Zhiyan
(Chairman and President)
Zhang Jianping
Zhu Xi
Sun Wei
Chen Hui

INDEPENDENT NON-EXECUTIVE DIRECTOR
Ling Hong
Li Yin
Chan Oi Fat

SUPERVISORS
Dong Jianhua (Chairman)
Yu Yun
Wei Li

COMPANY SECRETARY
Li Wai Chung
(Certified Public Accountant)

AUDIT COMMITTEE
Chan Oi Fat (Chairman)
Ling Hong
Li Yin

REMUNERATION COMMITTEE
Ling Hong (Chairman)
Li Yin
Chan Oi Fat

STRATEGIC COMMITTEE
Zhou Zhiyan (Chairman)
Zhu Xi
Sun Wei
Chen Hui
Li Yin

NOMINATION COMMITTEE
Zhou Zhiyan (Chairman)
Zhang Jianping
Ling Hong
Li Yin
Chan Oi Fat

RISK MANAGEMENT COMMITTEE
(established on 18 March 2016)
Zhou Zhiyan (Chairman)
Zhang Jianping
Zhu Xi
Chan Oi Fat
Ling Hong

AUTHORISED REPRESENTATIVES
Zhou Zhiyan
Zhang Jianping

ALTERNATIVE AUTHORISED REPRESENTATIVES
Chan Oi Fat
Li Wai Chung

INTERNATIONAL AUDITORS
Deloitte Touche Tohmatsu

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

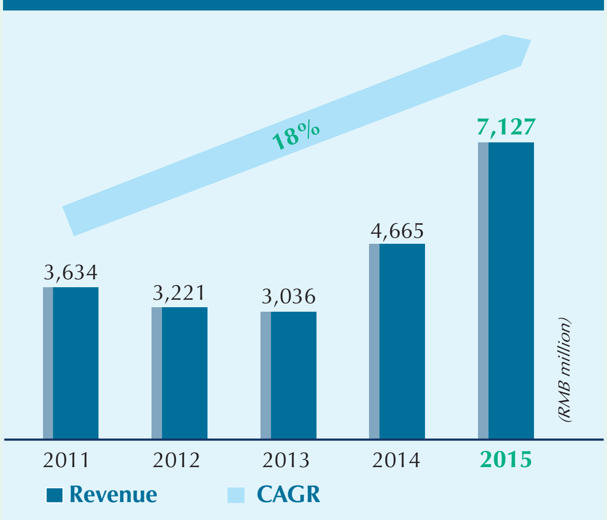
REGISTERED ADDRESS
Room 1501, Jidian Edifice
600 Heng Feng Road, Shanghai
The People's Republic of China
Postal Code: 200070

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room 2602, Tower One, Lippo Centre
89 Queensway, Hong Kong

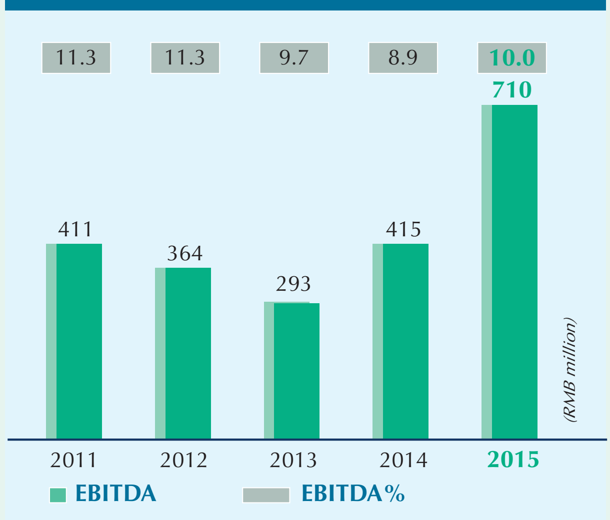
Stock Exchange
on which H shares are listed:
The Stock Exchange of
Hong Kong Limited
Abbreviation of H shares:
Shanghai Prime
H share stock code: 02345
Website: www.pmcsh.com
Email: pmcservice@pmcsh.com
Telephone: +86 (21) 6472 9900
Fax: +86 (21) 6472 9889

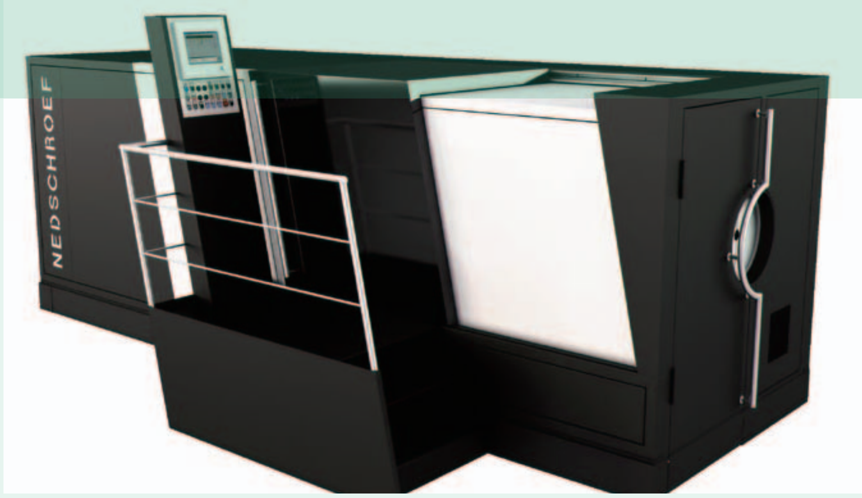
RMB (Million)	2011	2012	2013	2014	2015
Revenue and Profit					
Continuing operations					
Revenue	3,634	3,221	3,036	4,665	**7,127**
EBITDA	411	364	293	415	**710**
Profit before tax from continuing operations	256	137	84	116	**288**
Income tax expense	(37)	(9)	(24)	(20)	**(97)**
Profit (loss) for the year from discontinued operations	6	(27)	9	(15)	**(4)**
Profit for the year	225	101	69	81	**187**
— Attributable to					
Owners of the Company	224	99	67	81	**186**
Minority interests	1	2	2	0	**1**
Dividends — proposed final	55	32	17	20	**46**
Earnings per share attributable to equity holders of the Company					
— Basic (RMB cents)	15.58	6.91	4.66	5.60	**13.13**
— diluted (RMB cents)	N/A	N/A	N/A	N/A	**13.10**
Assets and Liabilities					
Non-current assets	2,495	2,508	2,387	4,603	**4,268**
Current assets	3,561	3,526	3,357	4,582	**4,556**
Current liabilities	2,028	1,891	1,692	2,929	**2,387**
Net current assets	1,533	1,635	1,665	1,653	**2,169**
Total assets less current liabilities	4,028	4,143	4,052	6,256	**6,437**
Non-current liabilities	743	831	795	3,008	**3,239**
Net assets	3,285	3,312	3,257	3,248	**3,198**
Equity attributable to owners of the Company	3,268	3,276	3,221	3,142	**3,155**
Minority interests	17	36	36	106	**43**

Revenue and CAGR



Recurring EBITDA development



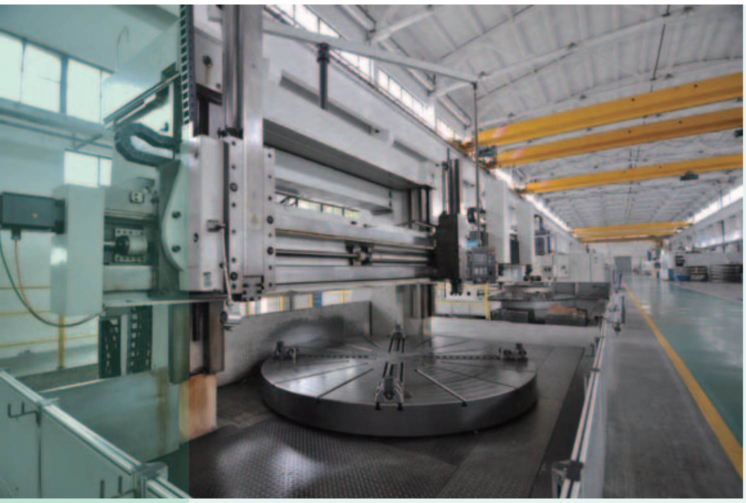


PERFORMANCE HIGHLIGHTS

For the year ended 31 December 2015 (the "Year"), the revenue of the Company was RMB7,127 million, representing a significant increase of 53% as compared to RMB4,665 million in 2014, which marked a new high since the listing of the Company. The earnings before interest, tax, depreciation, and amortization ("EBITDA") of the Company was RMB710 million (2014: RMB415 million) and the EBITDA margin was 10% (2014: 9%). Profit attributable to owners of the Company was RMB186 million, representing an increase of 130% as compared to RMB81 million in 2014.

Basic earnings per share for the Year was RMB13.13 cents (2014: RMB5.60 cents). The board of directors of the Company (the "Board") proposed a final dividend for 2015 of RMB3.20 cents (2014: RMB1.40 cents) per share.

The sales income from the automotive business of the Company for the Year amounted to RMB4,297 million, representing a significant increase from RMB1,706 million in 2014 and accounting for 60% (2014: 37%) of the total sales of the Company in 2015. The automotive business has become the fastest growing and largest segment of the Group. The sales income growth in the automotive business is primarily attributable to the further synergy effect with Nedfast Investment B.V. (together with its subsidiaries, "Nedschroef") acquired by the Company in 2014. Nedschroef is one of the largest leading suppliers of automotive fasteners in the world. In 2015, Nedschroef contributed RMB4,042 million to the sales income from automotive business of the Company, representing 94% of the automotive business, which realized the goal of robust business growth. The average gross profit margin of automotive business of the Company for 2015 was 20%, up 1 percentage point as compared with the corresponding period of last year.

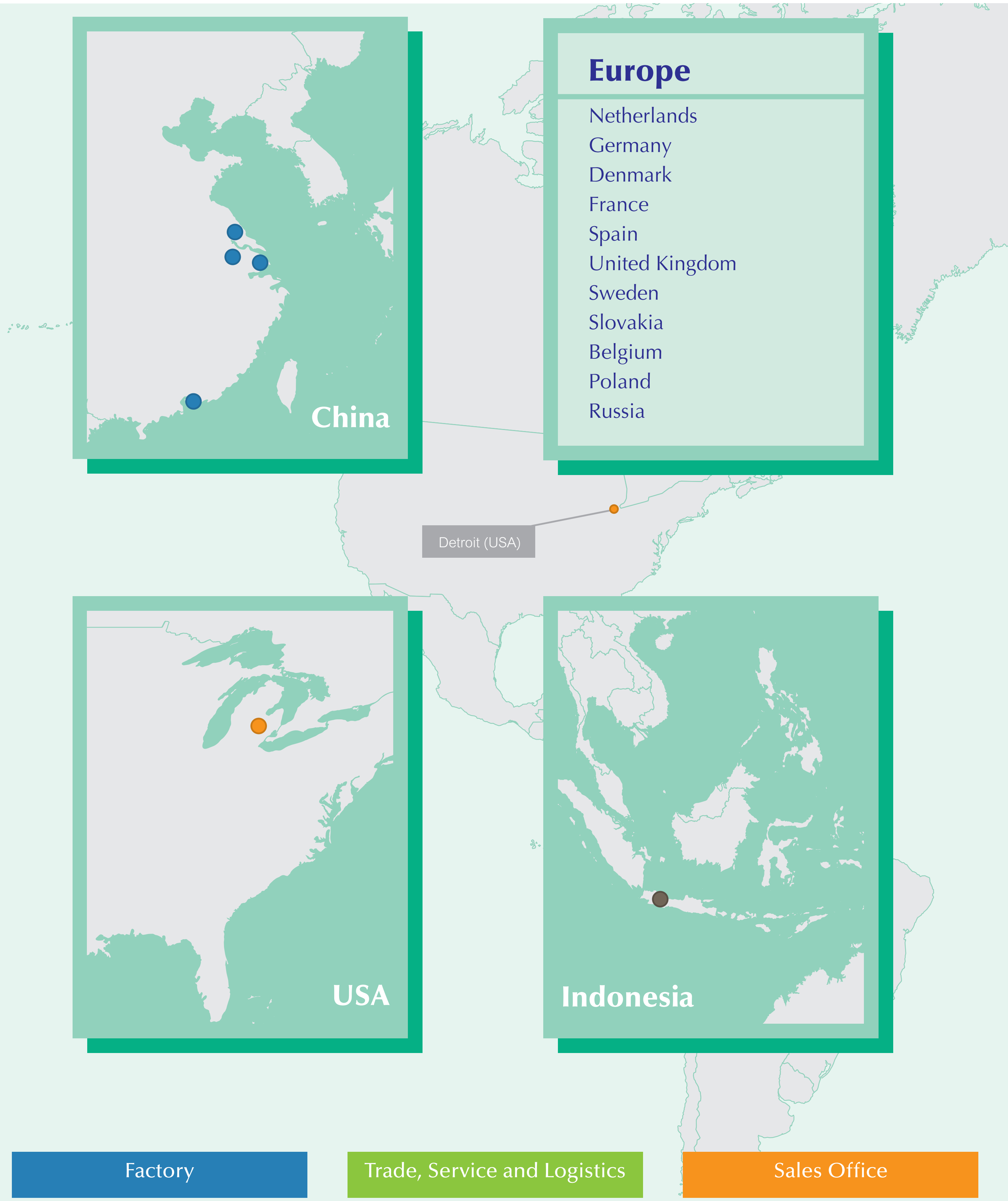


The sales income from the industrial application and service business of the Company for the Year amounted to RMB1,450 million (2014: RMB1,601 million), accounting for 20% (2014: 34%) of the total sales of the Company in 2015. The average gross profit margin of industrial application and services business for 2015 was 20%, up 1 percentage point as compared with the corresponding period of last year.

The sales income from energy business of the Company for the Year amounted to RMB793 million (2014: RMB793 million), accounting for 12% (2014: 17%) of the total sales of the Company in 2015. In order to cope with the pressure on traditional energy business, the Group continued to develop new energy businesses. The sales in nuclear power and wind power markets have become new growth points of the Group. The average gross profit margin of energy business for 2015 was 21%, up 3 percentage points as compared with the corresponding period of last year.

The sales income from railway business of the Company for the Year amounted to RMB288 million (2014: RMB350 million), accounting for 4% (2014: 7%) of the total sales of the Company. The average gross profit margin of the railway business for 2015 was 30%, up 1 percentage point as compared with the corresponding period of last year.

The sales income from aerospace business of the Company for the Year amounted to RMB299 million, representing a significant increase from RMB215 million in 2014, accounting for 4% (2014: 5%) of the total sales of the Company. In 2015, the sales income from the aerospace products reached a record high and major products such as aircraft forged pieces and structural components were put into mass production. The average gross profit margin of the aerospace business for 2015 was 33%, up 5 percentage points as compared with the corresponding period of last year.


China
Europe
Netherlands
Germany
Denmark
France
Spain
United Kingdom
Sweden
Slovakia
Belgium
Poland
Russia
Detroit (USA)
USA
Indonesia
Factory
Trade, Service and Logistics
Sales Office

*The pace of international groups across **27** cities in **14** countries.*
*Group products are sold in **70** countries and regions worldwide.*

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company"), I am pleased to announce the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 (the "Year") which have been audited by Deloitte Touche Tohmatsu.

BUSINESS REVIEW

The manufacturing industry managed to overcome the challenges of excessive production capacity and weak demand after the global financial crisis. We carried out transformation and upgrades along with the strategy of "Go Global". Recently, we have exerted greater efforts in structural adjustment through merger and acquisition and recorded a record high in CAGR of 18% from 2011 to 2015 while maintaining steady growth of the Company's results. The sales income of the Company for the Year was RMB7,127 million, representing a significant growth of 53% compared with last year, which was the highest since our listing. EBITDA was RMB710 million, representing a significant growth of 71% compared with last year.

MANAGEMENT REVIEW

In 2015, the global economic growth was at a slower pace than expectation and the recovery in Europe remained unstable. The economy in China maintained its growth but at a slower pace during its restructuring from factor-and-investment-driven to innovation-driven. Traditional manufacturers were faced with a number of challenges, including excessive production capacity and weak market demand as well as tight financial resources. Under difficult economic conditions, the Board and the management of the Company further developed the business of the Company and dealt with competition and difficulties through reform and innovation. We actively explored overseas market and optimized our business structure. Moreover, the Company pushed forward the cooperation with Nedfast Investment B.V. (together with its subsidiaries, "Nedschroef") to create long-term synergistic effects. Nedschroef maintained its satisfactory growth momentum and achieved the operation targets and work plans of the Board.

Promotion of position in domestic and international markets through stronger collaboration

The Group completed the acquisition of Nedschroef in August 2014 and generated significant synergy effects through integration. During the Year, Nedschroef achieved remarkable results in respect of its business in European automobile market, and the Company assisted Nedschroef in developing the market in China by introducing local customers. The Company and Nedschroef had determined a mid-to-long term market development cooperation strategy as well as operation goals and plans. The Company supported Nedschroef to obtain AS9100 (航空質量體系) certification and proactively apply for the registration as a recognized supplier. With the cooperation of Nedschroef, the Company has established a business platform for non-automotive operation. Through collaboration, both companies could secure the most favourable purchasing price and explore new business opportunities. The automotive business of Nedschroef could also drive the growth of other business segments of the Group. The sales of Nedschroef in China saw remarkable growth and its business performance grew steadily after the integration with the Company.

Optimization of business structure to reflect the strategic position of the Group

For the purpose of further consolidation of our strengths on main businesses, the Group disposed 20% equity interests in Shanghai Dalong Machinery Factory Company Limited (上海大隆機器廠有限公司) ("Shanghai Dalong") and 65% equity interests in Shanghai Cyeco Environmental Technology Co., Ltd (上海船研環保技術有限公司) ("Cyeco Environmental"), which had minimal synergy with the main businesses of the Group, during the Year. On the other hand, to facilitate the development of our bearing business, the Company acquired 70% equity interests in Shanghai Tianhong Miniature Bearing Co., Ltd. (上海天虹微型軸承有限公司) ("Shanghai Tianhong"). The transactions reflected the position of the Group as a manufacturer and service provider of basic parts and components for sophisticated machines and further improved the strengths of our businesses, including the provision, production, research and development of precision bearings. The competitiveness of our main businesses was further enhanced through the optimization of business structure.

Capturing business development opportunities by providing products with high market demand

During the Year, the Group expanded its market by focusing on new energy and aerospace with high potential. Our products for new energy mainly include turbine blades and heavy duty fasteners which are mainly for the manufacturing of MW grade ultrasuper-critical units, large blades for MW nuclear power units and fasteners for steel structures of conventional islands of nuclear power plants. Aerospace products mainly include precision micro bearings, aviation power components and aviation fasteners which are mainly for the building of satellites, bearings for aviation engines and replacement fasteners for aeroplane maintenance. During the Year, the Group secured the first order of nuclear power micro bearings. The Group has a share of 70% of the micro bearing market in China. During the Year, the Company fully explored the market potential and successfully identified new growth points of business to effectively improve economical benefits.

Further improvement of incentive scheme to build up a strong management team

The Group implemented an innovative incentive scheme in 2014 for the key management personnel of the Group who met the performance targets. During the Year, the

Group further improved and expanded the incentive scheme. The award of share options on the basis of the operating results of the subsidiaries has proven effective in promoting the motivation and initiative of the managers. The scheme has contributed to the significant improvement in economic benefits as well as the development of a strong management team and pools of talents at different levels for further improvement in management and higher competitiveness of the major businesses of the Group.

FUTURE PROSPECTS

In 2016, the economic conditions will remain difficult and uncertain. Faced with immense competition, the Group will continue to reform and promote innovation so as to capture the opportunities brought by the development of sophisticated equipment manufacturing industry in China. The Group will speed up the upgrade of products and optimization of product portfolio and the globalization of operation. The Group will seek to explore new business model and incentive scheme so as to facilitate the new development of the Group.

Focusing on the globalization of operation

The Company will further strengthen its cooperation with Nedschroef to fully utilise our leading position in regional markets through their synergistic efforts. The Company and Nedschroef will further explore the markets in China and Europe and expand the coverage of international sales networks. To facilitate the globalization of operation, the Group will promote cross-cultural integration with a view to building up a management team of talents from all over the world with global vision.

Pursuant to our dual-way operation strategy, the Group facilitates its product development through capital investment. Such strategy has proven effective initially in the acquisition of Nedschroef and, subsequently in 2015, Shanghai Tianhong. The Company will continue to seek opportunities for acquisition and merger. Under current economic condition, there are various opportunities for capital investment. The Company will make use of the characteristics and advantages of its capital resources to seek cooperation with international financing platforms to facilitate the transformation of the Group.

Development of high-end products

The equipment manufacturing industry in China is at the advanced stage of development and opens up a market for the production of basic parts and components and all business segments of the Group. Moreover, equipment manufacturing industry in China is encouraged by government policy to expand overseas. The mature basic components of the Group will be exported. The Group will strategically focus on the development of high-end products for emerging industries so as to optimize and upgrade its product portfolio and to adapt to the trend of high-end orientation of products.

Seizing the opportunities brought by the comprehensive reform of state-owned enterprises and the establishment of technology development centre in Shanghai, the Group will also take the initiative to reform and enhance its technology development in order to unleash the passion and potential of managers and employees. In addition, the Group will support, encourage and promote the innovation of business segments and business model to boost the development of the Group.

Social responsibility

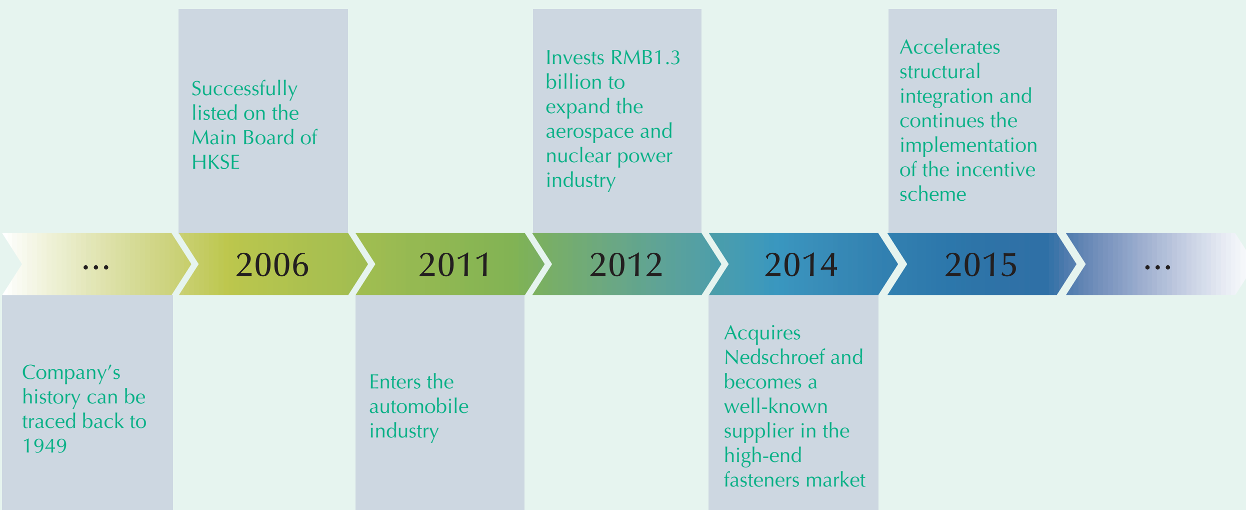
Corporate social responsibility is one of the Group's long-term management strategy and the core of our corporate culture. In pursuit of profit, we also attach importance to the non-commercial contributions to other stakeholders,

the community and the environment, the conservation of resources and other aspects, proactively assume the social responsibility and contribute more to the community. The Group will consciously release our report on society, environment and governance from the financial year of 2016 to introduce our development and achievements in risk control and compliance.

2016 is the commencing year of the strategic "13th Five-Year Plan". In face of competition and difficulties, the Group will focus on its transform action and development and will grow its business through innovation and globalization. In view of the restructuring of state-owned enterprises and the development of high-end manufacturing industry, we will aggressively push forward our reform and develop our sustainability to facilitate our future development and to create value for our shareholders.

Hereby I would like to extend my sincere gratitude to all shareholders for their consistent trust and long term support, and to the Board, board of supervisors, senior management and employees of the Company for their hard work. We firmly believe that our business will enter a new stage of development through our efforts.

Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman
Shanghai, the PRC
18 March 2016



BUSINESS REVIEW

Revenue for the Year of the Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively the "Group") amounted to RMB7,127 million (2014: RMB4,665 million), representing an increase of 53% over last year. Profit attributable to owners of the Company for 2015 was RMB186 million (2014: RMB81 million), representing an increase of 130% over last year. Basic earnings per share was RMB13.13 cents (2014: RMB5.60 cents).

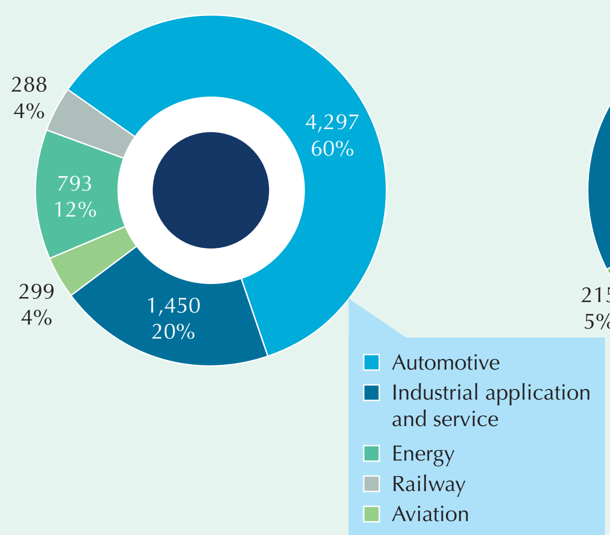
As of 31 December 2015, total assets of the Group amounted to RMB8,824 million (31 December 2014: RMB9,185 million), while total liabilities amounted to RMB5,626 million (31 December 2014: RMB5,937 million). Total equity of the Group was RMB3,198 million (31 December 2014: RMB3,248 million), of which equity attributable to the owners of the Company amounted to RMB3,155 million (31 December 2014: RMB3,142 million).

RESULTS OF PRINCIPAL BUSINESS

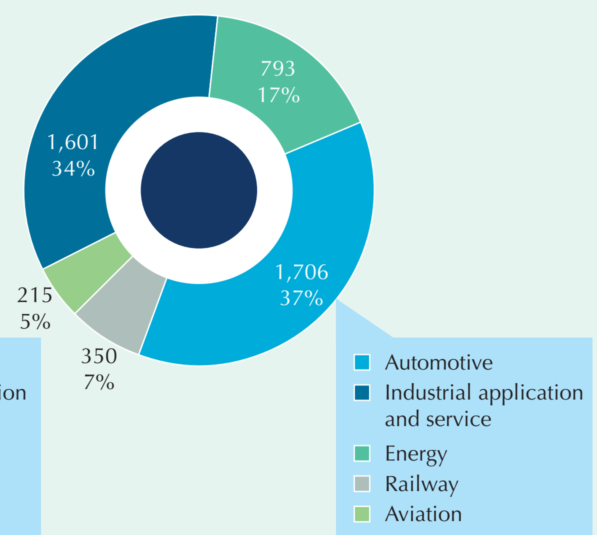
Set out below are the revenue, gross profit and gross profit margin in terms of business nature:

Business	Revenue 2015	Revenue 2014	Gross Profit 2015	Gross Profit 2014	Gross Profit Margin 2015	Gross Profit Margin 2014
	(RMB in million)					
Automotive	**4,297**	1,706	**851**	315	**20%**	19%
Percentage of total	**60%**	37%	**57%**	34%		
Industrial application and service	**1,450**	1,601	**284**	311	**20%**	19%
Percentage of total	**20%**	34%	**19%**	33%		
Energy	**793**	793	**168**	145	**21%**	18%
Percentage of total	**12%**	17%	**11%**	16%		
Railway	**288**	350	**87**	103	**30%**	29%
Percentage of total	**4%**	7%	**6%**	11%		
Aviation	**299**	215	**98**	60	**33%**	28%
Percentage of total	**4%**	5%	**7%**	6%		

Revenue in 2015 (RMB million)



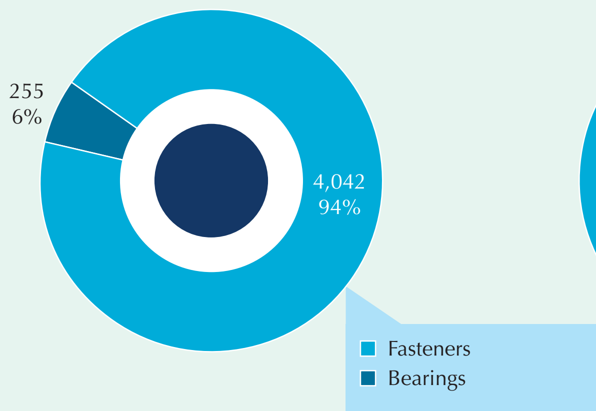
Revenue in 2014 (RMB million)



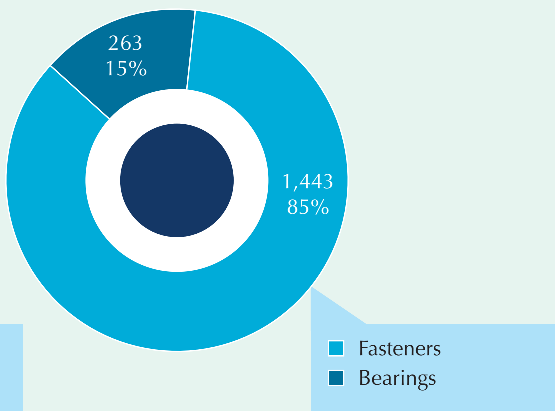
AUTOMOTIVE BUSINESS

Automotive Business by Products:

2015



2014



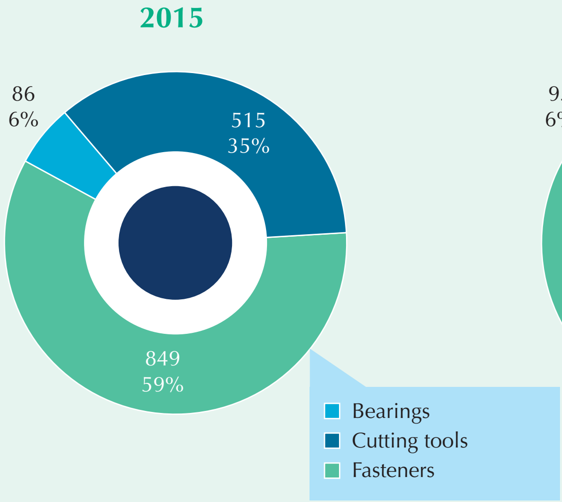
In 2015, the European and American automotive markets saw gradual recovery. The production and sales volume of automobiles in the PRC market recorded slight increases as compared with the previous year, showing a slower growth rate as compared with last year. Meanwhile, as a result of technological advancement and market restructuring, high-tech automobiles, including new energy automobiles, has been emerging and the automotive after market also shows enormous potential, which will boost the growth of the industry.

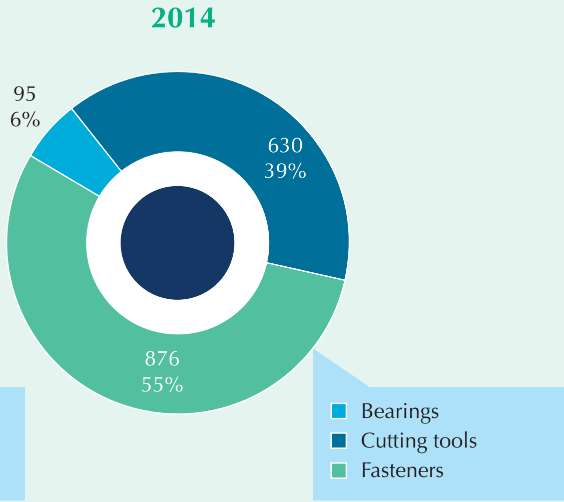
The Group primarily provides automotive fasteners and automotive bearings for the automotive industry. During the reporting period, apart from making steady progress in the development of overseas market, the Company also accelerated its expansion in the PRC market and tightened its relationship with domestic customers in pursuit of new growth. Due to the combined effect of acquisition and merger as well as business synergies, the sales income from the automotive business for 2015 amounted to RMB4,297 million (2014: RMB1,706 million), accounting for 60% (2014: 37%) of the total sales of the Group in 2015. Our long-term partners include world-famous automotive manufacturers, such as Volkswagen, BMW, Audi and Mercedes-Benz. The average gross profit margin of automotive business for 2015 was 20%, up 1 percentage point as compared with last year.

The automotive fastener segment, accounting for the largest percentage of the automotive business, mainly provides different types of nuts, bolts, screws and cold forged special parts for powertrains, wheel, seat adjustment and valve spring plate. The sales income from automotive fasteners for the Year amounted to RMB4,042 million (2014: RMB1,443 million), accounting for 94% (2014: 85%) of the automotive business. The Group also provides a variety of automotive bearing solutions, such as bearings for tension pulley and other products.

INDUSTRIAL APPLICATION AND SERVICE BUSINESS

Industrial Application and Service Business by Products:





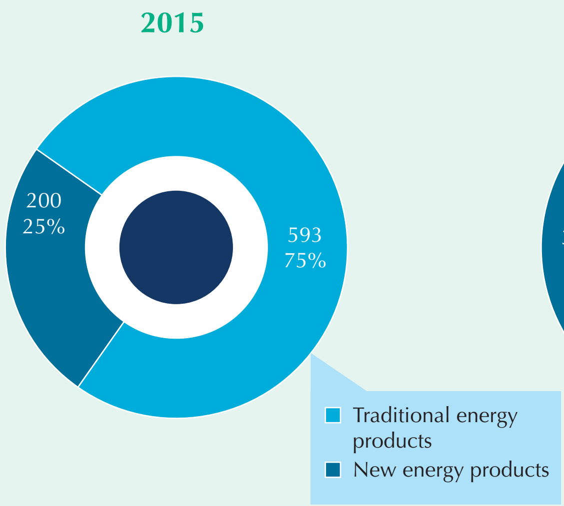
The Group's industrial application and service business provides products such as fasteners, cutting tools and bearings, and also provides customers with premium services, such as one stop service, testing services, logistics and warehousing, ERP and electronic business.

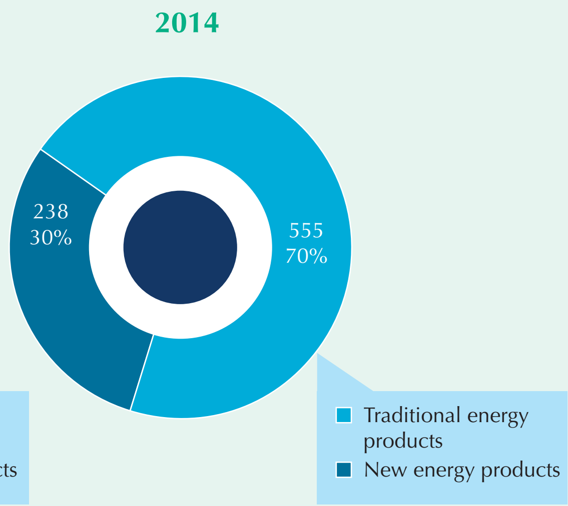
The revenue from the industrial application and service business for 2015 amounted to RMB1,450 million (2014: RMB1,601 million), accounting for 20% (2014: 34%) of the total sales of the Group in 2015. The average gross profit margin of industrial application and services business for 2015 was 20%, up 1 percentage point as compared with last year.

The sales income from fastener products of the industrial application and service business for 2015 amounted to RMB849 million (2014: RMB876 million), accounting for 59% (2014: 55%) of the industrial application and service business. The sales income from cutting tools of the industrial application and service business for 2015 amounted to RMB515 million (2014: RMB630 million), accounting for 35% (2014: 39%) of the industrial application and service business. The sales income from bearing products of the industrial application and service business for 2015 amounted to RMB86 million (2014: RMB95 million), accounting for 6% (2014: 6%) of the industrial application and service business.

ENERGY BUSINESS

Energy Business by Products:



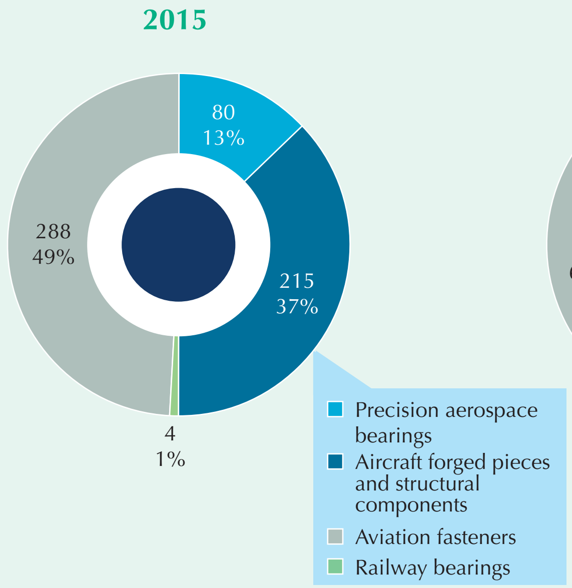


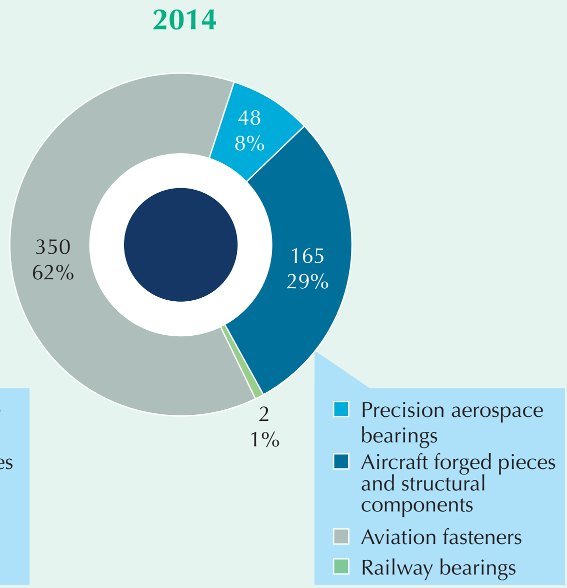
The Group mainly provides products such as turbine blades, bearings and fasteners for the energy industry. In 2015, the Group mainly supplied thermal power steam turbines, nuclear power steam turbines, gas turbines and other products. Leveraging technological advantages, turbine blade products of the Group maintained a stable market share and a leading position among domestic energy turbine blade suppliers. During the Year, as the development of traditional energy industry was under pressure, the Group continued to develop new energy businesses. The sales in nuclear power and wind power markets have become new growth points of the Group.

The sales income from energy business for 2015 amounted to RMB793 million (2014: RMB793 million), accounting for 12% (2014: 17%) of the revenue of the Group in 2015. Our long-term partners include energy companies, such as Shanghai Electric, Dongfang Electric, Alstom, GE and Siemens. The average gross profit margin of energy business for 2015 was 21%, up 3 percentage points as compared with last year.

The sales income from products for traditional energy business for 2015 amounted to RMB593 million (2014: RMB555 million), accounting for 75% (2014: 70%) of the energy business. In addition, the sales income from products for new energy business for 2015 amounted to RMB200 million (2014: RMB238 million), accounting for 25% (2014: 30%) of the energy business.

Aerospace and Railway Businesses by Products:





AEROSPACE BUSINESS

The Group mainly provides forging products, bearings and fasteners for aerospace industry. In 2015, the Group's aerospace business grew significantly, and some of the products such as aircraft forged pieces and structural components were developed and put into mass production, and revenue from the aerospace products reached a record high. The revenue from aerospace business for 2015 amounted to RMB299 million (2014: RMB215 million), accounting for 4% (2014: 5%) of the total sales of the Group's business. The Group's long-term partners include CASC, Rolls-Royce and etc. The average gross profit margin of the aerospace business for 2015 was 33%, up 5 percentage points as compared with corresponding period of last year.

The Group's high-end business strategy directly and indirectly boosted business benefits. The sales income from the forging products for aerospace business for 2015 amounted to RMB215 million (2014: RMB165 million), accounting for 72% (2014: 77%) of the aerospace business. The sales income from precision aerospace bearing products for 2015 amounted to RMB80 million (2014: RMB48 million), accounting for 27% (2014: 22%) of the aerospace business.

RAILWAY BUSINESS

The Group's railway business segment mainly provides bearings, fasteners and repair and maintenance services for railways. In 2015, in addition to supplying bearing products for railway freight wagons, the Group continued to expand its business from manufacturer to service provider. In 2015, the Group's repairing and maintenance services for railway bearings ranked top in terms of domestic market share.

The sales income from railway business for 2015 amounted to RMB288 million (2014: RMB350 million), accounting for 4% (2014: 7%) of the total sales of the Group's business. The Group's long-term partners include China Railway and etc. The average gross profit margin of the railway business for 2015 was 30%, up 1 percentage point as compared with corresponding period of last year.

REVIEW OF FINANCIAL POSITION

Revenue, Profit Margin and Taxation for the Year

During 2015, the Group's revenue was RMB7,127 million, representing a significant increase of 53% from RMB4,665 million in 2014, which was the highest since the listing of the Company. The increase was primarily attributable to the initial synergistic effects of acquisition, reorganization projects and fastener segment in addition to the growth of automotive business and aviation business.

After the acquisition of Nedschroef, the Group's profit margin on sales for 2015 increased significantly as compared with 2014. In addition, as the applicable tax rates in European regions, where Nedschroef was located, were generally high, the Group's effective tax rate increased significantly.

Share of Profits (Losses) of Associates

During 2015, the Group's share of profits of associates was RMB19 million (2014: losses of RMB0 million).

Finance Costs

Finance costs for 2015 were RMB144 million (2014: RMB90 million).

Profit Attributable to Shareholders of the Company

Profit attributable to owners of the Company was RMB186 million in 2015 (2014: RMB81 million), representing an increase of 130% over last year. Basic earnings per share was RMB13.13 cents (2014: RMB5.60 cents).

Cash Flow

As at 31 December 2015, the Group's cash and bank balances were RMB1,007 million (31 December 2014: RMB1,122 million), of which RMB98 million (31 December 2014: RMB87 million) were restricted deposits, representing an increase of RMB11 million in restricted deposit from the beginning of the Year. During the Year, the Group had a net cash inflow from operating activities of RMB352 million (2014: net inflow of RMB298 million), a net cash inflow from investing activities of RMB174 million (2014: net outflow of RMB1,435 million), and a net cash outflow from financing activities of RMB401 million (2014: net inflow of RMB1,199 million).

Assets and Liabilities

As at 31 December 2015, the Group had total assets of RMB8,824 million (31 December 2014: RMB9,185 million), representing a decrease of RMB361 million as compared with the beginning of the Year, of which total current assets amounted to RMB4,556 million (31 December 2014: RMB4,582 million), accounting for 52% of the total assets, representing a decrease of RMB26 million as compared with the beginning of the Year. Total non-current assets were RMB4,268 million (31 December 2014: RMB4,603 million), accounting for 48% of the total assets and representing a decrease of RMB335 million as compared with the beginning of the Year.

As at 31 December 2015, the total liabilities of the Group were RMB5,626 million (31 December 2014: RMB5,937 million), of which total current liabilities amounted to RMB2,387 million (31 December 2014: RMB2,929 million), accounting for 42% of the total liabilities. Total non-current liabilities amounted to RMB3,239 million (31 December 2014: RMB3,008 million), accounting for 58% of total liabilities.

Details of loans of shareholders of the Company are set out on page 131 of the financial report of this year.

As at 31 December 2015, the net current assets of the Group were RMB2,169 million (31 December 2014: RMB1,653 million), representing an increase of RMB516 million or 31% as compared with the beginning of the Year whereas current ratio increased from 156% to 191%.

Sources of Funding and Indebtedness

As at 31 December 2015, the Group had bank and other borrowings with an aggregate amount of RMB3,027 million (31 December 2014: RMB3,180 million), representing a decrease of RMB153 million or 5% as compared with the beginning of the Year. Borrowings repayable by the Group within one year were RMB191 million (31 December 2014: RMB647 million), representing a decrease of RMB456 million from the beginning of the Year, whereas borrowings repayable after one year were RMB2,836 million (31 December 2014: RMB2,533 million). The Group repaid the loans due on schedule during the Year.

As at 31 December 2015, bank and other borrowings of the Group were interest-bearing at fixed rates ranging from 3.70% to 5.44% (2014: 4.50% to 5.40%) or at floating interest rate ranging from 3 months EURIBOR plus 3.00% to 3.50% (2014: 3 months EURIBOR plus 3.25% to 5% below the benchmark interest rate issued by the People's Bank of China.

Gearing Ratio

As at 31 December 2015, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 96% (31 December 2014: 101%) in which, shareholder loans represent 28% (31 December 2014: 28%) of the total liabilities. As at the date of this report, the Group did not formulate any financial plan and fund-raising activities for the provision of capital commitments and repayment of outstanding debts.

Restricted Deposits

As at 31 December 2015, bank deposits of RMB98 million (31 December 2014: RMB87 million) of the Group were restricted deposits.

Pledges of Assets

As at 31 December 2015, save as restricted deposits, the Group had other pledged assets of RMB198 million (2014: RMB124 million). In addition, the equities held by certain subsidiaries of the Group were pledged assets.

Contingent Liabilities

As at 31 December 2015, the total contingent liabilities of the Group amounted to RMB5 million in aggregate (2014: nil).

Capital Expenditure

The total capital expenditure of the Group for the Year was approximately RMB263 million (2014: RMB211 million), which was principally invested for the upgrading of production technologies and equipment, and the expansion of production capacity.

Risks Faced by the Company

Risk of Intense Competition

The Group faces intense competition in all the markets where it operates. Under certain situations, competition puts downward pressure on the price of certain products of the Group. The Group's market position depends on the ability to estimate and manage various competition factors, including the introduction of new or improved products and services, pricing strategies of competitors and changing customer preferences. If, among others, the Group fails to maintain competitive prices of similar products or services or provide distinctive products or services, it may lose its customers to competitors. Intensified competition may cause reduction in price, gross profit margin and market share of the Company.

Unforeseeable Difficulties the Group May Encounter When Exploring New Markets

The Group has formulated and implemented internationalization strategies. In order to further satisfy customers' needs, the Group will continue to expand businesses in respect of geographical locations, customers, services and other aspects. In particular, the Group will develop overseas markets for certain businesses and products, while its overseas subsidiaries will actively develop domestic markets. As domestic and overseas customers may have different requirements for products and services of the Group, the Group may have to purchase different equipment or establish additional production lines to explore new markets. Exploring new markets involves a number of risks, including the risks that the Group may encounter as a newcomer in such markets.

Risk of Exchange Rate Fluctuation

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR. The Group uses foreign currency forward contracts to hedge against the risk when it is foreseen to be significant. The management has closely monitored foreign exchange exposures and will undertake necessary measures to mitigate the foreign exchange risk.

Significant Events

On 6 February 2015, Wuxi Turbine Blade Co., Ltd. (無錫透平葉片有限公司) ("WTB") and Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司) ("Shanghai Electric HK") entered into a sale and purchase agreement, pursuant to which Shanghai Electric HK agreed to sell and WTB agreed to purchase relevant equipment for a cash consideration of approximately CHF1.6 million (equivalent to HK$13.3 million) to be used for the manufacturing of turbine blades. Such agreement constituted a connected transaction.

On 6 March 2015, the Company entered into an investment framework agreement with existing shareholders of Shanghai Tianhong, pursuant to which the Company acquired 70% equity interests in Shanghai Tianhong at a consideration of RMB21,520,000. The Company completed the acquisition on 31 March 2015.

On 15 May 2015, the Company entered into a transfer agreement with Shanghai Electric Industrial Company Limited (上海電氣實業有限公司) ("SEI"), pursuant to which the Company agreed to sell 65% equity interests in Shanghai Cyeco Environmental Technology Co., Ltd. (上海船研環保技術有限公司) to SEI for the final cash consideration of RMB198,932,000 after accounting for certain price adjustment as mutually agreed and an equity transfer agreement with Shanghai Electric (Group) Corporation (上海電氣（集團）總公司) ("SEG"), pursuant to which the Company agreed to sell 20% equity interests in Shanghai Dalong Machinery Factory Company Limited (上海大隆機器廠有限公司) to SEG for the final cash consideration of RMB21,922,000 after accounting for certain price adjustment as mutually agreed. Such two transactions constituted connected transactions and were approved at the annual general meeting on 5 June 2015. The Company completed the disposals on 30 June 2015.

On 15 May 2015, WTB entered into a technology development agreement with SEG, pursuant to which WTB agreed to provide research and development services to SEG in relation to the development and production of nuclear power giant blades and gas turbine blades and other key components for a consideration of RMB60 million. Such agreement constituted a connected transaction. As of the end of July 2015, WTB received all the consideration for the services as mentioned above. In accordance with the agreement, WTB actively conducted technology development.

On 5 June 2015, the annual general meeting approved Deloitte Touche Tohmatsu to be engaged as the auditors of the Company for the year of 2015.

On 31 August 2015, WTB and Shanghai Electric HK entered into an MTS sale and purchase agreement and an upper bolster sale and purchase agreement, pursuant to which Shanghai Electric HK agreed to sell and WTB agreed to purchase relevant equipment for a cash consideration of approximately USD296,000 (equivalent to approximately HK$2,294,000) and EUR1,090,458.75 (equivalent to approximately HK$9,506,000), respectively, to be used for the project of manufacturing nuclear power sizable turbine blade. Such agreements constituted connected transactions.

On 11 September 2015, the Company entered into a revolving loan agreement with SEG in relation to the provision of facilities of up to EUR100,000,000 by SEG Group to the Group. Such agreement constituted a continuing connected transaction.

On 10 October 2015, Mr. Wang Qiang resigned as the executive director, chairman of the Board and other relevant positions of the Company. On the even date, the Board elected Mr. Zhou Zhiyan as the chairman of the Board. Mr. Zhou Zhiyan will no longer serve as the vice chairman of the Board but will continue to serve concurrently as the president of the Company.

On 10 October 2015, Mr. Dong Jianhua resigned as the supervisor and chairman of the supervisory committee of the Company, which shall be effective from the date of the election of the new supervisor at the general meeting of the Company. On the even date, the Board approved the Resolution on the Proposed Appointment of Mr. Xu Jianguo as a Supervisor (non-employee representative) of the Company which will be submitted to the shareholders of the Company for consideration and approval at the forthcoming annual general meeting.

On 16 October 2015, the Company published an announcement, pursuant to which the Board decided on the potential disposal of all the 40% equity interest of Shanghai General Bearing Company Limited ("Shanghai General Bearing") (上海通用軸承有限公司) held by the Company. As at the date of this report, the Company did not enter into any legally-binding agreement or equity transfer agreement with any party in relation to the potential disposal.

On 30 December 2015, the Company amended regulations for the work of the audit committee and extended the duties and responsibilities of the audit committee in respect of the risk management of the Company.

On 18 March 2016, the Board resolved to establish a risk management committee, and considered and approved the terms of reference of the risk management committee.

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

EMPLOYEES

As at 31 December 2015, the Group had 4,424 (2014: 4,332) employees. The Company has implemented all statutory pension schemes required by local governments and incentive programs to motivate the performance of the staff as well as a series of training programs to facilitate the self-development of the staff.

In 2015, the total salary of the employees of the Group was RMB964 million, and the total social security cost was RMB245 million.

The Group does not have material reliance on minority employees.

INCENTIVE SCHEME

On 30 June 2015, in accordance with the incentive scheme approved by resolution adopted on 17 January 2014, the Company made distribution to eligible participants based on the amounts of profits distributable and actually available for distribution under the operating results of the Group for 2014.

Based on the operating results for 2015, a total amount of RMB28,880,000 can be used for the incentive scheme of the Group, and the actual amount of RMB25,985,000 can be distributed. The Company will make distribution and adjustment (if necessary) in accordance with the incentive scheme.

FUTURE PROSPECTS

In 2016, the economic conditions will remain difficult and uncertain. In the face of immense competition, the Group will strengthen its cooperation with Nedschroef. Benefiting from the synergistic effects of the Group and Nedschroef, our leading position in the regional markets will be fully utilized to explore the markets in China and Europe and expand the coverage of international sales networks. In addition, the Group will continue to reform and promote innovation so as to capture the opportunities brought by the development of sophisticated equipment manufacturing industry in China. The Group will speed up the upgrade of products and optimization of product mix. The Group will seek innovation and breakthrough so as to vitalize the development of the Group, create returns for shareholders and contribute more to the society.

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[1] (resigned on 10 October 2015)	58	Chairman
Zhou Zhiyan	52	Chairman and president
Zhang Jianping	59	Executive director
Zhu Xi	51	Executive director
Sun Wei	46	Executive director
Chen Hui	47	Executive director and vice president
Ling Hong	55	Independent non-executive director
Li Yin	52	Independent non-executive director
Chan Oi Fat	37	Independent non-executive director
Dong Jianhua[2]	50	Chairman of the supervisory committee
Yu Yun	47	Supervisor
Wei Li	44	Supervisor
Wang Pin	42	Chief financial officer
Li Wai Chung	38	Vice president and company secretary

Notes:

(1) On 10 October 2015, Mr. Wang Qiang resigned as the director, chairman of the board of directors and other relevant positions of the Company. The Company is currently handling relevant procedures of business filing. Meanwhile, as the board of directors elected Mr. Zhou Zhiyan as the chairman of the Company, he ceased to serve as the vice chairman of the Company. Mr. Zhou Zhiyan concurrently served as the president of the Company.

(2) On 10 October 2015, Mr. Dong Jianhua resigned as the supervisor and chairman of the supervisory committee of the Company, effective from the date of election of the new supervisor at the shareholders' general meeting of the Company. On the same day, the board of directors of the Company approved the proposal regarding the submission of the Proposed Appointment of Mr. Xu Jianguo as a Supervisor (non-employee representative) of the Company (《建議委任許建國先生為公司監事(非職工代表)的議案》) to the shareholders' general meeting of the Company. For the biography of Mr. Xu Jianguo, please see the announcement on Change of Chairman and Member and Chairman of Nomination Committee and Strategic Committee of the Board of Directors and Resignation of Chairman of Supervisory Committee and Proposed Appointment of Supervisor published by the Company on 11 October 2015.

DIRECTORS

Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is a chairman and president of the Company. Mr. Zhou joined the Company in 2005. From 2005 to 2007, he served as the chairman and executive director of the Company. He has served as the vice chairman, executive director and president of the Company since 2013. Mr. Zhou joined SEG in August 1983. He served as chief financial officer for the business department of SEG, deputy chief accountant of SEG, president of Shanghai Electric Industrial Corporation, head of investment management department, investment director and chief financial officer of Shanghai Electric Assets Management Company Limited, executive deputy head of overseas business department and head of financial budget department of SEG. Mr. Zhou 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 1992. He is a senior accountant.

Mr. Zhang Jianping

Mr. Zhang Jianping is an executive director, secretary of the Party Committee, chairman of labour union and secretary of the disciplinary committee of the Party of the Company. Mr. Zhang joined the Company in 2006. Since 2006, he has served as the vice chairman of the labour union, secretary of the Party Committee, chairman of labour union and secretary of the disciplinary committee of the Party of the Company. Mr. Zhou acted as supervisor of the Company from 2008 to December 2012 and has been appointed as executive director of the Company since December 2012. From 1984 to 2012, he served as chairman of the equipment & power section labour union, deputy head of branch one, vice chairman of the labour union and chairman of the labour union of Shanghai Tool Works Company Limited. Mr. Zhang graduated from East China University of Political Science and Law majored in economic law. He is a political affair officer.

Ms. Zhu Xi

Ms. Zhu Xi is an executive director of the Company as well as the head of the audit department, head of office of the supervisory committee and an employee representative supervisor of SEG, the head of the audit department of Shanghai Electric Company Limited, director of Shanghai Electric New Century Co., Ltd. and supervisor of Shanghai Electric Transmission & Distribution Group Co., Ltd. She has been appointed as an executive director of the Company since 2008. From 1986 to 1995, she served at the financial section of Shanghai Mechanical and Electrical Industry Administration Bureau. Ms. Zhu joined SEG in 2000. She served as deputy head of the funding and planning department, head of the budget section, deputy head of financial budget department, head of the audit department, head of office of the supervisory committee, employee representative supervisor and other positions of SEG, deputy head and head of the asset and finance department of Shanghai Electric Assets Management Company Limited, executive deputy head, head of the asset and finance department and head of the audit department of Shanghai Electric Group Company Limited, supervisor of Shanghai Electric Transmission & Distribution Group Co., Ltd. and director of Shanghai Electric New Century Co., Ltd. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University. She also obtained an EMBA degree from Arizona State University of America in June 2012. She is a senior accountant.

Mr. Sun Wei

Mr. Sun Wei is an executive director of the Company as well as the deputy head of the strategic planning department of SEG, head of the industrial development department of Shanghai Electric Group Company Limited and director of Shanghai Highly (Group) Co., Ltd. He has been appointed as an executive director of the Company since 2011. Mr. Sun joined SEG in 1993. He served as the vice president of Shanghai Faiveley Transportation Equipment Company Limited, manager of the industrial development department of Shanghai Electric Group Company Limited, assistant to president and vice president of Shanghai Rail Traffic Equipment Co., Ltd., president of Shielding Door Engineering Company Limited under Shanghai Rail Traffic Equipment Co., Ltd., deputy head and head of the strategic planning department of SEG, head of the industrial development department of Shanghai Electric Group Company Limited and director of Shanghai Highly (Group) Co., Ltd. Mr. Sun graduated from Shanghai Jiao Tong University with double bachelor's degree in industrial management, welding technology and equipment in 1993 and obtained a master degree in project management in 2010. He also obtained an EMBA degree from Arizona State University of America in June 2012. He is a senior engineer.

Mr. Chen Hui

Mr. Chen Hui is an executive director and vice president of the Company. Mr. Chen has joined the Company since 2005 and has served as the vice president, secretary to the Board and executive director of the Company. He joined SEG in July 1987 and served as director of Shanghai Zhenhua Bearing Factory (上海振華軸承總廠). Mr. Chen was also president of Shanghai Electric Bearings Company Limited. Mr. Chen graduated from Shanghai University with a degree in mechanical automation in 1996. He obtained an EMBA degree from Shanghai Jiao Tong University in 2014. He is an engineer, a senior economic engineer and vice chairman of China Bearing Industry Association (中國軸承工業協會).

Mr. Ling Hong

Mr. Ling Hong is an independent non-executive director of the Company as well as the head, professor and tutor of doctoral students of information management and information system department of the faculty of management in Fudan University, honourable 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). He has been appointed as an independent non-executive director of the Company since 2010. Mr. Ling is currently 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 an associate 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

Mr. Li Yin is an independent non-executive director of the Company as well as the head of China Construction Machinery Magazine and president of Beijing Green Media Co., Ltd. He has been appointed as an independent non-executive director of the Company since 2011. He worked as an editor and a reporter for the magazine of Agricultural Machinery of Chinese Academy of Agricultural Mechanization Research from 1984 to 1996 as well as vice chairman of that magazine from 1997 to 2001. From 2000 to 2001, Mr. Li served as deputy secretary general of China Construction Machinery Association. He has been working as head of China Construction Machinery Magazine and president of Beijing Green Media Co., Ltd. since 2001. Mr. Li graduated from China Agricultural University in 1984 with a bachelor degree in engineering. In 1996, he carried out further study in strategic manufacturing management for four months at the University of Warwick in Britain. He is a senior engineer.

Mr. Chan Oi Fat

Mr. Chan Oi Fat is an independent non-executive director of the Company as well as the chief financial officer and company secretary of Ta Yang Group Holdings Limited (Stock code: 1991) listed on the Main Board of the Stock Exchange in Hong Kong. He has been appointed as an independent non-executive director of the Company since 2014. 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.

SUPERVISORS

Mr. Dong Jianhua

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

Mr. Yu Yun

Mr. Yu Yun is a supervisor of the Company as well as the deputy secretary of Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union of Shanghai Tian An Bearing Company Limited. He has been appointed as a supervisor of the Company since 2012. From 1986 to 2001, he worked as deputy head of the training division, deputy secretary of the Youth League and vice chairman of the labour union of Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as director of the GM office, vice chairman of the labour union and manager of the human resources department of Shanghai Huatong Switch Co., Ltd. He has been deputy secretary of Communist Party, secretary of the disciplinary committee of the Party 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. He is a political affair officer.

Ms. Wei Li

Ms. Wei Li is a supervisor and vice chairlady of the labour union of the Company. She has been appointed as a supervisor of the Company since 2013. From July 1993 to July 2001, she was 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 technician, chairlady of the labour union and deputy secretary of the party sub-branch of the Department of the Technical Centre, head of Information Department of the Technical Centre, deputy head and head of Party-Masses Relationship department, chairlady of the labour union, assistant to secretary of the party committee and deputy secretary of the party committee of Shanghai Tool Works Company Limited since July 2001. Ms. Wei graduated from the Shanghai Second Polytechnic University, majoring in mechatronic engineering. She is an engineer.

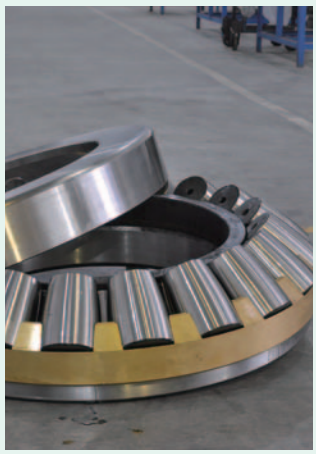
SENIOR MANAGEMENT

Mr. Wang Pin

Mr. Wang Pin has been the chief financial officer of the Company since he joined 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. He is a Certified Public Accountant in PRC and a member of the Chinese Institute of Certified Public Accountants.

Mr. Li Wai Chung

Mr. Li Wai Chung is a vice president, certified public accountant and secretary of the Company. He joined the Company and was appointed as certified public accountant and 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 auditing manager in Deloitte Touche Tohmatsu CPA Ltd. 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. He 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.



CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company") believes that good corporate governance is fundamental to the success of the Company. The Company has accordingly adopted various measures to ensure a high quality Board, effective internal control, strict compliance with relevant 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 to 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 2015 to 31 December 2015, but deviation from provision A.2.1 has been found.

Pursuant to provision A.2.1 of the CG Code, roles of the chairman and the president should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and the president 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. Zhou Zhiyan is the chairman and president of the Company. The Company has explained the obligation and responsibilities of the chairman to Mr. Zhou, and Mr. Zhou has acknowledged that he understood the obligation and responsibilities of various positions of a listed company. The Company will continue to seek for suitable candidate in order to separate the roles of the chairman and the president in full compliance with the CG Code.

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 CG Code and disclosure in the Corporate Governance Report, in accordance with the requirements set out in provision D.3.1 of the CG Code.

For the year ended 31 December 2015 (the "Year"), the Company were in compliance with relevant laws and regulations which are material to the Company.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company confirms that there was no amendment to the Articles of Association of the Company during the Year.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Board has adopted and implemented the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), as the code of conduct for directors' and supervisors' securities transactions of the Company and its subsidiaries (collectively the "Group"). All directors and supervisors 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' interests 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 10 October 2015, Mr. Wang Qiang ceased to be the executive director and the chairman of the Board. On the same day, Mr. Zhou Zhiyan was appointed as the chairman of the Board. Meanwhile, Mr. Zhou Zhiyan ceased to be the vice chairman. As at the date of this annual report, the Board consists of eight directors, including five 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 annual report, the members of the Board were listed as below:

Executive directors:
Mr. Zhou Zhiyan (Chairman and president)
Mr. Zhang Jianping
Ms. Zhu Xi
Mr. Sun Wei
Mr. Chen Hui

Independent non-executive directors:
Mr. Ling Hong
Mr. Li Yin
Mr. Chan Oi Fat

14 board meetings and 1 general meeting were held during the Year. Attendance of each director is summarized as follows:

	Number of Meeting		**Actual Attendance**		**Attendance Rate**	
Directors	**Board**	**General Meeting**	**Board**	**General Meeting**	**Board**	**General Meeting**
Mr. Wang Qiang (resigned on 10 October 2015)	11	1	11	0	100%	0%
Mr. Zhou Zhiyan	14	1	14	1	100%	100%
Mr. Zhang Jianping	14	1	14	1	100%	100%
Ms. Zhu Xi	14	1	14	1	100%	100%
Mr. Sun Wei	14	1	12	1	86%	100%
Mr. Chen Hui	14	1	14	1	100%	100%
Mr. Ling Hong#	14	1	14	1	100%	100%
Mr. Li Yin#	14	1	14	1	100%	100%
Mr. Chan Oi Fat#	14	1	13	1	93%	100%

\# 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:

	Corporate Governance/ Updates on Laws, Rules and Regulations	
Director	**Read Materials**	**Attended Seminars/ Briefings**
Wang Qiang (resigned on 10 October 2015)	✔	
Zhou Zhiyan	✔	✔
Zhang Jianping	✔	✔
Zhu Xi	✔	✔
Sun Wei	✔	
Chen Hui	✔	✔
Ling Hong	✔	✔
Li Yin	✔	✔
Chan Oi Fat	✔	

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 PRESIDENT

Pursuant to provision A.2.1 of the CG Code, roles of the chairman and the president should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and the president 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. Zhou Zhiyan is the chairman and the president of the Company. The Company has explained the obligation and responsibilities of the chairman to Mr. Zhou, and Mr. Zhou has acknowledged that he understood the obligations and responsibilities of various positions of a listed company. The Company will continue to seek for suitable candidate in order to separate the roles of the chairman and the president in full compliance with the CG Code.

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 making recommendations to the Board in relation to the remuneration policy and structure for directors, supervisors and senior management of the Company, evaluating the performance of executive directors and approving the terms of service contracts of executive directors and ensuring no executive directors or other associates participating 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 the date of this report, the remuneration committee currently consists of three members, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Li Yin. Mr. Ling Hong has been appointed as the chairman of the remuneration committee. All of them were elected as the independent non-executive directors of the Company at the annual general meeting held on 27 June 2014. All of them were appointed by the Board as members of the remuneration committee after their appointments as the independent non-executive directors were approved by the general meeting, and held office from 27 June 2014 to the date of the meeting for the election of the next session of the Board.

The remuneration committee held one meeting during the Year and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong (Chairman)	1	1
Mr. Chan Oi Fat	1	1
Mr. Li Yin	1	1

During the Year, the remuneration committee reviewed and approved the 2014 remuneration plan for directors and supervisors and the proposal regarding the vesting and exercise of equity incentives for 2014, submitted the 2015 remuneration proposal for directors and supervisors to the shareholders' general meeting for approval and ratified the proposal regarding the remuneration paid to directors and supervisors for 2014. The remuneration of directors and senior management is determined with reference to the performance and profitability of the Group as well as remuneration benchmarks from other domestic and overseas companies and prevailing market conditions.

The remuneration range of the senior management of the Company for the year ended 31 December 2015 is set out on page 162 of the financial report.

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 audited 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, Mr. Ling Hong and Mr. Li Yin. Mr. Chan Oi Fat has been appointed as the chairman of the audit committee. All of them were appointed by the Board as members of the audit committee after their appointments as the independent non-executive directors were approved by the general meeting, and held office from 27 June 2014 to the date of the meeting for the election of the next session of the Board.

The audit committee held two meetings during the Year and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Chan Oi Fat (Chairman)	2	2
Mr. Ling Hong	2	2
Mr. Li Yin	2	2

During the Year, the audit committee reviewed and approved the proposal regarding the appointment of auditors of the Company for 2015 and the interim financial report of 2015. The committee held two meetings 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 2015 have 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, The nomination committee comprises five members, namely Mr. Zhou Zhiyan, Mr. Zhang Jianping, Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Li Yin. Mr. Zhou Zhiyan has been appointed as the chairman of the nomination committee. Mr. Zhou Zhiyan held office from 10 October 2015 to the date of meeting for the election of the next session of the Board while other members of the nomination committee 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 (Resigned on 10 October 2015)	0	0
Mr. Zhou Zhiyan (Chairman)	0	0
Mr. Zhang Jianping	1	1
Mr. Chan Oi Fat	1	1
Mr. Ling Hong	1	1
Mr. Li Yin	1	1

The nomination committee has evaluated independency of independent non-executive directors and reviewed the appropriateness of the structure of the Board during the Year. Given that Mr. Zhou Zhiyan is the chairman and the president of the Company, the Company has already explained the obligation and responsibilities of the chairman to Mr. Zhou and will continue to seek for

suitable candidate in order to separate the roles of the chairman and the chief executive officer in full compliance with the CG Code.

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, the strategy committee comprises five members, namely Mr. Zhou Zhiyan, Ms. Zhu Xi, Mr. Sun Wei, Mr. Chen Hui and Mr. Li Yin. Mr. Zhou Zhiyan has been appointed as the chairman of the strategy committee. Mr. Zhou Zhiyan held office from 10 October 2015 to the date of the meeting for the election of the next session of the Board while other members 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 (Resigned on 10 October 2015)	1	1
Mr. Zhou Zhiyan (Chairman)	1	1
Ms. Zhu Xi	1	1
Mr. Sun Wei	1	1
Mr. Chen Hui	1	1
Mr. Li Yin	1	1

During the Year, the strategy committee has reviewed and approved the future development strategic plan of the Company.

Risk Management Committee

The risk management committee, established on 18 March 2016 as resolved by the Board, is a specialized unit established by the Board mainly responsible for the risk management of the Company.

As at the date of this report, the risk management committee comprises five members, namely Mr. Zhou Zhiyan, Mr. Zhang Jianping, Ms. Zhu Xi, Mr. Chan Oi Fat and Mr. Ling Hong. Mr. Zhou Zhiyan has been appointed as the chairman of the risk management committee. All of them were appointed as the members of the risk management committee by the Board on 18 March 2016 and held office until the date of meeting for the election of the next session of the Board.

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, Deloitte Touche Tohmatsu and its affiliate, is summarized as follows:

Remuneration for services	Paid/payable amount (In RMB million)
Audit service	5
Non-audit services	0

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 2015, 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 49.

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. The audit committee of the Company is mainly responsible for supervising the establishment and implementation of internal control. Through internal and external audits and communication, it provides suggestions on further improvement of internal control system to facilitate relevant business departments and units in implementing rectification measures in a timely manner, ensuring effective operation of internal control of the Company.

The internal control and securities department established by the audit committee of the Company monitors and improves all internal control policies and procedures put in place for risk identification, prevention and management. The Group's internal control system includes a management and organizational structure with explicit operating policies and procedures, delegated authority and limits of responsibility. The internal control system aims to safeguard the Group's asset, to maintain proper accounting records, to ensure the compliance with relevant laws and regulations and to manage and control various risks of the Group.

During the Year, the internal control and securities department continued to strengthen the setting of procedures and control in respect of control environment, risk evaluation, control activities, information and communication and on-going supervision in accordance with COSO internal control framework system and Guidelines for Enterprise Internal Control (企業內部控制配套指引). The Board regulated the business ethics of middle and senior management of the Company and its subsidiaries through the Personal Declaration of the Year (個人年度申明書). The Board also carried out comprehensive risk evaluation on subsidiaries and issued evaluation report to alert all levels of management to the operational risks. Through on-site inspection, the Board assessed the management of subsidiaries based on the

improvement suggestions made by the Company and urged subsidiaries to rectify existing problems. The Board also revised the Internal Control Standards of Shanghai Prime (集優內控流程標準) in accordance with the Application Guidelines for Enterprise Internal Control (企業內部控制應用指引) in order to further regulate the internal control of the Group and its subsidiaries.

During the Year, subsidiaries implemented the internal control and risk management system under the guidance of internal control and securities department of the Company, which further strengthened the internal control system of the whole Group and ensured effective supervision on daily operation by the headquarters. Through the above measures, the Board is fully updated with the current internal control of the Company and its subsidiaries, and believes that the Company has maintained effective internal control as at the date of this report.

The Company has provided education and training regarding the Listing Rules for supervisors, directors and middle and senior management of the newly acquired Nedschroef.

On 30 December 2015, the Company amended regulations for work of the audit committee and expanded the duties and responsibilities of the audit committee in respect of the risk management of the Company.

On 18 March 2016, the Board resolved to establish a risk management committee, and considered and approved the terms of reference of the risk management committee.

The Board acknowledges that it shall be responsible for risk management and internal control system and the evaluation of their effectiveness. The Company has relevant procedures and internal control measures for handling and publishing insider information.

RIGHTS OF SHAREHOLDERS

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

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

The procedures for convening an extraordinary general meeting or a meeting for a class of shares, upon request made by shareholders, are as below:

(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) 6472 9900.

3) Procedures for rendering advice on the general meetings

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

CORPORATE SOCIAL RESPONSIBILITY

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

- **Working environment of employees**

  The Group selects outstanding employees through evaluations on an annual basis and grants them with special incentives. It also pays sufficient funds to the labour union each year to support the employee welfare activities in accordance with the regulations.

  Adhering to its strategies and demand-oriented approach, the Group enhanced the development of training system by providing comprehensive trainings for its employees, including orientation and employee handbook for new employees, job-specific trainings for redeployment as well as selective training programs for personal development, which further facilitated the growth of human capital.

  The Company has provided various fitness facilities for its employees and organized performance-enhancing competitions from time to time every year to encourage the participation of all employees.

  During the Year, the office of the Company was relocated. The Company designed and implemented the office renovation plan according to actual needs, and organized environmental testing, which ensured a clean, practical and safe working environment for employees.

- **Community**

  The Group provided matching-up supports to the poverty-stricken villages in Zhuanghang Town, Fengxian District, Shanghai by providing special supports each year to improve living facilities of the poor villagers. Mr. Zhang Jianping, the Chairman of the labour union of the Group, guided relevant officers to make several visits to the poor villages to gain information of the situation and help alleviate the difficulties.

  The Group organizes charity fund-raising activities every year and has been granted honorary certificates and titles by various beneficial charitable organizations. On 17 October 2015, the Group participated in the annual "Amway Nutrilite Health and Charity Jogging Activity" as volunteer and sponsor. Mr. Zhang Jianping, the chairman of the labour union, organized over 150 runners of the Group participating in such activity, and all of the proceeds from the activity were donated to Shanghai Charity Fund Commission.

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

- **Environment**

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

  The Group has endeavoured to increase the green coverage of office premises, and established sewage and pollution treatment facilities to mitigate the negative impact on environment. The Group has established waste recycling system and formulated specific requirement on the production waste rate. Relevant responsibilities were directly allocated to individuals and remuneration-linked performance evaluations were carried out on such individuals.

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

  The above effective measures reflected the Group's consistent concepts of supporting environment preservation, pollution prevention and sustained improvement. Through further strengthening the establishment of corporate environment management system, the Group enhanced the corporate environment management.

- **Public and investors**

  The Group provided corporate website service for the public and investors to timely disclose the development of the Company, major arrangements of the Company, changes in directors, supervisors and senior management of the Company and other corporate information which the public and investors are concerned with.

  Public relations department with dedicated staff further promoted the communication between the Company and the public as well as investors.

- **Suppliers and consumers**

  The Company provided free product brochures and exhibition platforms for suppliers and consumers to strengthen the interaction between each other. Additionally, e-commerce platform was established to provide technical support for suppliers and customers to carry out online sales and procurement which simplified the procurement process of customers and reduced inventories of suppliers.

- **Technology development responsibility**

  In line with new trends of the current global technology development and in accordance with the development strategies of the Company, the Company continued to improve technology development planning and focused on investment in technology research, in order to further enhance the cost-efficiency of technology, and improve and refine the technology development system of the Group.

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 listing of the Company.

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 and attended annual investment conferences and road shows abroad of various financial institutions. 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
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman
Shanghai, the PRC
18 March 2016

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

Save as disclosed in the section headed "Directors', supervisors' and chief executives' interests and short positions in shares, underlying shares and debentures", as at 31 December 2015, 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 shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of total share capital of the Company (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
	H	53,208,000	(2)	Interest of controlled corporation	Long position	7.00	3.70
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	53,208,000	(1)(2)	Interest of controlled corporation	Long position	7.00	3.70
Shanghai Electric Group Hong Kong Company Limited	H	53,208,000	(1)(2)	Beneficial owner	Long position	7.00	3.70

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 and 53,208,000 H shares of the Company respectively 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 53,208,000 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.

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 2015 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

As at 31 December 2015, the interests or short positions of directors, supervisors or chief executives of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) which were required, pursuant to Section 352 of the SFO, to be registered in the register required to be kept by the Company; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Name of director	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
Zhou Zhiyan	H	392,000	(1)	Beneficial owner	Long position	0.05	0.00
Zhang Jianping	H	392,000	(1)	Beneficial owner	Long position	0.05	0.00
Chen Hui	H	219,500	(1)	Beneficial owner	Long position	0.03	0.00
Wei Li	H	219,700	(1)	Beneficial owner	Long position	0.03	0.00

Notes:

(1) Shares were awarded pursuant to the incentive scheme of the Company as adopted on 17 January 2014.

Save as disclosed above, as at 31 December 2015, none of the directors, supervisors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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 (the "Board") of directors (the "Directors") of Shanghai Prime Machinery Company Limited (the "Company ") hereby presents the report of the Directors and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015 (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 50 to the financial statements. During the Year, there were no significant changes in the Group's principal activities.

BUSINESS REVIEW

Contents	Page(s) in this annual report
A fair review of the business of the Company	Pages 12 to 16
Description of major risks and uncertainties faced by the Company	Page 18
Details of major issues which happened upon conclusion of this fiscal year and had impact on the Company	Page 20
The probable future business development of the Company	Pages 10 to 11, and page 20
The environment-related policies and performance of the Company	Page 35
The Company's compliance with relevant laws and regulations that have significant impact on it	Page 26
Details of important relationships of the Company and its employees, customers and suppliers	Page 41 and page 20

RESULTS AND DIVIDENDS

The Group's profit for the Year and the financial positions of the Company and the Group as at the end of the Year are set out in the financial statements on pages 51 to 54 of this annual report.

The Board proposed the payment of a final dividend of RMB3.20 cents (2014: RMB1.40 cents) per ordinary share in respect of the Year to shareholders whose names appear on the register of members of the Company on Monday, 13 June 2016. This recommendation has been incorporated as an allocation of retained profits within the equity section in the statement of financial position. The dividend will be distributed on 22 July 2016 subject to the approval of the shareholders at the annual general meeting of the Company to be held on 27 May 2016.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 18 to the financial statements.

SHARE CAPITAL

There were no movements in either authorised or issued share capital of the Company during the Year, the details of which are set out in note 39 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 Articles of Association of the Company 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 40 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB509 million, of which RMB46 million has been proposed as a final dividend for the Year. In addition, the Company's share premium account, in the amount of RMB693 million, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the Year, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

The Group does not have material reliance on minority customers or suppliers.

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) has any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

As at the date of this annual report, the Directors include executive Directors, namely 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 10 October 2015, Mr. Wang Qiang ceased to be an executive director and the chairman of the Board. On the same day, Mr. Zhou Zhiyan was appointed as the chairman of the Board.

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 annual report, the Company believes that the above independent non-executive Directors are independent.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors, supervisors (the "Supervisors") and senior management of the Company are set out on pages 22 to 25 of this 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and terminable by either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Apart from the foregoing, no Director has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' REMUNERATION

The Directors' and Supervisors' fees are determined and resolved by the remuneration committee of the Company 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 operating results of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No Director or Supervisor of the Company 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.

PERMITTED INDEMNITY

The Company has arranged sufficient and proper insurance for the Directors to better perform their responsibilities and risk aversion pursuant to provision A.1.8 of the Corporate Governance Code as contained in Appendix 14 to the Listing Rules. Save for the above, during the Year and as at the date of this annual report, the Company has no other provision of permitted indemnity (as defined in Section 470 of the Companies Ordinance).

MANAGEMENT CONTRACTS

Save for the employment contracts, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the Year.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, details of interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations registered by the Directors, Supervisors and chief executives of the Company are set out on page 38 of this report.

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 or Supervisor or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and Supervisors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the following persons had 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 of substantial shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of total share capital of the Company (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
	H	53,208,000	(2)	Interest of controlled corporation	Long position	7.00	3.70
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	53,208,000	(1)(2)	Interest of controlled corporation	Long position	7.00	3.70
Shanghai Electric Group Hong Kong Company Limited	H	53,208,000	(1)(2)	Beneficial owner	Long position	7.00	3.70

Details have been listed on page 37 of this annual report.

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 31 December 2015, the Group had continuing connected transactions entered into in accordance with the following agreements.

Framework Sales Agreement with Shanghai Electric (Group) Corporation "Shanghai Electric Corporation"

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 bearings, blades, cutting tools, fasteners and other related components 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 follows:

- 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 2014, 2015 and 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 2015 amounted to RMB23.9 million.

Framework Sales Agreement with Shanghai Electric Company

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 to 31 December 2016. The framework sales agreement is renewable upon expiry of the term. Either party may terminate the framework sales agreement, in part or in whole, by giving at least three months' notice in advance.

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 2014, 2015 and 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 2015 amounted to RMB354.6 million.

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 to 31 December 2016. The framework purchase agreement is renewable upon expiry of the term. Either party may terminate the framework purchase agreement, in part or in whole, by giving at least three months' notice in advance.

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

- 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 2014, 2015 and 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 2015 amounted to RMB0.2 million.

Third Supplemental Property Lease Agreement with Shanghai Electric Corporation

The Company entered into the third supplemental property lease agreement dated 30 October 2013 with Shanghai Electric Corporation (which supplement the original framework property lease agreement dated 31 March 2006, the first supplemental property lease agreement dated 25 April 2008 and the second supplemental property lease agreement dated 12 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 2014, 2015 and 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 2015 was RMB24.0 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 Corporation, pursuant to which Shanghai Electric Corporation and its associates agreed to provide the services of freight transportation, collection and payment of water, electricity and gas charges on agency basis, systemic services and other services to the Group. The pricing basis of the Framework Comprehensive Service Agreement shall be in the order of standards as follows:

- 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 2014, 2015 and 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 2015 was RMB0.3 million.

Framework Purchase Agreement with Shanghai Electric Company

The Company entered into a framework purchase agreement dated 30 October 2013 with Shanghai Electric Company, pursuant to which the Group agreed to purchase certain raw materials, spare parts and other related or similar items, from Shanghai Electric Company and its associates. This framework purchase agreement covers a period of 3 years from 1 January 2014 to 31 December 2016. The framework purchase agreement is renewable upon expiry of the term. Either party may terminate the framework purchase agreement, in part or in whole, by giving at least three months' notice in advance.

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 2014, 2015 and 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 2015 amounted to RMB0.0 million.

The independent non-executive Directors have reviewed aforementioned continuing connected transactions and confirmed that the transactions 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.

The independent auditor of the Company has conducted the review procedures to the above continuing connected transactions and confirmed that:

(i) nothing has come to their attention that causes them to believe that the above continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) with respect to the aggregate amount of each of the above continuing connected transactions, nothing has come to their attention that cause them to believe that such transactions have exceeded the annual cap as set by the Company.

Save as disclosed in this annual report, there are no connected transactions that are required to be disclosed by the Company under the relevant requirements of Chapter 14A of the Listing Rules during the Year.

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 annual 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 51 to the financial statements.

INDEPENDENTS AUDITORS

Deloitte Touche Tohmatsu will retire according to the Articles of Association of the Company. The reappointment of Deloitte Touche Tohmatsu as the auditors of the Company will be proposed at the forthcoming annual general meeting.

The retirement of Ernst & Young, which had served the Company, and the appointment of Deloitte Touche Tohmatsu as the auditors of the Company were approved at the annual general meeting of the Company held on 5 June 2015.

By order of the Board
Zhou Zhiyan
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
18 March 2016

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the year ended 31 December 2015 (the "Year"), the supervisory committee (the "Supervisory Committee") of Shanghai Prime Machinery Company Limited (the "Company") has convened two 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 Stock Exchange of Hong Kong Limited (the "Listing Rules"), and has actively and effectively carried out all its duties with diligence and prudence, and has supervised all operating and management activities of the Company in a legal, timely and effective manner in compliance with the Company's Standing Order of the supervisory committee, effectively protected the interests of our shareholders and the Company.

During the Year, the Supervisory Committee has attended one general meeting and 14 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 auditors' report and provided justifiable advice. 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 2015, 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 auditors 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 of the Company during the Year are fair, reasonable, impartial and without prejudice to the interests of other shareholders of the Company, while all continuing connected transactions have not exceed the approved annual cap during 2015.

- The Supervisory Committee has supervised duty fulfillment of the Directors and management of the Company, and considers that the Directors, presidents and other senior management of the Company have exercised every right granted by shareholders of the Company and discharged every duty in strict compliance with the principle of diligence and good faith. The Supervisory Committee is not aware of any abuse of authority which impairs our shareholders' interests and the legitimate rights of our employees until the date of this annual report.

In 2016, 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 Articles of Association of the Company and the Listing Rules. With dedication to protecting the interests of the Company and its shareholders, the Supervisory 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
18 March 2016

TO THE SHAREHOLDERS OF SHANGHAI PRIME MACHINERY COMPANY LIMITED
(incorporated in the People's Republic of China as a joint stock company with limited liability)

We have audited the consolidated financial statements of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 168, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's judgment, 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 auditor considers internal control relevant to the entity's preparation of the 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2015.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

18 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Notes	2015 RMB'000	2014 (Restated) RMB'000
Continuing operations			
Revenue	6	**7,126,763**	4,664,675
Cost of sales		**(5,638,513)**	(3,730,800)
Gross profit		**1,488,250**	933,875
Other income and other gains and losses	6	**132,739**	135,978
Selling and distribution expenses		**(363,596)**	(256,564)
Administrative expenses		**(569,616)**	(453,663)
Research expenditure		**(264,963)**	(111,569)
Other expenses	8	**(8,594)**	(41,911)
Finance costs	9	**(143,902)**	(90,136)
Share of profits (losses) of associates		**19,178**	(38)
Share of loss of a joint venture		**(1,306)**	–
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	13	**288,190**	115,972
Income tax expense	10	**(96,727)**	(20,361)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**191,463**	95,611
Discontinued operations			
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	11	**(4,479)**	(14,933)
PROFIT FOR THE YEAR		**186,984**	80,678
Profit (loss) for the year attributable to owners of the Company			
— Continuing operations		**188,618**	93,059
— Discontinued operations		**(2,911)**	(12,447)
		185,707	80,612
Profit (loss) for the year attributable to non-controlling interests			
— Continuing operations		**2,845**	2,552
— Discontinued operations		**(1,568)**	(2,486)
		1,277	66
		186,984	80,678

	Notes	2015 RMB'000	2014 (Restated) RMB'000
Other comprehensive expense	12		
Item that will not be subsequently reclassified to profit or loss:			
Re-measurement of defined benefit pension plans		**(1,284)**	11,177
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(155,736)**	(150,703)
Fair value adjustment on interest rate swap contracts designated as hedging instruments		**(1,608)**	(3,271)
Income tax relating to components of other comprehensive expense		**402**	842
Other comprehensive expense for the year, net of income tax		**(158,226)**	(141,955)
TOTAL COMPREHENSIVE INCOME (EXPENSES) FOR THE YEAR		**28,758**	(61,277)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**27,651**	(61,372)
Non-controlling interests		**1,107**	95
		28,758	(61,277)
EARNINGS PER SHARE	17		
From continuing and discontinued operations			
Basic (RMB cents)		**13.13**	5.60
Diluted (RMB cents)		**13.10**	n/a
From continuing operations			
Basic (RMB cents)		**13.33**	6.47
Diluted (RMB cents)		**13.30**	n/a

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015

	Notes	2015 RMB'000	2014 (Restated) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**2,404,534**	2,406,730
Prepaid lease payments	19	**142,839**	146,313
Goodwill	20	**1,378,452**	1,473,545
Intangible assets	21	**26,433**	217,052
Interest in a joint venture		**1,909**	1,484
Interests in associates	22	**160,575**	179,727
Available-for-sale investments	23	**872**	872
Long-term prepayments		**–**	572
Deferred tax assets	24	**152,710**	176,351
		4,268,324	4,602,646
CURRENT ASSETS			
Prepaid lease payments	19	**3,474**	3,474
Inventories	25	**1,546,678**	1,457,020
Trade receivables	26	**1,296,992**	1,268,462
Bills receivable	27	**466,989**	501,474
Prepayments, deposits and other receivables	28	**234,778**	230,022
Restricted deposits	29	**97,771**	86,730
Bank balances and cash	29	**908,962**	1,035,335
		4,555,644	4,582,517
CURRENT LIABILITIES			
Trade payables	30	**1,332,247**	1,396,870
Bills payable	31	**349,757**	325,047
Other payables and accruals	32	**423,728**	467,736
Derivative financial instruments		**4,725**	3,239
Tax liabilities		**72,314**	74,352
Government grants	33	**14,159**	15,606
Company bonds	34	**–**	496,117
Bank borrowings	35	**190,536**	150,455
		2,387,466	2,929,422
NET CURRENT ASSETS		**2,168,178**	1,653,095
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,436,502**	6,255,741

	Notes	2015 RMB'000	2014 (Restated) RMB'000
NON-CURRENT LIABILITIES			
Shareholders' loan	36	**1,599,133**	1,682,725
Company bonds	34	**497,580**	–
Bank borrowings	35	**739,846**	851,056
Government grants	33	**243,363**	266,730
Other long-term payables		**29,133**	18,240
Deferred tax liabilities	24	**28,865**	85,547
Retirement benefit obligations	37	**100,749**	103,193
		3,238,669	3,007,491
NET ASSETS		**3,197,833**	3,248,250
CAPITAL AND RESERVES			
Share capital	39	**1,438,286**	1,438,286
Reserves		**1,716,417**	1,703,848
Total equity attributable to owners of the Company		**3,154,703**	3,142,134
Non-controlling interests		**43,130**	106,116
TOTAL EQUITY		**3,197,833**	3,248,250

The consolidated financial statements on pages 51 to 168 were approved and authorised for issue by the board of directors on 18 March 2016 and are signed on its behalf by:

Zhou Zhiyan
DIRECTOR

Zhang Jianping
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

	Attributable to owners of the Company													
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Contributed surplus RMB'000 (Note b)	Share-based payments reserves RMB'000	Surplus reserves RMB'000 (Note c)	Hedge reserves RMB'000 (Note d)	Actuarial reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Foreign currency translation difference RMB'000 (Note e)	Share held for Incentive Scheme (defined in note 38) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015	1,438,286	702,945	16,408	–	273,117	(2,429)	11,177	833,226	20,136	(150,732)	–	3,142,134	106,116	3,248,250
Profit for the year	–	–	–	–	–	–	–	185,707	–	–	–	185,707	1,277	186,984
Other comprehensive expense for the year	–	–	–	–	–	(1,206)	(1,284)	–	–	(155,566)	–	(158,056)	(170)	(158,226)
Total comprehensive (expense) income for the year	–	–	–	–	–	(1,206)	(1,284)	185,707	–	(155,566)	–	27,651	1,107	28,758
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(2,000)	(2,000)
Final 2014 dividend paid	–	–	–	–	–	–	–	325	(20,136)	–	–	(19,811)	–	(19,811)
Proposed final 2015 dividend	–	–	–	–	–	–	–	(46,025)	46,025	–	–	–	–	–
Appropriation of statutory reserves	–	–	–	–	23,252	–	–	(23,252)	–	–	–	–	–	–
Acquisition of Shanghai Tianhong Miniature Bearing Co., Ltd ("Shanghai Tianhong")	–	–	–	–	–	–	–	–	–	–	–	–	2,283	2,283
Disposal of Shanghai Cyeco Technology Co., Ltd. ("Cyeco Environmental")	–	–	34,379	–	–	–	–	–	–	–	–	34,379	(64,376)	(29,997)
Disposal of Shanghai Dalong Machinery Factor Company Limited ("Dalong Machinery")	–	–	(318)	–	–	–	–	–	–	–	–	(318)	–	(318)
Purchase of shares for Incentive Scheme (defined in note 38)	–	–	–	–	–	–	–	–	–	–	(30,425)	(30,425)	–	(30,425)
Recognition of equity-settled share-based payments	–	–	–	1,093	–	–	–	–	–	–	–	1,093	–	1,093
Balance at 31 December 2015	1,438,286	702,945	50,469	1,093	296,369	(3,635)	9,893	949,981	46,025	(306,298)	(30,425)	3,154,703	43,130	3,197,833

for the year ended 31 December 2014

	Attributable to owners of the Company												
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Contributed surplus RMB'000 (Note b)	Special reserves RMB'000	Surplus reserves RMB'000 (Note c)	Hedge reserves RMB'000 (Note d)	Actuarial reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Foreign currency translation difference RMB'000 (Note e)	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014	1,438,286	702,945	17,329	5,491	253,155	–	–	787,182	16,684	–	3,221,072	36,006	3,257,078
Profit for the year	–	–	–	–	–	–	–	80,612	–	–	80,612	66	80,678
Other comprehensive expense for the year	–	–	–	–	–	(2,429)	11,177	–	–	(150,732)	(141,984)	29	(141,955)
Total comprehensive (expense) income for the year	–	–	–	–	–	(2,429)	11,177	80,612	–	(150,732)	(61,372)	95	(61,277)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(200)	(200)
Final 2013 dividend paid	–	–	–	–	–	–	–	–	(16,684)	–	(16,684)	–	(16,684)
Proposed final 2014 dividend	–	–	–	–	–	–	–	(20,136)	20,136	–	–	–	–
Appropriation of statutory reserves	–	–	–	–	19,962	–	–	(19,962)	–	–	–	–	–
Acquisition of Cyeco Environmental	–	–	–	–	–	–	–	–	–	–	–	68,333	68,333
Acquisition of Nedfast Investment B.V. ("Nedfast")	–	–	–	–	–	–	–	–	–	–	–	1,882	1,882
Disposal of Shanghai Electric Insulating Materials Company Limited ("Shanghai Insulating")	–	–	(502)	(5,491)	–	–	–	5,530	–	–	(463)	–	(463)
Disposal of Dalong Machinery	–	–	(419)	–	–	–	–	–	–	–	(419)	–	(419)
Balance at 31 December 2014	1,438,286	702,945	16,408	–	273,117	(2,429)	11,177	833,226	20,136	(150,732)	3,142,134	106,116	3,248,250

Notes:

(a) Capital reserve

The capital reserve of the Group includes the Company's share premium and the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations of the People's Republic of China (the "PRC").

(b) 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 (Group) Corporation ("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 Company and the then carrying value of the Company's interest in the associate upon the establishment of the Company.

(c) 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, until the statutory common reserve balance reaches 50% of the registered capital. 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, provided that the statutory common reserve balance is maintained at a minimum of 25% of the registered 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.

(d) Hedge reserve

The hedge reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for hedge of cash flow.

(e) Foreign currency translation difference

Foreign currency translation difference represents (1) the exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency, which are recognised directly in other comprehensive income (expense) and accumulated in the foreign currency translation difference and will be reclassified to profit or loss on the disposal of the foreign operations (2) the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments entered into for hedge of a net investment in the foreign operations, which is recognised directly in other comprehensive income (expense) and accumulated in the foreign currency translation difference and will be reclassified to profit or loss when the hedged foreign operations is disposed or partially disposed.

(f) 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 RMB508,615,000 (2014: RMB435,614,000), of which RMB46,025,000 (2014: RMB20,136,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB692,553,000 (2014: RMB692,553,000) may be distributed in the form of fully paid bonus shares.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	Notes	2015 RMB'000	2014 (Restated) RMB'000
OPERATING ACTIVITIES			
Profit before tax		282,232	98,997
Adjustments for:			
Finance costs	9	143,902	90,136
Share of loss of a joint venture		1,306	–
Share of profits (losses) of associates		(19,178)	(136)
Other interest income from other current assets		–	(922)
Discount on acquisition of subsidiaries	6	(11,468)	–
Hedge ineffectiveness in net investment hedges	6	14,942	–
Dividend income from available-for-sale investments	6	–	(60)
Gain on disposal of items of property, plant and equipment, net	6	(4,230)	(11,674)
Gain on disposal of subsidiaries	6	–	(21,191)
Gain on write-back of payables	6	(7,577)	(550)
Depreciation of property, plant and equipment		262,882	198,704
Release of prepaid lease payments		3,474	3,474
Amortisation of intangible assets		26,829	21,084
Impairment (reversal) of allowance on trade and other receivables		8,757	(2,751)
Impairment of property, plant and equipment		2,760	87
Write-down of inventories to net realisable value		30,131	35,609
Release of deferred income related government grants		(24,815)	(25,995)
Recognition of equity-settled share-based payments		1,093	–
Operating cash flows before movements in working capital		711,040	384,812
Increase in inventories		(122,761)	(49,169)
(Increase) decrease in trade receivables		(33,285)	4,520
Decrease (increase) in bills receivable		32,964	(117,023)
Increase in prepayments, deposits and other receivables		(44,050)	(2,543)
(Decrease) increase in trade payables		(63,720)	108,528
Increase in bills payable		24,710	48,484
Decrease in other payables and accruals		(69,834)	(37,571)
Increase in other long-term payables		5,069	18,298
Cash generated from operations		440,133	358,336
Income taxes paid		(87,945)	(60,527)
NET CASH FROM OPERATING ACTIVITIES		352,188	297,809

	Notes	2015 RMB'000	2014 (Restated) RMB'000
INVESTING ACTIVITY			
Dividend income from available-for-sale investments	6	–	60
Dividends received from associates		16,235	46,733
Purchase of property, plant and equipment		(253,260)	(195,540)
Proceeds from disposal of property, plant and equipment		11,931	26,536
Purchases of intangible assets		(1,368)	(17,067)
Acquisition of subsidiaries	41	(63,124)	(1,205,008)
Increase in investments in a joint venture		(1,793)	(1,543)
Proceeds from disposal of financial product investments (acquisition of other current assets)		31,000	(31,000)
Disposal of subsidiaries	42	159,526	91,927
Disposal of an associate	22	21,922	–
Withdrawal of non-restricted deposits with original maturity of over three months		339,800	181,082
Placement of non-restricted deposits with original maturity of over three months		(75,776)	(284,524)
Withdrawal of restricted bank deposits		86,730	39,673
Placement of restricted bank deposits		(97,771)	(86,730)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		174,052	(1,435,401)

	Notes	2015 RMB'000	2014 (Restated) RMB'000
FINANCING ACTIVITIES			
Repurchase of shares for Incentive Scheme		**(30,425)**	–
Bank borrowings and shareholders' loan and shareholders' loan obtained		**810,048**	1,462,289
Repayment of bank borrowings and shareholders' loan		**(1,004,772)**	(180,640)
Dividends paid		**(19,811)**	(16,684)
Dividends paid to non-controlling interests		**(2,000)**	(200)
Interest paid		**(154,439)**	(65,514)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(401,399)**	1,199,251
NET INCREASE IN CASH AND CASH EQUIVALENTS		**124,841**	61,659
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**750,812**	703,607
Effect of foreign exchange rate changes		**12,809**	(14,454)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**888,462**	750,812
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**908,962**	1,035,335
Less: non-restricted time deposits with original maturity of over three months when acquired		**20,500**	284,523
Cash and cash equivalents as stated in the statement of cash flows		**888,462**	750,812

1. GENERAL

Shanghai Prime Machinery Company Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group") is a joint stock limited liability company incorporated in the PRC on 30 September 2005. Its parent and ultimate holding parent is Shanghai Electric Corporation, a state-owned enterprise established in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activities of the Group are 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.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

During the year, the Group completed its disposal of the entire 65% equity interest in a subsidiary and entire 20% equity interest in an associate which were engaged in the production and sale of general machinery (the "General Machinery Operations" or "Discontinued Operations") to Shanghai Electric Industrial Company Limited ("SEI") and Shanghai Electric Corporation. The Group has discontinued the General Machinery Operations following the disposal and since then the Group is principally engaged 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. The accompanying consolidated financial statements and the comparative figures have been prepared to reflect the results of the discontinued business separately. Details of the discontinued operations were set forth in note 11.

Certain comparative figures have been reclassified to conform with current year's presentation, which in the opinion of the directors, provides for better presentation to the consolidated financial statements. The effect of the reclassifications on the financial positions of the Group as at 31 December 2014 and 1 January 2014 is as follows:

2. BASIS OF PREPARATION (continued)

	As at 01/01/2014 (Originally stated) RMB'000	RMB'000	As at 01/01/2014 (Restated) RMB'000	As at 31/12/2014 (Originally stated) RMB'000	RMB'000	As at 31/12/2014 (Restated) RMB'000
CURRENT ASSETS						
Prepaid lease payments	–	3,474	3,474	–	3,474	3,474
Prepayments, deposits and other receivables	153,840	(3,474)	150,366	233,496	(3,474)	230,022
	153,840	–	153,840	233,496	–	233,496
CURRENT LIABILITIES						
Other payables and accruals	307,720	–	307,720	471,275	(3,539)	467,736
Government grants	–	15,168	15,168	–	15,606	15,606
Company bonds	–	–	–	–	496,117	496,117
	307,720	15,168	322,888	471,275	508,184	979,459
NON-CURRENT LIABILITIES						
Company bonds	494,704	–	494,704	496,117	(496,117)	–
Government grants	290,318	(15,168)	275,150	278,206	(11,476)	266,730
Other long-term payables	408	–	408	18,831	(591)	18,240
	785,430	(15,168)	770,262	793,154	(508,184)	284,970
Total effects on net assets	939,310	–	939,310	1,497,925	–	1,497,905
Total effects on equity	939,310	–	939,310	1,497,925	–	1,497,905

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2010–2012 Cycle*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2011–2013 Cycle*

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior year and/or on the disclosures set out in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 16	Leases[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2016.
4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirement for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 Financial Instruments (continued)

Key requirements of HKFRS 9: (continued)

- Debt instruments that are held within a business model whose objective is archived both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt instruments and equity instruments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Company anticipate that the adoption of HKFRS 9 in the future may have an impact on the classification and measurement of the Group's financial assets and financial liabilities. However, the management is still in progress of assessing the impact of HKFRS 9 and it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors of the Company will assess the impact of the application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligations satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligations is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provision of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transaction between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transactions basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specifies in another HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

A subsidiary is an entity controlled by the Company. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Investments in subsidiaries included in the Company's statement of financial position is at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivables during the year.

Interests in associates and a joint venture

An associate is an entity over which the Group has 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 joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates and a joint venture (continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from sales of goods is recognised when the goods are delivered and titles have passed, at which time all of the following criteria are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

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.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and managing an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation difference (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as liability in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs

Payments to defined contributions retirement benefits plans, state-managed retirement benefit schemes and Mandatory Provident Fund Scheme ("MPF Scheme"), are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by apply the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two component of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plan. Any surplus resulting from the calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contribution to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognised any related restructuring cost.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for that related service.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 38 to the Group's consolidated financial statements.

The fair value determined at the grant date of the equity-settle share-based payments is expensed on a straight-line basis, over the vesting period, based on the Group's estimate of equity instruments that will eventually vested, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax for the year

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax for the year (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purpose (i.e. construction in progress) are carried at cost, less any recognised impairment loss, if any. Costs include professional fees and, for qualifying assets, borrowing costs. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Internally-generated intangible assets — research and development expenditure (continued)

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss in the period when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible and intangible assets other than goodwill (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sale of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, bills receivable and other receivables, restricted bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of loans and receivables below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. For AFS equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Objective evidence of impairment of loans and receivables could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loan and receivable is reduced by the impairment loss directly for all loan and receivable with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Other financial liabilities

Other financial liabilities of the Group including trade payables, bills payable, other payables, company bonds and bank borrowings are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative financial instruments is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivative

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to host of the host contracts and the host contracts are not measured at FVTPL.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges and hedges of net investments in foreign operations.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedge reserves. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss 'other income and other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the values in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill at 31 December 2015 was RMB1,378,452,000 (2014: RMB1,473,545,000). Further details are set out in note 20.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

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.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 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 2015, the best estimate of the carrying amount of capitalised development costs was RMB21,326,000 (2014: RMB185,290,000).

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on assessment of their recoverability. The identification of impairment of trade 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. As at 31 December 2015, the carrying amount of trade receivables is RMB1,296,992,000 (net of allowance for doubtful debts of RMB53,068,000) (2014: carrying amount of RMB1,268,462,000, net of allowance for doubtful debts of RMB58,628,000).

Deferred tax assets for tax losses

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 2015 was RMB46,395,000 (2014: RMB59,361,000). The amount of unrecognised tax losses at 31 December 2015 was RMB181,307,000 (2014: RMB206,741,000). Further details are set out in note 24.

6. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

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 the Group's revenue, other income and other gains and losses for the year from continuing operation is as follows:

	2015 RMB'000	2014 (Restated) RMB'000
Revenue		
Sales of goods	7,072,256	4,598,562
Rending of services	54,507	66,113
	7,126,763	4,664,675
Other Income		
Dividend income from available-for-sale investments	–	60
Interest income from bank balances and deposits	13,070	17,897
Net rental income (Note i)	547	525
Government grants (Note ii)	51,698	25,770
Compensation income (Note iii)	5,172	975
Technology service income	4,185	13,837
Recovery freight and package	2,041	3,152
Commissions	2,979	–
Others	8,188	4,881
	87,880	67,097
Other gains and losses		
Sales of spare parts, scrap materials and semi-finished goods	77,711	93,899
Less: costs related to sales of spare parts, scrap materials and semi-finished goods	(48,642)	(69,007)
	29,069	24,892
Net gain on disposal of items of property, plant and equipment	4,230	11,674
(Allowance for) reversal of allowance for doubtful debts	(8,544)	2,207
Impairment of property, plant and equipment recognised	(2,760)	(87)
Hedge ineffectiveness in net investment hedges	(14,942)	–
Foreign exchange gain	20,056	12,666
Foreign exchange loss	(1,295)	(4,212)
Gain on disposal of subsidiaries	–	21,191
Gain on write-back of payables	7,577	550
Gain on acquisition of subsidiaries	11,468	–
	44,859	68,881
	132,739	135,978

Note:

(i) Gross rental income is disclosed in note 13.

(ii) The government grants from continuing operation represent the amount received from the local governments by the PRC entities of the Group. Government grants of approximately (a) RMB36,092,000 (2014: RMB10,602,000) represent incentive received in relation to the government's financial support for the Group's business development in the PRC with the conditions which have been satisfied and (b) RMB15,606,000 (2014: RMB15,168,000) represents subsidy on machineries acquisition of machineries amortised to profit or loss for the year.

(iii) Compensation income mainly included compensation for relocation of RMB3,425,000 received from Shanghai Electric Corporation.

7. SEGMENT INFORMATION

For the management purpose, the Group is organised into business units based on their products and services and has five reportable operating segments under HKFRS 8 as follows:

(i) the bearing segment is engaged in the production and sale of bearings;

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

(iii) the cutting tool segment is engaged in the production and sale of cutting tools and processing services;

(iv) the fastener segment is engaged in the production and sale of fasteners and testing services;

(v) "Others" refers to the Group's investment in one of the associates, which engages in the production and sale of carbolic products.

However, in the prior year, the Group also has its reportable and operating segment in the General Machinery Operations, which was discontinued along with Group's disposal of its 65% owned subsidiary and a 20% owned associate during the year. The segment information does not include any amounts for these discontinued operations, which are described in more detail in note 11.

For the purposes of monitoring segment performance and allocating resources between segments:

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 are transacted at prevailing market prices.

7. SEGMENT INFORMATION (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segments.

For the year ended 31 December 2015

Continuing operations	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment revenue						
Sales to external customers	782,522	924,967	515,057	4,904,217	–	7,126,763
Inter-segment sales	858	–	1,907	–	–	2,765
Subtotal	783,380	924,967	516,964	4,904,217	–	7,129,528
Eliminations						(2,765)
Group revenue						7,126,763
Segment profit	50,015	53,150	69,194	286,704	–	459,063
Interest and dividend income and unallocated gains						28,804
Corporate and other unallocated expenses						(73,647)
Finance costs						(143,902)
Share of profit (losses) of associates	8,443	–	(1,608)	–	12,343	19,178
Share of loss of a joint venture	–	–	–	(1,306)	–	(1,306)
Profit before tax from continuing operations						288,190

7. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2014

Continuing operations	Bearing	Turbine blade	Cutting tool	Fastener	Others	Total
						(Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue						
Sales to external customers	846,138	856,330	630,177	2,332,030	–	4,664,675
Inter-segment sales	1,105	–	–	815	–	1,920
Subtotal	847,243	856,330	630,177	2,332,845	–	4,666,595
Eliminations						(1,920)
Group revenue						4,664,675
Segment profit	30,180	43,546	90,593	56,103	–	220,422
Interest and dividend income and unallocated gains						49,450
Corporate and other unallocated expenses						(63,726)
Finance costs						(90,136)
Share of profits (losses) of associates	6,161	–	(336)	–	(5,863)	(38)
Profit before tax from continuing operations						115,972

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of interest and dividend income and unallocated gains, mainly represents exchange gains, while corporate and other unallocated expenses mainly include administrative expenses of headquarter, finance costs and share of profits (losses) of associates and share of losses of a joint venture. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

7. SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities from continuing operations by reportable and operating segments.

At 31 December 2015

Continuing operations	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets						
Assets	1,188,120	2,632,702	623,759	4,076,120	–	8,520,701
Eliminations of inter-segment receivables						(2,552,178)
Total segment assets						5,968,523
Interests in associates	82,136	–	16,855	–	61,584	160,575
Interest in a joint venture	–	–	–	1,909	–	1,909
Corporate and other unallocated assets						2,692,961
Consolidated assets						8,823,968
Segment liabilities						
Liabilities	387,275	1,556,979	151,576	2,484,384	–	4,580,214
Eliminations of inter-segment payables						(2,552,178)
Total segment liabilities						2,028,036
Corporate and other unallocated liabilities						3,598,099
Consolidated liabilities						5,626,135

7. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

At 31 December 2014

Continuing operations	Bearing	Turbine blade	Cutting tool	Fastener	Others	Total (Restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets						
Assets	1,248,626	2,591,228	669,761	4,185,750	–	8,695,365
Eliminations of inter-segment receivables						(2,542,956)
Total segment assets						6,152,409
Assets relating to discontinued operations						267,388
Interests in associates	99,952	–	18,463	–	38,794	157,209
Interest in a joint venture	–	–	–	1,484	–	1,484
Corporate and other unallocated assets						2,606,673
Consolidated assets						9,185,163
Segment liabilities						
Liabilities	493,457	1,504,051	207,523	2,693,399	–	4,898,430
Eliminations of inter-segment payables						(2,542,956)
Total segment liabilities						2,355,474
Liabilities relating to discontinued operations						56,735
Corporate and other unallocated liabilities						3,524,704
Consolidated liabilities						5,936,913

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable and operating segments, other than property, plant and equipment, intangible assets of headquarter, goodwill and assets relating to discontinued operations; and
- all liabilities, other than bank borrowings, shareholders' loan and liabilities relating to discontinued operations.

7. SEGMENT INFORMATION (continued)

Other segment information

For the year ended 31 December 2015

Continuing operations	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Segment Subtotal RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets	21,673	74,389	21,568	127,115	244,745	8,911	253,656
Depreciation and amortisation	42,247	96,612	26,398	107,601	272,858	5,633	278,491
Impairment loss on property, plant and equipment recognised in profit or loss and other comprehensive income	–	–	871	1,889	2,760	–	2,760
Impairment loss on other receivables recognised (reversed) in profit or loss	8,027	404	(114)	227	8,544	–	8,544
(Gain) loss on disposal of property, plant and equipment	(134)	102	(1,761)	(2,437)	(4,230)	–	(4,230)
Allowance for (reversal of allowance for) inventories	2,936	6,668	(3,927)	24,454	30,131	–	30,131
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:							
Income tax expense	7,538	1,018	9,543	78,628	96,727	–	96,727

7. SEGMENT INFORMATION (continued)

Other segment information (continued)

For the year ended 31 December 2014

Continuing operations	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Segment Subtotal RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:							
Addition to non-current assets	21,476	34,096	14,734	125,390	195,696	12,571	208,267
Depreciation and amortisation	35,484	92,356	29,298	50,519	207,657	1,684	209,341
Impairment loss on property, plant and equipment recognised in profit or loss and other comprehensive income	87	–	–	–	87	–	87
Impairment losses on other receivables recognised (reversed) in profit or loss	(932)	1,336	(150)	(1,934)	(1,680)	(527)	(2,207)
(Gain) loss on disposal of property, plant and equipment	348	(628)	(2,008)	(9,386)	(11,674)	–	(11,674)
Allowance for inventories	2,990	26,530	2,617	3,472	35,609	–	35,609
Amounts regularly provided to the chief operating decision maker but not included in the the measure of segment profit or loss or segment assets:							
Income tax expense (credit)	6,425	(345)	12,991	1,290	20,361	–	20,361

7. SEGMENT INFORMATION (continued)

Geographical information

Information about the Group's revenue from continuing operations from external customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets and excludes those relating to discontinued operations and excluded interest in a joint venture, interests in associates, available-for-sale investment, financial instruments and deferred tax assets.

	Revenue from external customers		Non-current assets	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC	**2,099,487**	2,256,708	**1,901,899**	1,984,124
Outside PRC	**5,027,276**	2,407,967	**2,057,299**	2,078,775
	7,126,763	4,664,675	**3,959,198**	4,062,899

Information about a major customer

No single customer contributed 10% or more to the Group's revenue for both 2015 and 2014.

8. OTHER EXPENSES

	2015	2014
		(Restated)
	RMB'000	RMB'000
Transaction costs on acquisition of subsidiaries	**6,600**	39,321
Compensations and penalties	**533**	285
Donation	**762**	1,841
Others	**699**	464
	8,594	41,911

9. FINANCE COSTS

	2015	2014
	RMB'000	RMB'000
Interests on bank borrowings wholly repayable within five years	**59,520**	37,067
Interests on shareholders' loan	**56,623**	22,988
Effective interest expense on company bonds	**26,666**	26,396
Other interest expenses	**1,093**	3,685
Total borrowing costs on financial liabilities that are not at fair value through profit or loss	**143,902**	90,136

10. INCOME TAX EXPENSE

	2015	2014 (Restated)
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	22,361	31,937
Other jurisdictions	70,856	8,598
	93,217	40,535
Under (over) provision in prior years:		
PRC EIT	(4,818)	(4,004)
Other jurisdictions	4,169	–
	(649)	(4,004)
Deferred tax (note 24):		
Current year	2,974	(11,420)
Attributable to a change in tax rate	1,185	(4,750)
	4,159	(16,170)
	96,727	20,361

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25% for both years. Certain subsidiaries of the Group obtained "High Technology Enterprise" status for 3 years that entitles them a concessionary tax rate of 15%, which will be subject to renewal for another 3 years after the year ended 31 December 2016 and 31 December 2017 according to EIT Law.

Certain subsidiaries are located in Germany, France, United Kingdom, Netherlands, Spain, Belgium and other regions, of which corporate tax are calculated at the rates prevailing in the relevant jurisdictions.

No Hong Kong Profits Tax has been provided as the Group's income neither arises in, nor is derived from Hong Kong for both years.

10. INCOME TAX EXPENSE (continued)

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB'000	2014 (Restated) RMB'000
Profit before tax from continuing operations	**288,190**	115,972
Less: Share of (profits) losses of associates	**(19,178)**	38
Less: Share of loss of a joint venture	**1,306**	–
	270,318	116,010
Tax at the domestic income tax rate of 25% (2014: 25%) (Note)	**67,580**	29,003
Income tax on concessionary rate	**(15,189)**	(13,788)
Tax effect of expenses not deductible for tax purpose	**37,374**	7,773
Tax effect of income not taxable for tax purpose	**(1,953)**	(3,270)
Tax effect of tax losses not recognised	**8,621**	15,488
Tax effect of deductible temporary differences not recognised	**–**	1,571
Utilisation of tax losses previously not recognised	**(10,496)**	(744)
Effect of tax rate change from domestic income tax rate to concessionary rate on opening deferred tax	**1,185**	(4,750)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**12,605**	(69)
Effect of tax exemptions	**(2,351)**	(6,849)
Over provision in respect of prior years	**(649)**	(4,004)
Income tax expense	**96,727**	20,361

Note: The tax rate used for the 2015 and 2014 reconciliation above is the corporate tax rate of 25% payable by the Company in the PRC on taxable profits under PRC tax law.

11. DISCONTINUED OPERATIONS

As set out in notes 42 and 22, during the year, the Company disposed of its 65% equity interest in Cyeco Environmental and 20% equity interest in Dalong Machinery to SEI and Shanghai Electric Corporation, both of them carried out all the Group's General Machinery Operations. The purpose of the disposal is to generate cash for the expansion of the Group's other businesses. The Group's General Machinery Operations is treated as Discontinued Operations. The disposal of Cyeco Environmental was completed on 30 June 2015, on which date control of Cyeco Environmental passed to the acquirer.

Dalong Machinery was previously a 100% owned subsidiary of the Company while 80% equity interest of which was disposed to an independent third party on 31 October 2014, which then became an associate of the Company.

The loss for the year from the Discontinued Operations is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to re-present the General Machinery Operations as Discontinued Operations.

	2015 **RMB'000**	2014 (Restated) RMB'000
Loss of General Machinery Operations for the year	**(4,479)**	(14,933)
Net gain on disposal of General Machinery Operations accounted for as deemed capital contribution and recognised in contributed surplus (Note)	**34,061**	n/a

Note: In the opinion of the directors, the gain on disposal of Cyeco Environmental to SEI, a subsidiary of the Company's ultimate parent, and the loss on disposal of Dalong Machinery to Shanghai Electric Corporation, the Company's ultimate parent, shall be accounted for as shareholder transactions to better reflect economic substance of the transactions.

11. DISCONTINUED OPERATIONS (continued)

The results of the General Machinery Operations for period from 1 January 2015 to 30 June 2015 (date of disposal) and proceeding year, which have been included in the consolidated statement of profit or loss and other comprehensive income were as follows:

	2015 **RMB'000**	2014 RMB'000
Revenue	**10,610**	162,504
Cost of sales	**(5,668)**	(138,833)
Other income and other gains and losses	**664**	12,781
Selling and distribution expenses	**(1,001)**	(12,224)
Administrative expenses	**(10,196)**	(31,619)
Research expenditure	**–**	(9,685)
Other expenses	**–**	(73)
Share of (loss) profit of an associate	**(367)**	174
Loss before tax	**(5,958)**	(16,975)
Income tax credit	**1,479**	2,042
Loss for the year	**(4,479)**	(14,933)

The amounts above represented the results of the Group's Discontinued Operations arising from Cyeco Environmental and Dalong Machinery. Dalong Machinery in current year was a 20% owned associate while it was a 100% owned subsidiary from January to October in 2014.

Loss for the year from discontinued operating include the following:

	2015 **RMB'000**	2014 RMB'000
Auditor's remuneration	**–**	50

During the year, Cyeco Environmental contributed RMB4,016,000 (2014: RMB9,681,000) to the Group's operating cash outflows, RMB1,595,000 (2014: RMB1,459,000) to the Group's investing cash outflows, and did not have financing cash flows in the year ended 31 December 2015 and 31 December 2014.

The carrying amounts of the assets and liabilities of Cyeco Environmental at the date of disposal are disclosed in note 42.

12. OTHER COMPREHENSIVE EXPENSE

	2015 RMB'000	2014 RMB'000
Other comprehensive expense includes:	–	–
Items that will not be subsequently reclassified to profit or loss:		
Re-measurement of defined benefit pension plans	(1,284)	11,177
	(1,284)	11,177
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	(155,736)	(150,703)
Fair value adjustment on interest rate swap contracts designated as hedging instruments	(1,608)	(3,271)
Income tax relating to components of other comprehensive expense	402	842
	(156,942)	(153,132)
Other comprehensive expense for the year, net of income tax	(158,226)	(141,955)

Income tax effect relating to other comprehensive income

	2015			2014		
	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000	Before tax amount RMB'000	Tax benefit RMB'000	Net of income tax amount RMB'000
Items that will not be subsequently reclassified to profit or loss:						
Re-measurement of defined benefit pension plans	(1,284)	–	(1,284)	11,177	–	11,177
Items that may be subsequently reclassified to profit or loss:						
Exchange differences on translation of foreign operations	(155,736)	–	(155,736)	(150,703)	–	(150,703)
Fair value adjustment on interest rate swap contracts designated as hedging instruments	(1,608)	402	(1,206)	(3,271)	842	(2,429)
	(158,628)	402	(158,226)	(142,797)	842	(141,955)

13. PROFIT BEFORE TAX

Profit for the year from continuing operations has been arrived after charging (crediting):

	2015	2014
		(Restated)
	RMB'000	RMB'000
Cost of inventories recognised as expenses	5,591,980	3,673,076
Cost of services provided	46,533	57,724
Depreciation of property, plant and equipment	262,818	192,304
Release of prepaid lease payments	3,474	3,474
Amortisation of intangible assets	12,199	13,563
Total depreciation and amortisation	278,491	209,341
Allowance for inventories (recognised in cost of sales)	44,801	47,787
Reversal of allowance for inventories (recognised in cost of sales)	(14,670)	(12,178)
Impairment loss on trade receivables	9,060	7,823
Reversals of allowance on trade receivables	(549)	(9,572)
Impairment loss on other receivables	33	77
Reversals of allowance on other receivables	–	(535)
Impairment loss recognised in respect of property, plant and equipment (recognised in other gains and losses)	2,760	87
Net gain on disposal of property, plant and equipment	(4,230)	(11,674)
Auditor's remuneration		
Audit services	5,001	3,780
Non-audit services	–	5,105
	5,001	8,885
Gross rental income	6,537	6,793
Less: direct operating expenses	5,990	6,268
	547	525
Operating leasing payments in respect of property, plant and equipment	107,035	59,540
Directors' emoluments (note 14)	4,336	3,018
Other staff costs	1,132,493	661,280
Retirement benefits for other staff	72,485	53,907
Total staff costs	1,209,314	718,205

14. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

a) The basic emolument of the Directors', chief executive's supervisors' is as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Sub-total of Basic emoluments RMB'000
Year ended 31 December 2015				
Executive directors:				
Wang Qiang (Note ii)	–	–	–	–
Zhou Zhiyan (Note i)	–	680	40	720
Zhang Jianping	–	644	40	684
Zhu Xi (Note iv)	–	–	–	–
Sun Wei (Note iv)	–	–	–	–
Chen Hui	–	572	40	612
	–	1,896	120	2,016
Independent non-executive directors:				
Li Yin	143	–	–	143
Ling Hong	143	–	–	143
Chen Oi fat	144	–	–	144
	430	–	–	430
Supervisors:				
Dong Jianhua (Notes iv)	–	–	–	–
Wei Li	–	499	40	539
Yu Yun	–	307	40	347
	–	806	80	886
	430	2,702	200	3,332

14. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (continued)

b) Except the basic emoluments, the Directors, chief executive and supervisors are also entitled to incentive bonus based on the group's performance. According to Incentive Scheme approved by the Shareholder entity, the Directors, chief executive and supervisors entitled the following incentive based on the group performance for the prior year as follows:

Name of Directors	Cash instalments RMB'000	Awarded shares RMB'000 (Note v)	Sub-total of Incentive Scheme RMB'000
Year ended 31 December 2015			
Executive directors:			
Wang Qiang (Note ii)	–	–	–
Zhou Zhiyan (Note i)	225	80	305
Zhang Jianping	225	80	305
Zhu Xi (Note iv)	–	–	–
Sun Wei (Note iv)	–	–	–
Chen Hui	189	45	234
	639	205	844
Independent non-executive directors:			
Li Yin	–	–	–
Ling Hong	–	–	–
Chen Oi fat	–	–	–
	–	–	–
Supervisors:			
Dong Jianhua (Notes iv)	–	–	–
Wei Li	115	45	160
Yu Yun	–	–	–
	115	45	160
	754	250	1,004

14. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total emoluments RMB'000
Year ended 31 December 2014				
Executive directors:				
Wang Qiang (Note ii)	–	–	–	–
Zhou Zhiyan (Note i)	–	563	37	600
Zhang Jianping	–	601	37	638
Zhu Xi (Note iv)	–	–	–	–
Sun Wei (Note iv)	–	–	–	–
Chen Hui	–	498	37	535
	–	1,662	111	1,773
Independent non-executive directors:				
Chan Chun Hong, Thomas (Note iii)	47	–	–	47
Li Yin	141	–	–	141
Ling Hong	141	–	–	141
Chen Oi fat	71	–	–	71
	400	–	–	400
Supervisors:				
Dong Jianhua (Note iv)	–	–	–	–
Wei Li	–	463	37	500
Yu Yun	–	308	37	345
	–	771	74	845
	400	2,433	185	3,018

Notes:

(i) Mr. Zhou Zhiyan was chief executive officer of the Company and emoluments disclosed above include those services rendered by him as chief executive officer.

(ii) Resigned on 10 October 2015.

(iii) Resigned on 27 June 2014.

(iv) These directors' and a supervisor's emoluments for the years ended 31 December 2014 and 2015 were borne by Shanghai Electric Corporation for the services provided to Shanghai Electric Corporation and its subsidiaries and the Group as a whole and there is no reasonable basis to allocate the emoluments relating to services provided to the Group during the years ended 31 December 2014 and 2015.

(v) Total awarded shares granted to the Directors, chief executive and a supervisor but not yet vested was 1,223,200 shares as at 31 December 2015.

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2014: nil). The executive directors' emoluments were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments were mainly for their service as directors of the Company.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year did not include any director (2014: nil). Details of the remuneration for the year of the five (2014: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 RMB'000	2014 RMB'000
Salaries and other benefits	**8,906**	3,872
Performance-related bonuses	**3,135**	1,638
Pension scheme contributions	**336**	132
	12,377	5,642

The number of the highest paid employees who are not the directors nor chief executives of the Company whose remunerations fell within the following bands is as follows:

	2015 No. of employees	2014 No. of employees
Hong Kong dollars ("HKD") nil to HKD1,000,000	**–**	4
HKD1,000,001 to HKD1,500,000	**–**	1
HKD1,500,001 to HKD2,000,000	**1**	–
HKD2,000,001 to HKD2,500,000	**2**	–
HKD2,500,001 to HKD3,000,000	**1**	–
HKD5,500,001 to HKD6,000,000	**1**	–
	5	5

16. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
Proposed 2015 Final — RMB3.20 cents (2014: 2014 final RMB1.40 cents)	**46,025**	20,136

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2015 of RMB3.20 cents (2014: final dividend in respect of the year ended 31 December 2014 of RMB1.40 cents) per ordinary share has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

17. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	2015 RMB'000	2014 (Restated) RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**185,707**	80,612

	2015 in '000	2014 in '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,414,529**	1,438,286
Effect of dilutive potential ordinary shares on shares awarded under the Incentive Scheme — unvested	**2,725**	n/a
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,417,254**	n/a

The weighted average number of ordinary shares shown above has been arrived at after deducting the effect on 27,126,000 shares (2014: nil) held by TC Capital Management Limited, a trustee company for the Company's Incentive Scheme. No diluted earnings per share amounts have been presented for the year ended 31 December 2014 as no dilutive potential ordinary shares in issue during last year.

17. EARNINGS PER SHARE (continued)

From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	2015	2014 (Restated)
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	185,707	80,612
Less: loss for the year from discontinued operations	2,911	12,447
Earnings for the purpose of basic and diluted earnings per share from continuing operations	188,618	93,059

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic loss per share from discontinued operations in 2015 is RMB0.20 cents (2014: RMB0.88 cents) per share and diluted loss per share from the discontinued operations is RMB0.20 cents (2014: n/a) per share, based on the loss for the year from discontinued operations of RMB2,911,000 (2014: RMB12,447,000) and the denominators detailed above for both basic and diluted earnings per share.

18. PROPERTY, PLANT AND EQUIPMENT

	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
COST							
At 1 January 2014	537,460	2,301,784	20,918	31,666	87,461	50,509	3,029,798
Additions	100,006	(5,549)	1,324	11,991	72,149	9,087	189,008
Disposals	(1,604)	(25,583)	(2,551)	(624)	–	–	(30,362)
Transfers	7,656	84,620	740	3,434	(102,717)	6,267	–
Acquisition of subsidiaries (note 41)	153,995	356,055	7,530	50,733	52,518	–	620,831
Disposal of subsidiaries (note 42)	(12,597)	(91,646)	(1,360)	(4,856)	–	–	(110,459)
Exchange adjustments	(25,060)	(68,104)	(1,735)	(16,476)	(4,177)	–	(115,552)
At 31 December 2014	759,856	2,551,577	24,866	75,868	105,234	65,863	3,583,264
Additions	–	47,341	6,757	27,987	167,549	4,174	253,808
Disposals	(644)	(43,348)	(1,617)	(431)	–	(3,060)	(49,100)
Transfers	1,969	89,834	761	2,585	(119,983)	24,834	–
Acquisition of subsidiaries (note 41)	13,892	35,273	283	136	–	–	49,584
Disposal of a subsidiary (note 42)	–	(504)	(1,217)	(184)	(1,919)	–	(3,824)
Exchange adjustments	(17,177)	(32,135)	(804)	(8,095)	(1,933)	–	(60,144)
At 31 December 2015	757,896	2,648,038	29,029	97,866	148,948	91,811	3,773,588
DEPRECIATION AND IMPAIRMENT							
At 1 January 2014	59,395	986,732	12,207	25,535	408	24,282	1,108,559
Provided for the year	20,232	158,378	2,674	7,619	–	9,801	198,704
Impairment loss recognised in profit or loss	–	10	–	–	77	–	87
Eliminated on disposals	(54)	(17,072)	(2,297)	(362)	–	–	(19,785)
Disposal of subsidiaries (note 42)	(1,544)	(43,690)	(1,027)	(3,839)	–	–	(50,100)
Exchange adjustments	(9,110)	(38,613)	(1,191)	(12,017)	–	–	(60,931)
At 31 December 2014	68,919	1,045,745	10,366	16,936	485	34,083	1,176,534
Provided for the year	23,089	200,880	2,032	22,310	–	14,571	262,882
Impairment loss recognised in profit or loss	–	2,757	3	–	–	–	2,760
Eliminated on disposals	(244)	(36,282)	(1,452)	(361)	–	(2,872)	(41,211)
Disposal of a subsidiary (note 42)	–	(355)	(435)	(56)	–	–	(846)
Exchange adjustments	(4,834)	(19,536)	(655)	(6,040)	–	–	(31,065)
At 31 December 2015	86,930	1,193,209	9,859	32,789	485	45,782	1,369,054
CARRYING VALUES							
At 31 December 2015	670,966	1,454,829	19,170	65,077	148,463	46,029	2,404,534
At 31 December 2014	690,937	1,505,832	14,500	58,932	104,749	31,780	2,406,730

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment, except for construction in progress and leasehold improvements of the Group, are depreciated over their estimated useful lives and after taking into account their estimated residual values on a straight-line basis at the following rates per annum:

Land and buildings	2% to 9%
Machinery and equipment	5% to 24%
Motor vehicles	9% to 24%
Office and other equipment	9% to 32%
Leasehold improvements	over the shorter of the lease term and their useful lives, 10% to 20%

Included in machinery and equipment are two spire-pressure machines (10KT-clutch mode/35KT-clutch mode) with carrying value of RMB278,142,000 (2014: RMB297,717,000) which are depreciated on the unit-of-production method to write off their cost to the residual value over their estimated working hours.

Included in land and buildings are freehold land held by overseas subsidiaries of the Group.

As the cost of freehold land and buildings cannot be separate reliably, depreciation is charged on the freehold land and building elements over the estimated useful lives of the buildings.

As at 31 December 2015, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB1,107,000 (2014: RMB381,574,000).

During the year, the directors conducted a review of the Group's machinery and equipment and determined that a number of those assets were impaired, due to physical damage and technical obsolescence. Accordingly, impairment losses of RMB2,760,000 have been recognised, which are used in the Cutting tool and Fastener segments.

None of the Group's property, plant and equipment has been pledged (31 December 2014: RMB nil).

19. PREPAID LEASE PAYMENTS

The Group's leasehold land are all situated in the PRC and are held under medium-term leases.

	2015 **RMB'000**	2014 RMB'000
Analysed as		
Current portion	**3,474**	3,474
Non-current portion	**142,839**	146,313
	146,313	149,787

Amortisation is calculated using the straight-line method over the remaining useful lives ranging from 38 to 46 years (2014: 39 to 47 years) for all the prepaid lease payments.

19. PREPAID LEASE PAYMENTS (continued)

	RMB'000
COST	
At 1 January 2014	179,433
Disposal of a subsidiary (note 42)	(7,691)
At 31 December 2014 and 31 December 2015	171,742
AMORTISATION	
At 1 January 2014	18,823
Provided for the year	3,474
Disposal of a subsidiary (note 42)	(342)
At 31 December 2014	21,955
Provided for the year	3,474
At 31 December 2015	25,429
CARRYING VALUES	
At 31 December 2015	146,313
At 31 December 2014	149,787

20. GOODWILL

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2014	8,818
Arising on acquisitions of subsidiaries (note 41)	1,592,660
Exchange adjustments	(127,933)
At 31 December 2014	1,473,545
Arising on acquisitions of a subsidiary (note 41)	16,193
Eliminated on disposal of a subsidiary (note 42)	(41,966)
Exchange adjustments	(69,320)
At 31 December 2015	1,378,452

20. GOODWILL (continued)

Impairment testing on goodwill

Goodwill acquired through business combinations is allocated to the cash-generating units for impairment testing. The carrying amounts of goodwill allocated to these units are as follows:

	2015 RMB'000	2014 RMB'000
Nedfast	1,353,441	1,422,761
Shanghai United Bearing Company Limited ("United Bearing")	8,818	8,818
Shanghai Tianhong	16,193	n/a
Cyeco Environmental	n/a	41,966
	1,378,452	1,473,545

During the year ended 31 December 2015, the directors of the Group determine that there are no impairments of any of its cash-generating units ("CGUs") containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Nedfast (as defined in the consolidated statement of changes in equity)

The recoverable amount of Nedfast are determined based on value in used calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 11.8% per annum. The cash flows beyond the five-year period are extrapolated using a 3.0% growth rate per annum. This grow rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the industry.

Cash flow projection during the budget period for the cash-generating unit is based on reasonable expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

United Bearing

The recoverable amount of United Bearing is determined based on value in used calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 14.0% per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% growth rate per annum. This grow rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the industry.

20. GOODWILL (continued)

Cash flow projection during the budget period for the cash-generating unit is based on reasonable expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

Shanghai Tianhong

The recoverable amount of Shanghai Tianhong is determined based on value in used calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13.0% per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% growth rate per annum. This grow rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the industry.

Cash flow projection during the budget period for the cash-generating unit is based on reasonable expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

Cyeco Environmental

The recoverable amount of Cyeco Environmental is determined based on value in used calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 15.47% per annum. The cash flows beyond the five-year period are extrapolated using a 3.0% growth rate per annum. This grow rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the industry.

Cash flow projection during the budget period for the cash-generating unit is based on reasonable expected gross margins and considering the inflation in raw materials price during the budget period. The directors of the Company believe that any reasonably possible change in these key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of this CGU.

21. INTANGIBLE ASSETS

	Deferred development costs RMB'000	Patents and licences RMB'000	Software RMB'000	Others RMB'000	Total RMB'000
COST					
At 1 January 2014	31,259	5,464	18,499	–	55,222
Additions	13,821	–	3,248	–	17,069
Acquisition of a subsidiary (note 41)	165,554	10,800	–	14,134	190,488
Disposal of subsidiaries (note 42)	–	(440)	–	–	(440)
At 31 December 2014	210,634	15,824	21,747	14,134	262,339
Additions	8,281	–	1,368	–	9,649
Disposal of a subsidiary (note 42)	(166,349)	(10,800)	–	(14,134)	(191,283)
Disposals	–	–	(4,245)	–	(4,245)
At 31 December 2015	52,566	5,024	18,870	–	76,460
AMORTISATION					
At 1 January 2014	8,738	3,201	12,353	–	24,292
Provided for the year	16,606	1,125	2,349	1,004	21,084
Disposal of subsidiaries (note 42)	–	(89)	–	–	(89)
At 31 December 2014	25,344	4,237	14,702	1,004	45,287
Provided for the year	22,833	627	2,826	543	26,829
Disposal of a subsidiary (note 42)	(16,937)	(988)	–	(1,547)	(19,472)
Disposals	–	–	(2,617)	–	(2,617)
At 31 December 2015	31,240	3,876	14,911	–	50,027
IMPAIRMENT					
At 1 January 2014	–	351	–	–	351
Disposal of subsidiaries (note 42)	–	(351)	–	–	(351)
At 31 December 2014	–	–	–	–	–
Provided for the year	–	–	–	–	–
At 31 December 2015	–	–	–	–	–
CARRYING VALUES					
At 31 December 2015	21,326	1,148	3,959	–	26,433
At 31 December 2014	185,290	11,587	7,045	13,130	217,052

21. INTANGIBLE ASSETS (continued)

The above intangible assets have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Deferred development costs	5 to 6 years
Patents and licences	5 to 10 years
Software	5 years
Others (Note)	12.75 years

Note: Others mainly represents the fair value of customer relationship arising on acquisition of Cyeco Environmental in 2014.

22. INTERESTS IN ASSOCIATES

	2015	2014
	RMB'000	RMB'000
Cost of investment in associates	**122,954**	145,298
Share of post-acquisition profits and other comprehensive income, net of dividend received	**37,621**	34,429
	160,575	179,727

The Group's balances of trade receivables and trade payables with its associates are disclosed in notes 26 and 30 to the financial statements.

22. INTERESTS IN ASSOCIATES (continued)

Details of each of the Group's material associates at the end of the reporting period are as follows:

Name of associates	Place of registration and operations	Registered capital (in '000)	Proportion of ownership interest held by the Group 2015	2014	Principal activities
上海通用軸承有限公司 Shanghai General Bearing Company Limited* ("Shanghai General Bearing") (Note 1 & 2)	PRC	USD23,750	**40%**	40%	Production and sale of bearings and spare parts
摩根新材料(上海)有限公司 Morgan Advanced Materials Technology (Shanghai) Company Limited* ("Morgan Advanced Materials") (Note 1 & 2)	PRC	USD17,941	**30%**	30%	Production and sale of carbolic products
上優機床工具(上海)有限公司 S.U. Machine Tool (Shanghai) Company Limited* (Note 1)	PRC	EUR3,685	**40%**	40%	Design, production and sale of numerical control machine tools with three dimensions and above, and related tools
上海大隆機器廠有限公司 Dalong Machinery (Note 2 & 3)	PRC	RMB146,229	**–**	20%	Production and sale of compressors and other general machinery

* The English name is for identification only. The official name of the entity is in Chinese.
Note 1: The entity is a sino-foreign joint venture.
Note 2: The equity interests of these companies are directly owned by the Company.
Note 3: The associate was disposed of during the year ended 31 December 2015.
USD United States dollars
EUR Euro dollars

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with China Accounting Standards, taken into account of adjustments to conform with HKFRSs. All of these associates are accounted for using the equity method in these consolidated financial statements.

22. INTERESTS IN ASSOCIATES (continued)

Shanghai General Bearing

	2015	2014
	RMB'000	RMB'000
Current assets	**204,558**	172,109
Non-current assets	**70,073**	81,519
Current liabilities	**(67,275)**	(67,128)
Non-current liabilities	**(2,016)**	(2,268)

	2015	2014
	RMB'000	RMB'000
Revenue	**387,228**	374,247
Profit for the year	**30,516**	14,853
Total comprehensive income for the year	**30,516**	14,853
Dividends received from the associate during the year	**3,763**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015	2014
	RMB'000	RMB'000
Net assets	**205,340**	184,232
Proportion of the Group's ownership interest	**40%**	40%
Carrying amount of the Group's interest	**82,136**	73,693

22. INTERESTS IN ASSOCIATES (continued)

Morgan Advanced Materials Technology (Shanghai) Company Limited

	2015 RMB'000	2014 RMB'000
Current assets	260,400	314,818
Non-current assets	66,591	75,684
Current liabilities	(120,213)	(172,480)
Non-current liabilities	(2,252)	(2,408)

	2015 RMB'000	2014 RMB'000
Revenue	287,926	336,114
Profit (loss) for the year	30,486	(21,049)
Total comprehensive income (expense) for the year	30,486	(21,049)
Dividends received from the associate during the year	12,472	38,573

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 RMB'000	2014 RMB'000
Net assets	204,526	215,614
Proportion of the Group's ownership interest	30%	30%
Effect of fair value adjustments at acquisition	226	369
Carrying amount of the Group's interest	61,584	65,053

22. INTERESTS IN ASSOCIATES (continued)

S.U. Machine Tool (Shanghai) Company Limited

	2015 RMB'000	2014 RMB'000
Current assets	**29,716**	29,956
Non-current assets	**24,364**	24,582
Current liabilities	**(11,941)**	(8,380)

	2015 RMB'000	2014 RMB'000
Revenue	**19,241**	31,654
(Loss) profit for the year	**(4,020)**	596
Total comprehensive (expense) income for the year	**(4,020)**	596

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 RMB'000	2014 RMB'000
Net assets	**42,139**	46,158
Proportion of the Group's ownership interest	**40%**	40%
Carrying amount of the Group's interest	**16,855**	18,463

22. INTERESTS IN ASSOCIATES (continued)

Dalong Machinery

	2015 RMB'000	2014 RMB'000
Current assets	n/a	264,068
Non-current assets	n/a	63,218
Current liabilities	n/a	(236,200)
Non-current liabilities	n/a	(2,915)

	2015 RMB'000 (Note)	2014 RMB'000
Revenue	112,526	204,621
Loss from discontinued operations	(2,562)	(5,653)
Loss for the year from discontinued operations	(2,562)	(5,653)
Other comprehensive income for the year	–	–
Total comprehensive expense for the year	(2,562)	(5,653)

Note: Revenue, loss from discontinued operations, loss for the year from discontinued operations, other comprehensive income for the year and total comprehensive expense for the year represent accumulated amounts from 1 January 2015 to 30 June 2015 (date of disposal).

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2015 RMB'000	2014 RMB'000
Net assets	n/a	88,171
Proportion of the Group's ownership interest	n/a	20%
Effect of fair value adjustments at acquisition	n/a	4,884
Carrying amount of the Group's interest	n/a	22,518

22. INVESTMENTS IN ASSOCIATES (continued)

On 15 May 2015, the Group disposed of its entire 20% equity interest in Dalong Machinery to Shanghai Electric Corporation, for the final cash consideration of RMB21,922,000. The disposal is completed on 30 June 2015.

	RMB'000
Cash received as consideration	**21,922**
Less: carrying amount of the 20% investment on the date of loss of significant influence on Dalong Machinery	**(22,240)**
Loss on disposal of an associate accounted for as deemed distribution and recognised in contributed surplus	**(318)**

23. AVAILABLE-FOR-SALE INVESTMENTS

	2015 **RMB'000**	2014 RMB'000
Unlisted equity investments, at cost	**1,056**	1,056
Less: impairment	**(184)**	(184)
	872	872

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015 **RMB'000**	2014 RMB'000
Deferred tax assets	**152,710**	176,351
Deferred tax liabilities	**(28,865)**	(85,547)
	123,845	90,804

24. DEFERRED TAXATION (continued)

The following is the major deferred tax liabilities and assets recognised and movements thereon during the current and prior year:

	Losses available for offsetting against future taxable profits	Impairment of assets	Depreciation allowance in excess of related depreciation	Fair value adjustments on assets	Employee benefits	Accrued expenses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	4,216	34,062	1,513	(9,381)	–	32,459	–	62,869
Charge (credit) to profit or loss	11,782	1,875	4,671	10,940	11,996	4,150	(31,777)	13,637
Charge to equity for the year	–	–	–	–	–	–	842	842
Acquisition of subsidiaries (note 41)	54,168	3,384	(51,675)	(19,777)	–	–	46,228	32,328
Disposal of a subsidiary (note 42)	(6,033)	(9,967)	(1,433)	227	–	–	–	(17,206)
Effect of tax rate change	–	115	–	3,542	–	1,093	–	4,750
Exchange differences	(4,772)	(171)	4,106	(2,491)	(460)	–	(2,628)	(6,416)
At 31 December 2014	59,361	29,298	(42,818)	(16,940)	11,536	37,702	12,665	90,804
(Credit) charge to profit or loss	(7,817)	2,021	9,252	6,632	1,402	(8,074)	(4,317)	(901)
Charge to equity for the year	–	–	–	–	–	–	402	402
Disposal of a subsidiary (note 42)	–	–	–	42,382	–	–	–	42,382
Effect of tax rate change	–	(98)	–	–	–	(1,087)	–	(1,185)
Exchange differences	(5,149)	(338)	2,138	(1,687)	(576)	–	(2,045)	(7,657)
At 31 December 2015	46,395	30,883	(31,428)	30,387	12,362	28,541	6,705	123,845

24. DEFERRED TAXATION (continued)

At 31 December 2015, the Group has unused tax losses of RMB346,446,000 (2014: RMB424,432,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB165,139,000 (2014: RMB217,691,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB181,307,000 (2014: RMB206,741,000) due to the unpredictability of future profits streams.

The analysis of the expiry dates of the unrecognised tax losses is follows:

	2015	2014
	RMB'000	RMB'000
2015	**–**	18,881
2016	**10,309**	10,599
2017	**7,078**	8,439
2018	**18,407**	35,154
2019	**26,758**	45,117
2020	**3,969**	2,491
2021 to 2032	**81,658**	51,250
No due date	**33,128**	34,810
	181,307	206,741

At 31 December 2015, the Group had unrecognised deductible temporary difference of RMB24,551,000 (2014: RMB24,551,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can utilised.

25. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials and consumables	**456,528**	457,616
Work in progress	**405,867**	414,819
Fished goods	**684,283**	584,585
	1,546,678	1,457,020

During the year, allowance for inventories according to RMB44,801,000 (2014: RMB47,787,000), which has been recognised and included in cost of sales.

During the year, there has been a reversal of allowance for inventories of RMB14,670,000 (2014: RMB12,178,000) as a result of the increase in selling price and was included in cost of sales.

26. TRADE RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	**1,350,060**	1,327,090
Less: allowance for doubtful debts	**(53,068)**	(58,628)
	1,296,992	1,268,462

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 one 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 and unsecured.

26. TRADE RECEIVABLES (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:

	2015 RMB'000	2014 RMB'000
Within 3 months	913,210	899,793
Over 3 months but within 6 months	204,322	219,461
Over 6 months but within 1 year	142,835	116,241
Over 1 year but within 2 years	23,075	12,288
Over 2 years	13,550	20,679
	1,296,992	1,268,462

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits for customers. Limits attributed to customers are reviewed annually. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB843,436,000 (2014: RMB806,178,000) which are neither past due nor impaired. The management of the Group considers that the trade receivables which are neither past due nor impaired are of good quality given the continuous settlement from customers.

The following is an aged analysis of trade receivables based on the invoice date, which are past due as at the reporting date, but not impaired as the management considered there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

	2015 RMB'000	2014 RMB'000
Within 3 months	82,270	94,444
Over 3 months but within 6 months	191,826	218,631
Over 6 months but within 1 year	142,835	116,242
Over 1 year but within 2 years	23,075	12,288
Over 2 years	13,550	20,679
	453,556	462,284

26. TRADE RECEIVABLES (continued)

The movements in the allowance for doubtful debts are as follows:

	2015	2014
	RMB'000	RMB'000
1 January	**58,628**	117,640
Impairment losses recognised on receivables	**9,273**	7,951
Acquisition of subsidiaries	**300**	35,449
Amount written off as uncollectible	**(12,635)**	(1,145)
Impairment losses reversed	**(549)**	(10,298)
Disposal of subsidiaries	**(342)**	(91,285)
Exchange differences	**(1,607)**	316
31 December	**53,068**	58,628

Included in the balance of allowance for doubtful debts are individually impaired trade receivables in full with an aggregate balance of RMB7,438,000 and RMB14,000,000, as at 31 December 2015 and 2014, respectively, with reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Group does not hold any collateral over these balances.

Trade receivables amounted to RMB51,038,000 (2014: nil) have been pledged to banks as security for bank borrowings.

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:

	2015	2014
	RMB'000	RMB'000
Due from SEC group companies	**154,652**	148,310
Due from associates	**26**	80
	154,678	148,390

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

27. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months	**202,744**	241,501
Over 3 months but within 6 months	**190,472**	202,770
Over 6 months but within 1 year	**73,773**	57,203
	466,989	501,474

Included in bills receivables are bills endorsed and transferred from SEC group companies and associates, which are related parties of the Group, amounted RMB128,400,000 and RMB11,766,000 as at 31 December 2015 (2014: RMB66,847,000 and RMB15,000,000), respectively.

Bill receivable amounted to RMB147,030,000 (2014: RMB124,041,000) have been pledged to banks as security for issuance of bills payable.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 (Restated) RMB'000
Prepayments for purchase of raw materials	**148,194**	119,275
Value-added tax recoverable and prepaid value-added tax	**38,227**	47,137
Deposits	**9,462**	2,364
Advance to employees	**7,719**	2,201
Other current assets	**–**	31,000
Interest receivable	**65**	3
Due from Shanghai Electric Corporation	**535**	535
Due from SEC group companies	**–**	10
Others	**30,576**	27,497
	234,778	230,022

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

29. RESTRICTED DEPOSITS AND BANK BALANCES AND CASH

Restricted deposits

The restricted deposits carried interest at fixed rates ranging from 0.30% to 1.30% (2014: 0.35% to 1.35%) per annum, which have been pledged to secure the Group's issuance of letter of credit, short term bills payable, letter of guarantee and settlement of exchange and are therefore classified as current assets. The restricted deposits will be released upon the settlement of relevant transactions and short term bills.

Bank balances

Bank balances carried interest at prevailing market rates ranging from 0.0001% to 3.30% (2014: 0.0001% to 3.30%) per annum.

30. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015 **RMB'000**	2014 RMB'000
Within 3 months	**1,095,156**	1,186,749
Over 3 months but within 6 months	**185,780**	109,885
Over 6 months but within 1 year	**31,077**	35,196
Over 1 year but within 2 years	**12,815**	54,065
Over 2 years	**7,419**	10,975
	1,332,247	1,396,870

The credit period on purchases of goods is 60 to 90 days and certain suppliers allow longer credit period on a case-by-case basis.

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

	2015 **RMB'000**	2014 RMB'000
Due to SEC group companies	**8,205**	3,718
Due to associates	**–**	5
	8,205	3,723

31. BILLS PAYABLE

The maturity profiles of the bills payable are as follows:

	2015	2014
	RMB'000	RMB'000
Within 3 months	**112,977**	176,384
Over 3 months but within 6 months	**191,637**	148,663
Over 6 months but within 1 year	**45,143**	–
	349,757	325,047

As at 31 December 2015, no bills payable (2014: RMB1,000,000 and RMB267,000) are issued to Shanghai Electric Corporation and SEC group companies for the settlement of raw materials and services from which the group purchased.

32. OTHER PAYABLES AND ACCRUALS

	2015	2014
		(Restated)
	RMB'000	RMB'000
Advance from customers	**38,961**	36,143
Other tax payable	**22,437**	20,346
Payroll payable	**189,446**	185,668
Dividend payable	**16**	8,353
Interest payable	**21,523**	33,524
Professional fees payable	**9,611**	17,351
Payable for purchases of property, plant and equipment	**28,754**	25,159
Subcontracting costs payable	**8,000**	9,000
Deposits	**4,519**	3,732
Due to Shanghai Electric Corporation	**32,326**	1,678
Due to SEC group companies	**4,321**	6,960
Other payables	**63,814**	119,822
	423,728	467,736

Other payables are non-interest bearing and have average terms of one to three months. The Group's balances with related parties are unsecured and are repayable on demand or within three months.

33. GOVERNMENT GRANTS

	2015 RMB'000	2014 (Restated) RMB'000
Analysed for reporting purpose as:		
Current liabilities	**14,159**	15,606
Non-current liabilities	**243,363**	266,730
	257,522	282,336

The government grant, which is related to depreciable assets, will be charged to profit or loss over the useful lives of these assets when they become ready to use.

34. COMPANY BONDS

On 31 August 2012, the Company issued a five-year company bond (the "Bond") in the principal amount of RMB500,000,000, with an option granted to the bondholders to redeem wholly or partly at 100% of the principal amount exercisable for one time on the third anniversary since the date of issue. The bonds carry interest at a fixed rate of 5.08% per annum for the first three years, with an option granted to the Company to increase the interest rate for one time on the third anniversary since the date of issue. Interest is payable annually on 31 August. The company bond is unsecured and guaranteed by Shanghai Electric Corporation.

No bondholders exercised the redemption option, which therefore lapsed on 31 August 2015. The Company also announced that the interest rate will be fixed at 5.08% per annum till the end of the maturity date on 31 August 2017. The company bonds was reclassified to non-current liabilities on 31 August 2015 accordingly.

The fair value of the company bonds is categorized within the fair value hierarchy level 3, which is measured by discounted cash flow based on the 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.

35. BANK BORROWINGS

	2015 RMB'000	2014 RMB'000
Bank borrowings	**930,382**	1,001,511

35. BANK BORROWINGS (continued)

The bank borrowings were guaranteed and secured by:

	2015 RMB'000	2014 RMB'000
Secured and unguaranteed	**910,210**	916,349
Unsecured and unguaranteed	**20,172**	85,162
	930,382	1,001,511
Less: Amounts shown under current liabilities	**(190,536)**	(150,455)
Amounts shown under non-current liabilities	**739,846**	851,056
The carrying amounts of the above borrowings are repayable*:		
Within one year	**190,536**	150,455
More than one year but not exceeding two years	**91,497**	80,879
More than two years but not exceeding five years	**593,018**	241,039
More than five years	**55,331**	529,138
	930,382	1,001,511

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	31/12/2015 RMB'000	31/12/2014 RMB'000
Fixed rate borrowings repayable*:		
Within one year	**60,172**	62,302

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Fixed-rate borrowings	Variable-rate borrowings
2015	3.70% to 5.44%	3 months EURIBOR plus 3.00% to 3.50%
2014	4.50% to 5.40%	3 months EURIBOR plus 3.25% to 5% below benchmark interest rate issued by the People's Bank of China

36. SHAREHOLDERS' LOAN

The shareholders' loan is unsecured, interest bearing at 2.0% to 3.3% per annum, denominated in USD and EUR, of which RMB889,623,000 (2014: RMB1,682,725,000) to be expired on 11 August 2019 and RMB709,510,000 to be expired on 10 September 2018. Interest has been paid to lenders in time.

37. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

The Company and its subsidiaries in the PRC are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The Group operates MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Defined benefit plan

The Group operates a funded defined benefit plan for qualifying employees of its subsidiaries in Europe. The defined benefit plan is administered by a separate fund that is legally separated from the entity. The board of the pension fund is composed of an equal number of representatives from both employers and (former) employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the scheme, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

Under the plans, the employees are entitled to post-retirement yearly instalments amounting to a certain percentage of final salary for each year of service until a certain retirement age. The pensionable salary is limited to certain amount. The pensionable salary is the difference between the current salary of the employee and the state retirement benefit. In addition, the service period is limited to certain years resulting in a maximum entitlement (life-long annuity) of a certain percentage of final salary.

The defined benefit plans requires contributions from employees. Contributions are in the following two forms: one is based on the number of years of service and the other one is based on a fixed percentage of salary of the employees. Employees can also make discretionary contributions to the plans.

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

37. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit plan (continued)

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in funds invested by insurance companies to leverage the return generated by the fund.

Interest risk

A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The composition of the defined benefit plan was as follows:

	2015 RMB'000	2014 RMB'000
Non-current liability	100,749	103,193
Current liability	5,131	5,910
	105,880	109,103

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

	2015	2014
Discount rate	2.30%	0.50% up to 3.40%
Expected rate of future pension cost increases	1.75%	1.00% up to 2.30%
Expected rate of salary increase	2.25%	1.00% up to 2.20%

37. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit plan (continued)

Amounts recognised in comprehensive income in respect of these defined benefit plans are as follows:

	2015 **RMB'000**	2014 RMB'000
Service cost:		
Current service cost	**3,352**	2,068
Net interest expense	**2,158**	989
Components of defined benefit costs recognised in profit or loss	**5,510**	3,057
Remeasurement on the net defined benefit liability:		
Actuarial losses (gains) on obligation	**129**	(7,235)
Actuarial losses (gains) on plan assets	**1,155**	(3,942)
Components of defined benefit costs recognised in other comprehensive income	**1,284**	(11,177)
Total	**6,794**	(8,120)

Movements in the present value of the defined benefit obligations were as follows:

	2015 **RMB'000**	2014 RMB'000
Opening defined benefit obligation	**122,119**	–
Acquisition of subsidiaries	**3,379**	117,507
Current service cost	**3,352**	2,068
Interest expense	**2,324**	986
Actuarial losses (gains) on obligation	**129**	(7,235)
Benefits paid	**(5,891)**	(1,495)
Exchange differences on foreign plans	**(6,776)**	10,288
Closing defined benefit obligation	**118,636**	122,119

37. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit plan (continued)

Movements in the fair value of plan assets are as follows:

	2015 RMB'000	2014 RMB'000
Opening fair value of plan assets	13,016	–
Acquisition of subsidiaries	–	12,014
Interest income (expense)	166	(3)
Actuarial (losses) gains on plan assets	(1,155)	3,942
Benefits paid	2,274	333
Exchange differences on foreign plans	(1,545)	(3,270)
Closing fair value of plan assets	12,756	13,016

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	2015 RMB'000	2014 RMB'000
Funds invested by insurance companies	12,756	26,534
Total	12,756	26,534

The fair values of the above funds are determined based on quoted market prices in active markets.

38. INCENTIVE SCHEME

On 17 January 2014, an incentive scheme (the "Incentive Scheme") was adopted by the Company. The Incentive Scheme shall be valid and effective for a period of 5 years commencing from the adoption date.

Pursuant to the Incentive Scheme, incentives will be awarded to the eligible participants in the form of (i) cash instalments; and (ii) the awarded 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, TC Management Co., Ltd, an independent third party 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 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 the eligible participants under the incentive scheme shall not exceed 10% of the issued shares as at the adoption date.

38. 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 labour contracts with the Company or its holding subsidiaries and branches, during the appraisal period of the Incentive Scheme.

During the year, the Group purchased 27,126,000 (2014: nil) shares of the Company for the Incentive Scheme at weighted average price of HKD1.42 (2014: n/a). Under the Incentive Scheme, there were total unawarded shares of 21,720,000 (2014: n/a) amounting to HKD30,842,000 (2014: nil) held by the trustee as at 31 December 2015.

Details of the movements of shares of the Company awarded to directors of the Company and employees of the Group during the year are as follows:

	Number of shares ’000
Outstanding at 1 January 2015	**–**
Awarded during the year	**5,406**
Vested during the year	**–**
Outstanding at 31 December 2015	**5,406**

On 30 June 2015, a total of 5,406,000 shares of the Company had been awarded to the directors of the Company and employees of the Group at nil consideration. 30%, 30% and 40% of the awarded shares would be vested after the third, fourth and fifth anniversary of the date of grant if they all remain in office as employees of the Group at that date. The total fair value of the awarded shares determined at the date of grant was equivalents to RMB8,612,000, which was determined by reference to the closing share price on that date. Total staff cost in respect of award shares under Incentive Scheme of RMB1,093,000 was recognised as an expense for the year ended 31 December 2015.

Any dividends declared in respect of the awarded shares held by the trustee during the vesting period belongs to the participants and will be given to them after the vesting period. However, the participants do not have any voting right in respect of the awarded shares during the vesting period.

On 30 June 2015, a total of cash instalments of RMB8,326,000 has been approved to grant to the directors of the Company and employees of the Group under the Incentive Scheme. 50% of the cash would be payable during the year of grant, while the remaining 30% and 20% of the cash would be payable after the first and second anniversary of the date of grant if they all remain in office as employees of the Group at that date. Total staff cost in respect of cash instalments under the Incentive Scheme of RMB6,315,000 was recognised as an expense for the year ended 31 December 2015.

39. SHARE CAPITAL

	2015		2014	
	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic ordinary shares of RMB1.00 each,				
currently not listed —				
State-owned ordinary shares	**678,576**	**678,576**	678,576	678,576
H ordinary 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 holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction except for those held by trustee under the Incentive Scheme.

As at 31 December 2015, there were 27,126,000 (31 December 2014: nil) shares of the Company under the custody by the trustee for the Incentive Scheme, out of which 5,406,000 shares was granted but not yet vested to the participants. Further details are set out in note 38.

During the year, the Group repurchased the Company's ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of Repurchase	Number of ordinary shares repurchased	Price per share Highest HKD	Lowest HKD	Aggregate consideration paid HKD'000
January	23,230,000	1.523	1.327	33,827
August	3,896,000	1.239	1.178	4,703

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Notes	31/12/2015 RMB'000	31/12/2014 (Restated) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**40,866**	18,338
Prepaid lease payments		**30,546**	–
Intangible assets		**1,259**	1,059
Investment in subsidiaries		**1,956,431**	2,137,801
Interest in associates		**81,272**	103,616
Amounts due from subsidiaries		**650,617**	–
Deferred tax assets		**1,206**	–
		2,762,197	2,260,814
CURRENT ASSETS			
Prepaid lease payments		**688**	–
Trade receivables		**89,393**	59,265
Bills receivable		**11,766**	14,000
Prepayments, deposits and other receivables		**124,457**	219,261
Amounts due from subsidiaries		**168,000**	550,000
Dividends receivable		**72,957**	76,452
Bank balances and cash		**454,291**	324,603
		921,552	1,243,581
CURRENT LIABILITIES			
Trade payables		**89,906**	42,916
Other payables and accruals		**352,065**	304,392
Tax liabilities		**1,013**	–
Company bonds	34	**–**	496,117
		442,984	843,425
NET CURRENT ASSETS		**478,568**	400,156
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,240,765**	2,660,970

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	Notes	31/12/2015 RMB'000	31/12/2014 (Restated) RMB'000
NON-CURRENT LIABILITIES			
Company bonds	34	497,580	–
Government grants		–	140
Deferred tax liabilities		–	1,316
		497,580	1,456
NET ASSETS		2,743,185	2,659,514
CAPITAL AND RESERVES			
Share capital	39	1,438,286	1,438,286
Reserves		1,304,899	1,221,228
TOTAL EQUITY		2,743,185	2,659,514

The Company's statement of financial position was approved and authorised for issue by the board of directors on 18 March 2016 and are signed on its behalf by:

Zhou Zhiyan	**Zhang Jianping**
Director	Director

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

	Capital reserve	Contributed surplus	Share-based payments reserves	Surplus reserves	Retained profits	Proposed final dividend	Shares held for Incentive Scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	692,553	(1,515)	–	90,226	382,641	16,684	–	1,180,589
Profit for the year	–	–	–	–	58,244	–	–	58,244
Appropriation of statutory reserves	–	–	–	5,271	(5,271)	–	–	–
Final 2013 dividend paid	–	–	–	–	–	(16,684)	–	(16,684)
Proposed final 2014 dividend	–	–	–	–	(20,136)	20,136	–	–
Disposal of Shanghai Insulating	–	(502)	–	–	–	–	–	(502)
Disposal of Dalong Machinery	–	(419)	–	–	–	–	–	(419)
At 31 December 2014	692,553	(2,436)	–	95,497	415,478	20,136	–	1,221,228
Profit for the year	–	–	–	–	103,408	–	–	103,408
Final 2014 dividend paid	–	–	–	–	325	(20,136)	–	(19,811)
Proposed final 2015 dividend	–	–	–	–	(46,025)	46,025	–	–
Appropriation of statutory reserves	–	–	–	10,596	(10,596)	–	–	–
Deemed contribution by shareholder upon disposal of Cyeco Environmental	–	30,062	–	–	–	–	–	30,062
Deemed contribution to shareholder upon disposal of Dalong Machinery	–	(656)	–	–	–	–	–	(656)
Purchase of shares for Incentive Scheme	–	–	–	–	–	–	(30,425)	(30,425)
Recognition of equity-settled share-based payments	–	–	1,093	–	–	–	–	1,093
At 31 December 2015	692,553	26,970	1,093	106,093	462,590	46,025	(30,425)	1,304,899

The capital reserve account balance as at 31 December 2015 represented the Company's share premium of RMB692,553,000 (2014: RMB692,553,000).

41. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2015

On 6 March 2015, the Company entered into a share transfer agreement with the certain individual shareholders of Shanghai Tianhong, independent third parties, pursuant to which these certain individual shareholders transferred collectively 70% equity interest in Shanghai Tianhong to the Company for a total cash considerations of RMB21,520,000. The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB16,193,000. Shanghai Tianhong and its subsidiary are principally engaged in the production and design of high-precision bearings. The acquisition was completed on 31 March 2015.

On 1 October 2015, a subsidiary of the Group completed a deal in which the subsidiary acquired the business of Whitesell Beckingen GmbH and Whitesell Schrozberg GmbH. The assets were integrated in two newly established companies Nedschroef Beckingen GmbH ("Nedschroef Beckingen") and Nedschroef Schrozberg GmbH ("Nedschroef Schrozberg"). The cash considerations was EUR3,924,000 and EUR3,066,000 (equivalent to RMB27,254,000 and RMB21,295,000), respectively. These acquisitions have been accounted for using the acquisition method. Discount on acquisition arose as a result of the acquisition and recognised in profit or loss. Nedschroef Beckingen and Nedschroef Schrozberg are principally engaged in manufacturing of fasteners. The acquisition was completed on 1 October 2015.

Consideration transferred

	Nedschroef Beckingen RMB'000	Nedschroef Schrozberg RMB'000	Shanghai Tianhong RMB'000	Total RMB'000
Total consideration satisfied by cash	27,254	21,295	21,520	70,069

Acquisition-related costs amounting to RMB460,000, RMB3,070,000 and RMB3,070,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in "other expense" line item in the consolidated statement of profit or loss and other comprehensive income for the year.

41. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2015 (continued)

Assets and liabilities recognised at the date of acquisition are as follows:

	Nedschroef Beckingen RMB'000	Nedschroef Schrozberg RMB'000	Shanghai Tianhong RMB'000	Total RMB'000
Current assets				
Inventories	9,072	20,617	6,435	36,124
Bills receivable	–	–	2,902	2,902
Trade receivables	–	–	13,216	13,216
Prepayments, deposits and other receivables	–	–	599	599
Bank balances and cash	–	–	6,945	6,945
Non-current assets				
Property, plant and equipment	25,234	18,905	5,445	49,584
Current liabilities				
Trade payables	–	–	(585)	(585)
Other payables and accruals	(3,411)	(7,021)	(26,539)	(36,971)
Tax liabilities	–	–	(808)	(808)
Retirement benefit obligations	(1,024)	(2,355)	–	(3,379)
	29,871	30,146	7,610	67,627

The trade receivables acquired (which principally comprised trade receivables) with a fair value of RMB13,216,000 at the date of acquisition had gross contractual amounts of RMB13,516,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB300,000.

41. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended 31 December 2015 (continued)

(Discount on acquisition) goodwill arising on acquisition:

	Nedschroef Beckingen RMB'000	Nedschroef Schrozberg RMB'000	Shanghai Tianhong RMB'000	Total RMB'000
Consideration transferred	27,254	21,295	21,520	70,069
Plus: non-controlling interests (30% in Shanghai Tianhong)	–	–	2,283	2,283
Less: net assets acquired	29,871	30,146	7,610	67,627
(Discount on acquisition) goodwill arising on acquisition	(2,617)	(8,851)	16,193	4,725

The non-controlling interest 30% in Shanghai Tianhong recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Shanghai Tianhong and amounted to RMB2,283,000.

Net cash outflow arising on acquisitions

	Nedschroef Beckingen RMB'000	Nedschroef Schrozberg RMB'000	Shanghai Tianhong RMB'000	Total RMB'000
Consideration paid in cash	27,254	21,295	21,520	70,069
Less: cash and cash equivalent balances acquired	–	–	(6,945)	(6,945)
	27,254	21,295	14,575	63,124

Impact of acquisition of Shanghai Tianhong on the results of the Group

Included in the profit for the year is loss of RMB4,409,000, profit of RMB3,016,000, and profit of RMB5,901,000 attributed to Nedschroef Beckingen, Nedschroef Schrozberg and Shanghai Tianhong. Revenue for the year included RMB11,372,000, RMB23,422,000 and RMB20,465,000 is attributed to Nedschroef Beckingen, Nedschroef Schrozberg and Shanghai Tianhong.

Had the acquisitions of Nedschroef Beckingen, Nedschroef Schrozberg and Shanghai Tianhong been effected at the beginning of the year, the total amount revenue of Group from continuing operations for the year ended 31 December 2015 would have been RMB7,236,753,000 and the amount of the profit for the year from continuing operations would have been RMB192,932,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operating of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

41. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended 31 December 2015 (continued)

Impact of acquisition of Shanghai Tianhong on the results of the Group (continued)

In determining the pro-forma revenue and profit of the group had Shanghai Tianhong, Nedschroef Beckingen and Nedschroef Schrozberg been acquired at the beginning of the year, the directors calculated depreciation plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

For the year ended 31 December 2014

On 31 March 2014, the Company subscribed for the additional registered capital of Cyeco Environmental of RMB1,071,000 at consideration of RMB45,000,000 to hold 17.64% of its equity interest. On 7 May 2014, the Company acquired a total of 47.36% equity interest in Cyceo Environmental held by Ji Ming and Zeng Xiaoyan, independent third parties, at consideration of RMB123,870,000. Following the completion of the acquisition on 7 May 2014, the Company held 65% equity interest in Cyeco Environmental. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB41,966,000. 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 total consideration for the acquisition was settled in cash, with RMB45,000,000 paid on 31 March 2014 and the remaining RMB120,800,000 paid on 7 May 2014. The remaining RMB3,070,000 was paid during the year ended 31 December 2015.

On 28 August 2014, the Group acquired a 100% equity interest and shareholders' loan in the Nedfast from third parties of the Company. The Nedfast is one of the world's largest supplier of automotive fasteners and special parts. In addition, the Nedfast 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 equity interest and EUR40,230,000 (RMB326,905,000) for settlement of shareholders' loan.

Consideration transferred

	Cyeco Environmental RMB'000	Nedfast RMB'000	Total RMB'000
Total consideration satisfied by cash	168,870	1,220,394	1,389,264

Acquisition-related costs amounting to RMB39,321,000 have been excluded from the cost of acquisition and have been recognised directly as an expense and included in 'other expense' line item in the consolidated statement of profit or loss and other comprehensive income for the year.

41. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended 31 December 2014 (continued)

Assets and liabilities recognised at the date of acquisition of Cyeco Environmental and Nedfast are as follows:

	Cyeco Environmental RMB'000	Nedfast RMB'000	Total RMB'000
Property, plant and equipment	1,015	619,816	620,831
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)	(268,623)	(277,307)
Tax payable	(677)	(63,575)	(64,252)
Retirement benefit obligations	–	(131,025)	(131,025)
Deferred tax liabilities	(44,455)	(66,703)	(111,158)
Non-controlling interest	–	(1,882)	(1,882)
	195,237	(330,300)	(135,063)

The trade receivables acquired (which principally comprised trade receivables) with a fair value of RMB361,164,000 at the date of acquisition had gross contractual amounts of RMB396,613,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB35,449,000.

Goodwill arising on acquisition:

	Cyeco Environmental RMB'000	Nedfast RMB'000	Total RMB'000
Consideration transferred	168,870	1,220,394	1,389,264
Plus: non-controlling interests	68,333	–	68,333
Less: net assets acquired	195,237	(330,300)	(135,063)
	41,966	1,550,694	1,592,660

41. ACQUISITION OF SUBSIDIARIES (continued)

For the year ended 31 December 2014 (continued)

Goodwill arising on acquisition: (continued)

The non-controlling interest 35% in Cyeco Environmental recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Cyeco Environment and amounted to RMB68,333,000.

Goodwill arose in the acquisition of Cyeco Environmental and Nedfast because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and further market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The goodwill arising on the acquisition is not expected to be deductible for tax purpose.

Net cash outflow arising on acquisition of Cyeco Environmental and Nedfast

	Cyeco Environmental RMB'000	Nedfast RMB'000	Total RMB'000
Consideration paid in cash	168,870	1,220,394	1,389,264
Less: cash and cash equivalent balances acquired	46,648	137,608	184,256
	122,222	1,082,786	1,205,008

Impact of acquisition on the results of the Group

Included in the profit for the year 2014 was loss of RMB4,616,000 and profit of RMB20,871,000 attributed to Cyeco Environmental and Nedfast, respectively. Revenue for the year included RMB12,139,000 and RMB1,444,637,000 was attributed to Cyeco Environmental and Nedfast, respectively.

Had the acquisition of Cyeco Environmental been effected at the beginning of the year, the total amount revenue of Group from continuing operations for the year ended 31 December 2014 would have been RMB4,683,274,000 and the amount of the profit for the year from continuing operations would have been RMB86,393,000. Had the acquisition of Nedfast been effected at the beginning of the year, the total amount revenue of Group from continuing operations for the year ended 31 December 2014 would have been RMB7,492,716,000 and the amount of the profit for the year from continuing operations would have been RMB175,529,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operating of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the group had Cyeco Environmental and Nedfast been acquired at the beginning of the year, the directors have calculated depreciation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

42. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2015

On 15 May 2015, the Company entered into a share transfer agreement with SEI, pursuant to which the Company agreed to sell 65% equity interests in Cyeco Environmental to SEI for a final cash consideration of RMB198,932,000, after accounting for certain price adjustment as mutually agreed.

Consideration received:

	RMB'000
Cash consideration received	198,932

Analysis of assets and liabilities of Cyeco Environmental as at the date control was lost were as follows:

	RMB'000
Property, plant and equipment	2,978
Goodwill	41,966
Intangible assets	171,811
Inventories	7,157
Bills receivable	4,423
Trade receivables	9,250
Prepayments, deposits and other receivables	4,640
Cash and cash equivalents	39,406
Trade payables	(1,490)
Other payables and accruals	(326)
Tax liabilities	(167)
Dividends payable	(8,337)
Deferred tax liabilities	(42,382)
Net assets disposed of	228,929
Gain on disposal of a subsidiary	
Consideration received	198,932
Non-controlling interest	64,376
Net assets disposed of	(228,929)
Gain on disposal of a subsidiary accounted for as deemed capital contribution and recognised in contributed surplus	34,379

42. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended 31 December 2015 (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration	198,932
Less: Cash and cash equivalents disposed of	(39,406)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	159,526

The Group did not incur any significant transaction cost for this disposal transaction.

For the year ended 31 December 2014

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, an independent third party. 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, an independent third party. As a result, the Group deconsolidated Dalang Machinery since the date of losing control and since then it was accounted for by the Group using the equity method of accounting regarding the remaining 20% equity interest owned by the Company.

Consideration received:

	Shanghai Insulating RMB'000	Dalong Machinery RMB'000	Total RMB'000
Cash consideration received	37,914	84,596	122,510

42. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended 31 December 2014 (continued)

Analysis of assets and liabilities of Shanghai Insulating and Dalong Machinery as at the date control was lost were as follows:

	Shanghai Insulating RMB'000	Dalong Machinery RMB'000	Total RMB'000
Property, plant and equipment	13,660	46,699	60,359
Prepaid lease payments	7,349	–	7,349
Deferred tax assets	–	17,433	17,433
Inventories	7,092	61,332	68,424
Trade and bills receivables	29,746	192,750	222,496
Prepayments, deposits and other receivables	503	21,517	22,020
Cash and cash equivalents	5,629	24,954	30,583
Trade and bills payables	(9,851)	(204,939)	(214,790)
Other payables and accruals	(15,811)	(70,987)	(86,798)
Tax payable	(284)	–	(284)
Other long-term payables and accruals	–	(2,902)	(2,902)
Deferred tax liabilities	(227)	–	(227)
	37,806	85,857	123,663

Gain on disposal of Shanghai Insulating and Dalong Machinery

	Shanghai Insulating RMB'000	Dalong Machinery RMB'000	Total RMB'000
Consideration received	37,914	84,596	122,510
20% shares of Dalong Machinery as an associate	–	22,344	22,344
Net assets disposed of	(37,806)	(85,857)	(123,663)
Gain on disposal	108	21,083	21,191

42. DISPOSAL OF SUBSIDIARIES (continued)

For the year ended 31 December 2014 (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of Shanghai Insulating and Dalong Machinery is as follows:

	Shanghai Insulating RMB'000	Dalong Machinery RMB'000	Total RMB'000
Cash consideration	37,914	84,596	122,510
Less: cash and cash equivalents disposed of	(5,629)	(24,954)	(30,583)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	32,285	59,642	91,927

These transaction costs have been expensed and are included in the consolidated statement of profit or loss and other comprehensive income for the year.

43. TRANSFER OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2015, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB60,449,000 (2014: RMB110,944,000) to certain of its suppliers in order to settle the trade payables due to such suppliers. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continued to recognise the full carrying amount of the Endorsed Bills and the associated trade payables settled. The Endorsed Bills are carried at amortised cost in the Group's consolidated statement of financial position.

(b) As part of its normal business, the Group entered into several trade receivable factoring arrangements (the "Arrangements") and transferred certain trade receivables to certain banks. Under the Arrangements, the Group may be required to reimburse the bank for loss if any trade debtors has default on payment. The carrying value of the trade receivables under the Arrangements as at 31 December 2015 was RMB51,038,000, while the cash received was RMB40,000,000, which was treated as secured bank borrowings. (2014: the Group derecognised the received cash RMB51,000,000).

43. TRANSFER OF FINANCIAL ASSETS (continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in the PRC to certain suppliers and discounted certain bills receivable accepted by banks to banks and a financial institute in the PRC amounted to RMB137,867,000 and RMB43,359,000, respectively (2014: RMB107,171,000 and nil) (the "Derecognised Bills"). The Derecognised Bills had a maturity from 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 2015, 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.

44. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 35, shareholders' loan disclosed in note 36, company bonds disclosed in note 34, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues, the payment of dividends as well as the issue of new debts or the repayment of existing debts.

45. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP	
	2015	2014
		(Restated)
	RMB'000	RMB'000
Financial assets		
Available-for-sale investments	**872**	872
Loans and receivables (including cash and cash equivalents)	**2,813,166**	2,959,854
	2,814,038	2,960,726
Financial liabilities		
Derivative financial instruments	**4,725**	3,239
Other financial liabilities	**5,044,038**	5,264,696
	5,048,763	5,267,935

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade receivables, bills receivable, other receivables, restricted deposits and bank balances and cash, trade payables, bills payable, other payables, bank borrowings, shareholders' loan, company bonds, and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

45. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and HKD. The Group uses foreign currency forward contracts to hedge against the risk when it is foreseen to be significant. The management has closely monitored foreign exchange exposure and will undertake necessary procedures to mitigate the currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**314,334**	286,898	**890,932**	1,686,258
HKD	**37,511**	3,220	**–**	–
	351,845	290,118	**890,932**	1,686,258

45. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group carries out most of the transactions denominated in USD and HKD and the Group is mainly exposed to the foreign exchange risk arising from these currencies.

The following table details the Group's sensitivity to a 5% (2014: 5%) increase and decrease in USD and HKD against the functional currencies and the Company's sensitivity to a 5% (2014: 5%) increase and decrease in USD against the functional currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding USD and HKD denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2014: 5%) change in foreign currency rate. A positive number below indicates an increase in profit before tax where the relevant foreign currencies strengthen 5% (2014: 5%) against functional currencies. For a 5% weakening of the relevant foreign currency against functional currencies, there would be a comparable impact on the profit before tax, and the balances below would be negative.

	Profit before tax	
	2015	2014
	RMB'000	RMB'000
USD	**(28,830)**	(69,968)
HKD	**1,876**	161

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

45. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, shareholders' loan and company bonds (see note 34, 35 and 36 for details).

The Group is also exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings (see note 29 and 35 for details) due to fluctuation of the prevailing market interest rate.

The Group aims at keeping borrowings at fixed rates to minimise the impact on unfavourable interest rate fluctuation. In order to achieve this result, the Group enters into interest rate swaps to hedge against its exposures to changes in cash flows of the borrowings. The critical terms of these interest rate swaps are similar to those of hedged borrowings. These interest swaps are designed as effective hedging instruments and hedge accounting is applied.

Sensitivity analysis

The sensitivity analyses below have been prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2014: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and reasonably possible change in interest rates.

If interest rate had been 50 basis points (2014: 50 basis points) higher/lower for variable-rate interest bearing financial assets/liabilities and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by RMB683,000 (2014: RMB989,000).

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

45. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk (continued)

Other than concentration of credit risk on liquid fund which are deposits with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. 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 21% (2014: 24%) of the Group's total trade receivables.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group has access to financing facilities as described below, of which RMB1,834,760,000 were unused as at 31 December 2015 (2014: RMB1,552,735,000). The Group expects to meet its other obligations from operating cash flows and of maturing financial assets.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

45. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The table have been drawn up based on the undiscounted contractual net cash inflows/outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

	Weighted average effective interest rate	On demand or less than 3 month	3 months–1 year	1–5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2015							
Non-derivative financial liabilities							
Trade payables	–	1,332,247	–	–	–	1,332,247	1,332,247
Bills payable	–	349,757	–	–	–	349,757	349,757
Other payables	–	328,553	–	–	–	328,553	328,553
Other long-term payables	–	6,386	–	–	–	6,386	6,386
Bank borrowings							
— fixed rate	4.01	40,603	20,779	–	–	61,382	60,172
— variable rate	3.35	64,049	93,855	774,452	56,566	988,922	870,210
Shareholders' loan	2.72	10,887	32,661	1,695,939	–	1,739,487	1,599,133
Company bonds	5.41	6,350	19,050	542,333	–	567,733	497,580
		2,138,832	166,345	3,012,724	56,566	5,374,467	5,044,038
Derivatives – net settlement							
Interest rate swaps	–	4,725	–	–	–	4,725	4,725

45. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

	Weighted average effective interest rate %	On demand or less than 3 month RMB'000	3 months– 1 year RMB'000	1–5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2014							
Non-derivative financial liabilities							
Trade payables	–	1,396,870	–	–	–	1,396,870	1,396,870
Bills payable	–	325,048	–	–	–	325,048	325,048
Other payables	–	362,229	–	–	–	362,229	362,229
Other long-term payables	–	196	–	–	–	196	196
Bank borrowings	–						
— fixed rate	4.23	20,166	58,129	–	–	78,295	77,162
— variable rate	3.11	15,141	86,653	427,722	540,102	1,069,618	924,349
Shareholders' loan	3.30	13,882	41,647	1,881,707	–	1,937,236	1,682,725
Company bonds	5.41	6,350	19,050	567,733	–	593,133	496,117
		2,139,882	205,479	2,877,162	540,102	5,762,625	5,264,696
Derivatives — net settlement							
Interest rate swaps	–	3,239	–	–	–	3,239	3,239

The amounts included above for non-derivative financial liabilities bearing variable interest rate is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

As set out in note 43, the Group has endorsed and discounted certain bills receivable to banks and a financial institution as at 31 December 2015 and 2014. The Group has derecognised the bills receivable and associated trade payables. In the opinion of the directors, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should be the issuing bank failing to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2015 and 2014, the Group's maximum exposure to loss, which is the same as the amount payable to the suppliers and the amount of bills receivables endorsed and discounted, should the issuing banks fail to settle the bills on maturity, amounted RMB181,226,000 (2014: RMB107,171,000).

45. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at 31 December RMB'000		Fair value Hierarchy	Valuation technique(s) and key input(s)
	2015	2014		
Interest rate swaps	**Liabilities: 4,725**	Liabilities: 3,239	Level 2	Discounted cash flow. Future cash flows are estimated based on applicable yield curves derived from quoted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Except for set out above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 31 December 2015 and 2014 are recorded at amortised cost in the consolidated financial statements approximate their fair values.

46.. OPERATING LEASES

As lessor

At the end of the reporting period, the Group had contracted with tenants for leasing of plant and machinery for the following future minimum lease payments:

	2015	2014
	RMB'000	RMB'000
Within one year	**5,275**	4,729
In the second to fifth year inclusive	**5,534**	9,458
After five years	**460**	–
	11,269	14,187

As lessee

The Group's minimum lease payments paid during the year ended 31 December 2015 under operating leases in respect of land and buildings amounted to RMB107,035,000 (2014: RMB33,092,000).

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015	2014
	RMB'000	RMB'000
Within one year	**85,765**	62,144
In the second to fifth year inclusive	**146,541**	130,344
After five years	**20,850**	31,790
	253,156	224,278

Operating lease payments represent rentals payable by the Group for certain of its land and buildings. Leases are negotiated for terms ranging from one year to ten years (2014: one to ten) and rentals are fixed at the date of signing of lease agreements.

47. CAPITAL COMMITMENTS

	2015 RMB'000	2014 RMB'000
Capital commitments contracted for but not provided in the consolidated financial statements in respect of:		
— Plant and machineries	**37,229**	37,926
— Land and Buildings	**24,022**	2,945
	61,251	40,871

48. CONTINGENT LIABILITIES

At the end of the reporting period, the Group have contingent liabilities of RMB4,612,000 related to two overseas court proceedings (2014: nil). A subsidiary of the Group is a defendant in a legal action involving the claims from an employee terminated for his misconduct. The same subsidiary of the Group is a defendant in another legal action involving the claims for sudden termination of commercial relationship from a producer making sales with its customer consolidated by the subsidiary and the contract terminated in 2014. The directors believe, based on advice from legal advisor, that the action can be successfully defended and no significant losses (including claims for costs) will be incurred.

49. RELATED PARTY DISCLOSURES

The Company is a subsidiary of Shanghai Electric Corporation, which is a state-owned enterprise established subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly or indirectly controls a significant number of entities through government authorities and other state-owned entities.

(a) Related party transactions

Other than as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

Related party	Nature of transaction	2015 RMB'000	2014 RMB'000
Shanghai Electric Corporation	Rendering of comprehensive services (Note i)	37,736	–
	Comprehensive services charges incurred (Note i)	–	31
	Rental expenses (Note ii)	21,246	17,375
	Relocation compensation income	(3,425)	903
	Disposal of an associate	21,777	–
	Sales of property, plant and equipment	1,575	–
	Dividend distribution	9,500	7,871
Associates	Purchase of materials (Note i)	–	648
	Sales of goods (Note i)	–	552
SEC group companies	Rendering of comprehensive services (Note i)	200	–
	Comprehensive services charges incurred (Note i)	401	5,156
	Purchase of materials (Note i)	198	8,573
	Sales of goods (Note i)	378,435	344,362
	Rental expenses (Note ii)	2,747	2,026
	Purchase of property, plant and equipment	10,814	82
	Bills discounted (Note iii)	20,000	25,000
	Disposal of a subsidiary	198,932	–
	Interest expense	56,623	22,988
	Interest income	13	1
	Dividend distribution	745	429

Notes:

i. The sales and purchases of goods and services 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. The discount of bills receivables was based on mutually agreed terms with reference to market rates.

49. RELATED PARTY DISCLOSURES (continued)

(b) Other transactions with related parties

During the year ended 31 December 2015 and 2014, one of the SEC group companies leased certain properties to United Bearing for no consideration with an area of 5,560 square metres.

(c) Related party balances

As at 31 December 2015, the cash deposited in SEC group companies is RMB2,895,000 (2014: RMB9,473,000).

Other related party balances including trade receivables, prepayments, deposits and other receivables, trade payables and other payables and accruals are set out in notes 26, 28, 30 and 32 to the consolidated financial statements.

(d) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases of materials, property, plant and equipment, receiving of services, sales of goods, rendering of services and making deposits and borrowings with state-owned entities, other than the SEC group companies, in the normal course of business at terms comparable to those with other non-state-owned entities.

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2015	2014
	RMB'000	RMB'000
Fees	**430**	400
Short-term employee benefits	**3,706**	2,433
Retirement benefit	**200**	185
	4,336	3,018

Further details of directors' and supervisors' emoluments are included in note 14.

The Company has five senior executives, three of whom are also directors and the chief executive and are considered as key managements of the Company, whose remunerations are disclosed in note 14. Two senior executives have remunerations between RMB700,000 and RMB1,000,000 and the other three senior executives have remunerations below RMB700,000 for the year ended 31 December 2015.

The remuneration of directors and key executives is determined by the remuneration committee having regard to performance of individuals and market trends.

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

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principle subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital in '000	Attributable equity interest held by the Company 2015	2014	Principal activity
Directly owned					
Shanghai Tian An Bearing Company Limited* 上海天安軸承有限公司	PRC	RMB159,389	100%	100%	Production and sale of precision and other bearings and ancillary appliances
Wuxi Turbine Blade* 無錫透平葉片有限公司	PRC	RMB713,450	100%	100%	Production and sale of turbine blades
Shanghai Tool Works Company Limited* (Note i) 上海工具廠有限公司	PRC	RMB340,910	100%	100%	Production and sale of cutting tools and accessories
Shanghai Biaowu High Tensile Fasteners Company Limited* (Note ii) 上海標五高强度緊固件有限公司	PRC	RMB233,100	100%	100%	Production and sale of high tensile fasteners and related equipment
Shanghai Zhenhua Bearing Factory Company Limited* 上海振華軸承總廠有限公司	PRC	RMB54,500	100%	100%	Production and sale of bearings and related specific equipment
United Bearing* 上海聯合滾動軸承有限公司	PRC	RMB176,380	90%	90%	Production and sale of bearings and related specific equipment
Shanghai Electric Bearing Company Limited* 上海電氣軸承有限公司	PRC	RMB100,000	100%	100%	Production and sale of bearing products
Shanghai High Strength Bolt Company Limited* 上海高强度螺栓廠有限公司	PRC	RMB11,865	100%	100%	Production and sale of high strength bolts

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Details of the Company's principle subsidiaries at the end of the reporting period are set out below: (continued)

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital in '000	Attributable equity interest held by the Company 2015	2014	Principal activity
Shanghai Fastener and Welding Material Technology Research Centre Company Limited* 上海市緊固件和焊接材料技術研究所有限公司	PRC	RMB5,000	100%	100%	Research and development, provision of services of expertise and quality testing for fasteners and related equipment
Cyeco Environmental* 上海船研環保技術有限公司	PRC	RMB6,071	–	65%	Environmental protection water treatment engineering, anti-corrosion field of pollution prevention
Shanghai Prime (HK) Investment Management Company Limited	Hong Kong	HKD7,500	100%	100%	Holding financing and trading activities
Shanghai Tianhong* 上海天虹微型軸承有限公司	PRC	RMB1,000	70%	–	Production and design of high-precision bearings
Indirectly owned					
Shanghai Mohong Bearing Company Limited* 上海摩虹軸承有限公司	PRC	RMB12,800	70%	–	Production and design of high-precision bearings
Shanghai Prime Netherlands B.V.	Netherlands ("NL")	EUR5	100%	100%	Holding and financing activities
Nedfast	NL	EUR1,038	100%	100%	Holding and financing activities
Nedfast Holding B.V.	NL	EUR20	100%	100%	Holding and financing activities
Nedschroef Helmond B.V.	NL	EUR2,725	100%	100%	Manufacturing of fasteners

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Details of the Company's principle subsidiaries at the end of the reporting period are set out below: (continued)

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid share capital/ registered capital in '000	Attributable equity interest held by the Company 2015	2014	Principal activity
Nedschroef Altena GmbH	Deutschland ("DEU")	EUR25	100%	100%	Manufacturing of fasteners
Nedschroef Fraulautern GmbH	DEU	EUR1,023	100%	100%	Manufacturing of fasteners
Nedschroef Plettenberg GmbH	DEU	EUR1,000	100%	100%	Manufacturing of fasteners
Nedschroef Herentals-N.V.	Belgium ("BEL")	EUR2,042	100%	100%	Manufacturing of machines
Nedschroef Fasteners S.A.S.	France ("FRA")	EUR2,898	100%	100%	Trade of fasteners
Ned Kunshan* 內德史羅夫緊固件(昆山)有限公司	PRC	RMB46,929	100%	100%	Manufacturing of fasteners
Nedschroef Langeskov ApS	Denmark ("DNK")	DKK295	100%	100%	Manufacturing of fasteners
Nedschroef Fasteners Spain S.A.	Spain ("ESP")	EUR260	100%	100%	Trade of fasteners
Nedschroef Barcelona SAU	ESP	EUR1,000	100%	100%	Manufacturing of fasteners
Nedschroef Beckingen	DEU	EUR1,000	100%	–	Manufacturing of fasteners
Nedschroef Schrozberg	DEU	EUR1,000	100%	–	Manufacturing of fasteners

* The English name is for identification only. The official name of the entity is in Chinese.

Note i: There is 0.02% shares held by the Company indirectly.

Note ii: There is 1.07% shares held by the Company indirectly.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

During the year ended 31 December 2015, the Group acquired 70% equity interest in Shanghai Tianhong Miniature Bearing Co., Ltd, and established Nedschroef Beckingen and Nedschroef Schrozberg to integrate the business acquired. Further details of the acquisition are included in note 41 to the financial statement.

During the year ended 31 December 2015, the Company disposed 65% equity interest in Shanghai Cyeco Technology Co., Ltd. Further details of the disposal are included in note 42 to the financial statement.

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

None of the subsidiaries had issued any debt securities at the end of the year.

The table below shows details of not wholly-owned subsidiaries of the Company that have material non-controlling interest:

Name of subsidiary	Place of principal place of business	Proportion of ownership interests/ voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	**2015**	2014	**2015**	2014
				RMB'000	RMB'000	**RMB'000**	RMB'000
United Bearing	PRC	**10%**	10%	**1,036**	2,534	**37,376**	38,341
Shanghai Tianhong	PRC	**30%**	n/a	**1,696**	n/a	**10,919**	n/a
Cyeco Environmental	PRC	**n/a**	35%	**(1,568)**	(2,486)	**n/a**	65,847
Nedright Technology GmbH	Germany	**45%**	45%	**112**	18	**1,775**	1,928
Total				**1,276**	66	**50,070**	106,116

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations .

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

	2015 United Bearing RMB'000	2014 United Bearing RMB'000	2015 Shanghai Tianhong RMB'000	2014 Shanghai Tianhong RMB'000	2015 Cyeco Environmental RMB'000	2014 Cyeco Environment RMB'00
Current assets	**498,527**	528,678	**31,189**	n/a	**n/a**	63,558
Non-current assets	**114,490**	119,873	**26,506**	n/a	**n/a**	181,312
Current liabilities	**(231,289)**	(254,353)	**(22,997)**	n/a	**n/a**	(12,279)
Non-current liabilities	**(239,251)**	(265,145)	**–**	n/a	**n/a**	(44,455)
Equity attributable to owners of the Company	**128,229**	116,148	**24,289**	n/a	**n/a**	122,289
Non-controlling interests	**14,248**	12,905	**10,409**	n/a	**n/a**	65,847
Revenue	**(378,999)**	(466,209)	**(21,168)**	n/a	**(10,610)**	(12,139)
Expenses	**368,638**	440,867	**15,267**	n/a	**15,089**	19,241
(Profit) loss for the year	**(10,361)**	(25,342)	**(5,901)**	n/a	**4,479**	7,102
(Profit) loss attributable to owners of the Company	**(9,325)**	(22,808)	**(4,131)**	n/a	**2,911**	4,616
(Profit) loss attributable to the non-controlling interests	**(1,036)**	(2,534)	**(1,770)**	n/a	**1,568**	2,486
(Profit) loss for the year	**(10,361)**	(25,342)	**(5,901)**	n/a	**4,479**	7,102
Total comprehensive (income) expense attributable to owners of the Company	**(9,325)**	(22,808)	**(4,131)**	n/a	**2,911**	4,616
Total comprehensive (income) expense attributable to the non-controlling interests	**(1,036)**	(2,534)	**(1,770)**	n/a	**1,568**	2,486
Total comprehensive (income) expense for the year	**(10,361)**	(25,342)	**(5,901)**	n/a	**4,479**	7,102
Dividends paid to non-controlling interests	**2,000**	200	**–**	n/a	**–**	–
Net cash (outflow) inflow from operating activities	**(1,205)**	(67,517)	**1,522**	n/a	**(4,016)**	(281)
Net cash outflow from investment activities	**(3,636)**	(8,068)	**(25,188)**	n/a	**(1,595)**	(1,350)
Net cash (outflow) inflow from financing activities	**(20,260)**	(2,000)	**21,000**	n/a	**–**	–
Net cash outflow	**(25,101)**	(77,585)	**(2,666)**	n/a	**(5,611)**	(1,631)

51. EVENT AFTER THE REPORTING PERIOD

No significant event after the reporting period was noted after the reporting period.

52. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation, which in the opinion of the directors, provides for better presentation to the consolidated financial statements.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2016.

PMC 上海集优

SHANGHAI PRIME