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 2016





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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhou Zhiyan
(Chairman and President)
Xiao Yuman
(Appointed on 16 December 2016)
Zhang Jie
(Appointed on 16 December 2016)
Mao Yizhong
(Appointed on 27 May 2016)
Chen Hui
Zhang Jianping
(Resigned on 16 December 2016)
Zhu Xi
(Resigned on 16 December 2016)
Sun Wei (Resigned on 27 May 2016)

NON-EXECUTIVE DIRECTOR

Dong Yeshun
(Appointed on 27 May 2016)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Ling Hong
Chan Oi Fat
Sun Zechang
(Appointed on 27 May 2016)
Li Yin (Resigned on 27 May 2016)

SUPERVISORS

Xu Jianguo
(Chairman, appointed on 27 May 2016)
Yu Yun
Wei Li
Dong Jianhua
(Resigned on 27 May 2016)

COMPANY SECRETARY

Ng Kwong, Alexander
(CPA, appointed on 20 July 2016)
Li Wai Chung
(Resigned on 20 July 2016)

AUDIT COMMITTEE

Chan Oi Fat (Chairman)
Ling Hong
Dong Yeshun
(Appointed on 27 May 2016)
Li Yin (Resigned on 27 May 2016)

REMUNERATION COMMITTEE

Ling Hong (Chairman)
Chan Oi Fat
Dong Yeshun
(Appointed on 27 May 2016)
Li Yin (Resigned on 27 May 2016)

STRATEGY COMMITTEE

Zhou Zhiyan (Chairman)
Zhang Jie
(Appointed on 16 December 2016)
Mao Yizhong
(Appointed on 27 May 2016)
Chen Hui
Dong Yeshun
(Appointed on 27 May 2016)
Sun Zechang
(Appointed on 27 May 2016)
Zhu Xi
(Resigned on 16 December 2016)
Sun Wei (Resigned on 27 May 2016)
Li Yin (Resigned on 27 May 2016)

NOMINATION COMMITTEE

Zhou Zhiyan (Chairman)
Xiao Yuman
(Appointed on 16 December 2016)
Ling Hong
Chan Oi Fat
Sun Zechang
(Appointed on 27 May 2016)
Zhang Jianping
(Resigned on 16 December 2016)
Zhu Xi
(Resigned on 16 December 2016)
Li Yin (Resigned on 27 May 2016)

RISK MANAGEMENT COMMITTEE

Zhou Zhiyan (Chairman)
Xiao Yuman
(Appointed on 16 December 2016)
Zhang Jie
(Appointed on 16 December 2016)
Ling Hong
Chan Oi Fat
Zhang Jianping
(Resigned on 16 December 2016)
Zhu Xi
(Resigned on 16 December 2016)

AUTHORISED REPRESENTATIVES

Zhou Zhiyan
Xiao Yuman
(Appointed on 16 December 2016)
Zhang Jianping
(Resigned on 16 December 2016)

ALTERNATIVE AUTHORISED REPRESENTATIVES

Chan Oi Fat
Ng Kwong, Alexander
(Appointed on 20 July 2016)
Li Wai Chung
(Resigned on 20 July 2016)

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 901-903, Tower Two,
Lippo Centre
89 Queensway, Hong Kong

CORPORATE HEADQUARTERS

2747 Songhuajiang Road,
Hongkou District, Shanghai
The People's Republic of China
Postal Code: 200437

Stock Exchange on which H shares are listed:

The Stock Exchange of
Hong Kong Limited

Abbreviation of H shares:

Shanghai Prime

H share stock code: 02345

Website: www.pmcsh.com

Email: pmcservice@pmcsh.com

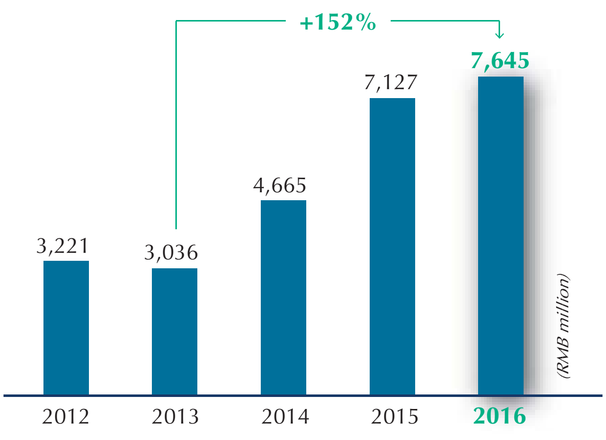
Telephone: +86 (21) 6472 9900

Fax: +86 (21) 6472 9889

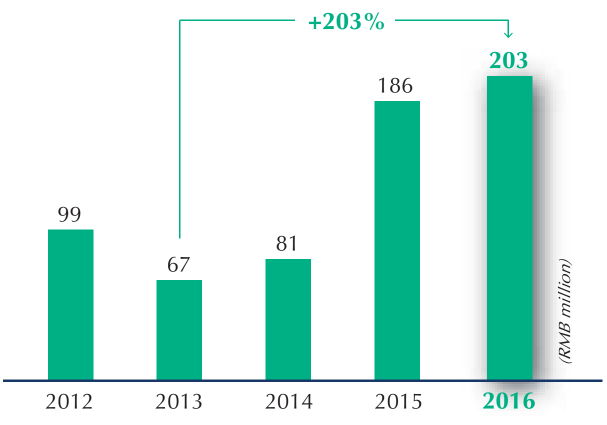
FINANCIAL SUMMARY

RMB (Million)	2012	2013	2014	2015	2016
Revenue and Profit					
Revenue from continuing operations	3,221	3,036	4,665	7,127	**7,645**
Profit before tax from continuing operations	137	84	116	288	**300**
Income tax expense	(9)	(24)	(20)	(97)	**(97)**
Profit (loss) for the year from discontinued operations	(27)	9	(15)	(4)	**–**
Profit for the year attributable to					
— Owners of the Company	99	67	81	186	**203**
— Non-controlling interests	2	2	0	1	**–**
	101	69	81	187	**203**
Dividends — proposed final	32	17	20	46	**50**
Earnings per share					
— Basic (RMB cents)	6.91	4.66	5.60	13.13	**14.41**
— Diluted (RMB cents)	N/A	N/A	N/A	13.10	**14.36**
Assets and Liabilities					
Non-current assets	2,508	2,387	4,603	4,268	**4,243**
Current assets	3,526	3,357	4,582	4,556	**4,877**
Current liabilities	1,891	1,692	2,929	2,387	**2,963**
Net current assets	1,635	1,665	1,653	2,169	**1,914**
Total assets less current liabilities	4,143	4,052	6,256	6,437	**6,157**
Non-current liabilities	831	795	3,008	3,239	**2,811**
Net assets	3,312	3,257	3,248	3,198	**3,346**
Total equity attributable to owners of the Company	3,276	3,221	3,142	3,155	**3,301**
Non-controlling interests	36	36	106	43	**45**

Revenue



Profit attributable to owners of the Company



PERFORMANCE HIGHLIGHTS

PERFORMANCE HIGHLIGHTS

For the year ended 31 December 2016 ("FY2016"), the revenue of Shanghai Prime Machinery Company Limited (the "Company"), together with its subsidiaries (the "Group"), grew 7% to RMB7,645 million — the highest since the Company's listing in 2006 — from RMB7,127 million for the year ended 31 December 2015 ("FY2015"), driven primarily by the continued growth in our automotive fastener business and moderate improvement in the turbine blade business. Profit attributable to owners of the Company increased generally in line with the revenue to RMB203 million in FY2016 (FY2015: RMB186 million).

Basic earnings per share ("EPS") for FY2016 was RMB14.41 cents (FY2015: RMB13.13 cents). The board of directors of the Company (the "Board") proposed a final dividend for FY2016 of RMB3.50 cents (FY2015: RMB3.20 cents) per share, representing a year-on-year increase of 9% and a payout ratio of approximately 25%, which is consistent with the Company's targeted payout ratio of 25%.

Automotive Business

Revenue of the automotive business amounted to RMB4,859 million for FY2016 (FY2015: RMB4,297 million), representing a year-on-year increase of 13% and accounting for 63% (FY2015: 60%) of the Group's total revenue. The automotive business continued to be the fastest growing and the largest segment of the Company. Growth in the automotive business in FY2016 was primarily attributable to the growth in passenger and commercial car production in the European Union and the maiden full-year inclusion of the revenue of the two fastener manufacturers in Germany newly acquired by Nedfast Investment B.V. (together with its subsidiaries, "Nedschroef"). The appreciation of Euro against RMB in FY2016 also contributed to the growth in revenue as the majority of the automotive sales were denominated in Euro. Under the Group's ownership, Nedschroef, one of the leading suppliers of automotive fasteners in the world, continued to perform better, and further synergies were realized in FY2016 with Nedschroef's sales in China growing significantly in FY2016. Average gross profit margin of our automotive business remained generally stable at about 20% in FY2016 (FY2015: 20%).

Industrial Application and Service Business

Revenue of the industrial application and service business amounted to RMB1,415 million for FY2016 (FY2015: RMB1,450 million), representing a year-on-year decrease of 2% and accounting for 19% (FY2015: 20%) of the Group's total revenue. The segment's average gross profit margin remained flat at 20% in FY2016 (FY2015: 20%). In FY2016, the industrial application and service business was negatively impacted mainly by the sluggish manufacturing sector in China as well as product pricing pressure due to fluctuations in steel prices.

Energy Business

Revenue of the energy business amounted to RMB883 million for FY2016 (FY2015: RMB793 million), representing a year-on-year increase of 11% and accounting for 12% (FY2015: 12%) of the Group's total revenue. The segment's average gross profit margin remained stable at 21% in FY2016 (FY2015: 21%). In FY2016, the growth in the energy business was primarily driven by the improved demand for traditional energy products underpinned by facility upgrade in China as well as increase in export to the United States and European markets.

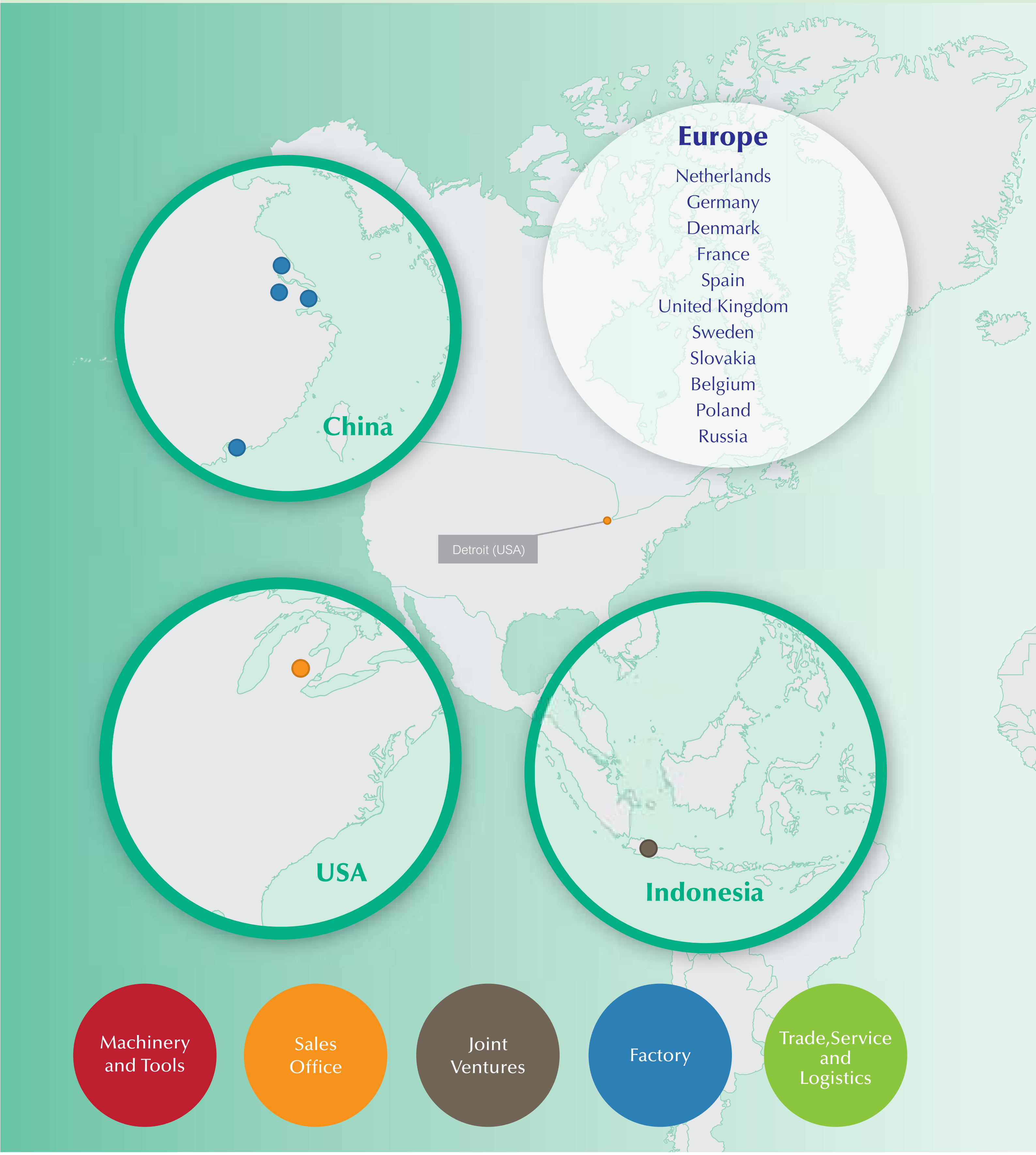
Aerospace Business

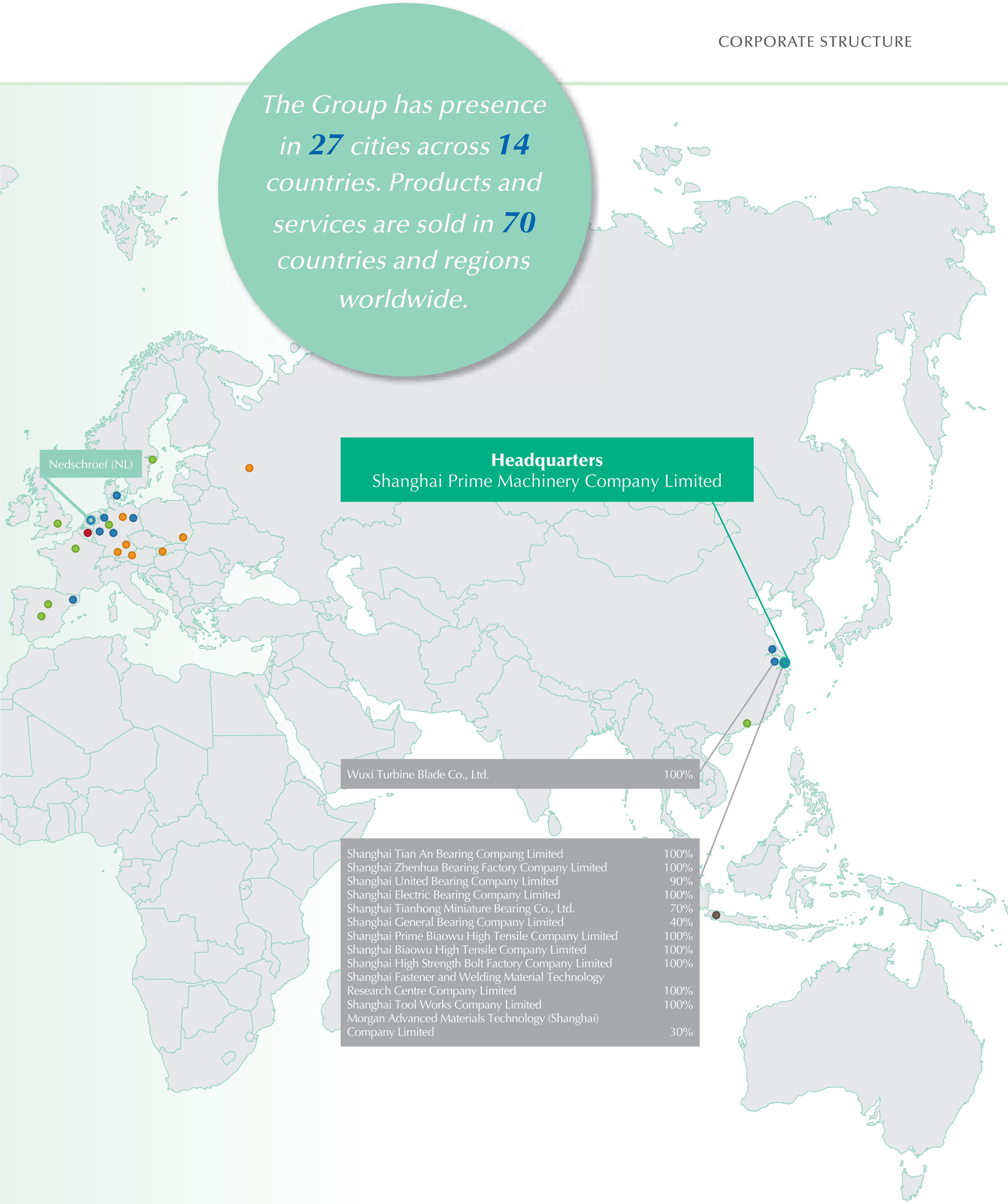
Revenue of the aerospace business amounted to RMB247 million for FY2016 (FY2015: RMB299 million), representing a year-on-year decrease of 17% and accounting for 3% (FY2015: 4%) of the Group's total revenue. The segment's average gross profit margin increased to 37% in FY2016 (FY2015: 33%). In FY2016, the aerospace industry saw a lower demand for the aerospace turbine blades and forged products in China as customers consumed existing inventory. However, there was a significant increase in the export of aerospace turbine blades and forged products and a higher demand for the Group's aerospace precision micro bearing products in China.

Railway Business

Revenue of the railway business amounted to RMB241 million for FY2016 (FY2015: RMB288 million), representing a year-on-year decrease of 16% and accounting for 3% (FY2015: 4%) of the Group's total revenue. The segment's average gross profit margin declined to 23% in FY2016 (FY2015: 30%). In FY2016, the underperformance of the railway business was primarily due to weaker demand in China's railway cargo market and intense price competition.

CORPORATE STRUCTURE




The Group has presence in 27 cities across 14 countries. Products and services are sold in 70 countries and regions worldwide.
Nedschroef (NL)
Headquarters
Shanghai Prime Machinery Company Limited
Wuxi Turbine Blade Co., Ltd. 100%
Shanghai Tian An Bearing Compang Limited 100%
Shanghai Zhenhua Bearing Factory Company Limited 100%
Shanghai United Bearing Company Limited 90%
Shanghai Electric Bearing Company Limited 100%
Shanghai Tianhong Miniature Bearing Co., Ltd. 70%
Shanghai General Bearing Company Limited 40%
Shanghai Prime Biaowu High Tensile Company Limited 100%
Shanghai Biaowu High Tensile Company Limited 100%
Shanghai High Strength Bolt Factory Company Limited 100%
Shanghai Fastener and Welding Material Technology Research Centre Company Limited 100%
Shanghai Tool Works Company Limited 100%
Morgan Advanced Materials Technology (Shanghai) Company Limited 30%

CHAIRMAN'S STATEMENT

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 2016 ("FY2016") which have been audited by Deloitte Touche Tohmatsu.

BUSINESS REVIEW

In FY2016, despite the challenges arising from the slow economic recovery in Europe as well as the excessive production capacity and weak demand in the basic parts and components market of China, the Group strived to overcome difficulties and maintained steady growth of the Company's results.

Operating results hit a record high and the return on equity was stable

The revenue of the Group for FY2016 amounted to RMB7,645 million, representing an increase of 7% as compared to RMB7,127 million for the year ended 31 December 2015 ("FY2015"). The profit attributable to the owners of the Company for FY2016 amounted to RMB203 million, representing an increase of 9% as compared with FY2015, which marked a new high since the listing of the Group in 2006. The Group managed to maintain high gross profit margin and operating cash flows despite intensifying competition in the market. In addition, the Group strived to maximize its return on equity. The basic earnings per share of the Company for FY2016 amounted to RMB14.41 cents, representing an increase of 10% as compared with FY2015. The Board proposed a final dividend for FY2016 of RMB3.50 cents per share, representing an increase of 9% as compared to RMB3.20 cents per share in FY2015. The dividend payout ratio of the Company remained stable at approximately 25%.

Our competitiveness was further strengthened by upgrading our technologies

The Group placed a great emphasis on the research and development technologies and investment in technology development. The Group conducted research and development based on the demand in the market and expanded its operation by leveraging on its technologies. An academician workstation and two research and development centers/institutions have been established to cater customers' needs and increase its research and development capability to solve problem. With an aim to further expand into overseas market, the Group put a great effort in researching and developing high-end products with high added-value. During FY2016, there was a significant increase in overseas sales income of energy, mainly including the high-end gas turbine blades of GE, Siemens and Alstom. The sales income of aerospace micro bearings grew steadily and reached a record high. We also recorded our first order on bolts with new corrosion-resistant coating. In addition, the Group's new nuclear power ancillary products and new ultra-high voltage products recorded their first sales income, which has laid solid foundation for our future business expansion.

The Company has been benefiting from acquisition and cooperative business has been further expanded

During FY2016, a majority of the operating revenue and net profit of the Group was contributed by Nedfast Investment B.V. (together with its subsidiaries, "Nedschroef"), a subsidiary of the Group acquired in 2014 , which was an important growth driver of the Group's operating results. During FY2016, Nedschroef maintained steady growth in its business in European automobile market. Meanwhile, the Group leveraged its domestic resource advantage to assist Nedschroef in developing the market in China, resulting in significant growth in terms of volume of orders and operating revenue in the Chinese market. In addition, the Company assisted Nedschroef with the registration as a qualified supplier in China and supported the development of new energy automobiles, which further expanded the cooperative business.

FUTURE PROSPECTS

In 2017, with increasing uncertainties in the domestic and international economies, the basic components market will remain challenging. In pursuit of a steady growth, the Group will be committed to technological innovation according to the market demands and international trends in order to facilitate its reforms and enhance management. With greater competitiveness and overall strength, the Group will strive for sustainable development, higher investment values and better returns for shareholders and the society.

Adhering to high-end technology development for faster industry upgrade

With the assistance of the technology committee, the Group will establish an innovative technology research and development mechanism which integrates technology resources for more centralized investment in technology. Key technology projects will be carried out to promote the commercialization of technological achievements. The Group will continue to develop high-end products to improve the competitiveness and additional value of products.

Enhancing strategic synergy through international acquisition achievements

With accelerated internationalization, the Group will further enhance the synergy effects with Nedschroef in respect of branding, marketing and technological development. On one hand, the Group will further integrate the technologies and management of Nedschroef for upgrade of its domestic member companies, while promoting the sales of products of Nedschroef in the domestic market. On the other hand, capitalizing on the existing network of Nedschroef, the Group will expand its business presence and introduce its products to the European market in order to speed up internationalization.

Enhancing performance by adhering to market-oriented approach

The Group will enhance market research to capture new demands as its new growth points. In response to new market demands for the new energy, aviation and aerospace businesses as well as new changes in the automobile market, the Group will further expand its strategic cooperation with renowned customers. More cost-effective products and services will be offered. The Group will promote the brand of Shanghai Prime to improve its market popularity and influence, so as to strengthen its profitability while expanding sales.

Vitalizing the enterprise through reform

In accordance with the reform of state-owned enterprises, the Group will develop into a mixed ownership enterprise with a market-oriented and open approach. Through the reform of the Group, the asset and business structures will be optimized for faster industry transformation and upgrade. The reform will also improve the vitality and innovation of the Group for better adaptation to market development requirements.

Hereby I would like to extend my sincere gratitude to all shareholders for their consistent trust and long-term support, and to the Board, supervisory committee, senior management and employees of the Group for their hard work. In 2017, in the face of market competition, the Group will persist in focusing on development featuring advanced technologies, transformation and upgrades. According to the market and customers' demand and actual situation of the Group, we will continue to enhance our innovation capability and proactively develop new products and expand in new markets to vitalize the Company's development, create return to the shareholders and make contribution to the society.

Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman
Shanghai, the PRC
17 March 2017

BUSINESS REVIEW

For FY2016, the revenue of the Group grew 7% to RMB7,645 million — the highest since the Group's listing in 2006 — from RMB7,127 million for FY2015, driven primarily by the continued growth in the automotive fastener business and moderate improvement in the turbine blade business. Profit attributable to owners of the Company increased generally in line with the revenue to RMB203 million in FY2016 (FY2015: 186 million).

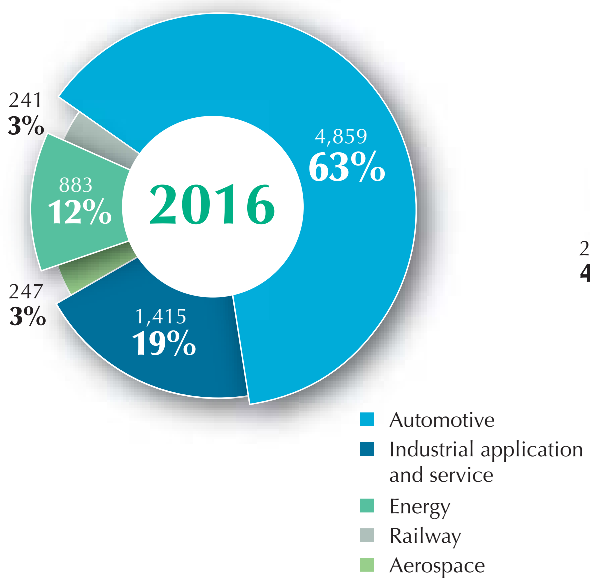
Basic EPS for FY2016 was RMB14.41 cents (FY2015: RMB13.13 cents). The Board proposed a final dividend for FY2016 of RMB3.50 cents (FY2015: 3.20 cents) per share, representing a year-on-year increase of 9% and a payout ratio of approximately 25%, which is consistent with the Group's targeted payout ratio of 25%.

RESULTS OF PRINCIPAL BUSINESS

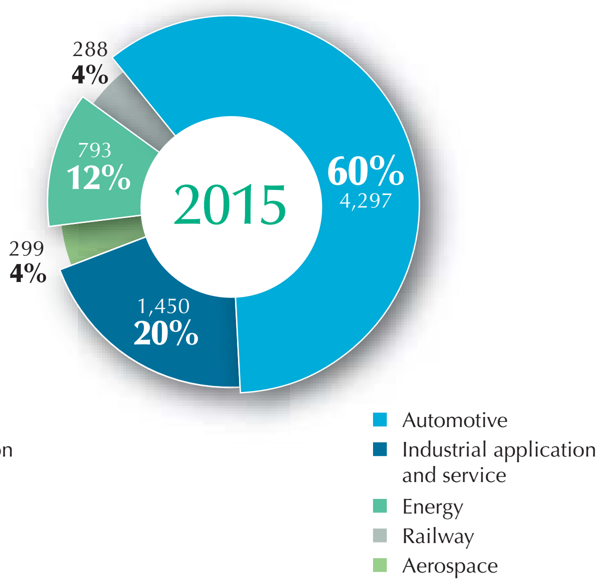
Set out below are the revenue, gross profit and gross profit margin in terms of business nature:

Business	Revenue		Gross Profit		Gross Profit Margin	
	2016	2015	**2016**	2015	**2016**	2015
		(RMB in million)				
Automotive	**4,859**	4,297	**960**	851	**20%**	20%
Percentage of total	**63%**	60%	**60%**	57%		
Industrial application and service	**1,415**	1,450	**293**	284	**20%**	20%
Percentage of total	**19%**	20%	**18%**	19%		
Energy	**883**	793	**189**	168	**21%**	21%
Percentage of total	**12%**	12%	**12%**	11%		
Aerospace	**247**	299	**91**	98	**37%**	33%
Percentage of total	**3%**	4%	**6%**	7%		
Railway	**241**	288	**57**	87	**23%**	30%
Percentage of total	**3%**	4%	**4%**	6%		

Revenue in 2016 (RMB million)

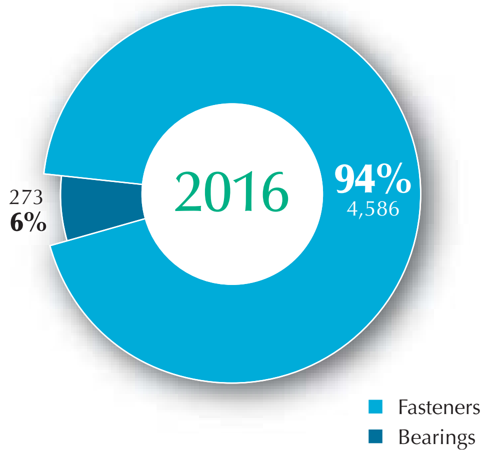


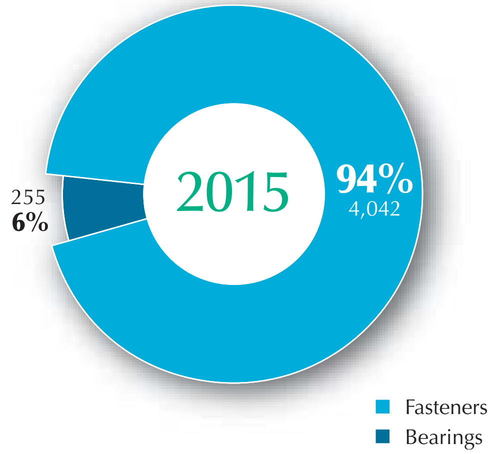
Revenue in 2015 (RMB million)



AUTOMOTIVE BUSINESS

Automotive Business by Products:





The Group primarily supplies regular and safety-critical fasteners and various bearings for the automotive industry. The Group is a leading global fastener partner for world-renowned automobile manufacturers and its diversified customer portfolio includes Volkswagen, BMW, Renault, Audi, Daimler, General Motors and SAIC Motor.

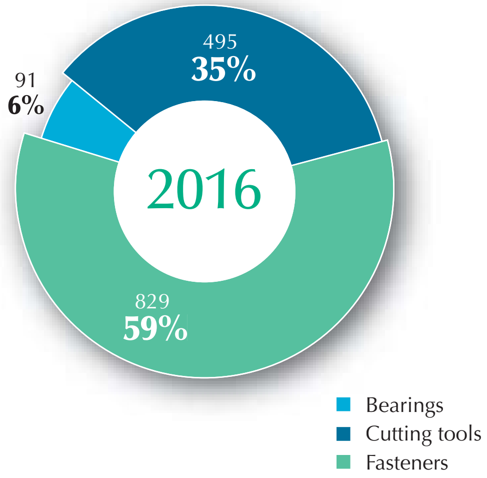
Revenue of the automotive business increased 13% year-on-year to RMB4,859 million in FY2016 (FY2015: 4,297 million). Automotive fastener revenue, accounting for a 94% share of the segment's revenue, grew to RMB4,586 million in FY2016 (FY2015: RMB4,042 million), mainly due to the growth of passenger and commercial car production in the European Union and the maiden full-year inclusion of the revenue of Nedschroef's two newly acquired fastener manufacturers in Germany. The appreciation of Euro against RMB in FY2016 also contributed to the growth in fastener revenue as the majority of the Group's automotive fastener sales were denominated in Euro. During FY2016, the Group has strengthened its effort to develop automotive fastener market in China and has successfully secured sizeable orders from SAIC Volkswagen and SAIC General Motors. Nedschroef managed to increase its sales in China significantly in FY2016, helped by new orders in China and in-sourcing, demonstrating synergies under the Group's ownership.

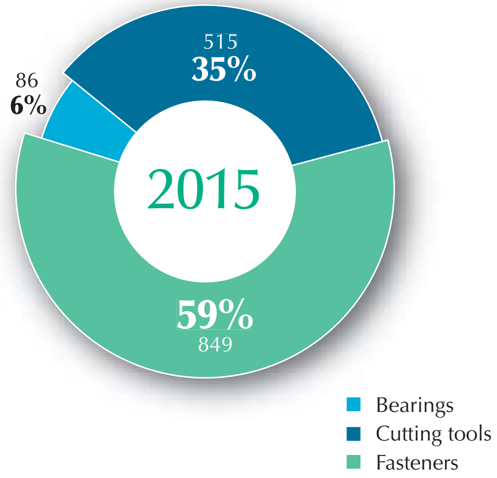
Automotive bearing revenue was up 7% year-on-year to RMB273 million in FY2016 (FY2015: RMB255 million), mainly attributable to increased sales of bearings for steering box, gearing box and transmission shaft of automobiles primarily in China.

Average gross profit margin of the automotive business remained generally stable at about 20% in FY2016 (FY2015: 20%).

INDUSTRIAL APPLICATION AND SERVICE BUSINESS

Industrial Application and Service Business by Products:





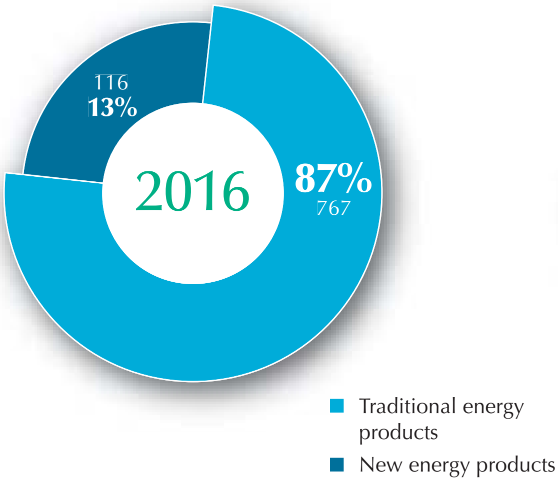
The Group's industrial application and service business supplies customers with products such as standard and high tensile strength fasteners, cutting tools as well as bearings. In addition to this, the Group also offers customers premium and one-stop services, ranging from testing, logistics and warehousing to ERP and electronic procurement via a proprietary B2B online platform.

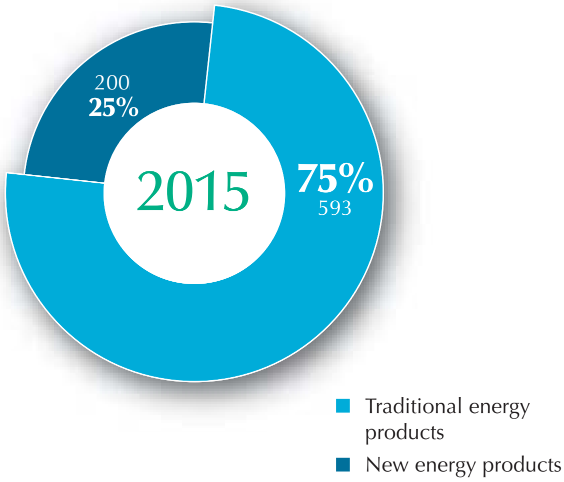
Revenue of the industrial application and service business decreased 2% year-on-year to RMB1,415 million in FY2016 (FY2015: RMB1,450 million). Of which, fastener revenue and cutting tool revenue declined by 2% and 4% year-on-year to RMB829 million (FY2015: RMB849 million) and RMB495 million (FY2015: RMB515 million), respectively. The decrease in revenue was mainly attributable to the sluggish manufacturing sector in China as well as product pricing pressure due to fluctuations in steel prices. Despite a challenging operating environment in FY2016, the Group managed to achieve higher fastener sales volume and a record number of fastener customers in China and overseas. Meanwhile, the Group's share in the cutting tool market in China improved gradually.

The segment's average gross profit margin remained flat at 20% in FY2016 (FY2015: 20%).

ENERGY BUSINESS

Energy Business by Products:





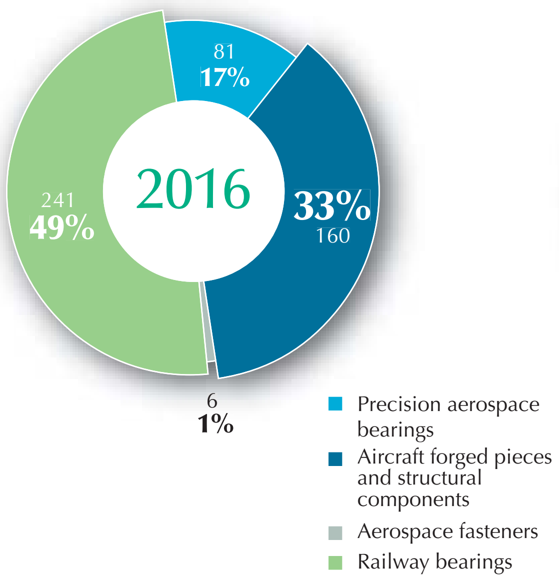
The Group mainly supplies products such as gas turbine blades, steam turbine blades, bearings and fasteners for the energy industry. In particular, the Group is a leading supplier of large-scale thermal power steam turbine blade in China, enjoying a significant share in the relevant market therein. The Group's customer portfolio includes well-known energy equipment companies such as Shanghai Electric, Dongfang Electric, Alstom, General Electric and Siemens.

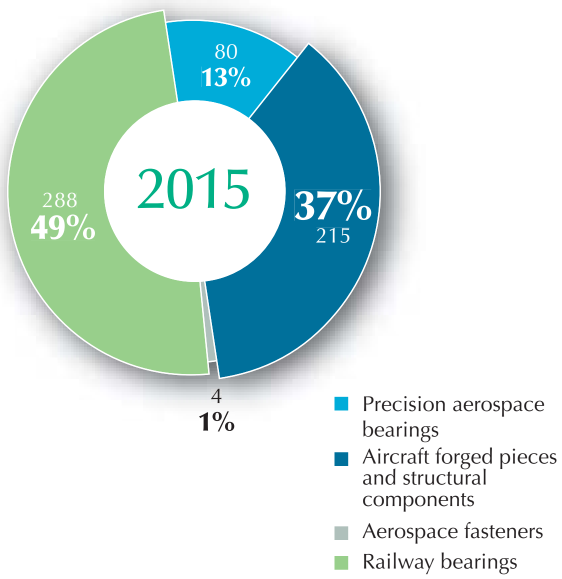
Revenue of the energy business amounted to RMB883 million in FY2016 (FY2015: RMB793 million), representing a year-on-year increase of 11%. Of which, revenue generated from traditional energy products increased by 29% year-on-year to RMB767 million (FY2015: RMB593 million), primarily because of increase in demand due to facility upgrade in China as well as increase in export to the United States and European markets. Revenue generated from new energy products, however, declined by 42% year-on-year to RMB116 million (FY2015: RMB200 million), mainly attributable to the decrease in sales of turbine blades for nuclear energy.

The segment's average gross profit margin remained stable at 21% in FY2016 (FY2015: 21%).

AEROSPACE AND RAILWAY BUSINESS

Aerospace and Railway Businesses by Products:





The Group mainly supplies turbine blades, forged products, bearings and fasteners for the aerospace industry. In addition, the Group also supplies bearings (including repair and maintenance services) and fasteners for the railway industry.

Revenue of the aerospace business amounted to RMB247 million for FY2016 (FY2015: RMB299 million), representing a year-on-year decrease of 17%, mainly because of lower demand in the Group's aerospace turbine blades and forged products in China as customers consumed existing inventory. Nonetheless, the Group saw significant increase in the export of aerospace turbine blades and forged products and a higher demand for the Group's aerospace precision micro bearing products in China. Average gross profit margin of the aerospace business grew to 37% in FY2016 (FY2015: 33%) because of cost control and efficiency improvements.

Revenue of the railway business amounted to RMB241 million for FY2016 (FY2015: RMB288 million), representing a year-on-year decrease of 16%, mainly due to weaker demand in China's railway cargo market and intense price competition. Average gross profit margin of the railway business was also negatively impacted and declined to 23% in FY2016 (FY2015: 30%).

REVIEW OF FINANCIAL POSITION

Selling and Distribution Expenses

The Group's selling and distribution expenses are mainly comprised of staff costs, transportation expenses, advertising and promotion expenses, travel expenses and depreciation. Selling and distribution expenses for FY2016 increased 2% year-on-year to RMB371 million (FY2015: RMB364 million), mainly due to higher staff costs, partially offset by lower advertising and promotion expenses, transportation expenses and professional fees.

Administrative Expenses

The Group's administrative expenses are mainly comprised of staff costs, professional fees, travel expenses, office expenses and depreciation. Administrative expenses for FY2016 increased 9% year-on-year to RMB624 million (FY2015: RMB570 million), mainly due to increase in staff costs, professional fees and travel expenses.

Research Expenditure

The Group's research expenditure for FY2016 increased 11% year-on-year to RMB293 million (FY2015: RMB265 million), mainly due to increase in staff costs driven by more research headcount.

Finance Costs

The Group's finance costs for FY2016 amounted to RMB124 million (FY2015: RMB144 million), representing a year-on-year decrease of 14%. The decrease in finance costs was mainly attributable to partial repayment and lower average interest rates of bank borrowings and shareholder's loan in FY2016.

Share of Profits of Associates

The Group's share of profits of associates for FY2016 amounted to RMB30 million (FY2015: RMB19 million), representing a year-on-year increase of 58%. The increase in share of profits of associates was mainly due to higher net profits of Shanghai General Bearing Company Limited, one of the Group's associates, in FY2016.

Income Tax Expense

The Group's income tax expense amounted to RMB97 million in FY2016 compared with RMB97 million in FY2015. The effective income tax rate for FY2016 was generally stable at 32% (FY2015: 34%).

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was RMB203 million in FY 2016 (FY2015: RMB186 million), representing a year-on-year increase of 9%. Basic earnings per share was RMB14.41 cents (FY2015: RMB13.13 cents).

Cash Flow

As at 31 December 2016, the Group's cash and bank balances were RMB1,175 million (31 December 2015: RMB1,007 million), of which RMB52 million (31 December 2015: RMB98 million) were restricted deposits, representing a decrease of RMB46 million in restricted deposits over FY2016. During FY2016, the Group had a net cash inflow from operating activities of RMB587 million (FY2015: net inflow of RMB352 million), a net cash outflow from investing activities of RMB161 million (FY2015: net inflow of RMB174 million), and a net cash outflow from financing activities of RMB255 million (FY2015: net inflow of RMB401 million).

Assets and Liabilities

As at 31 December 2016, the Group had total assets of RMB9,120 million (31 December 2015: RMB8,824 million), representing an increase of RMB296 million over FY2016. Total current assets amounted to RMB4,877 million (31 December 2015: RMB4,556 million), accounting for 53% of total assets, representing an increase of RMB321 million over FY2016. Total non-current assets were RMB4,243 million (31 December 2015: RMB4,268 million), accounting for 47% of total assets, representing a decrease of RMB25 million over FY2016.

As at 31 December 2016, the total liabilities of the Group were RMB5,774 million (31 December 2015: RMB5,626 million). Total current liabilities amounted to RMB2,963 million (31 December 2015: RMB2,387 million), accounting for 51% of total liabilities. Total non-current liabilities amounted to RMB2,811 million (31 December 2015: RMB3,239 million), accounting for 49% of total liabilities.

Details of the shareholder's loan of the Company are set out on page 156 of this annual report.

As at 31 December 2016, the net current assets of the Group were RMB1,914 million (31 December 2015: RMB2,169 million), representing a decrease of RMB255 million or 12% over FY2016. As at 31 December 2016, current ratio was 165% (31 December 2015: 191%).

Sources of Funding and Indebtedness

As at 31 December 2016, the Group had bank and other borrowings with an aggregate amount of RMB3,045 million (31 December 2015: RMB3,027 million), representing an increase of RMB18 million or 1% over FY2016. Borrowings repayable by the Group within one year were RMB670 million (31 December 2015: RMB191 million), representing an increase of RMB479 million over FY2016, whereas borrowings repayable after one year were RMB2,375 million (31 December 2015: RMB2,836 million). The Group repaid the loans due on schedule during FY2016.

As at 31 December 2016, bank and other borrowings of the Group were interest-bearing at fixed rates ranging from 4.13% to 5.44% (31 December 2015: 3.70% to 5.44%) per annum, or at floating rates ranging from 3-month EURIBOR plus 1.60% to 2.25%, base interest rate released by China Construction Bank minus 10%, CHIBOR minus 0.1675%, and interest rate released by the People's Bank of China deducted by 0.05% (31 December 2015: 3-month EURIBOR plus 3.00% to 3.50%, and base interest rate released by China Construction Bank minus 10%) per annum.

Gearing Ratio

As at 31 December 2016, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 92% (31 December 2015: 96%), in which shareholder's loans represent 29% (31 December 2015: 28%) of total liabilities. As at the date of this report, the Group has not formulated any financial plan and fund-raising activities for the provision of capital commitments and repayment of outstanding debts.

Restricted Deposits

As at 31 December 2016, bank deposits of RMB52 million (31 December 2015: RMB98 million) of the Group were restricted deposits.

Pledges of Assets

As at 31 December 2016, save as restricted deposits, the Group had other pledged assets of RMB209 million (31 December 2015: RMB198 million). In addition, the equities held by certain subsidiaries of the Group were pledged assets.

Capital Expenditure

The total capital expenditure of the Group for FY2016 was approximately RMB229 million (FY2015: RMB254 million), which was principally invested in the upgrading of production technologies and equipment, and the expansion of production capacity.

Risks Faced by the Company

Risk of Intense Competition

Despite certain achievements in market competition, the Group still 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 arising from uncertainty of international trading policies and 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 18 March 2016, the Board of the Company resolved to establish the risk management committee, and considered and approved the terms of reference of the risk management committee and the revised terms of reference of the audit committee of the Company.

On 27 May 2016, the appointment of Mr. Mao Yizhong as an executive director, Mr. Dong Yeshun as a non-executive director, Mr. Sun Zechang as an independent non-executive director and Mr. Xu Jianguo as a supervisor (non-employee representative) have respectively been approved at the annual general meeting for a term commencing from 27 May 2016 and ending on the expiry of the terms of the current session of the Board/the supervisory committee. Meanwhile, Mr. Sun Wei has ceased to be an executive director of the Company, Mr. Li Yin has ceased to be an independent non-executive director of the Company and Mr. Dong Jianhua has ceased to be a chairman of the supervisory committee and a supervisor (non-employee representative) of the Company. In the meantime, Mr. Sun Wei has tendered his resignation as a member of the strategy committee of the Board of the Company, and Mr. Li Yin has tendered his resignation as a member of the audit committee, the remuneration committee, the strategy committee and the nomination committee of the Board of the Company. After consideration and discussion by the Board, Mr. Mao Yizhong has been appointed as a member of the strategy committee of the Board, Mr. Dong Yeshun has been appointed as a member of the audit committee, the remuneration committee and the strategy committee of the Board, and Mr. Sun Zechang has been appointed as a member of the strategy committee and the nomination committee of the Board.

On 27 May 2016, the re-appointment of Deloitte Touche Tohmatsu as the auditors of the Company for FY2016 has also been approved at the annual general meeting.

On 27 May 2016, Mr. Xu Jianguo has been appointed as the chairman of the supervisory committee of the Company for a term commencing from 27 May 2016 and ending on the expiry of the terms of the current session of the supervisory committee.

On 19 July 2016, Mr. Wang Pin has tendered his resignation as the chief financial officer of the Company.

On 20 July 2016, Mr. Li Wai Chung has tendered his resignation as a vice president of the Company, company secretary, secretary to the Board, alternative authorized representative and agent for the service of process in Hong Kong. Mr. Ng Kwong, Alexander has been appointed as the company secretary, alternative authorised representative and agent for the service of process in Hong Kong with effect from 20 July 2016 by way of a written resolution of the Board of the Company. On 19 August 2016, a physical Board meeting was held by the Company for ratification in such regard.

On 21 September 2016, Mr. Ng Kwong, Alexander was appointed as the chief financial officer of the Company in addition to his current positions as the company secretary, alternative authorised representative and agent for the service of process in Hong Kong of the Company.

On 19 August 2016, the Board of the Company agreed to put forward the "Resolution on the Adjustments to the Incentive Scheme of Shanghai Prime" at the general meeting after review, and proposed to make adjustments to the incentive scheme of the Company approved at the general meeting on 17 January 2014. Such resolution shall be effective from the date of approval at the general meeting. For details, please refer to the announcement of the Company dated 19 August 2016 in relation to the proposed adjustments to the incentive scheme.

On 14 November 2016, the Company made an inside information announcement, which included information relating to the Company contained in the Report on the Issuance of Shares for the Acquisition of Assets, Complementary Private Placement and Connected Transaction (《發行股份購買資產並募集配套資金暨關聯交易報告書》) issued by the independent financial advisor of Shanghai Electric Group Company Limited ("SEC") on the website of the Shanghai Stock Exchange, website of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and website of SEC. Please refer to the inside information announcement of the Company dated 14 November 2016.

On 14 November 2016, the Board announced that on 14 November 2016 (after trading hours), the Company entered into the proposed framework agreements with Shanghai Electric (Group) Corporation ("SEG") and SEC for a term of three years commencing from 1 January 2017 and expiring on 31 December 2019. Pursuant to the proposed framework agreements, the Company will conduct the following transactions with the SEG Group and the SEC Group on an on-going basis: (i) the sales and purchases of goods and services among the Group, the SEG Group and the SEC Group; and (ii) the continued lease of certain properties from SEG as offices and production sites to facilitate the Group's operational needs, subject to the terms and conditions provided therein. Please refer to the announcement on the continuing connected transaction of the Company dated 14 November 2016.

On 14 November 2016, the Company has been informed that SEG, the controlling shareholder of the Company, intends to transfer all of the 678,576,184 domestic shares of the Company held by it to SEC. Upon completion of the proposed transfer, SEC and SEG (including shares held by Shanghai Electric HK) will continue to have an aggregate interest of 51.62% in the total issued shares of the Company (of which approximately 47.18% will be held by SEC and approximately 4.44% will be held by SEG and Shanghai Electric HK). Please refer to the announcement on the change in shareholding of the Company dated 14 November 2016.

On 16 December 2016, the extraordinary general meeting approved the adjustments of the incentive scheme and the authorization to the Board to authorize the management of the Company to execute and implement the adjustments of the incentive scheme and be responsible for handling all matters related thereto, as well as the grant of incentives under the incentive scheme to eligible participants until all such authorized matters are processed.

On 16 December 2016, the extraordinary general meeting also approved the appointment of Mr. Xiao Yuman and Mr. Zhang Jie as executive directors for a term commencing from 16 December 2016 and ending upon expiry of the current session of the Board. In addition, Mr. Zhang Jianping and Ms. Zhu Xi ceased to be executive directors of the Company and members of relevant committees of the Board. Mr. Zhang Jianping also ceased to be an authorized representative of the Company. After consideration and discussion, the Board approved the appointment of Mr. Xiao Yuman as an authorized representative of the Company, and a member of each of the nomination committee and the risk management committee of the Board. The Board also approved the appointment of Mr. Zhang Jie as a member of each of the strategy committee and the risk management committee of the Board.

On 16 December 2016, the extraordinary general meeting also approved the SEC Framework Sales Agreement dated 14 November 2016 entered into between the Company and SEC, and the transactions contemplated thereunder were approved, confirmed and ratified; and any one director of the Company was authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the SEC Framework Sales Agreement with such changes as he may consider necessary, desirable or expedient.

On 17 March, 2017, the Company made an inside information announcement, which included information relating to the Company contained in the Report on the Issuance of Shares for the Acquisition of Assets, Complementary Private Placement and Connected Transaction (Draft) (Revised) (《發行股份購買資產並募集配套資金暨關聯交易報告書》) issued by the independent financial advisor of SEC on the website of the Shanghai Stock Exchange, website of the Hong Kong Stock Exchange and the website of SEC. Please refer to the inside information announcement of the Company dated 17 March 2017.

Save as disclosed above, the Group did not have any other significant discloseable events during FY2016 and up to the date of this report.

EMPLOYEES

As at 31 December 2016, the Group had 4,455 (2015: 4,424) employees. The Group has implemented all statutory pension schemes required by local governments and incentive programs to motivate staff as well as a series of training programs to facilitate the self-development of staff.

In FY2016, the total salary of the employees of the Group was RMB1,103 million (FY2015: RMB964 million), and the total social security cost was RMB291 million (FY2015: RMB245 million).

The Company does not have material reliance on minority employees.

INCENTIVE SCHEME

As of 31 December 2016, in accordance with the adjusted incentive scheme approved by the resolution passed at the extraordinary general meeting held on 16 December 2016, the Company made a distribution to eligible participants based on the amounts of profits distributable and actually available for distribution from the operating results of the Group for FY2015.

Based on the operating results for FY2016, a total amount of RMB7.46 million can be used for the adjusted incentive scheme of the Group, and RMB7.46 million can be actually distributed. The Company will make distribution and adjustment (if necessary) in accordance with the adjusted incentive scheme.

FUTURE PROSPECTS

In 2017, with increasing uncertainties in the domestic and international economies, the basic components market will remain challenging. In pursuit of a steady growth, the Group will be committed to technological innovation according to the market demands and international trends in order to facilitate its reforms and enhance management. With greater competitiveness and overall strength, the Group will strive for sustainable development, higher investment values and better returns for shareholders and the society.

Adhering to high-end technology development for faster industry upgrade

With the assistance of the technology committee, the Group will establish an innovative technology research and development mechanism which integrates technology resources for more centralized investment in technology. Key technology projects will be carried out to promote the commercialization of technological achievements. The Group will continue to develop high-end products to improve the competitiveness and additional value of products.

Enhancing strategic synergy through international acquisition achievements

With accelerated internationalization, the Group will further enhance the synergy effects with Nedschroef in respect of branding, marketing and technological development. On one hand, the Group will further integrate the technologies and management of Nedschroef for upgrade of its domestic member companies, while promoting the sales of products of Nedschroef in the domestic market. On the other hand, capitalizing on the existing network of Nedschroef, the Group will expand its business presence and introduce its products to the European market in order to speed up internationalization.

Enhancing performance by adhering to market-oriented approach

The Group will enhance market research to capture new demands as its new growth points. In response to new market demands for the new energy, aviation and aerospace businesses as well as new changes in the automobile market, the Group will further expand its strategic cooperation with renowned customers. More cost-effective products and services will be offered. The Group will promote the brand of Shanghai Prime to improve its market popularity and influence, so as to strengthen its profitability while expanding sales.

Vitalizing the enterprise through reform

In accordance with the reform of state-owned enterprises, the Group will develop into a mixed ownership enterprise with a market-oriented and open approach. Through the reform of the Group, the asset and business structures will be optimized for faster industry transformation and upgrade. The reform will also improve the vitality and innovation of the Group for better adaptation to market development requirements.

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
Zhou Zhiyan	53	Chairman and president
Xiao Yuman (appointed on 16 December 2016)	44	Executive director
Zhang Jie (appointed on 16 December 2016)	40	Executive director
Mao Yizhong (appointed on 27 May 2016)	54	Executive director
Chen Hui	48	Executive director and vice president
Dong Yeshun (appointed on 27 May 2016)	55	Non-executive director
Ling Hong	56	Independent non-executive director
Chan Oi Fat	38	Independent non-executive director
Sun Zechang (appointed on 27 May 2016)	63	Independent non-executive director
Zhang Jianping (resigned on 16 December 2016)	60	Executive director
Zhu Xi (resigned on 16 December 2016)	52	Executive director
Sun Wei (resigned on 27 May 2016)	47	Executive director
Li Yin (resigned on 27 May 2016)	53	Independent non-executive director
Xu Jianguo (appointed on 27 May 2016)	52	Chairman of the supervisory committee
Yu Yun	48	Supervisor
Wei Li	45	Supervisor
Dong Jianhua (resigned on 27 May 2016)	51	Chairman of the supervisory committee
Zhu Jun	48	Vice president
Ng Kwong, Alexander (appointed as company secretary on 20 July 2016; appointed as chief financial officer on 21 September 2016)	38	Chief financial officer and company secretary
Li Wai Chung (resigned on 20 July 2016)	39	Vice president and company secretary
Wang Pin (resigned on 19 July 2016)	43	Chief financial officer

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. Xiao Yuman

Mr. Xiao Yuman is an executive director, the secretary of Party Committee, the secretary of Disciplinary Committee and the leader of Trade Union of the Company. Mr. Xiao joined Shanghai Electric (Group) Corporation in 1995 and served as the deputy director of the General Office and deputy director, executive deputy director, director of the Research Office of Shanghai Electric (Group) Corporation and office manager of Shanghai Electric Group Company Limited. Mr. Xiao obtained a Master's degree in Business Administration from Antai College of Economics & Management, Shanghai Jiao Tong University in 2007. He is also a senior economist.

Mr. Zhang Jie

Mr. Zhang Jie is an executive director of the Company, vice president of financial group of Shanghai Electric Group Company Limited, an executive director of Shanghai Electric Hongkong Company Limited, executive director of Shanghai Electric Group Finance Company Limited. Mr. Zhang Jie joined Shanghai Electric (Group) Corporation in 2011 and served as the deputy general manager of the finance and budgeting department of Shanghai Electric (Group) Corporation. Mr. Zhang obtained a Bachelor's degree in Economics and a Master's degree in Western Economics from Peking University in 1999 and 2002 respectively and a Ph.D. degree in Finance from School of Business at the University of Wisconsin-Madison in 2007.

Mr. Mao Yizhong

Mr. Mao Yizhong is an executive director of the Company as well as the head of industry investment department of Shanghai Electric Group Company Limited and the director of Shanghai Highly (Group) Co., Ltd. (上海海立（集團）股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600619, 900910 (B share)). Mr. Mao has over thirty years of experience in the electric industry. Mr. Mao joined SEG in 1984. Mr. Mao served as a designer and the deputy head of the design division of Shanghai Electric Motor Factory (上海電機廠), the head of the commerce department of Shanghai Turbine Generator Co., Ltd. (上海汽輪發電機有限公司), the deputy manager of the power station business department and head of the technical procurement department of Shanghai Electric (Group) Corporation, the president of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司), general manager of the procurement department of Shanghai Electric Power Generation Group (上海電氣電站集團), the head of the procurement department of Shanghai Electric Power Generation Engineering Company (上海電氣電站工程公司), the general manager and deputy secretary of CPC Party Committee of the generator factory of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司), vice president of Shanghai Electric Power Generation Group (上海電氣電站集團), and a director of SEC — IHI Power Generation Environment Protection Engineering Co., Ltd. (上海電氣石川島電站環保工程有限公司). He graduated from Nanjing Institute of Technology with a bachelor's degree in engineering majoring in electric technology in 1984. He is a senior engineer of professorial level.

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. Dong Yeshun

Mr. Dong Yeshun is a non-executive director of the Company. Mr. Dong currently acts as an independent director of AXA SPDB Investment Managers Co., Ltd. (浦銀安盛基金管理有限公司), the chairman of IMS Automotive Electronic System Co. Ltd. (上海艾銘思汽車電子系統有限公司), an independent director of Shanghai Xintonglian Packing Co., Ltd. (上海新通聯包裝股份有限公司) (listed on Shanghai Stock Exchange, stock code: 603022) and the co-founder of Shanghai Volcanic Stone Investment Management Co., Ltd. (上海火山石投資管理有限公司). Mr. Dong served as a partner of IDG Capital, the general manager of Shanghai Shenya Seal Components Co., Ltd. (上海申雅密封件系統有限公司), the general manager of United Automobile Electronic Systems Co., Ltd. (聯合汽車電子有限公司), the deputy general manager of Shanghai United Investment Co., Ltd. (上海聯和投資有限公司), the chairman and chief executive officer of Shanghai Hongli Semiconductor Manufacturing Co., Ltd. (上海宏力半導體製造有限公司), the chairman of Shanghai Lianchuang Investment Fund Management Corporation (上海聯創投資基金管理公司), the chairman of MSN China Co., Ltd. (MSN中國有限公司) and the chairman of Nantong Nanya Lianke Pharmaceutical Co., Ltd. (南通南亞聯科藥業有限公司) and the secretary of CPC Party Committee of Yanfeng Weishitong Automotive Trim Systems Co., Ltd. (延鋒偉世通汽車飾件系統有限公司). He obtained a bachelor' s degree from Shanghai Institute of Mechanics in 1988 and an EMBA degree from China Europe International Business School in 2001. He is a senior engineer.

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. Chan Oi Fat

Mr. Chan Oi Fat is an independent non-executive director of the Company as well as the chief financial officer 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.

Mr. Sun Zechang

Mr. Sun Zechang is an independent non-executive director of the Company as well as the chief professor of automotive electronics and the head of the institute of automotive electronics of Tongji University, the doctoral tutor for the automotive engineering of Tongji University, the chair professor for automotive electronics and the chair professor for new energy automobile of the Sino-Germany School of Tongji University, the vice chairman of the Automotive Electronics Committee and the vice chairman of the Electromobile Committee of Society of Automotive Engineering of China. Mr. Sun has over twenty years of experience in the automobile engineering industry. He served as a professor of the automotive engineering department, the head of the automotive teaching and research section, the deputy head of the new energy automobile engineering center and the vice dean of the School of Automobile of Tongji University. He graduated from Harbin Institute of Technology in 1976, and obtained a master's degree in engineering majoring in industrial automation from Harbin Institute of Technology in 1981 and a doctor's degree in engineering majoring in control theory and control engineering from Tongji University in 1999.

SUPERVISORS

Mr. Xu Jianguo

Mr. Xu Jianguo is the chairman of the supervisory committee of the Company as well as the head of the financial budget department of Shanghai Electric (Group) Corporation, the director of Shanghai Electric Group Finance Co., Ltd., the director of Shanghai Highly (Group) Co., Ltd. (上海海立(集團)股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600619, 900910 (B share)), the director of Haitong Securities Co., Ltd. (listed on Shanghai Stock Exchange and Hong Kong Stock Exchange, stock code: 600837 and 6837HK) and the director of Orient Securities Co., Ltd. (listed on Shanghai Stock Exchange and Hong Kong Stock Exchange, stock code: 600958 and 3958HK). He joined SEG in 1984 and served as the deputy head of the financial budget department of Shanghai Electric (Group) Corporation, the director of the Company, the deputy head of the assets and finance department of Shanghai Electric Assets Management Company Limited, the assistant to the financial manager of the first management department of Shanghai Electric Assets Management Company Limited and the chief financial officer of Shanghai Li Da Heavy Industrial Manufacturing Limited. He also worked for Shanghai Cable Works and the assets and finance department of Shanghai Electric Assets Management Company Limited. Mr. Xu graduated from the Correspondence Institute of the Party School of C.C. in 2004 and obtained his EMPACC degree from The Chinese University of Hong Kong in 2013. He is a senior accountant.

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. Zhu Jun

Mr. Zhu Jun is the vice president of the Company, the general manager of the fastener department of the Company, and the general manager and deputy secretary of the party committee of Shanghai Biaowu High Tensile Fasteners Company Limited (上海標五高強度緊固件有限公司). Mr. Zhu joined the Company in 2006 and served as the assistant to the general manager and deputy general manager of the export department, and executive deputy general manager of the fastener department of the Company, and executive deputy general manager of Shanghai Biaowu High Tensile Fasteners Company Limited (上海標五高強度緊固件有限公司). Mr. Zhu graduated from Shanghai University of Engineering Science with a bachelor's degree in engineering. He obtained an EMBA degree from the Shanghai National Accounting Institute and Arizona State University in the United States in July 2014.

Mr. Ng Kwong, Alexander

Mr. Ng Kwong, Alexander is the chief financial officer and company secretary of the Company. Prior to joining the Company in 2016, Mr. Ng was the senior vice-president of both the finance and the corporate finance departments of Genting Hong Kong Limited (Stock Code:00678), and held various positions in different financial institutions in Hong Kong including Lazard and Nomura. Mr. Ng began his career as a staff accountant of Ernst & Young (currently known as EY) and has extensive experience in accounting, investment, financial management and corporate finance. Mr. Ng graduated from the Hong Kong University of Science and Technology with a master's degree of Science in Financial Analysis and from The Chinese University of Hong Kong with a bachelor's degree of Business Administration. He is a Certified Public Accountant and member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE CODE

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 2016 to 31 December 2016, 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 2016 ("FY2016"), 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 FY2016.

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 FY2016.

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.

As at the date of this annual report, the Board consists of nine directors, including five executive directors, one non-executive director 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. Xiao Yuman
Mr. Zhang Jie
Mr. Mao Yizhong
Mr. Chen Hui

Non-executive director:
Mr. Dong Yeshun

Independent non-executive directors:
Mr. Ling Hong
Mr. Chan Oi Fat
Mr. Sun Zechang

Twelve board meetings and two general meetings (including the annual general meeting and the extraordinary general meeting) were held in FY2016. 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. Zhou Zhiyan	12	2	12	2	100%	100%
Mr. Xiao Yuman (appointed on 16 December 2016)	1	1	1	1	100%	100%
Mr. Zhang Jie (appointed on 16 December 2016)	1	1	1	1	100%	100%
Mr. Mao Yizhong (appointed on 27 May 2016)	9	2	9	2	100%	100%
Mr. Chen Hui	12	2	12	2	100%	100%
Mr. Dong Yeshun (appointed on 27 May 2016)	9	2	9	2	100%	100%
Mr. Zhang Jianping (resigned on 16 December 2016)	11	2	11	1	100%	50%
Ms. Zhu Xi (resigned on 16 December 2016)	11	2	11	1	100%	50%
Mr. Sun Wei (resigned on 27 May 2016)	3	1	3	0	100%	0%
Mr. Ling Hong#	12	2	12	2	100%	100%
Mr. Chan Oi Fat#	12	2	12	2	100%	100%
Mr. Sun Zechang# (appointed on 27 May 2016)	9	2	9	2	100%	100%
Mr. Li Yin# (resigned on 27 May 2016)	3	1	2	0	66.6%	0%

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.

TRAINING 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 FY2016:

	Corporate Governance/ Updates on Laws, Rules and Regulations	
Director	**Reading Materials**	**Attended Seminars/ Briefings**
Mr. Zhou Zhiyan	✔	✔
Mr. Xiao Yuman (appointed on 16 December 2016)	✔	✔
Mr. Zhang Jie (appointed on 16 December 2016)	✔	✔
Mr. Mao Yizhong (appointed on 27 May 2016)	✔	✔
Mr. Chen Hui	✔	✔
Mr. Dong Yeshun (appointed on 27 May 2016)	✔	✔
Mr. Ling Hong	✔	✔
Mr. Chan Oi Fat	✔	✔
Mr. Sun Zechang (appointed on 27 May 2016)	✔	✔
Mr. Zhang Jianping (resigned on 16 December 2016)	✔	✔
Ms. Zhu Xi (resigned on 16 December 2016)	✔	✔
Mr. Sun Wei (resigned on 27 May 2016)	✔	✔
Mr. Li Yin (resigned on 27 May 2016)	✔	

INSURANCE OF THE DIRECTORS

During FY2016, 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 THE FOURTH SESSION OF THE BOARD OF DIRECTORS AND SUPERVISORS

The term of office of the fourth session of the board of Directors and Supervisors will expire on 26 June 2017.

The Company was informed that all members of the fourth session of the board of Directors, comprising Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie and Mr. Chen Hui as executive Directors, Mr. Dong Yeshun as non-executive Director, and Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang as independent non-executive Directors, will offer themselves for re-election at the AGM. Accordingly, the Board by way of a resolution dated 17 March 2017 has approved their nominations for election by the Shareholders at the incoming annual general meeting of the Company to be taken place on 23 June 2017.

The Company was informed that (i) Mr. Xu Jianguo will offer himself for re-election; and (ii) Ms. Wei Li who will not offer herself for re-election as she wishes to put more effort in developing her own career. Ms. Wei Li has confirmed that she has no disagreement with the Supervisory Committee during her term of office and is not aware of any matter that needs to be brought to the attention of the Shareholders or the Stock Exchange. Accordingly, the Supervisory Committee by way of a resolution dated 17 March 2017 has nominated Mr. Xu Jiangguo and Mr. Si Wenpei for election by the Shareholders at the incoming annual general meeting of the Company to be taken place on 23 June 2017. In addition, the current employee representative Supervisor, Mr. Yu Yun, will be subject to election at the joint employee representative meeting of the Company in accordance with the Articles of Association.

TENURE OF NON-EXECUTIVE DIRECTORS

The current non-executive director of the Company was 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 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. Dong Yeshun. Mr. Ling Hong has been appointed as the chairman of the remuneration committee. Mr. Ling Hong and Mr. Chan Oi Fat were elected as the independent non-executive directors of the Company at the annual general meeting held on 27 June 2014. Mr. Dong Yeshun was elected as the non-executive director of the Company at the annual general meeting held on 27 May 2016. All of them were appointed by the Board as members of the remuneration committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

The remuneration committee held two meetings and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Ling Hong (Chairman)	2	2
Mr. Chan Oi Fat	2	2
Mr. Dong Yeshun (appointed on 27 May 2016)	1	1
Mr. Li Yin (resigned on 27 May 2016)	1	0

The remuneration committee reviewed and approved the proposal adopted from the 2015 Incentive Scheme, submitted the 2016 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 2015 and the proposal regarding the adjustments of the Incentive Scheme of Shanghai Prime. 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 of the senior management of the Company in FY2016 is set out on page 180 of this annual 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. Dong Yeshun. Mr. Chan Oi Fat has been appointed as the chairman of the audit committee. Mr. Ling Hong and Mr. Chan Oi Fat were elected as the independent non-executive directors of the Company at the annual general meeting held on 27 June 2014. Mr. Dong Yeshun was elected as the non-executive director of the Company at the annual general meeting held on 27 May 2016. All of them were appointed by the Board as members of the audit committee after their appointments were approved by the general meeting, and held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

The audit committee held two meetings in FY2016 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. Dong Yeshun (appointed on 27 May 2016)	1	1
Mr. Li Yin (resigned on 27 May 2016)	1	0

In FY2016, the audit committee reviewed and approved the proposal regarding the appointment of auditors of the Company for 2016 and the interim financial report of 2016. The committee reviewed the material connected transactions of the Company and 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 FY2016 have been reviewed by the audit committee.

Nomination Committee

The key responsibility of the nomination committee of the Company is to provide advice 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. Xiao Yuman, Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Sun Zechang. Mr. Zhou Zhiyan has been appointed as the chairman of the nomination committee and held office from 10 October 2015 to the date of meeting for the election of the next session of the Board. Mr. Sun Zechang held office from 27 May 2016 to the date of the meeting for the election of the next session of the Board. Mr. Xiao Yuman held office from 16 December 2016 to the date of the meeting for the election of the next session of the Board. 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 two meetings in FY2016 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	2	2
Mr. Xiao Yuman (appointed on 16 December 2016)	0	0
Mr. Ling Hong	2	2
Mr. Chan Oi Fat	2	2
Mr. Sun Zechang (appointed on 27 May 2016)	1	1
Mr. Zhang Jianping (resigned on 16 December 2016)	2	2
Mr. Li Yin (resigned on 27 May 2016)	1	1

In FY2016, the nomination committee has reviewed the size, diversity and composition of the Board, evaluated the independence of independent non-executive directors, and approved the proposal regarding the nomination of Mr. Mao Yizhong, Mr. Dong Yeshun, Mr. Sun Zechang, Mr. Xiao Yuman and Mr. Zhang Jie as candidates for the directors of the Company.

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 six members, namely Mr. Zhou Zhiyan, Mr. Zhang Jie, Mr. Mao Yizhong, Mr. Chen Hui, Mr. Dong Yeshun and Mr. Sun Zechang. Mr. Zhou Zhiyan has been appointed as the chairman of the strategy committee. Members of the strategy committee held office from the date of the appointment to the date of the meeting for the election of the next session of the Board.

The strategy committee held one meeting in FY2016 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan (Chairman)	1	1
Mr. Zhang Jie (appointed on 16 December 2016)	1	1
Mr. Chen Hui	1	1
Mr. Dong Yeshun (appointed on 27 May 2016)	1	1
Mr. Sun Zechang (appointed on 27 May 2016)	1	1
Ms. Zhu Xi (resigned on 16 December 2016)	0	0
Mr. Sun Wei (resigned on 27 May 2016)	0	0
Mr. Li Yin (resigned on 27 May 2016)	0	0

In FY2016, 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. Xiao Yuman, Mr. Zhang Jie, Mr. Chan Oi Fat and Mr. Ling Hong. Mr. Zhou Zhiyan has been appointed as the chairman of the risk management committee. Mr. Xiao Yuman and Mr. Zhang Jie held office from 16 December 2016 and the remaining three members held office from 18 March 2016 to the date of meeting for the election of the next session of the Board.

The risk management committee held one meeting on 17 March 2017 and the attendance is summarized as follows:

Member	Number of meetings	Actual attendance
Mr. Zhou Zhiyan	1	1
Mr. Xiao Yuman (appointed on 16 December 2016)	1	1
Mr. Zhang Jie (appointed on 16 December 2016)	1	1
Mr. Ling Hong	1	1
Mr. Chan Oi Fat	1	1
Mr. Zhang Jianping (resigned on 16 December 2016)	0	0
Ms. Zhu Xi (resigned on 16 December 2016)	0	0

The risk management committee has reviewed the effectiveness of the risk management system of the Company, and evaluated the risk conditions of the Company and its ability to control risks on the meeting held on 17 March 2017. Details are set out on page 34 to 35 of this report.

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	5.43
Non-audit services	1.74

Non-audit services refer to advisory services and due diligence.

DIRECTORS' REPORTING RESPONSIBILITIES

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 in FY2016, 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 pages 76 and 77.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has established risk management and internal control system in accordance with paragraph C.2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules, and admitted to continuously monitor and review of its operation. The system is designed to manage rather than eliminate the risk of failing to accomplish business objectives and to promote effective and efficient operations, ensure the reliability of financial reports and their compliance with applicable laws and regulations and safeguard the assets of the Group.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

In accordance with the code provision C.2.2 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules, in order to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's risk management and internal audit functions, the Company has established an optimized risk management and internal control system consisting of the Board, audit committee, risk management committee, management, internal control and securities department and all departments of the Company. In respect of risk management and internal control, all departments of the Company are the first line of defence, the internal control and securities department and management are the second line of defence and the audit committee and risk management committee under the Board are the third line of defence. The Board is ultimately responsible for the development of a sound risk management and internal control system of the Company and the effective implementation of risk management, and is the highest decision-making authority for risk management and internal control of the Company.

PROGRESS OF RISK MANAGEMENT AND INTERNAL CONTROL

The Company has reviewed the effectiveness of risk management and internal control systems from time to time (at least once a year). Based on the five internal control indicators including internal environment, risk assessment, control activities, information and communication as well as internal supervision, the Company has conducted assessment on financial, operation and compliance monitoring and other key aspects.

Risk management is an integral part of the management system of the Company. While setting up clear goal and basic principles of risk management, the Company has also clarified the division of risk management responsibilities and reporting procedures, risk management methodology, and major duties and work agenda of risk management.

In FY 2016, based on the overall business objectives, the Company scrutinized and identified potential risks to its corporate structure and business operation by executing basic risk management procedures in all operation stages. A specific risk pool and framework of the Company was established to gain substantial information on its overall risk characteristics, providing a solid foundation for risk management and internal control.

The risk management departments of the Company conducted in-depth analysis and assessment on the identified risks based on their possibility and influence, so as to determine the risk levels and identify the significant risk faced by the Company. Moreover, the Risk Assessment Results (《風險評估結果》) was issued for the review of the management, the risk assessment committee and the Board.

In respect of the identification, assessment, management procedures and business processes that are exposed to material risks, management departments have formulated all-inclusive control measures in FY2016, such as management and internal control on key work flows including the preparation and disclosure of financial reports and processing and announcement of inside information. Regular internal control measures were established through specific procedures to prevent risks in key segments and reduce the impacts of risks.

In terms of the disclosure of inside information, the Company has established standardized control procedures to collect, organize, validate, review and disclose information. The Company will ensure that the information is kept confidential before it is fully disclosed to the public. For information that is difficult to keep confidential, the Company will disclose it in a timely manner to protect the benefit of investors and stakeholders.

The internal control and securities department organized and conducted supervision and evaluation on the risk management. In particular, it continuously monitored and identified material risks and changes in risks during the operation of each risk management department, carried out supervision and assessment on the fulfilment of relevant regulations of each department and their results in relation to risk management, and made suggestions to effectively implement their risk management.

Based on the results of risk management and internal control in FY2016, no material failure or weakness was found in respect of risk monitoring. The management procedures of financial reports and information disclosure of the Company is in strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Board considers that the risk management and internal control of the Company is in effective operation according to its assessment.

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 and 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

The Group attaches great importance to the performance of, and commitment to, corporate social responsibilities. Details are set out in the Environmental, Social and Governance Report from page 40 of this report.

INFORMATION DISCLOSURE AND INVESTOR RELATIONSHIP

The Company has committed 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 community by enhancing current investor relation activities.

By order of the Board
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman
Shanghai, the PRC
17 March 2017

SHARE CAPITAL STRUCTURE

	Number of shares	Approximate percentage of issued share capital (%)
Domestic Shares	678,576,184	47.18
H Shares	759,710,000	52.82
Total	1,438,286,184	100

DISCLOSURE OF INTERESTS

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

As at 31 December 2016, 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	63,882,000	(2)	Interest of controlled corporation	Long position	8.41	4.44
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	63,882,000	(1)(2)	Interest of controlled corporation	Long position	8.41	4.44
Shanghai Electric Group Hong Kong Company Limited	H	63,882,000	(2)	Beneficial owner	Long position	8.41	4.44

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 63,882,000 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 63,882,000 H Shares of the Company held by Shanghai Electric Group Hong Kong Company Limited by virtue of its 100% ownership in Shanghai Electric Group Hong Kong 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 2016 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 2016, 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
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 2016, 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.

1. ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Principles of reporting

This Environmental, Social and Governance Report (also referred as "ESG Report") is prepared in accordance with the Environmental, Social, and Governance Reporting Guide published in December 2015 by the HKEX.

Reporting period

From January 1, 2016 to December 31, 2016 ("FY2016").

Reporting scope

The scope of the Report covers the majority of the business activities of Shanghai Prime Machinery Co., Ltd. ("PMC") taking into account a series of factors including sales, business types, amounts of profit and assets. The following entities are included within the reporting scope:

Domestic entities (Including Mainland China and Hong Kong)	: Wuxi Turbine Blade Co., Ltd., Shanghai Biao Wu High Tensile Fasteners Co., Ltd., Shanghai Tool Works Co., Ltd., Shanghai Joint Bearing & Electrical Bearing Co., Ltd., Shanghai Zhenhua Bearing Works Co., Ltd. and Shanghai Tian'an Bearing Co., Ltd.. Total revenue from these entities is accounted for over 90% of the domestic revenue of Shanghai Prime Machinery Co., Ltd. (excluding Nedschroef).
Overseas entities	: Koninklijke Nedschroef Holding B.V., the only overseas group company of Shanghai Prime Machinery Co., Ltd., and four of its most influential subsidiaries of greatest importance (Center of Competence Helmond, Center of Competence Altena, Center of Competence Plettenberg and Center of Competence Fraulautern & Berlin).

For the convenience of presentation and reading, "Shanghai Prime Machinery Co., Ltd." is referred as "PMC" or "we"; and Koninklijke Nedschroef Holding B.V. and other four subsidiaries are referred as "Nedschroef" in this Report.

Data sources

The Report authentically reflects the ESG activities carried out by PMC in 2016. The report adopts the information and data in the official documents and statistics reports of PMC and its subsidiaries. The data has not been audited by the PMC's independent auditors.

Disclosures

The Report discloses information which is in compliance with the materiality principle for the preparation of ESG report in the ESG Reporting Guide to ensure the content disclosed can both reflect the strategic priorities of the Company and the concerns of key stakeholders (shareholders, customers, employees, suppliers and partners, etc.).

Stakeholder management

PMC identifies shareholders and investors, government, customers, suppliers and partners, environment, employees and community as its key stakeholders in considering its own business and operation features.

Stakeholders	Expectations and requirements	Communication and response
Shareholders and investors	Compliance with laws and regulations Maintenance and increment of asset value Authenticity, accuracy, timeliness and completeness of information disclosed	Good corporate governance Enterprise value enhancement Seamless information disclosure mechanism
Government	Implementation of government's management requirements Support national economic policies Safe production and contribution to the society	Fulfilled tax obligation and honest operation Fair competition to promote the healthy development of industries Complied with all applicable laws , supervision and inspection
Customers	Guarantee of product quality Guarantee of quality services and customers' satisfaction	Improvement of quality management system Guarantee of service quality
Suppliers and partners	Sincere cooperation for mutual benefits Long-term partnership Quality assurance and risk control	Operation with good faith and fair procurement Establishment of partnership mechanism Creation of responsible supply chain
Environment	Rational resources utilization Ecological environment protection Green operation	Energy conservation and emission reduction Promotion of recycling development Green office
Employees	Protection of employees' rights and benefits Career development planning Care for employees' health	Protection of employees' legal rights Occupational trainings and seminars Improvement of working conditions and organization of employee activities
Community	Community investment Charity	Participation in community construction Active coordination in charitable activities

2. HARMONIOUS CULTURAL ENVIRONMENT

As staff is our core resource and the most valuable asset, we adhere to the people-oriented management with the objectives of respecting, training and serving our people. We adopt multiple channels and ways to guide our staff to learn the code of conducts and do things right, to co-operate well with mutual respect for achieving common growth, so as to build a harmonious cultural environment and support the development of the Company and the society.

Career diversification

Equal employment

We strongly support equal employment and prohibit any discrimination against race, nationality, skin color, religion, physical disability, gender, sexual orientation, community membership or marital status in respect of staff employment, career development and contract termination. The Company strictly abides by human rights, International Labor Organization Convention, local labor employment regulations and relevant policies.

We have strictly prohibited child labor and any form of forced labors. We forbid harassment, corporal punishment, spirit oppress or language vituperation in any form. We also respect the rights of all employees to freely join in associations or labor unions.

We have not involved in child labor, forced labor and decimation cases in 2016.

As of December 31, 2016, the headcount of PMC and its subsidiaries involved in the report was 4,132. Our staff turnover ratio was about 4% in 2016.

By Gender

Male 80%

Female 20%

By Education Level

undergraduate 16%

Master & Doctor 4%

others 80%

Care for female employees

We firmly protect the rights of our female employees for career development and ensure that they have the same rights for promotion and trainings for expertise and job skills as compared to our male employees. A certain proportion of our female employees are required to participate in staff business learning, on-the-job trainings and taking temporary posts for practice. We set up the Female Employees Committee of Labor Union in compliance with the relevant laws which participates in the deliberation and development of regulations to protect and maximize the legal rights and interests of the female employees.

Apprenticeship

We respect the Chinese tradition of "bring in the new blood" while actively responding to the government's "going global" strategy. We acquired Nedschroef in 2014 and assimilated the well-developed German tradition of apprenticeship culture. We sign apprenticeship contracts with students who have completed their compulsory education over minimum age by the law requirements and cooperate with schools to cultivate our future talents.

Apprentices spend two-thirds of their time in our production facilities to receive technical skill training, and the rest on learning at schools. We proactively undertake social responsibility and investment in skilled resources together with the government, and build our technical talent pool to lay the foundation of our development.

Career development

We pay attention to the employees' career development and build a sound employee training system to provide them with a broader career development platform. We organize various targeted trainings on marketing, quality, research and development, professional skills, safety management to improve employees' skills and quality in order to meet their career demands at different stages, help them to build a solid career development path, and striving to achieve common growth between enterprise and the employees.

We organized 921 workshops in 2016, with the total training time over 50,000 hours.

Competitive compensation

Strictly complying the national social security policies, we pay various social insurances including pension scheme, social medical insurance, unemployment insurance, work-related injury insurance (domestic companies) and maternity insurance, as well as housing fund in full on time. We also buy commercial insurances for our employees to improve their abilities to overcome the unexpected difficulties. We are committed to improving compensation incentive system so as to create a fairly attractive career development path based on the employees' capabilities, performance and merits.

Nedschroef also follows its local labor and compensation policies to offer competitive compensation for the employees.

Employee care

With commitment to creating a healthy, comfortable working and living environment, we built staff canteen to provide our employees balanced dietary nutrition, and increasingly improve the canteen management from dining environment, service experience and employees' demands. We also built gym rooms for the employees in the Headquarters and most of the entities of the Group and organize sports activities such as table tennis and badminton competitions regularly to help employees improve health and relieve work stress, achieve work life balance and improve their sense of belonging. We strive to create a pleasant, open, healthy, and friendly harmonious work-life environment. During the summer, the Company's Labor Union and Safety and Environmental Protection Department pay visits to the hot production facilities to extend our regards and care to the employees who need to work in the high temperature environment.

Occupational safety

We have always treasured our employees as our most valuable assets and committed to creating a healthy and safe workplace for them. We have obtained Occupational Health and Safety Management System Certificate OHSAS18001. We had not involved in any fatal production accidents in 2016.

Employee health

We strive to build a comfortable and healthy working and living environment to promote employees' physical and mental health. Strictly abiding by the Labour Law, Law of the People's Republic of China on the Prevention and Control of Occupational Diseases and relevant local regulations, we constantly improve the employees' health management. PMC develops the "Procedures for Work Safety" and its subsidiaries also make the corresponding requirements and measures for implementation.

STEP 01 New employees attend occupational health trainings before commencement during which specialists inform employees of occupational diseases and results, protective measures for occupational diseases etc. in the course of work.

STEP 02 Intensify the monitor of occupational hazardous factors in workplaces and entrust third parties every year to conduct stationary tests focusing on occupational hazardous positions in high temperature and nosy environment, testing about 134 spots per year, so as to ensure the workplace standard meets laws and regulations.

STEP 03 Reinforce labour protection measures to reduce and avoid occupational diseases. Paste warning signs for occupational hazards in workplaces; provide special labour protection appliances including soft soda to cool down for grass-root workers every year with about RMB3.43 million invested in 2016.

STEP 04 Organize employee health check for prevention. Regularly organize all employee health check for disease risk warning to achieve early prevention, control and treatment.

STEP 05 Strengthen publicity and implementation and advocate healthy life style. In 2016 the company held over 20 seminars on health knowledge; and actively organize sports competitions including badminton and table tennis to help employee build up health and physical and mental health, popular with employees.

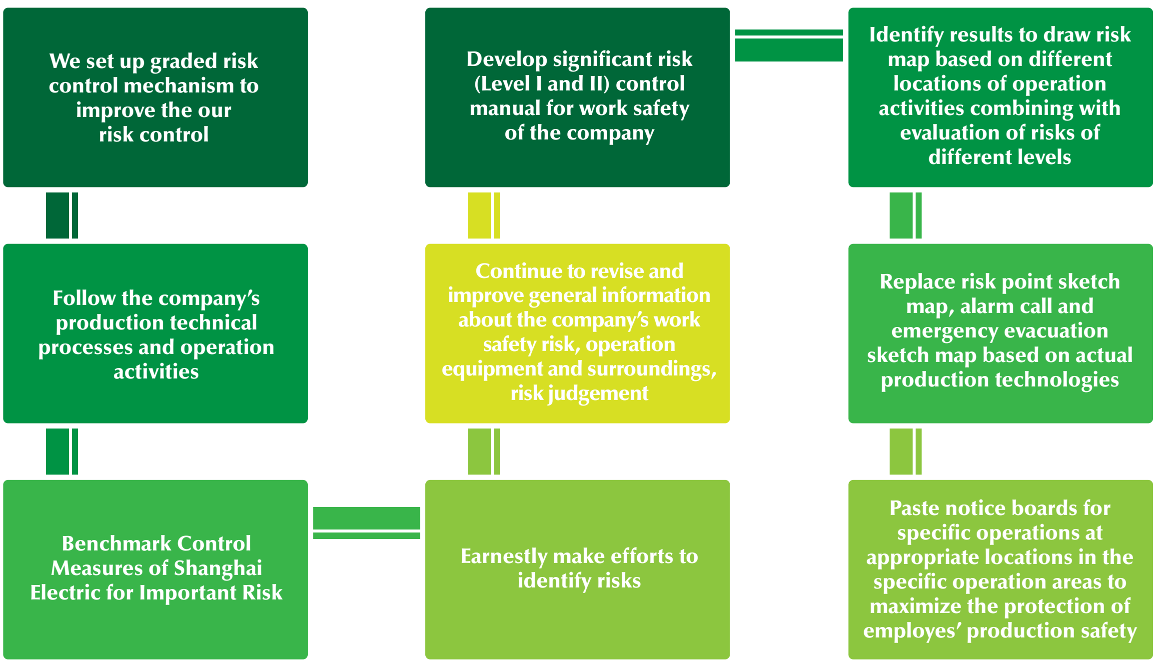
Safety enhancement

In order to provide a maximum protection for our employees' health and safety, we carry out safety enhancement programs throughout the Group. We classify the recorded accidents in the work flow based on the frequency of occurrence and results, investigate the reasons causing the damages, and put forward rectification measures to prevent the accidents from happening again.

Graded control of significant safety risks

Since the establishment of the Group, we have always been taking work safety as one of the most important indexes for evaluating the economic responsibility of the enterprise's operators. We strictly observe and adopt the Regulations on the Reporting, Investigation and Disposition of Work Safety Accidents, the environmental protection rules and other relevant regulations of Shanghai Electric Company. When work safety related accidents occurred, we will investigate and resolve them based on the Four Principles of Resolution :

During the reporting period, we have not received any administrative penalties, neither from domestic and overseas regulators, nor from administration departments of work safety due to any breaches of laws and regulations.



In 2016, the total employees' lost work days due to injuries was 2,188.5 days (0.5 days per capita).

3. ENVIRONMENTAL PROTECTION

We think highly of environmental protection and have invested heavily to improve clean production level, so as to ensure the stable operation of the environmental protection facilities which will help the Company meet the standard of pollutant discharge and full implementation of risk prevention measures. As the citizen of the earth, we actively fulfill our obligations of environmental protection with commitment to conserve energy and reduce emission. We have not committed in any heavily-polluting environment accident or serious ecological destruction event, or received complaints from nearby residents throughout 2016. We have long operated the business by law and strictly complied with more than 100 latest national and local environmental laws and regulations on water and atmosphere, waste and noise as well as energy and resources (including Environmental Protection Law of People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Regulation on Urban Drainage and Sewage Treatment, Enforcement Regulations for Law on Prevention of Air Pollution of the People's Republic of China, Environmental Quality Standard for Surface Water, Environmental Quality Standard for Noise GB3096-2008, Regulation on the Safety Management of Hazardous Chemicals, etc.) Besides, we also operate in strict compliance with the regulatory requirements and evaluate our performance against the standard to ensure the legitimacy of all of our production activities.

Environmental protection system

The Company has obtained the ISO14001 Environmental Management System Certificate so will organize annual internal and external reviews to ensure the controllability and effectiveness of the environmental management system. We also increasingly optimize the environment and energy management systems so as to standardize and systematize energy conservation and emission reduction.

Commitment to energy conservation and emission reduction

We highly value the environmental protection program of greenhouse gas reduction, energy conservation and emission reduction, which can help slow down the climate changes. For effective management of the energy and resources including water, electricity, natural gas and paper used in the PMC's operation, we developed Rules on Energy and Resources Management to manage and control the energy and resources consumed by the Company.

Energy resources consumption

In FY2016, the energy consumed by us reached about 107 thousand tons of coal equivalent, of which 47% was related to purchased electricity. The greenhouse gas emission in 2016 amounted to 263 thousand tons of carbon dioxide.

Energy Consumption and Emission

Notes:

(1) Our calculation is referred to 0.67 tc/tce and 2.46 tCO2/tce, the recommended values from Energy Research Institute of National Development and Reform Commission of People's Republic of China.

(2) Carbon emission factor is referred to the Baseline Emission Factors for Regional Power Grids in China determined by Department of Climate Change of National Development and Reform Commission of People's Republic of China.

	$EF_{grid, OM, y}$ (tCO_2/MWh)	$EF_{grid, BM, y}$ (tCO_2/MWh)
North China Power Grid	1.0416	0.4780
Northeast China Power Grid	1.1291	0.4315
East China Power Grid	0.8112	0.5945
Central China Power Grid	0.9515	0.3500
Northwest China Power Grid	0.9457	0.3162
South China Power Grid	0.8959	0.3648

OM in the table is the weighted average operating margin from 2011 to 2013; BM is the build margin as of 2013.

(3) For overseas enterprises, the calculation is in accordance with the emission factors of the areas where the subsidiaries locate.

Energy consumption

We implement overall management and advancement of energy conservation. At the beginning of the year, we set a target for the whole company and the main energy consumption departments, and perform follow-up monthly audit to review the progress. We request the department which fails to meet the target to conduct self-examination and remediation. Through propaganda, we improve our staff's awareness of the importance of energy conservation. At operation level, we reduce energy consumption by changing the energy saving light bulbs into more advanced LED lamps. For example, our Shanghai Biao Wu High Tensile Fasteners Co. replaced the light bulbs into LED bulbs in its receiving area in the west, the finishing product shipment room and the packing area, the energy consumed were down by 28%, 44% and 17% respectively over the same period of last year; Our Nedschroef has obtained the ISO50001 Energy Management System Certificate.

Water resources consumption

The Company uses water from the urban water supply system mainly for normal office use. In the production process, about 480 thousand tons of water is consumed for cooling the heat treatment which will not exert strong impacts on rivers, lakes, groundwater and glaciers. We have developed and improved water saving management systems and enhance employees' awareness of water conservation through regular check on the waste of water resources, maintenance of water resources facilities and continuing education.

Packing material consumption

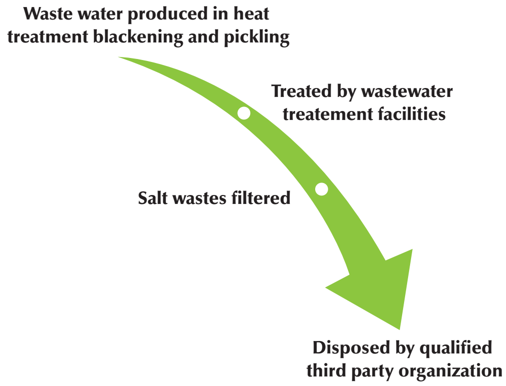
The major packing materials used include plastics, paperboard and wood and the amounts used in 2016 were 293.2 tons, 1,070.7 tons and 1,311.8 tons respectively.

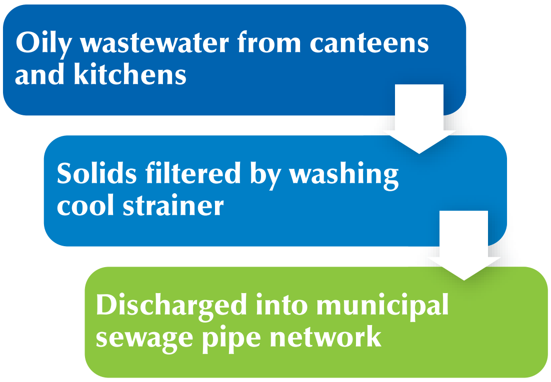
Pollutant discharge reduction

We are committed to cutting the pollutant discharged and lowering the damage and impact on the eco system.

Wastewater treatment

We reuse the water from the heat treatment cooling process in the production. Blackened and pickled wastewater produced in the heat treatment process is disposed by the qualified third party organizations after the solid waste was filtered by the wastewater treatment facilities. Sanitary water, mainly from the office bathrooms and kitchens, does not contain any toxic, harmful or special discharged substances. Oily wastewater from canteens and kitchens is discharged into the municipal sewage pipe network after solid wastes are filtered by the washing cool strainers. We prohibit use of phosphoric detergent. To ensure the compliance with the discharge requirements for environmental protection, PMC entrusts the environmental monitor stations to monitor the wastewater discharge by the company in accordance with Integrated Wastewater Discharging Standard of the People's Republic of China every year.

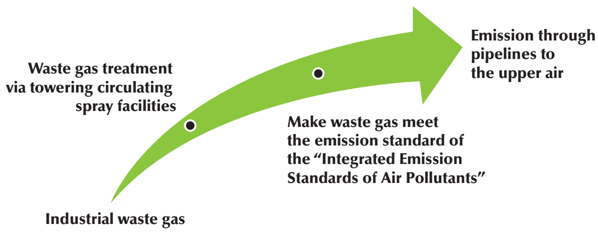




Our total wastewater measured at Discharge Port in 2016 was about 439,000 tons, of which W1–W3 wastewater discharged into wastewater pipes after being disposed by the sewage treatment stations was about 53,000 tons; W4 wastewater directly discharged into the Discharge Port was 165,000 tons. Our overseas companies discharged 18,000 tons of wastewater in 2016.

(Note: W1: washing wastewater mainly including mineral oil and COD from heat treatment discharged into the Discharge Port after being processed in the three wastes treatment stations; W2: waste emulsion mainly including COD, ammonia nitrogen and petroleum pollutants, etc. from grinding discharged into the Discharge Port after being processed in the three wastes treatment stations; W3: phosphoric wastewater mainly including total phosphorus from phosphating process discharged into the Discharge Port after being processed in the three wastes treatment stations; W4: sanitary wastewater mainly including COD and ammonia nitrogen, etc. from offices directly discharged into the Discharge Port .)

Waste gas treatment



Most of PMC's waste gas is industrial waste gas produced during the production process. For example, the heat treatment salt bath hardening furnace will generate HCI waste gas in the process of high temperature salt bath. We apply towering circulating spray facilities to treat waste gas and then emit it to the upper air through pipelines when the waste gas is up to the emission standard of the "Integrated Emission Standard of Air Pollutants".

In 2016, we disposed of 10,016,000 m^3 of chromic acid mist, 0.04 tons of sulphur dioxide, 0.1 tons of smoke and dust, 1.8 tons of nitrogen oxide, and 1,099.3 tons of other waste gas, and overseas companies emitted 31,000 tons of waste gas in total.

Wastes treatment

We issued the "Provisions on the Administration of Wastes" to regulate the treatment process of wastes generated in production and operating activities. We classified wastes according to the "National Hazardous Waste Inventory", and made corresponding disposal guidelines according to different levels. Hazard wastes such as waste oil and waste emulsion will be disposed of by qualified and professional third parties.

In 2016, we disposed altogether 29.0 tons of scrap iron and steel, 0.3 tons of empty reagent bottles, 40.0 tons of residues generated from heat treatment salt bath, 94.0 tons of domestic wastes, 8.7 tons of sludge, 0.2 tons of packing wastes, and 0.1 tons of laboratory wastes, and overseas companies produced altogether 2,409 tons of solid wastes.

Noise treatment

Noise generated by PMC mainly comes from the power equipment including air conditioning units, air compressors, cooling towers and heat treatment equipment. In order to reduce noise, we installed noise shields and sound-absorbing walls surrounding the power equipment. With these measures, testing results show that noise at the boundary of PMC production plants meet the Level II of the Standard of Noise at the Boundary of Industrial Enterprises of People's Republic of China, posing little influence on surrounding neighbourhood.

FOCUS ON ENVIRONMENTAL FRIENDLY OPERATION

Environmental friendly products

Utilization of raw materials

In the manufacturing process, we mainly use iron, steel and stainless steel as raw materials. We actively recycle waste raw materials left in various production processes and sell to steel makers for re-melting, which not only increases sales revenues but also significantly reduces the consumption of iron ore. In 2016, our domestic companies sold 36,000 tons of waste steel and our overseas counterparts sold 9,731 tons.

Recyclable packing

We actively encourage our clients to adopt renewable materials or using recyclable boxes for packing products. For example, Nedschroef utilizes recyclable plastic baskets as packing material for most of the clients unless it was being told to use the single-service paper packing boxes. At the same time, in order to achieve higher sortation efficiency and make products more identifiable, we assign a unique color of plastic baskets for each of the major client.

Green operation

We convene video conferences and teleconferences to reduce business travels which generate less to energy consumption and carbon emission of transportation. We try to avoid unnecessary paper printing, and if it is possible, we will take double-sided printing as the first choice. Meanwhile, we significantly reduced paper consumption by implementing automated and paperless office for communication and approval.

Community friendly production

We are committed to building a harmonious and friendly relationship with our neighborhood, taking community responsibilities with real actions and passing on positive energy. In Wuxi Turbine Co., Ltd., we enhanced the equipment basis and reduced the equipment vibration by implementing upgraded industrial set-up in the construction of new factories and the integral relocation with a total additional investment of RMB25 million. With the installation of the equipment under the new setting, complaints on building resonance caused by equipment vibration was reduced to zero in the surrounding communities. And in order to create quiet sleeping environment for residents in surrounding communities, Nedschroef does not allow operation at night.

In addition, to create clean river water environment for the neighborhood, one of PMC's subsidiaries, Shanghai Joint Bearing & Electrical Bearing Co., Ltd. harnessed the bank of Hengjing River, which significantly improved the river water environment.

4. GREEN SUPPLY CHAIN

We always strive to create win-win cooperation and a safe and reliable green supply chain with our suppliers. We are committed to establishing a coordinated development mechanism with common growth, mutual trust and mutual benefits. We work hard to establish strategic partnership with suppliers for making common progress and development, and ultimately shaping for strong competitive advantage in the industry.

Codes of conduct for suppliers

We implement codes of business conduct, actively shoulder social responsibilities, strictly execute the contracts in accordance with the business terms, train employees from purchasing department and review our suppliers on a regular basis. We establish Supplier Management Guidance, Purchase Management Guidance and so on, which will require our suppliers to comply with the law and regulation, operate with honesty, and promote health, safety, environmental protection as well as business morality. In addition, we ask our suppliers to sign the "Supplier's Honesty and Integrity Agreement" which requires them to act in good faith and comply with the local laws and regulations.

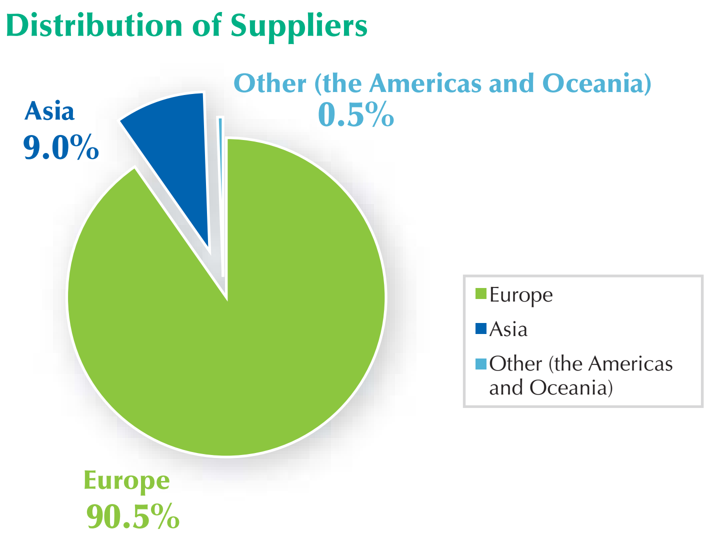
Supplier evaluation

During procurement, we assess the supplier's productivity and quality control by using PMC's mature and integrated quality inspection system to eliminate suppliers with poor abilities and quality. We apply strict and impartial supplier admittance procedures and evaluation mechanism with both annual and ad-hoc reviews so as to urge suppliers to guarantee product quality and safety and continuously improve supply chain management. We encourage suppliers to acquire the ISO90001 certification on Quality Assurance System; we also conduct field quality spot-check on suppliers' products from time to time. Meanwhile, we assist suppliers in improving the quality control system based on our own experience to further guarantee the quality of products purchased.

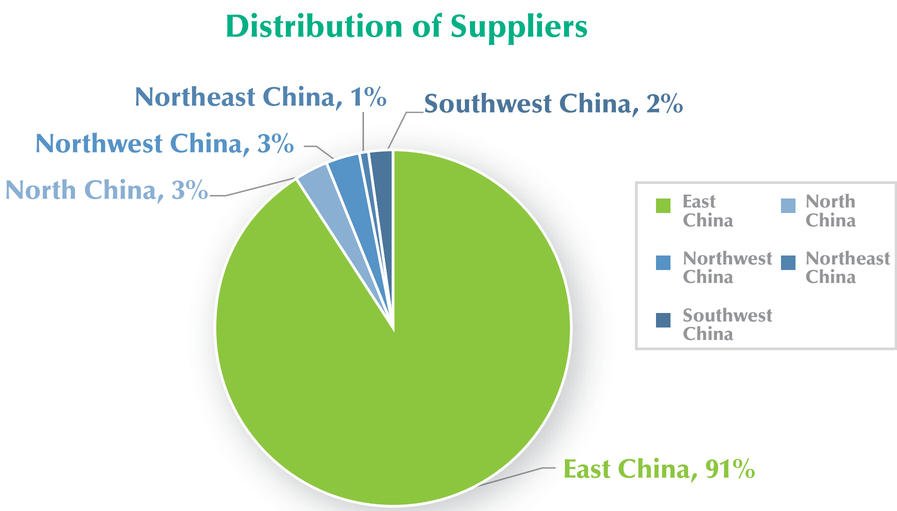
Cooperation with suppliers

We are engaged in connecting the local procurement with the global diversified supply chains. PMC actively responses to China Government's strategic call of "going global" by building overseas production bases through overseas M&As to actively expand into overseas markets, build globalized procurement and sales network and accelerate the process of globalization. We encourage suppliers to participate in our supply chain system through fair competition no matter where they come from, and which nation, culture and race they belong to. At the same time, we make great efforts to develop local procurement and search for outstanding local suppliers, which will significantly reduce procurement costs, promote local economic development, create new jobs, and reduce the energy consumption , carbon emission as well as the impact on environment during transportation.

We have more than 3,000 suppliers worldwide, most of them come from Europe (about 90.5%) and Asia (about 9%):



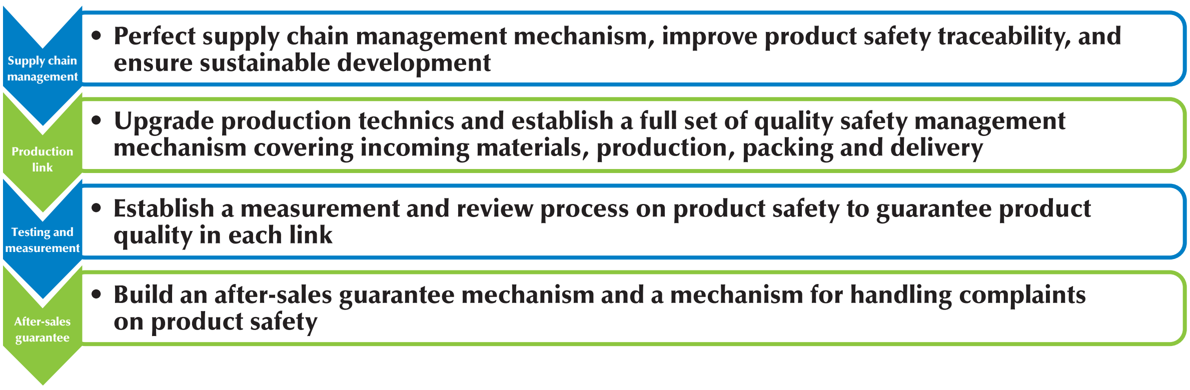
Among our suppliers in the world, 8.68% of suppliers come from mainland China, as the figure below shows:



PRODUCT QUALITY ASSURANCE SYSTEM

With the certification of ISO9001 on Quality Management System, we implement a full set of product safety management system covering incoming materials, production, packing and delivery. We make quality management self-check on "product quality, service quality, the implementation of standards and field management" every year and organize internal quality audit. In addition, we also organize major clients visits and implement the concept of "taking quality and clients as priorities" to improve client satisfaction.

ISO9001 Quality Management System, the amount of returned products



CLIENT SERVICE

We sell products through direct sales and distribution. With regard to direct sales, we make direct communication with the clients, provide customized products based on the needs of the clients, and make continuous improvements according to their feedbacks. We have established steady partnership with many major clients for over a decade including large turbine manufacturers in power generation industry and the Ministry of Railways (which was divided into State Railway Administration and China Railway Corporation in 2013). As for distribution, we maintain stable client relationship and a broad distribution network. The company has established a distribution network covering international and domestic markets, made close cooperation with some distributors for over ten years, and sold products approximately to 70 countries and regions including US, UK, France, Germany, Japan, and Hong Kong, etc.

We are committed to providing clients with highly efficient and quality products and services. To protect clients' privacy, we set limitation on the access of sales personnel to clients' documents according to their responsibilities to protect clients' privacy to the utmost. In order to efficiently handle complaints from clients and provide high quality products and services, we have developed a series of Policies and Procedures of Clients' Complaints to define clearly the process of complaints handling and the responsibilities of different departments.

ANTI-CORRUPTION

To create a healthy operating environment for solid development, the Company established an anti-corruption mechanism based on the guidelines of taking "education as the foundation, system as the priority, supervision as the key, and accountability as the approach" and formulated a programmatic document called "Regulations on the Construction of Party Conduct and Clean Government". As of December 31, 2016, we neither detected any corruption, bribery, blackmail, fraud or money laundering behaviors in PMC, nor found any lawsuits related to the aforementioned behaviors.

Nedschroef adopts the Global Compliance Program to strengthen the effectiveness of internal control and compliance. The Global Compliance Program describes the governance, roles and responsibilities, as well as the scope of the compliance function. The Program also sets forth the basic requirements of compliance management for the Nedschroef Group. The Program is available on the Nedschroef's intranet and will be reviewed at least once a year. According to Nedschroef's policy, it should conduct business with the responsible corporate citizenship who will pursue a sustainable future – economic, social and environmental. Nedschroef requires its employees to commit to high ethical standard and integrity.

Anti-corruption system

1	**Build a leadership system and a working mechanism on anti-fraud, for which the Party Committee assumes major responsibility and the Company's Commission for Discipline Inspection is responsible for supervision**
2	**Set up a leadership team on probity and self-discipline to communicate and publish relevant laws and regulations as well as the Company's anti-fraud policies**
3	**Identify the code of practice on probity and self-discipline for major departments and key positions as well as the regular rotation system for key positions**
4	**Build incorruption archives for Party member leaders above middle-level and let them sign the letter of commitment on clean practice**
5	**Organize anti-corruption education conforming to the training system of the Company**

5. CONTRIBUTION TO THE SOCIETY

Focus on technology improvement

As a nationally well-known company engaged in the basic mechanical components manufacturing and services business, we have established an international quality control system, installed advanced testing equipment and built a professional quality control team. With leading technologies in several business areas, we have undertaken many national scientific research projects, won several national and provincial (ministerial) awards for science and technology progression, and served as the supplier of many high-tech projects. In addition, we have accumulated a wealth of technology resources in collaborating with the Institute of Metal Research of Chinese Academy of Science, Central Iron and Steel Research Institute and universities to jointly develop turbines and bearings. We are committed to developing high-end manufacturing industry and energetically facilitating the technology progress, as advanced technologies can help us to take the leading role in the market, grasp global business opportunities, and enjoy the competitive advantages.

We value communication and collaboration within the industry, actively participate in the formulation of industry standards, gladly share experience and achievements with industry peers, and aim to advance sound and vigorous development of technologies for the whole industry.

ENTHUSIASM FOR COMMUNITY SERVICES

We are enthusiastic for community services and are carrying out community visits and services in a planned way. We organized volunteers to provide convenient services for communities including small appliance repair and maintenance, haircutting, blood pressure measurement and health consultation. We visited families with old people only and help them remove the hidden dangers in water, power and coal use, understand the importance of safe usage of electricity, and resolve problems and repair and upgrade their home appliances timely. We also organized Party members to participate in community donations under the project of Love under the Blue Sky. We visited Party members with difficulties, retired cadres, and poor families suffering from major illnesses. We listen to their needs, provide practical support and bring real benefits to the people proactively and pertinently. These efforts have helped us gain the trust and recognition from the people and enhanced the harmonious atmosphere of local communities.

COMMITMENT TO CONVEY LOVE

We have proactively assumed the social responsibilities. For example, we encourage employees to donate blood every year as encouraged by the local governments. Over the past two decades, we have developed a system called "Helping the Difficult Ones and Conveying Warmness" to fund children of low-income employees for schooling and provide incentives to children of our employees that have been admitted by universities. We advocate the virtue of mutual help, organize the activity called "One-day Donation for Charity every year", and use these money to help employees with difficulties. We also donate to the charity fund of Zhuang Xing Village of Feng Xian to support the people with difficulties.

PROMINENT CONTRIBUTIONS

PMC received the award called "Shanghai May 1st Labor Certificate" for its prominent performance in the massive labor emulation activities.

Shanghai Tian'an Bearing Co., Ltd. was awarded a prize by the Committee of China Dual-use Technology Innovation & Application Contest in its first session for the project on "the Application of Military Solid Lubrication Technology in Ultra-temperature Vacuum and the Precision Manufacturing Technology of Shaft Couplings and Bearings in Manufacturing Bearings of X-ray Tubes in Medical Imaging Devices". Meanwhile, we were also been selected as Excellent Supplier in 2016 by the Institute of China Aerospace Control Technology.

Shanghai Tool Works Co., Ltd. was named as the Advanced Unit in National User Satisfaction Project, Four-Star Integrity Construction Enterprise in Shanghai, and Excellent Unit in Community Party Construction of Changbai New Village in 2016. Moreover, female employees in PMC were awarded as Female Model Workers in March 2016 by the Shanghai Electromechanical Labour Union.

Shanghai Wubiao High-Tensile Fasteners Co., Ltd. was named as Four-Star Integrity Construction Unit by the Shanghai municipal government in 2016.

Shanghai Zhenhua Bearing Works Co., Ltd. was awarded the Certificate of Shanghai Famous Brand from Shanghai Administration of Industry and Commerce in January 2016 and the Certificate as Second-Level Work Safety Standardization Enterprise (Mechanical) from Shanghai Work Safety Association in June 2016. It wasalso being selected as the Four-Star Integrity Construction Unit by the Organization Committee of Corporate Integrity Construction in May 2016. Besides, we were named as the Most Valuable Supplier by Hydro-Gear, obtained the Certificate of A-Class Supplier from Shanghai Automobile Gear Works, and won the prize of Best Team Work from Nexteer Lingyun Driveline for our focus on product quality and client services.

Shanghai Joint Bearing & Electrical Bearing Co., Ltd. got the title of Four-Star Integrity Construction Unit from the Organization Committee of Corporate Integrity Construction of Shanghai in July 2016 and was rated as AAAA-Class by CTC Credit Management Shanghai Co., Ltd for its good credit performance in 2016.

In September 2016, Nedschroef was awarded with the General Motors Europe (GME) Supplier Quality Excellence Award (SQEA) 2015, due to our outstanding quality on products. Nedschroef was awarded already for the 4th time in a row (2012–2015).

6. ESG GUIDE CONTENT INDEX

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Aspect	Disclosures	Reporting chapter	Page No.
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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 2016 ("FY2016").

PRINCIPAL ACTIVITIES

The principal activities of the Group are 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 49 to the financial statements. During FY2016, there were no significant changes in the Group's principal activities.

BUSINESS REVIEW

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The Company's compliance with relevant laws and regulations that have significant impact on it	Page 27
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RESULTS AND DIVIDENDS

The Group's profit for FY2016 and the financial positions of the Company and the Group as at 31 December 2016 are set out on pages 78 to 81 of this annual report.

The Board proposed the payment of a final dividend of RMB3.50 cents (2015: RMB3.20 cents) per share in respect of FY2016 to shareholders whose names appear on the register of members of the Company on Monday, 10 July 2017. 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 18 August 2017 subject to the approval of the shareholders at the annual general meeting of the Company to be held on 23 June 2017.

FINANCIAL SUMMARY

A summary of the published operating results, assets, liabilities and minority shareholders' interests of the Group for the last five financial years, as extracted from the audited financial statements is set out on page 4 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 FY2016 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 FY2016, 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 Company Law 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 FY2016.

RESERVES

Details of movements in the reserves of the Company and the Group during FY2016 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 2016, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to approximately RMB518 million, of which RMB50 million has been proposed as a final dividend for FY2016. 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 FY2016, sales to the Group's five largest customers accounted for less than 30% of the total sales of the Group for FY2016. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases of the Group for FY2016.

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 share capital) has any 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. Xiao Yuman, Mr. Zhang Jie, Mr. Mao Yizhong and Mr. Chen Hui, non-executive Director, namely Mr. Dong Yeshun, and independent non-executive Directors, namely Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Sun Zechang.

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. Sun Zechang. 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 23 to 26 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each Director of the Company entered into a service contract with the Company on the date of his respective appointment. 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 annual general meetings. Other emoluments are determined by the remuneration committee of the Company with reference to Directors' and Supervisors' duties, responsibilities and performance and the 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 FY2016.

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 FY2016 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 FY2016.

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

As at 31 December 2016, 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 FY2016 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Group granted to any Director, Supervisor or their respective spouse or minor children, or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors and Supervisors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

During the year, 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 2016, the persons who had interests of 5% or more in the share capital of the Company and were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were set out on pages 37 to 38 of this report.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During FY2016, the Company and the Group had the following connected transactions 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 FY2016, the Group and the connected parties had entered into the following continuing connected transactions:

Sales Agreement with 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 the "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 three 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 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 prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or 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 determined according to the actual or reasonable cost plus a reasonable profit margin.

The proposed annual cap limit, representing the maximum aggregate sales amount, for 2014, 2015 and 2016 are RMB27.3 million, RMB40.8 million and RMB57.1 million, respectively. The Group's total sales to the Parent Group for FY2016 amounted to RMB13.2 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 Companies. This framework sales agreement covers a period of three 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 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 prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or 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 determined according to the actual or reasonable costs plus a reasonable profit margin.

The proposed annual cap limit, representing the maximum aggregate sales amount, for 2014, 2015 and 2016 are RMB613.4 million, RMB737.1 million and RMB910.9 million, respectively. The Group's total sales to Shanghai Electric Companies for FY2016 amounted to RMB342.4 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 three 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 prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or 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 determined according to the actual or reasonable costs plus a reasonable profit margin.

The proposed annual cap limit, representing the maximum aggregate purchase price, for 2014, 2015 and 2016 are RMB21.0 million, RMB23.3 million and RMB26.8 million, respectively. The Group's total purchases from the Parent Group for FY2016 amounted to RMB0.1 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 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 from Shanghai Electric Corporation.

The proposed annual cap limit, representing the maximum aggregate rental payable, 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 on properties of similar nature, conditions and size within the same geographical region. The total rental payable to the Parent Group for FY2016 was RMB24.2 million.

Framework Comprehensive Service Agreement with Shanghai Electric Corporation

The Company entered into a framework comprehensive service agreement dated 30 October 2013 with Shanghai Electric 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, ancillary 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 prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or 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 determined according to the actual or reasonable costs plus a reasonable profit margin.

The proposed annual cap limit, representing the comprehensive service fees, for 2014, 2015 and 2016 are RMB10.9 million, RMB11.2 million and RMB11.7 million, respectively. The total comprehensive service fee paid by the Group to the Parent Group for FY2016 was RMB nil 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 three 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 prices provided by the pricing guidelines or pricing recommendations set by the PRC government (if any);
- if there are no such stipulated prices or 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 determined according to the actual or reasonable costs plus a reasonable profit margin.

The proposed annual cap limit for 2014, 2015 and 2016 are RMB19.5 million, RMB19.5 million and RMB19.5 million, respectively. The Group's total purchases from Shanghai Electric Companies for FY2016 amounted to RMB nil million.

The independent non-executive Directors have reviewed the 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 review procedures on the above continuing connected transactions and concluded 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 FY2016.

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 the events after the reporting period of the Group are set out in note 50 to the financial statements.

INDEPENDENT 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.

In the past three years, 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
17 March 2017

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the year ended 31 December 2016 ("FY2016"), members of the supervisory committee (the "Supervisory Committee") of Shanghai Prime Machinery Company Limited (the "Company") has convened three thematic meetings in accordance with relevant provisions of the Company Law of the People's Republic of China, Securities Law of the People's Republic of China, Articles of Association of the Company and the Rules Governing the Listing of Securities on The 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 FY2016, the Supervisory Committee has attended two general meetings and 12 Directors' meetings, 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 FY2016, 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 2016.

- 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 2017, 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
Xu Jianguo
Chairman of the Supervisory Committee
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
17 March 2017

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)

OPINION

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 73 to 186, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Annual Impairment assessment on goodwill	
Refer to note 20 We identified the annual impairment assessment on carrying value of goodwill as a key audit matter because the assessment and conclusion as determined based on value-in-use calculation required significant management judgement with respect to the discount rate and assumptions adopted in the underlying cash flows of each cash-generating-unit, in particular, business development plan and future revenue growth. As at 31 December 2016, the carrying amount of goodwill amounted to RMB1,419 million, which arise from the acquisitions of Nedfast, United Bearing, and Shanghai Tianhong (defined collectively in note 20) in previous years. An annual impairment assessment has been performed by the management, including the assessment of the recoverable amounts in relation to these cash-generating-units determined based on a value-in-use calculation and no impairment indicators had been identified for the year ended 31 December 2016. Details of the related accounting policies and carrying value of goodwill and are set out in note 4 and 20 to the consolidated financial statements.	Our audit procedures in relation to management's impairment assessment included: • Assessing whether the model used by the management to calculate the value-in-use calculation of the individual cash-generating-units were in compliance with the requirements of HKAS 36 Impairment of Assets; • Assessing whether the projected cash flow forecast adopted in the models are reasonable and supportable; • Understanding the projected cash flows, including the key assumptions such as revenue growth rates, market outlook and industry trend, and comparing operating margins and revenue growth against historical performance; and • Involving our internal valuation experts to evaluate the methodology of the valuation are in compliance with the requirements of HKAS 36 Impairment of Assets, inputs used for the cash flow forecast and factors considered in the discount rate and assess these rates.
Impairment of trade and other receivables	
Refer to note 26 and 28 We identified the impairment of trade and other receivables as a key audit matter because the amounts were significant and the assessment of which involved significant estimation uncertainty. In determining the allowance for trade and other receivables, the management considers the credit history of individual counter-parties, including settlement pattern, history of default or delay in payments, settlement position after the balance sheet date and aging analysis. At 31 December 2016, the carrying amount of trade receivables was RMB1,225,995,000 (net of allowance for doubtful debts of RMB54,115,000) and other receivables was RMB47,485,000 (net of allowance for doubtful debts of RMB19,423,000).	Our procedures in relation to management's impairment assessment on trade and other receivables included: • Understanding the Group's credit policy and the process that the management used to estimate allowance for doubtful debts, reviewing the credit quality of the counterparties, including any experience of default, delay in payments and the aging analysis, the historical settlement pattern (especially on those overdue but not impaired balances), and checking the reasonableness of recoverability and whether recognition of allowance for doubtful debts appropriate; and • Testing the aging analysis of the trade receivables, on a sample basis, to the source documents.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

17 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Continuing operations			
Revenue	6	**7,644,931**	7,126,763
Cost of sales		**(6,055,232)**	(5,638,513)
Gross profit		**1,589,699**	1,488,250
Other income and other gains and losses	6	**106,548**	132,739
Selling and distribution expenses		**(370,963)**	(363,596)
Administrative expenses		**(624,366)**	(569,616)
Research expenditure		**(292,824)**	(264,963)
Other expenses	8	**(12,977)**	(8,594)
Finance costs	9	**(123,505)**	(143,902)
Share of profits of associates		**29,601**	19,178
Share of loss of a joint venture		**(657)**	(1,306)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	13	**300,556**	288,190
Income tax expense	10	**(97,407)**	(96,727)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**203,149**	191,463
Discontinued operations			
LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS	11	**–**	(4,479)
PROFIT FOR THE YEAR		**203,149**	186,984
Profit (loss) for the year attributable to owners of the Company			
— Continuing operations		**203,401**	188,618
— Discontinued operations		**–**	(2,911)
		203,401	185,707
Profit (loss) for the year attributable to non-controlling interests			
— Continuing operations		**(252)**	2,845
— Discontinued operations		**–**	(1,568)
		(252)	1,277
		203,149	186,984

	NOTES	2016 RMB'000	2015 RMB'000
Other comprehensive expense	12		
Item that will not be subsequently reclassified to profit or loss:			
Re-measurement of defined benefit pension plans		**(8,611)**	(1,284)
Income tax relating to items that will not be reclassified		**3,210**	–
		(5,401)	(1,284)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(8,782)**	(155,736)
Fair value adjustment on interest rate swap contracts designated as hedging instruments		**983**	(1,608)
Income tax relating to items that will be reclassified subsequently		**(246)**	402
		(8,045)	(156,942)
Other comprehensive expense for the year, net of income tax		**(13,446)**	(158,226)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**189,703**	28,758
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**189,902**	27,651
Non-controlling interests		**(199)**	1,107
		189,703	28,758
EARNINGS PER SHARE	17		
From continuing and discontinued operations			
Basic (RMB cents)		**14.41**	13.13
Diluted (RMB cents)		**14.36**	13.10
From continuing operations			
Basic (RMB cents)		**14.41**	13.33
Diluted (RMB cents)		**14.36**	13.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**2,342,764**	2,404,534
Prepaid lease payments	19	**139,387**	142,839
Goodwill	20	**1,418,815**	1,378,452
Intangible assets	21	**31,836**	26,433
Interest in a joint venture		**1,311**	1,909
Interests in associates	22	**174,472**	160,575
Available-for-sale investments	23	**872**	872
Deferred tax assets	24	**133,278**	152,710
		4,242,735	4,268,324
CURRENT ASSETS			
Prepaid lease payments	19	**3,463**	3,474
Inventories	25	**1,671,428**	1,546,678
Trade receivables	26	**1,225,995**	1,296,992
Bills receivable	27	**584,035**	466,989
Prepayments, deposits and other receivables	28	**217,710**	234,778
Restricted deposits	29	**51,543**	97,771
Bank balances and cash	29	**1,123,293**	908,962
		4,877,467	4,555,644
CURRENT LIABILITIES			
Trade payables	30	**1,371,103**	1,332,247
Bills payable	31	**422,145**	349,757
Other payables and accruals	32	**416,525**	423,728
Derivative financial instruments		**4,717**	4,725
Tax liabilities		**64,473**	72,314
Government grants	33	**13,663**	14,159
Company bonds	34	**499,043**	–
Bank borrowings	35	**171,322**	190,536
		2,962,991	2,387,466
NET CURRENT ASSETS		**1,914,476**	2,168,178
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,157,211**	6,436,502

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Shareholders' loan	36	**1,681,059**	1,599,133
Company bonds	34	**–**	497,580
Bank borrowings	35	**693,557**	739,846
Government grants	33	**255,232**	243,363
Other long-term payables		**26,510**	29,133
Deferred tax liabilities	24	**25,031**	28,865
Retirement benefit obligations	37	**129,333**	100,749
		2,810,722	3,238,669
NET ASSETS		**3,346,489**	3,197,833
CAPITAL AND RESERVES			
Share capital	39	**1,438,286**	1,438,286
Reserves		**1,862,480**	1,716,417
Total equity attributable to owners of the Company		**3,300,766**	3,154,703
Non-controlling interests		**45,723**	43,130
TOTAL EQUITY		**3,346,489**	3,197,833

The consolidated financial statements on pages 73 to 186 were approved and authorised for issue by the board of directors on 17 March 2017 and are signed on its behalf by:

Zhou Zhiyan
DIRECTOR

Xiao Yuman
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	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)	Shares 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 2016	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
Profit (loss) for the year	–	–	–	–	–	–	–	203,401	–	–	–	203,401	(252)	203,149
Other comprehensive income (expense) for the year	–	–	–	–	–	737	(5,401)	–	–	(8,835)	–	(13,499)	53	(13,446)
Total comprehensive (expense) income for the year	–	–	–	–	–	737	(5,401)	203,401	–	(8,835)	–	189,902	(199)	189,703
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Final 2015 dividend paid	–	–	–	–	–	–	–	–	(46,025)	–	–	(46,025)	–	(46,025)
Proposed final 2016 dividend	–	–	–	–	–	–	–	(50,340)	50,340	–	–	–	–	–
Appropriation of statutory reserves	–	–	–	–	18,482	–	–	(18,482)	–	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	2,186	–	–	–	–	–	–	–	2,186	–	2,186
Capital injection from non-controlling shareholders upon establishment of a subsidiary (note)	–	–	–	–	–	–	–	–	–	–	–	–	2,792	2,792
Balance at 31 December 2016	1,438,286	702,945	50,469	3,279	314,851	(2,898)	4,492	1,084,560	50,340	(315,133)	(30,425)	3,300,766	45,723	3,346,489

Note: On 25 March 2016, Shanghai Premier Tension Control Bolts Co., Ltd ("SPTCB") was established by Shanghai Prime Machinery Company Limited (the "Company"). The Company owned 57% of the paid-in capital of SPTCB, representing 57% equity interest in SPTCB. The remaining 43% equity interests are accounted for as non-controlling interests.

	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	–	–	–	–	–	–	–	–	–	–	–	–	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

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 i) 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. ii) 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 RMB532,677,000 (2015: RMB508,615,000), of which RMB50,340,000 (2015: RMB46,025,000) has been proposed as a final dividend for the year. The Company's share premium account in the amount of RMB692,553,000 (2015: 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 2016

	NOTE	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**300,556**	282,232
Adjustments for:			
Finance costs	9	**123,505**	143,902
Share of loss of a joint venture		**657**	1,306
Share of profits of associates		**(29,601)**	(19,178)
Other interest income from other current assets		**–**	–
Discount on acquisition of subsidiaries	6	**–**	(11,468)
Hedge ineffectiveness in net investment hedges	6	**–**	14,942
Investment income earned on financial instruments	6	**(28,102)**	–
Dividend income from available-for-sale investments	6	**(60)**	–
Loss (gain) on disposal/written off of items of property, plant and equipment, net		**11,406**	(4,230)
Gain on write-back of payables	6	**(522)**	(7,577)
Depreciation of property, plant and equipment		**280,361**	262,882
Release of prepaid lease payments		**3,463**	3,474
Amortisation of intangible assets		**11,118**	26,829
Impairment of allowance on trade and other receivables, net		**14,349**	8,757
Impairment of property, plant and equipment		**–**	2,760
Write-down of inventories to net realisable value, net		**10,001**	30,131
Release of deferred income related government grants		**(14,266)**	(24,815)
Recognition of equity-settled share-based payments		**2,186**	1,093
Operating cash flows before movements in working capital		**685,051**	711,040
Increase in inventories		**(110,733)**	(122,761)
Decrease (increase) in trade receivables		**79,154**	(33,285)
(Increase) decrease in bills receivable		**(117,047)**	32,964
Decrease (increase) in prepayments, deposits and other receivables		**6,600**	(44,050)
Increase (decrease) in trade payables		**19,456**	(63,720)
Increase in bills payable		**72,387**	24,710
Decrease in other payables and accruals		**(9,039)**	(69,834)
Increase in other long-term payables		**44,559**	5,069
Cash generated from operations		**670,388**	440,133
Income taxes paid		**(83,086)**	(87,945)
NET CASH FROM OPERATING ACTIVITIES		**587,302**	352,188

	NOTE	**2016 RMB'000**	2015 RMB'000
INVESTING ACTIVITY			
Dividend income from available-for-sale investments	6	**60**	–
Dividends received from associates		**15,704**	16,235
Purchase of property, plant and equipment		**(212,114)**	(253,260)
Proceeds from disposal of property, plant and equipment		**646**	11,931
Purchases of intangible assets		**(16,548)**	(1,368)
Acquisition of subsidiaries	41	**–**	(63,124)
Increase in investments in a joint venture		**–**	(1,793)
Proceeds from disposal of financial product investments		**–**	31,000
Proceeds from disposal of financial instruments		**28,102**	–
Disposal of subsidiaries	42	**–**	159,526
Disposal of an associate	22	**–**	21,922
Withdrawal of non-restricted deposits with original maturity of over three months		**435,529**	339,800
Placement of non-restricted deposits with original maturity of over three months		**(458,529)**	(75,776)
Withdrawal of restricted bank deposits		**97,771**	86,730
Placement of restricted bank deposits		**(51,543)**	(97,771)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**(160,922)**	174,052

	NOTE	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES			
Repurchase of shares for incentive scheme		–	(30,425)
Bank borrowings and shareholders' loan obtained		100,344	810,048
Repayment of bank borrowings and shareholders' loan		(192,486)	(1,004,772)
Dividends paid		(46,025)	(19,811)
Dividends paid to non-controlling interests		–	(2,000)
Capital contribution from a non-controlling shareholder		2,792	–
Interest paid		(119,298)	(154,439)
NET CASH USED IN FINANCING ACTIVITIES		(254,673)	(401,399)
NET INCREASE IN CASH AND CASH EQUIVALENTS		171,707	124,841
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		888,462	750,812
Effect of foreign exchange rate changes		19,624	12,809
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,079,793	888,462
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		1,123,293	908,962
Less: non-restricted time deposits with original maturity of over three months when acquired		43,500	20,500
Cash and cash equivalents as stated in the statement of cash flows		1,079,793	888,462

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 (Group) 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.

As at the date of this report, there is a possible transaction which involves the proposed transfer of domestic shares of the company owned by Shanghai Electric (Group) Corporation to Shanghai Electric Group Company Limited.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

During the year ended 31 December 2015, 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 for the year ended 31 December 2015 have been prepared to reflect the results of the discontinued business. Details of the discontinued operations were set forth in note 11.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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 HKFRS 11	*Accounting for acquisitions of interests in joint operations*
Amendments to HKAS 1	*Disclosure initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2012–2014 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)

New and amendments to HKFRS in issue but not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]

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 a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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.

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

HKFRS 9 Financial Instruments (continued)

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.

- 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 HKAS39. 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.

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

Based on the Group's financial instrument and risk management policies as at 31 December 2016, HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. In addition, the expected credit loss model may result in early provision of credit losses which are not yet measured in relation to the Group's financial assets measured amortised cost.

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

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations principal versus agent considerations as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognition in the respective reporting periods.

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB7,750,000 as disclosed in note 46. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete 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 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 Share-based Payments, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

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.

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 lumpsum 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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;
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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 asset 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.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Hedge accounting (continued)

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.

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 2016 was RMB1,418,815,000 (2015: RMB1,378,452,000). Further details are set out in note 20.

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 2016, the best estimate of the carrying amount of capitalised development costs was RMB25,292,000 (2015: RMB21,326,000).

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

Key sources of estimation uncertainty (continued)

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 2016, the carrying amount of trade receivables is RMB1,225,995,000 (net of allowance for doubtful debts of RMB54,115,000) (31 December 2015: carrying amount of RMB1,296,992,000, net of allowance for doubtful debts of RMB53,068,000). As at 31 December 2016, the carrying amount of other receivables is RMB47,485,000 (net of allowance for doubtful debts of RMB19,423,000) (31 December 2015: carrying amount of RMB42,387,000, net of allowance for doubtful debts of RMB6,951,000).

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 2016 was RMB30,546,000 (2015: RMB47,875,000). The amount of unrecognised tax losses at 31 December 2016 was RMB248,913,000 (2015: RMB210,809,000). 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:

	2016 RMB'000	2015 RMB'000
Revenue		
Sales of goods	7,593,794	7,072,256
Rendering of services	51,137	54,507
	7,644,931	7,126,763
Other Income		
Interest income from bank balances and deposits	10,555	13,070
Net rental income (Note i)	1,060	547
Government grants (Note ii)	27,059	51,698
Compensation income (Note iii)	20,870	5,172
Net technology services income	9,683	4,185
Recovery freight and package	625	2,041
Commissions	2,439	2,979
Dividend income from available-for-sale investments	60	–
Others	6,664	8,188
	79,015	87,880
Other gains and losses		
Sales of spare parts, scrap materials and semi-finished goods	85,034	77,711
Less: costs related to sales of spare parts, scrap materials and semi-finished goods	(52,235)	(48,642)
	32,799	29,069
Gain on disposal of items of property, plant and equipment	4,247	5,048
Loss on disposal of items of property, plant and equipment	(5,401)	(818)
Allowance for doubtful debts	(14,349)	(8,544)
Impairment of property, plant and equipment recognised	–	(2,760)
Investment income earned on financial instruments	28,102	–
Hedge ineffectiveness in net investment hedges	–	(14,942)
Foreign exchange gain	18,133	20,056
Foreign exchange loss	(36,520)	(1,295)
Gain on write-back of payables	522	7,577
Gain on acquisition of subsidiaries	–	11,468
	27,533	44,859
	106,548	132,739

6. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES (continued)

Notes:

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

(ii) The government grants represent the amount received from the local governments by the PRC entities of the Group. Government grants of approximately (a) RMB12,793,000 (2015: RMB36,092,000) 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) RMB14,266,000 (2015: RMB15,606,000) represents subsidy on acquisition of machineries amortised to profit or loss for the year.

(iii) Compensation income mainly included RMB19,224,000 received from an insurance company for loss on fire of certain items of property, plant and equipment (2015: compensation for relocation of RMB3,425,000 received from Shanghai Electric Corporation).

7. SEGMENT INFORMATION

For 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 mainly engaged in the production and sale of bearings;

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

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

(iv) the fastener segment is mainly 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.

During the year ended 31 December 2015, the Group disposed its 65% owned subsidiary and a 20% owned associate. 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 2016

	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	762,471	958,326	495,287	5,428,847	–	7,644,931
Inter-segment sales	–	–	2,368	–	–	2,368
Sub-total	762,471	958,326	497,655	5,428,847	–	7,647,299
Eliminations						(2,368)
Group revenue						7,644,931
Segment profit	9,745	49,775	66,385	319,789	–	445,694
Interest and dividend income and unallocated gains						11,752
Corporate and other unallocated expenses						(62,329)
Finance costs						(123,505)
Share of profit (losses) of associates	20,346	–	(333)	–	9,588	29,601
Share of loss of a joint venture	–	–	–	(657)	–	(657)
Profit before tax						300,556

7. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2015

	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
Sub-total	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	12,206	–	(1,608)	–	8,580	19,178
Share of loss of a joint venture	–	–	–	(1,306)	–	(1,306)
Profit before tax from continuing operations						288,190

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, which mainly include exchange gains, while corporate and other unallocated expenses mainly include administrative expenses of the head office, 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 by reportable and operating segments.

At 31 December 2016

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets						
Assets	1,150,731	2,615,616	620,243	4,367,007	–	8,753,597
Eliminations of inter-segment receivables						(2,672,958)
Total segment assets						6,080,639
Interests in associates	86,778	–	16,522	–	71,172	174,472
Interest in a joint venture	–	–	–	1,311	–	1,311
Corporate and other unallocated assets						2,863,780
Consolidated assets						9,120,202
Segment liabilities						
Liabilities	379,996	1,538,783	131,179	3,351,732	–	5,401,690
Eliminations of inter-segment payables						(2,672,958)
Total segment liabilities						2,728,732
Corporate and other unallocated liabilities						3,044,981
Consolidated liabilities						5,773,713

7. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

At 31 December 2015

	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	3,055,338	–	5,151,218
Eliminations of inter-segment payables						(2,552,178)
Total segment liabilities						2,599,040
Corporate and other unallocated liabilities						3,027,095
Consolidated liabilities						5,626,135

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 the head office, and goodwill.
- all liabilities are allocated to reportable and operating segments, other than company bonds, bank borrowings and shareholders' loan.

7. SEGMENT INFORMATION (continued)

Other Segment information

For the year ended 31 December 2016

	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	3,289	41,327	14,184	164,410	223,210	5,452	228,662
Depreciation and amortisation	41,614	98,148	26,142	120,662	286,566	8,376	294,942
Impairment loss on trade, receivables and other receivables recognised (reversed) in profit or loss	(4,149)	17,815	547	(19)	14,194	155	14,349
(Gain) loss on disposal/written off of property, plant and equipment	262	4,069	(1,501)	8,576	11,406	–	11,406
Allowance for (reversal of allowance for) inventories	14,747	3,256	(8,288)	286	10,001	–	10,001
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	8,862	3,784	9,087	75,674	97,407	–	97,407

7. SEGMENT INFORMATION (continued)

Other Segment information (continued)

For the year ended 31 December 2015

	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 trade receivables and 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)

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 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	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC	**2,151,193**	2,099,487	**1,775,749**	1,901,899
Outside PRC	**5,493,738**	5,027,276	**2,157,053**	2,057,299
	7,644,931	7,126,763	**3,932,802**	3,959,198

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both 2016 and 2015.

8. OTHER EXPENSES

	2016	2015
	RMB'000	RMB'000
Transaction costs on acquisition of subsidiaries	**–**	6,600
Compensations and penalties	**2,334**	533
Donation	**252**	762
Others	**139**	699
Loss on written off of items of property, plant and equipment	**10,252**	–
	12,977	8,594

Note: The amount represents loss of machinery and equipment with carrying amount of RMB10,252,000 as a result of fire. Compensation received from an insurance company amounting RMB19,224,000.

9. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Interests on bank borrowings wholly repayable within five years	**51,327**	59,520
Interests on shareholders' loan	**44,959**	56,623
Effective interest expense on company bonds	**26,863**	26,666
Other interest expenses	**356**	1,093
Total borrowing costs on financial liabilities that are not at fair value through profit or loss	**123,505**	143,902

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	18,488	22,361
Other jurisdictions	65,968	70,856
	84,456	93,217
Under (over) provision in prior years:		
PRC EIT	(3,295)	(4,818)
Other jurisdictions	–	4,169
	(3,295)	(649)
Deferred tax (note 24):		
Current year	16,246	2,974
Attributable to a change in tax rate	–	1,185
	16,246	4,159
	97,407	96,727

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 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:

	2016 RMB'000	2015 RMB'000
Profit before tax from continuing operations	300,556	288,190
Less: Share of profits of associates	(29,601)	(19,178)
Less: Share of loss of a joint venture	657	1,306
	271,612	270,318
Tax at the domestic income tax rate of 25% (2015: 25%) (Note)	67,903	67,580
Income tax on concessionary rate	(18,440)	(15,189)
Tax effect of expenses not deductible for tax purpose	18,239	37,374
Tax effect of income not taxable for tax purpose	(1,632)	(1,953)
Tax effect of tax losses and deductible temporary difference not recognised	32,344	8,621
Utilisation of tax losses previously not recognised	(630)	(10,496)
Effect of tax rate change from domestic income tax rate to concessionary rate on opening deferred tax	–	1,185
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,752	12,605
Effect of tax exemptions	(2,834)	(2,351)
Over provision in respect of prior years	(3,295)	(649)
Income tax expense	97,407	96,727

Note: The tax rate used for the 2016 and 2015 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 ended 31 December 2015, 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 ended 31 December 2015 from the Discontinued Operations is set out below.

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

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.

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

	2015 RMB'000
Revenue	10,610
Cost of sales	(5,668)
Other income and other gains and losses	664
Selling and distribution expenses	(1,001)
Administrative expenses	(10,196)
Share of loss of an associate	(367)
Loss before tax	(5,958)
Income tax credit	1,479
Loss for the year	(4,479)

11. DISCONTINUED OPERATIONS (continued)

The amounts above represented the results of the Group's Discontinued Operations arising from Cyeco Environmental and Dalong Machinery. Dalong Machinery in year 2015 was a 20% owned associate.

Loss for the year ended 31 December 2015 from discontinued operating include the following:

	2015 RMB'000
Auditor's remuneration	–

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

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

	2016 **RMB'000**	2015 RMB'000
Other comprehensive expense includes:		
Items that will not be subsequently reclassified to profit or loss:		
Re-measurement of defined benefit pension plans	**(8,611)**	(1,284)
Income tax relating to items that will not be reclassified	**3,210**	–
	(5,401)	(1,284)
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(8,782)**	(155,736)
Fair value adjustment on interest rate swap contracts designated as hedging instruments	**983**	(1,608)
Income tax relating to items that will be reclassified subsequently	**(246)**	402
	(8,045)	(156,942)
Other comprehensive expense for the year, net of income tax	**(13,446)**	(158,226)

12. OTHER COMPREHENSIVE EXPENSES (continued)

Income tax effect relating to other comprehensive income

	2016			2015		
	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	(8,611)	3,210	(5,401)	(1,284)	–	(1,284)
Items that may be subsequently reclassified to profit or loss:						
Exchange differences on translation of foreign operations	(8,782)	–	(8,782)	(155,736)	–	(155,736)
Fair value adjustment on interest rate swap contracts designated as hedging instruments	983	(246)	737	(1,608)	402	(1,206)
	(16,410)	2,964	(13,446)	(158,628)	402	(158,226)

13. PROFIT BEFORE TAX

Profit before tax from continuing operations has been arrived after charging (crediting):

	2016 RMB'000	2015 RMB'000
Cost of inventories recognised as expenses	6,015,542	5,591,980
Cost of services provided	39,690	46,533
Depreciation of property, plant and equipment	280,361	262,818
Release of prepaid lease payments	3,463	3,474
Amortisation of intangible assets	11,118	12,199
Total depreciation and amortisation	294,942	278,491
Allowance for inventories (recognised in cost of sales)	32,188	44,801
Reversal of allowance for inventories (recognised in cost of sales)	(22,187)	(14,670)
Impairment loss on trade receivables	11,709	9,060
Reversals of allowance on trade receivables	(9,832)	(549)
Impairment loss on other receivables	12,472	33
Impairment loss recognised in respect of property, plant and equipment (recognised in other gains and losses)	–	2,760
Net loss (gain) on disposal/written off of property, plant and equipment	1,154	(4,230)
Auditor's remuneration		
Audit services	5,425	5,001
Non-audit services	1,739	–
	7,164	5,001
Gross rental income	6,760	6,537
Less: direct operating expenses	5,700	5,990
	1,060	547
Operating leasing payments in respect of property, plant and equipment	115,080	107,035
Directors' emoluments (note 14)	5,351	4,336
Other staff costs	1,306,868	1,132,493
Retirement benefits for other staff	81,449	72,485
Total staff costs	1,393,668	1,209,314

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 2016				
Executive directors:				
Zhou Zhiyan (Note i)	–	835	42	877
Zhang Jianping (Note v)	–	707	42	749
Xiao Yuman (Note vi, vii)	–	–	–	–
Chen Hui	–	658	42	700
Zhu Xi (Note v, vii)	–	–	–	–
Zhang Jie (Note vi, vii)	–	–	–	–
Sun Wei (Note iii, vii)	–	–	–	–
Mao Yizhong (Note iv, vii)	–	–	–	–
	–	2,200	126	2,326
Independent non-executive directors:				
Chen Oi fat	152	–	–	152
Li Yin (Note iii)	74	–	–	74
Ling Hong	151	–	–	151
Sun Zechang (Note iv)	89	–	–	89
Dong Yeshun (Note iv)	89	–	–	89
	555	–	–	555
Supervisors:				
Xu Jianguo (Note iv, vii)	–	–	–	–
Dong Jianhua (Note iii, vii)	–	–	–	–
Wei Li	–	482	42	524
Yu Yun	–	324	42	366
	–	806	84	890
	555	3,006	210	3,771

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 follow:

	Cash Installment RMB'000	Awarded Shares RMB'000	Sub-total of Incentive Scheme RMB'000
Year ended 31 December 2016			
Executive directors:			
Zhou Zhiyan (Note i)	290	159	449
Zhang Jianping (Note v)	290	159	449
Xiao Yuman (Note vi, vii)	–	–	–
Chen Hui	200	89	289
Zhu Xi (Note v, vii)	–	–	–
Zhang Jie (Note vi, vii)	–	–	–
Sun Wei (Note iii, vii)	–	–	–
Mao Yizhong (Note iv, vii)	–	–	–
	780	407	1,187
Independent non-executive directors:			
Chen Oi fat	–	–	–
Li Yin (Note iii)	–	–	–
Ling Hong	–	–	–
Sun Zechang (Note iv)	–	–	–
Dong Yeshun (Note iv)	–	–	–
	–	–	–
Supervisors:			
Xu Jianguo (Note iv, vii)	–	–	–
Dong Jianhua (Note iii, vii)	–	–	–
Wei Li	304	89	393
Yu Yun	–	–	–
	304	89	393
	1,084	496	1,580

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

(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 (Note v)	–	644	40	684
Zhu Xi (Note v, vii)	–	–	–	–
Sun Wei (Note iii, vii)	–	–	–	–
Chen Hui	–	572	40	612
	–	1,896	120	2,016
Independent non-executive directors:				
Li Yin (Note iii)	143	–	–	143
Ling Hong	143	–	–	143
Chen Oi fat	144	–	–	144
	430	–	–	430
Supervisors:				
Dong Jianhua (Note iii, vii)	–	–	–	–
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 follow:

	Cash Installment RMB'000	Awarded Shares RMB'000	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 (Note v)	225	80	305
Zhu Xi (Note v, vii)	–	–	–
Sun Wei (Note iii, vii)	–	–	–
Chen Hui	189	45	234
	639	205	844
Independent non-executive directors:			
Li Yin (Note iii)	–	–	–
Ling Hong	–	–	–
Chen Oi fat	–	–	–
	–	–	–
Supervisors:			
Dong Jianhua (Note iii, vii)	–	–	–
Wei Li	115	45	160
Yu Yun	–	–	–
	115	45	160
	754	250	1,004

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

Notes:

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

(ii) Resigned on 10 October 2015.

(iii) Resigned on 27 May 2016.

(iv) Appointed on 27 May 2016.

(v) Resigned on 16 December 2016

(vi) Appointed on 16 December 2016

(vii) These directors' and a supervisor's emoluments for the years ended 31 December 2016 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 2016 and 2015.

(viii) 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 2016.(31 December 2015:1,223,200 shares)

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2015: 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 (2015: nil). Details of the remuneration for the year of the five (2015: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	9,474	8,906
Performance-related bonuses	6,515	3,135
Pension scheme contributions	445	336
	16,434	12,377

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:

	2016 No. of employees	2015 No. of employees
Hong Kong dollars ("HKD") nil to HKD1,500,000	–	–
HKD1,500,001 to HKD2,000,000	–	1
HKD2,000,001 to HKD2,500,000	3	2
HKD2,500,001 to HKD3,000,000	–	1
HKD3,000,001 to HKD4,000,000	1	–
HKD5,500,001 to HKD6,000,000	–	1
HKD8,000,001 to HKD9,000,000	1	–
	5	5

16. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year: Proposed 2016 Final — RMB3.50 cents (2015: 2015 final RMB3.20 cents)	50,340	46,025

Subsequent to the end of this reporting period, a final dividend in respect of the year ended 31 December 2016 of RMB3.50 cents (2015: a final dividend in respect of the year ended 31 December 2015 of RMB3.20 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:

	2016 in '000	2015 in '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,411,160**	1,414,529
Effect of dilutive potential ordinary shares on shares awarded under the Incentive Scheme — unvested	**5,406**	2,725
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,416,566**	1,417,254

The weighted average number of ordinary shares of 2016 and 2015 shown above has been arrived at after deducting the effect on 27,126,000 shares held by TC Capital Management Limited, the trustee for the Company's Incentive Scheme.

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:

	2016 RMB'000	2015 RMB'000
Profit for the year attributable to owners of the Company	**203,401**	185,707
Less: loss for the year from discontinued operations	**–**	2,911
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**203,401**	188,618

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

From discontinued operations

There was no discontinued operations for the year ended 31 December 2016.

Basic loss per share from discontinued operations in 2015 is RMB0.20 cents per share and diluted loss per share from discontinued operations is RMB0.20 cents per share, based on the loss for the year from discontinued operations of RMB 2,911,000 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 2015	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 subsidiaries (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
Additions	5,714	36,279	1,835	17,882	143,399	7,005	212,114
Disposals/written off	(28)	(58,986)	(6,288)	(12,178)	–	–	(77,480)
Transfers	2,572	115,848	747	8,026	(132,327)	5,134	–
Exchange adjustments	9,710	22,917	759	5,872	1,111	–	40,369
At 31 December 2016	775,864	2,764,096	26,082	117,468	161,131	103,950	3,948,591
DEPRECIATION AND IMPAIRMENT							
At 1 January 2015	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/written off	(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
Provided for the year	24,306	209,707	4,685	24,591	–	17,072	280,361
Eliminated on disposals	(16)	(48,364)	(5,666)	(11,382)	–	–	(65,428)
Exchange adjustments	3,120	14,011	387	4,322	–	–	21,840
At 31 December 2016	114,340	1,368,563	9,265	50,320	485	62,854	1,605,827
CARRYING VALUES							
At 31 December 2016	661,524	1,395,533	16,817	67,148	160,646	41,096	2,342,764
At 31 December 2015	670,966	1,454,829	19,170	65,077	148,463	46,029	2,404,534

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 RMB257,168,000 (31 December 2015: RMB278,142,000) 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 2016, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB996,000 (2015: RMB1,107,000).

During the year, the directors conducted a review of the Group's machinery and equipment and determined that no impairment is required (2015: RMB2,760,000 was recognised, due to physical damage and technical obsolescence in the cutting tool and fastener segments).

None of the Group's property, plant and equipment has been pledged (31 December 2015: RMBnil).

19. PREPAID LEASE PAYMENTS

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

	2016 **RMB'000**	2015 RMB'000
Analysed as		
Current portion	**3,463**	3,474
Non-current portion	**139,387**	142,839
	142,850	146,313

19. PREPAID LEASE PAYMENTS (continued)

Amortisation is calculated using the straight-line method over the remaining useful lives ranging from 37 to 45 years (2015: 38 to 46 years) for all the prepaid lease payments.

	RMB'000
COST	
At 1 January 2015 and 31 December 2015	171,742
addition and disposal	–
At 31 December 2016	171,742
AMORTISATION	
At 1 January 2015	21,955
Provided for the year	3,474
At 31 December 2015	25,429
Provided for the year	3,463
At 31 December 2016	28,892
CARRYING VALUES	
At 31 December 2016	142,850
At 31 December 2015	146,313

20. GOODWILL

	RMB'000
COST AND CARRYING VALUES	
At 1 January 2015	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
Exchange adjustments	40,363
At 31 December 2016	1,418,815

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:

	2016	2015
	RMB'000	RMB'000
Nedfast Investment B.V. ("Nedfast")	**1,393,804**	1,353,441
Shanghai United Bearing Company Limited ("United Bearing")	**8,818**	8,818
Shanghai Tianhong Miniature Bearing Co., Ltd ("Shanghai Tianhong")	**16,193**	16,193
	1,418,815	1,378,452

During the year ended 31 December 2016 and 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

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 10.5% (2015: 11.8%) per annum. The cash flows beyond the five-year period are extrapolated using a 1.0% (2015: 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 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% (2015: 14.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2015: 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)

Impairment testing on goodwill (continued)

Cash flow projection during the budget period for the cash-generating unit is based on 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% (2015: 13.0%) per annum. The cash flows beyond the five-year period are extrapolated using a 2.0% (2015: 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 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	Patents and licences	Software	Development expenditure in progress (Note i)	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2015	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
Additions	–	–	3,975	12,573	–	16,548
Exchange adjustments	–	–	–	(27)	–	(27)
At 31 December 2016	52,566	5,024	22,845	12,546	–	92,981
AMORTISATION						
At 1 January 2015	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
Provided for the year	8,580	203	2,335	–	–	11,118
At 31 December 2016	39,820	4,079	17,246	–	–	61,145
CARRYING VALUES						
At 31 December 2016	12,746	945	5,599	12,546	–	31,836
At 31 December 2015	21,326	1,148	3,959	–	–	26,433

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 20 years
Patents and licences	5 to 10 years
Software	3 to 5 years
Others (Note ii)	12.75 year

21. INTANGIBLE ASSETS (continued)

Note:

(i) The development expenditure in progress will be transferred to development costs upon completion and amortised over the remaining useful life.

(ii) Others mainly represents the fair value of customer relationship arising on acquisition of Cyero Environments in 2014.

22. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investment in associates	122,955	122,955
Share of post-acquisition profits and other comprehensive income, net of dividend received	51,517	37,620
	174,472	160,575

The Group's balances of trade receivables with its associates are disclosed in notes 26 to these consolidated financial statements.

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 2016	Proportion of ownership interest held by the Group 2015	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

22. INTERESTS IN ASSOCIATES (continued)

* 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.

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.

Shanghai General Bearing

	2016 RMB'000	2015 RMB'000
Current assets	**244,981**	204,558
Non-current assets	**58,608**	70,073
Current liabilities	**(84,879)**	(67,275)
Non-current liabilities	**(1,764)**	(2,016)

	2016 RMB'000	2015 RMB'000
Revenue	**336,231**	387,228
Profit for the year	**50,865**	30,516
Total comprehensive income for the year	**50,865**	30,516
Dividends received from the associate during the year	**15,704**	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:

	2016 RMB'000	2015 RMB'000
Net assets	**216,946**	205,340
Proportion of the Group's ownership interest	**40%**	40%
Carrying amount of the Group's interest	**86,778**	82,136

22. INTERESTS IN ASSOCIATES (continued)

Morgan Advanced Materials Technology (Shanghai) Company Limited

	2016 RMB'000	2015 RMB'000
Current assets	274,614	261,153
Non-current assets	64,751	66,591
Current liabilities	(100,184)	(120,213)
Non-current liabilities	(1,942)	(2,252)

	2016 RMB'000	2015 RMB'000
Revenue	272,577	287,926
Profit for the year	31,960	30,486
Total comprehensive income for the year	31,960	30,486
Dividends received from the associate during the year	–	12,472

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

	2016 RMB'000	2015 RMB'000
Net assets	237,239	205,279
Proportion of the Group's ownership interest	30%	30%
Carrying amount of the Group's interest	71,172	61,584

22. INTERESTS IN ASSOCIATES (continued)

S.U. Machine Tool (Shanghai) Company Limited

	2016 RMB'000	2015 RMB'000
Current assets	33,401	29,716
Non-current assets	31,262	24,364
Current liabilities	(23,357)	(11,941)

	2016 RMB'000	2015 RMB'000
Revenue	12,231	19,241
Loss for the year	(833)	(4,020)
Total comprehensive expense for the year	(833)	(4,020)

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

	2016 RMB'000	2015 RMB'000
Net assets	41,306	42,139
Proportion of the Group's ownership interest	40%	40%
Carrying amount of the Group's interest	16,522	16,855

22. INTERESTS IN ASSOCIATES (continued)

Dalong Machinery

	2016 RMB'000 (Note)	2015 RMB'000
Current assets	n/a	n/a
Non-current assets	n/a	n/a
Current liabilities	n/a	n/a
Non-current liabilities	n/a	n/a

	2016 RMB'000 (Note)	2015 RMB'000
Revenue	n/a	112,526
Loss from discontinued operations	n/a	(2,562)
Loss for the year from discontinued operations	n/a	(2,562)
Other comprehensive income for the year	n/a	–
Total comprehensive expense for the year	n/a	(2,562)

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).

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 was 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

	2016 RMB'000	2015 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:

	2016 RMB'000	2015 RMB'000
Deferred tax assets	133,278	152,710
Deferred tax liabilities	(25,031)	(28,865)
	108,247	123,845

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 RMB'000	Impairment of assets RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments on assets RMB'000	Employee benefits RMB'000	Accrued expenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	59,361	42,785	(41,001)	(14,814)	20,928	9,024	14,521	90,804
(Credit) charge to profit or loss	(16,275)	6,219	6,355	6,984	1,916	(4,966)	(4,434)	(4,201)
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	4,789	(3,662)	828	(4,358)	692	281	(2,927)	(4,357)
At 31 December 2015	47,875	45,244	(33,818)	30,194	23,536	3,252	7,562	123,845
(Credit) charge to profit or loss	(18,094)	(15,658)	10,801	170	(986)	2,139	5,382	(16,246)
Charge to equity for the year	–	–	–	–	–	–	878	878
Exchange differences	765	1,003	(1,101)	(1,048)	400	5	(254)	(230)
At 31 December 2016	30,546	30,589	(24,118)	29,316	22,950	5,396	13,568	108,247

At 31 December 2016, the Group has unused tax losses of RMB358,007,000 (31 December 2015: RMB381,625,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB109,094,000 (31 December 2015: RMB170,816,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB248,913,000 (31 December 2015: RMB210,809,000) due to the unpredictability of future profits streams.

24. DEFERRED TAXATION (continued)

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

	2016 RMB'000	2015 RMB'000
2017	**29**	2,081
2018	**16,729**	16,739
2019	**24,880**	25,409
2020	**25,602**	25,746
2021	**36,189**	–
No due date	**145,484**	140,834
	248,913	210,809

At 31 December 2016, the Group had unrecognised deductible temporary difference of RMB183,360,000 (31 December 2015: RMB90,174,000). 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

	2016 RMB'000	2015 RMB'000
Raw materials and consumables	**557,136**	456,528
Work in progress	**453,818**	405,867
Fished goods	**660,474**	684,283
	1,671,428	1,546,678

During the year, allowance for inventories according to RMB32,188,000 (2015: RMB44,801,000), which has been recognised and included in cost of sales.

During the year, there has been a reversal of allowance for inventories of RMB22,187,000(2015: RMB14,670,000) as a result of the increase in selling price and was included in cost of sales.

26. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**1,280,110**	1,350,060
Less: allowance for doubtful debts	**(54,115)**	(53,068)
	1,225,995	1,296,992

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.

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:

	2016 RMB'000	2015 RMB'000
Within 3 months	**916,090**	913,210
Over 3 months but within 6 months	**216,734**	204,322
Over 6 months but within 1 year	**61,083**	142,835
Over 1 year but within 2 years	**11,685**	23,075
Over 2 years	**20,403**	13,550
	1,225,995	1,296,992

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 RMB860,431,000 (31 December 2015: RMB843,436,000) 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.

26. TRADE RECEIVABLES (continued)

	2016 RMB'000	2015 RMB'000
Within 3 months	**84,459**	82,270
Over 3 months but within 6 months	**187,933**	191,826
Over 6 months but within 1 year	**61,083**	142,835
Over 1 year but within 2 years	**11,685**	23,075
Over 2 years	**20,404**	13,550
	365,564	453,556

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

	2016 RMB'000	2015 RMB'000
1 January	**53,068**	58,628
Impairment losses recognised on receivables	**11,709**	9,273
Acquisition of subsidiaries	**–**	300
Amount written off as uncollectible	**(1,221)**	(12,635)
Impairment losses reversed	**(9,832)**	(549)
Disposal of subsidiaries	**–**	(342)
Exchange differences	**391**	(1,607)
31 December	**54,115**	53,068

Included in the balance of allowance for doubtful debts are individually impaired trade receivables in full with an aggregate balance of RMB1,033,000 (31 December 2015: RMB7,438,000), as at 31 December 2016, 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 RMB32,294,000 (31 December 2015: RMB51,038,000) 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:

	2016 RMB'000	2015 RMB'000
Due from SEC group companies	**111,891**	154,652
Due from associates	**6**	26
	111,897	154,678

26. TRADE RECEIVABLES (continued)

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

27. BILLS RECEIVABLE

The maturity profiles of the bills receivable are as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**231,128**	202,744
Over 3 months but within 6 months	**244,915**	190,472
Over 6 months but within 1 year	**107,992**	73,773
	584,035	466,989

Included in bills receivables are bills endorsed and transferred from SEC group companies and associates, which are related parties of the Group, amounted RMB212,690,000 and RMB nil as at 31 December 2016 (31 December 2015: RMB128,400,000 and RMB11,766,000), respectively.

Bills receivable amounted to RMB176,209,000 (31 December 2015: RMB147,030,000) have been pledged to banks as security for issuance of bills payable.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments for purchase of raw materials	**134,555**	148,194
Value-added tax recoverable and prepaid value-added tax	**35,671**	38,227
Deposits	**8,468**	9,462
Prepayments for rental expense	**6,827**	4,897
Purchase related discount receivable from suppliers	**4,015**	8,106
Interest receivable	**–**	65
Due from Shanghai Electric Corporation	**–**	535
Others	**28,174**	25,292
	217,710	234,778

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

29. RESTRICTED DEPOSITS AND BANK BALANCES AND CASH

Restricted deposits

The restricted deposits carried interest at fixed rates ranging from nil to 1.75% (31 December 2015: 0.30% to 1.30%) 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 nil to 1.75% (31 December 2015: 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:

	2016 RMB'000	2015 RMB'000
Within 3 months	1,131,852	1,095,156
Over 3 months but within 6 months	107,697	185,780
Over 6 months but within 1 year	40,487	31,077
Over 1 year but within 2 years	82,834	12,815
Over 2 years	8,233	7,419
	1,371,103	1,332,247

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:

	2016 RMB'000	2015 RMB'000
Due to SEC group companies	3,368	8,205
	3,368	8,205

31. BILLS PAYABLE

The maturity profiles of the bills payable are as follows:

	2016 RMB'000	2015 RMB'000
Within 3 months	**168,656**	112,977
Over 3 months but within 6 months	**183,880**	191,637
Over 6 months but within 1 year	**69,609**	45,143
	422,145	349,757

32. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Advance from customers	**47,765**	38,961
Other tax payable	**21,096**	22,437
Payroll payable	**202,230**	189,446
Dividend payable	**16**	16
Interest payable	**24,268**	21,523
Professional fees payable	**9,160**	9,611
Payable for purchases of property, plant and equipment	**24,072**	28,754
Subcontracting costs payable	**3,000**	8,000
Deposits	**10,725**	4,519
Due to Shanghai Electric Corporation	**2,257**	32,326
Due to SEC group companies	**68**	4,321
Other payables	**71,868**	63,814
	416,525	423,728

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

	2016 RMB'000	2015 RMB'000
Analysed for reporting purpose as:		
Current liabilities	**13,663**	14,159
Non-current liabilities	**255,232**	243,363
	268,895	257,522

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 company 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 bonds are 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 were reclassified as non-current liabilities on 31 August 2015 and further reclassified as current liabilities on 31 August 2016.

The fair value measurement of the company bonds is categorized within level 3 of the fair value hierarchy, which is determined 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 and the carrying amount of the company bonds approximates to their fair value.

35. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank borrowings	**864,879**	930,382

35. BANK BORROWINGS (continued)

The bank borrowings were guaranteed and secured by:

	2016 **RMB'000**	2015 RMB'000
Secured and unguaranteed (Note)	**788,145**	910,210
Unsecured and unguaranteed	**76,734**	20,172
	864,879	930,382
Less: Amounts shown under current liabilities	**(171,322)**	(190,536)
Amounts shown under non-current liabilities	**693,557**	739,846

	2016 **RMB'000**	2015 RMB'000
The carrying amounts of the above borrowings are repayable*:		
Within one year	**171,322**	190,536
More than one year but not exceeding two years	**104,416**	91,497
More than two years but not exceeding five years	**589,141**	593,018
More than five years	**–**	55,331
	864,879	930,382

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

	2016 **RMB'000**	2015 RMB'000
Fixed rate borrowings repayable*:		
Within one year	**66,934**	53,872

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

Note: As at 31 December 2016, the amount of loan secured by equity interests in subsidiaries was RMB763,145,000 (31 December 2015: RMB870,210,000), and the loan secured by trade receivables was RMB25,000,000 (31 December 2015: RMB40,000,000).

35. BANK BORROWINGS (continued)

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
2016	4.13% to 5.44%	3 months EURIBOR plus 1.60% to 2.25%, base interest rate released by China Construction Bank minus 10%, CHIBOR minus 0.1675% and interest rate released by the People's Bank of China deducted by 0.05%
2015	3.70% to 5.44%	3 months EURIBOR plus 3.00% to 3.50%, and base interest rate released by China Construction Bank minus 10%

36. SHAREHOLDERS' LOAN

The shareholders' loan is unsecured, interest bearing at 2.0% to 3.3% (31 December 2015: 2.0% to 3.3%) per annum and denominated in USD and EUR, of which RMB950,369,000 (31 December 2015: RMB889,623,000) is due on 11 August 2019 and RMB730,690,000 (31 December 2015: RMB709,510,000) is due on 10 September 2018. Interest has been paid to lenders on 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.

37. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit plan (continued)

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.

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:

	2016 **RMB'000**	2015 RMB'000
Non-current liability	**129,333**	100,749
Current liability	**5,948**	5,131
	135,281	105,880

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

	2016	2015
Discount rate	**1.58%**	2.30%
Expected rate of future pension cost increases	**1.50%**	1.75%
Expected rate of salary increase	**2.25%**	2.25%

37. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit plan (continued)

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

	2016 RMB'000	2015 RMB'000
Service cost:		
Current service cost	19,634	3,352
Net interest expense	2,607	2,158
Components of defined benefit costs recognised in profit or loss	22,241	5,510
Remeasurement on the net defined benefit liability:		
Actuarial losses on obligation	8,692	129
Actuarial losses (gains) on plan assets	(81)	1,155
Components of defined benefit costs recognised in other comprehensive income	8,611	1,284
Total	30,852	6,794

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

	2016 RMB'000	2015 RMB'000
Opening defined benefit obligation	118,636	122,119
Acquisition of subsidiaries	–	3,379
Current service cost	19,634	3,352
Interest expense	2,607	2,324
Actuarial losses (gains) on obligation	8,692	129
Benefits paid	(5,235)	(5,891)
Exchange differences on foreign plans	3,514	(6,776)
Closing defined benefit obligation	147,848	118,636

37. RETIREMENT BENEFIT OBLIGATIONS (continued)

Defined benefit plan (continued)

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

	2016 RMB'000	2015 RMB'000
Opening fair value of plan assets	12,756	13,016
Acquisition of subsidiaries	–	–
Interest income	–	166
Actuarial (losses) gains on plan assets	81	(1,155)
Benefits paid	(650)	2,274
Exchange differences on foreign plans	380	(1,545)
Closing fair value of plan assets	12,567	12,756

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

	2016 RMB'000	2015 RMB'000
Funds invested by insurance companies	12,567	12,756
Total	12,567	12,756

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

On 16 December 2016, a resolution was passed to adjust the form of incentive from cash instalments and awarded shares to cash instalments only.

During the year 2015 and up to 31 December 2016, the Group purchased 27,126,000 shares of the Company for the Incentive Scheme at weighted average price of HKD1.42. As at 31 December 2016, there were in total 21,720,000 (31 December 2015: 21,720,000) unawarded shares amounting to HKD30,842,000 (31 December 2015: HKD30,842,000) held by the trustee as at 31 December 2016.

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 2016	**5,406**
Awarded during the year	**–**
Vested during the year	**–**
Outstanding at 31 December 2016	**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 equivalent 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 RMB2,186,000 (2015: RMB1,093,000) was recognised as an expense for the year ended 31 December 2016.

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.

38. INCENTIVE SCHEME (continued)

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 RMB1,504,000 (2015: RMB6,315,000) was recognised as an expense for the year ended 31 December 2016.

On 16 December 2016, a cash instalment of RMB11,520,000 has been approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 60% of the cash would be payable during the year of grant, while the remaining 20% 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. An amount in respect of the cash instalment under the Incentive Scheme of RMB8,832,000 was recognised as an expense for the year ended 31 December 2016.

39. SHARE CAPITAL

	2016		2015	
	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 2016, there were 27,126,000 (31 December 2015: 27,126,000) shares of the Company under the custody by the trustee for the Incentive Scheme, out of which 5,406,000 shares (31 December 2015: 5,406,000 shares) was granted but not yet vested to the participants. Further details are set out in note 38.

There was no share repurchase during the year ended 31 December 2016. During the year ended 31 December 2015, 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	31/12/2016 RMB'000	31/12/2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**39,114**	40,866
Prepaid lease payments		**29,880**	30,546
Intangible assets		**763**	1,259
Investments in subsidiaries		**1,961,431**	1,956,431
Interests in associates		**81,272**	81,272
Amounts due from subsidiaries		**250,617**	650,617
Deferred tax assets		**–**	1,206
		2,363,077	2,762,197
CURRENT ASSETS			
Prepaid lease payments		**677**	688
Trade receivables		**79,011**	89,393
Bills receivable		**8,000**	11,766
Prepayments, deposits and other receivables		**633,805**	124,457
Amounts due from subsidiaries		**–**	168,000
Dividends receivable		**62,459**	72,957
Bank balances and cash		**710,745**	454,291
		1,494,697	921,552
CURRENT LIABILITIES			
Trade payables		**143,540**	89,906
Other payables and accruals		**452,202**	352,065
Tax liabilities		**–**	1,013
Company bonds	34	**499,043**	–
		1,094,785	442,984
NET CURRENT ASSETS		**399,912**	478,568
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,762,989**	3,240,765

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

	NOTES	**31/12/2016 RMB'000**	31/12/2015 RMB'000
NON-CURRENT LIABILITIES			
Company bonds	34	**–**	497,580
		–	497,580
NET ASSETS		**2,762,989**	2,743,185
CAPITAL AND RESERVES			
Share capital	39	**1,438,286**	1,438,286
Reserves		**1,324,703**	1,304,899
TOTAL EQUITY		**2,762,989**	2,743,185

The Company's statement of financial position was approved and authorised for issue by the board of directors on 17 March 2017 and are signed on its behalf by:

Zhou Zhiyan
DIRECTOR

Xiao Yuman
DIRECTOR

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

	Capital reserve RMB'000	Contributed surplus RMB'000	Share-based payments reserves RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Shares held for Incentive Scheme RMB'000	Total RMB'000
At 1 January 2015	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
Profit for the year	–	–	–	–	63,643	–	–	63,643
Final 2015 dividend paid	–	–	–	–	–	(46,025)	–	(46,025)
Proposed final 2016 dividend	–	–	–	–	(50,340)	50,340	–	–
Appropriation of statutory reserves	–	–	–	7,787	(7,787)	–	–	–
Recognition of equity-settled share-based payments	–	–	2,186	–	–	–	–	2,186
At 31 December 2016	692,553	26,970	3,279	113,880	468,106	50,340	(30,425)	1,324,703

The capital reserve account balance as at 31 December 2016 represented the Company's share premium of RMB692,553,000 (31 December 2015: RMB692,553,000).

41. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2016

There is no acquisition of subsidiaries during the year ended 31 December 2016

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 (continued)

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 RMB 2,283,000.

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)

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.

42. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2016

There is no disposal of subsidiaries during the year ended 31 December 2016

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.

43. TRANSFER OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2016, the Group endorsed certain bills receivable in the PRC (the "Endorsed Bills") with a carrying amount of RMB51,397,000 (31 December 2015: RMB60,449,000) 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 2016 was RMB32,294,000 (31 December 2015: RMB51,038,000), while the cash received was RMB25,000,000 (31 December 2015: RMB40,000,000), which was treated as secured bank borrowings.

At 31 December 2016, 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 RMB162,620,000 and nil, respectively (31 December 2015: RMB137,867,000 and 43,359,000) (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.

43. TRANSFER OF FINANCIAL ASSETS (continued)

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

During the year ended 31 December 2016 and 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	
	2016	2015
	RMB'000	RMB'000
Financial assets		
Available-for-sale investments	**872**	872
Loans and receivables (including cash and cash equivalents)	**3,032,351**	2,813,166
	3,033,223	2,814,038
Financial liabilities		
Derivative financial instruments	**4,717**	4,725
Other financial liabilities	**4,988,193**	4,854,592
	4,992,910	4,859,317

45. FINANCIAL INSTRUMENTS (continued)

(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.

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:

	USD		HKD	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Trade receivables	**198,196**	109,245	**–**	–
Prepayments, deposits and other receivables	**–**	–	**–**	3,617
Bank balances and cash	**202,922**	215,313	**35,669**	33,893
Total assets	**401,118**	324,558	**35,669**	37,510
Trade payables	**4,540**	3,040	**–**	–
Other payables and accruals	**1,220**	1,129	**–**	–
Long-term borrowings	**950,369**	889,623	**–**	–
Total liabilities	**956,129**	893,792	**–**	–

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.

45. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in USD and HKD 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% (2015: 5%) change in foreign currency rate. A positive number below indicates an increase in profit before tax where the relevant foreign currencies strengthen 5% (2015: 5%) against functional currencies. For a 5% weakening of the relevant foreign currencies against functional currencies, there would be a comparable impact on the profit before tax, and the balances below would be negative.

	Profit before tax	
	2016	2015
	RMB'000	RMB'000
USD	**(27,751)**	(28,462)
HKD	**1,783**	1,876

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.

(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 the fluctuation of the prevailing market interest rate.

45. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(ii) Interest rate risk (continued)

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 10 basis points (2015: 10 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 10 basis points (2015: 10 basis points) higher/lower for variable-rate interest bearing financial assets/liabilities and all other variables were held constant, the Group's profit-before-tax for the year would decrease/increase by RMB377,000 (2015: RMB137,000).

Credit risk

As at 31 December 2016, 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.

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 26% (2015: 21%) of the Group's total trade receivables.

45. FINANCIAL INSTRUMENTS (continued)

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

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 RMB1,994,854,000 were unused as at 31 December 2016 (2015: RMB1,834,760,000). 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.

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.

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 to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016							
Non-derivative financial liabilities							
Trade payables		1,371,103	–	–	–	1,371,103	1,371,103
Bills payables		422,145	–	–	–	422,145	422,145
Other payables		119,121	–	–	–	119,121	119,121
Other long-term payables		–	–	6,576	–	6,576	6,576
Bank borrowings							
— fixed rate	4.30	204	68,400	–	–	68,604	66,985
— variable rate	2.32	4,625	120,836	740,865	–	866,326	800,727
Shareholders' loan	2.73	15,810	22,839	1,758,398	–	1,797,047	1,694,003
Company bonds	5.41	–	525,400	–	–	525,400	507,533
		1,933,008	737,475	2,505,839	–	5,176,322	4,988,193
Derivatives – net settlement							
Interest rate swaps	–	4,717	–	–	–	4,717	4,717

	Weighted average effective interest rate %	On demand or less than 3 month RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2015							
Non-derivative financial liabilities							
Trade payables	–	1,332,247	–	–	–	1,332,247	1,332,247
Bills payables	–	349,757	–	–	–	349,757	349,757
Other payables	–	117,585	–	–	–	117,585	117,585
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	94,957	774,452	56,566	990,024	871,310
Shareholders' loan	2.72	14,799	21,753	1,715,586	–	1,752,138	1,611,065
Company bonds	5.41	–	25,400	542,333	–	567,733	506,070
		1,919,040	162,889	3,038,757	56,566	5,177,252	4,854,592
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)

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 2016 and 2015. 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 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 2016 and 2015, 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 RMB162,620,000 (2015: RMB181,226,000).

(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).

45. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

Financial liabilities	Fair value as at 31 December RMB'000 2016	2015	Fair value Hierarchy	Valuation technique(s) and key input(s)
Interest rate swaps	**Liabilities: 4,717**	Liabilities: 4,725	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 2016 and 2015 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:

	2016 RMB'000	2015 RMB'000
Within one year	**6,380**	5,275
In the second to fifth year inclusive	**728**	5,534
After five years	**642**	460
	7,750	11,269

46. OPERATING LEASES (continued)

As lessee

The Group's minimum lease payments paid during the year ended 31 December 2016 under operating leases in respect of land and buildings amounted to RMB115,080,000 (2015: RMB107,035,000).

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:

	2016 **RMB'000**	2015 RMB'000
Within one year	**96,030**	85,765
In the second to fifth year inclusive	**130,232**	146,541
After five years	**27,445**	20,850
	253,707	253,156

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 (31 December 2015: one year to ten years) and rentals are fixed at the date of signing of lease agreements.

47. CAPITAL COMMITMENTS

	2016 **RMB'000**	2015 RMB'000
Capital commitments contracted for but not provided in the consolidated financial statements in respect of:		
— Plant and machineries	**36,943**	37,229
— Land and Buildings	**5,224**	24,022
	42,167	61,251

48. 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	2016 RMB'000	2015 RMB'000
Shanghai Electric Corporation	Rendering of comprehensive services (Note i)	18,868	37,736
	Rental expenses (Note ii)	20,795	21,246
	Relocation compensation income	–	3,425
	Consideration received on disposal of an associate	–	21,922
	Sales of property, plant and equipment	–	1,575
	Dividend distribution	21,714	9,500
Associates	Sales of goods (Note i)	6	–
SEC group companies	Rendering of comprehensive services (Note i)	–	200
	Comprehensive services charges incurred (Note i)	426	337
	Purchase of materials (Note i)	81	198
	Sales of goods (Note i)	355,575	378,435
	Rental expenses (Note ii)	4,312	3,176
	Purchase of property, plant and equipment	–	10,814
	Bills discounted (Note iii)	–	20,000
	Consideration received on disposal of a subsidiary	–	198,932
	Interest expense	44,959	56,623
	Interest income	–	13
	Dividend distribution	1,703	745

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 fees were 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.

48. RELATED PARTY DISCLOSURES (continued)

(b) Related party balances

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.

(c) 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.

(d) Compensation of key management personnel

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

	2016 **RMB'000**	2015 RMB'000
Fees	**555**	430
Short-term employee benefits	**4,586**	3,706
Retirement benefits	**210**	200
	5,351	4,336

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 RMB800,000 and RMB1,000,000 (2015: between RMB700,000 and RMB1,000,000) and the other three senior executives have remunerations below RMB800,000 (2015: RMB700,000) for the year ended 31 December 2016.

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.

49. 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 2016	2015	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 Company Limited* 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) 上海標五高強度緊固件有限公司	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* 上海高強度螺栓廠有限公司	PRC	RMB11,865	100%	100%	Production and sale of high strength bolts

49. 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	Attributable equity interest held by the Company		Principal activity
		in '000	2016	2015	
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	–	–	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%	70%	Production and design of high-precision bearings
Shanghai Prime Biaowu High Tensile Fasteners Company Limited* 上海集優標五高強度緊固件有限公司	PRC	RMB100,000	100%	–	Production and sale of high tensile fasteners and related equipment
Indirectly owned					
Shanghai Mohong Bearing Company Limited* 上海摩虹軸承有限公司	PRC	RMB12,800	70%	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

49. 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 2016	2015	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%	100%	Manufacturing of fasteners
Nedschroef Schrozberg	DEU	EUR1,000	100%	100%	Manufacturing of fasteners
SPTCB* 上海集優張力控制螺栓有限公司	PRC	USD1,000	57%	–	Production and sale of tension control bolts

* 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.

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

During the year ended 31 December 2015, the Group acquired 70% equity interest in Shanghai Tianhong and established Nedschroef Beckingen and Nedschroef Schrozberg to integrate the businesses 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	
		2016	2015	**2016**	2015	**2016**	2015
				RMB'000	RMB'000	**RMB'000**	RMB'000
United Bearing	PRC	**10%**	10%	**(2,376)**	1,036	**35,000**	37,376
Shanghai Tianhong	PRC	**30%**	30%	**1,943**	1,696	**8,951**	10,919
Cyeco Environmental	PRC	**n/a**	n/a	**n/a**	(1,568)	**n/a**	n/a
Total				**(433)**	1,164	**43,951**	48,295

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

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.

	2016 United Bearing RMB'000	2015 United Bearing RMB'000	**2016 Shanghai Tianhong RMB'000**	2015 Shanghai Tianhong RMB'000	**2016 Cyeco Environmental RMB'000**	2015 Cyeco Environmental RMB'000
Current assets	**500,134**	498,527	**33,314**	31,189	**n/a**	n/a
Non-current assets	**134,148**	114,490	**14,765**	26,506	**n/a**	n/a
Current liabilities	**(277,259)**	(231,289)	**(18,003)**	(22,997)	**n/a**	n/a
Non-current liabilities	**(7,022)**	(7,962)	**–**	–	**n/a**	n/a
Equity attributable to owners of the Company	**315,001**	336,389	**21,053**	24,289	**n/a**	n/a
Non-controlling interests	**35,000**	37,377	**9,023**	10,409	**n/a**	n/a
Revenue	**336,929**	378,999	**29,802**	21,168	**n/a**	10,610
Expenses	**(360,694)**	(368,638)	**(23,088)**	(15,267)	**n/a**	(15,089)
Profit (loss) for the year	**(23,765)**	10,361	**6,714**	5,901	**n/a**	(4,479)
Profit (loss) attributable to owners of the Company	**(21,388)**	9,325	**4,700**	4,131	**n/a**	(2,911)
Profit (loss) attributable to the non-controlling interests	**(2,377)**	1,036	**2,014**	1,770	**n/a**	(1,568)
Profit (loss) for the year	**(23,765)**	10,361	**6,714**	5,901	**n/a**	(4,479)
Total comprehensive income (expense) attributable to owners of the Company	**(21,388)**	9,325	**4,700**	4,131	**n/a**	(2,911)
Total comprehensive income (expense) attributable to the non-controlling interests	**(2,377)**	1,036	**2,014**	1,770	**n/a**	(1,568)
Total comprehensive income (expense) for the year	**(23,765)**	10,361	**6,714**	5,901	**n/a**	(4,479)
Dividends paid to non-controlling interests	**–**	2,000	**–**	–	**–**	–
Net cash (outflow) inflow from operating activities	**46,732**	(1,205)	**10,815**	1,522	**n/a**	(4,016)
Net cash (outflow) inflow from investment activities	**5,833**	(3,636)	**(124)**	(25,188)	**n/a**	(1,595)
Net cash (outflow) inflow from financing activities	**(45,712)**	(20,260)	**(5,911)**	21,000	**n/a**	–
Net cash (outflow) inflow	**6,853**	(25,101)	**4,780**	(2,666)	**n/a**	(5,611)

50. EVENT AFTER THE REPORTING PERIOD

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

51. 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.

52. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2017.

上海集优

SHANGHAI PRIME