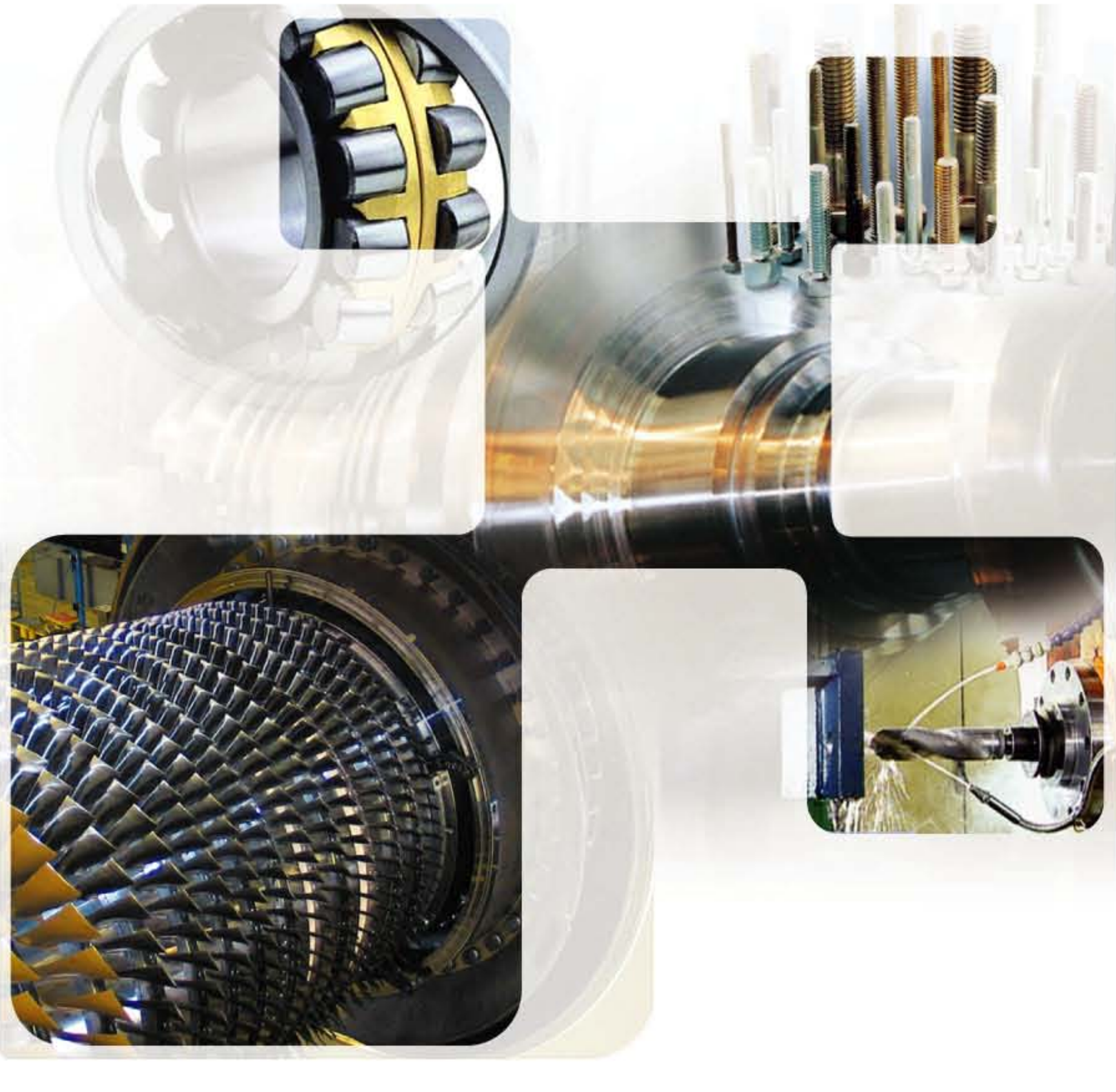
SHANGHAI PRIME MACHINERY COMPANY LIMITED

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

Stock Code: 2345



Interim Report 2006

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Corporate Information

Legal Name in Chinese

上海集優機械股份有限公司

Legal Name in English

Shanghai Prime Machinery Company Limited

Registered Office

Rooms 1401, 1406 to 1410, 511 Tianmu Xi Road

Shanghai, China

Post code: 200070

Principal Place of Business in Hong Kong

2901, 29th Floor, Tower One, Lippo Centre

89 Queensway, Hong Kong

Legal Representative

Zhou Zhi Yan

Authorized Representatives

Hu Kang

Chen Hui

Alternate Authorized Representatives

Chan Chun Hong, Thomas

Li Wai Chung

Company Secretary

Li Wai Chung（CPA）

Qualified Accountant

Li Wai Chung（CPA）

Auditors

Ernst & Young

Legal Advisers

As to Hong Kong, New York U.S. Federal Law

Freshfields Bruckhaus Deringer

As to PRC Law

Jun He Law Offices

Compliance Adviser

Evolution Watterson Securities Limited

(Formerly known as : Watterson Asia Limited)

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 : 2345

H share registrar and transfer office :

Computershare Hong Kong Investor Services Limited

Shops 1712-1716, 17th Floor, Hopewell Centre

183 Queen's Road East, Wan Chai, Hong Kong

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Summary

Revenue for the six months ended 30 June 2006 was RMB 1,393 million, representing an increase of 109% over the corresponding period in 2005.

Profit attributable to the equity holders of the Company for the six months ended 30 June 2006 was RMB 147 million, representing an increase of 120% over the corresponding period in 2005.

Basic earnings per share for the six months ended 30 June 2006 was RMB 14.85 cents.

The turbine blade business of the Group achieved breakthrough in terms of export sales for the six months ended 30 June 2006, which were RMB 47 million, representing an increase of 147% as compared with the corresponding period in 2005, which also exceeded the total export sales of the turbine blade business in 2005.

Sales of railway bearings by the 50% owned jointly controlled entity reached its revenue of RMB 70 million, accounting for an increase of 106% over the corresponding period in 2005. The Group actively expanded the market of precision aviation bearings. Sales of precision aviation bearings reached RMB 21 million in the first half of the year, representing an increase of 31% over the corresponding period in 2005.

Export sales of the Group's fastener business in the first half of the year amounted to RMB 468 million, of which the monthly export sales in June 2006 alone reached RMB 96 million.

Chairman's Statement

Dear shareholders,

The Board of Directors of Shanghai Prime Machinery Company Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and Ernst & Young.

Performance Results

The Group's revenue for the six months ended 30 June 2006 was RMB 1,393 million, representing an increase of 109% over the corresponding period last year. Profit attributable to shareholders was RMB 147 million, representing an increase of 120% over the corresponding period last year. Basic earnings per share were RMB 14.85 cents (1H 2005: RMB 8.97 cents).

As at 30 June 2006, the total assets of the Group were RMB 3,512 million (31.12.2005: RMB 1,799 million) while total liabilities amounted to RMB 1,165 million (31.12.2005: RMB 985 million). The total shareholders' equity was RMB 2,347 million (31.12.2005: RMB 815 million), of which RMB 2,273 million (31.12.2005: RMB 744 million) was attributable to the equity holders of the Company. The net asset value per share was RMB 1.58 (31.12.2005: RMB 0.99).

Listing on the Stock Exchange of Hong Kong Limited

The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited ("HKEx") on 27 April 2006. The Company succeeded in tapping into the international capital market by offering 691 million* H shares under the global offering and raising HKD1.45 billion.

*: H shares held by the Chinese National Social Security Fund do not constitute part of the global offering.

Development Strategies

To accomplish business expansion of the Group, we have formulated and implemented the following strategies:

(i) We strive to increase our operating efficiency by consolidating sales, supply chain, financial management, information technology and other business functions.

(ii) We seek technological innovations in product design and production by leveraging on our advantage in technological know-how to produce high value-added products.

(iii) We continue to expand our domestic and overseas markets by integrating, establishing and expanding on the existing distribution network.

(iv) We increase our production capacity by leveraging on our manufacturing capability and operating experience to achieve better economies of scale.

(v) We attract and retain highly skilled and experienced technical, managerial and highly qualified personnel by adopting a comprehensive reward and promotion system.

Outlook

Turbine Blades

In anticipation of the potential market saturation of standard turbine blades used in coal-fired power generation equipment starting from 2007, the Group plans to adjust our product portfolio by enhancing production capacity for certain turbine blades used in non coal-fired power generation equipment, including ultra-super-critical power generation turbines, gas turbine compressors, nuclear power generation turbines, axial compressor, blower and aviation blades. The Group also plans to extend the Group's product portfolio by manufacturing high-precision medium to small turbine blades and strengthening sales of medium to large-sized blade forgings and the development of non-turbine blades market. In addition, the Group will seek to increase our export sales while satisfying the domestic demand.

Bearings

The Group expects the bearing industry will continue to develop and grow in terms of both output volume and product quality. As such, in addition to maintain our leading position in the medium to high-end bearing market in China, the Group also increases the capital expenditure to enhance the equipment and high-end technology of the Group's bearing production facilities of the new enhanced-speed railway bearings and precision aviation bearings business.

Cutting Tools

The Group believes China is gradually becoming an important global manufacturing center for cutting tools, which are important components used in the manufacturing sector. The domestic consumption of cutting tools has increased rapidly in recent years, especially in the areas of the imported high-end cutting tool products. In view of such a growth trend, the Group has formulated a strategy to focus on high value-added and high-end cutting tools. In particular, the Group puts an emphasis on the enhancement of production technology for high precision cutting tools, including numerically controlled, carbide and polycrystalline diamond cutting tools, so as to reach the advanced international technology standard.

Electric Motors

There are nearly 2,000 electric motor manufacturers in China in 2006 and the industry is increasingly competitive. It is expected that the prices and profit margins of electric motors will be affected due to the market competition and price fluctuations of raw materials. The Group intends to enhance its economies of scale and operating efficiency through standardizing the production of commonly used parts and components and establishing multiple product lines for mass production.

Fasteners

The Group will continue to improve its production facilities, logistics system and sales network of the fastener business in order to achieve further growth and explore the overseas market. The Group believes that the fastener business will contribute remarkable income and profit to the Group in the future.

Conclusion

In light of the continuous growth of the global economy, the Group is anticipating steady growth of its business divisions during the second half of 2006. The Group and its employees are confident of the future. We will continue to integrate multiple product lines and make the best use of our various strengths to strive for excellence. The Group will gradually enhance its advantages of being an integrated one-stop provider of industrial components and parts in the long run through our ceaseless efforts. Apart from strengthening our core competitive edge, we will strive to expand the sustainable scope of our business and further increase our corporate profitability, with a view to create value for our shareholders.

Zhou Zhiyan
Chairman
18 August 2006

Management Discussion and Analysis

Business Review

Set out below are the revenue and operating profits for each individual business division: (RMB'000)

	Revenue		Operating profit*	
	For the six months ended 30 June		*For the six months ended 30 June*	
	2006	**2005**	**2006**	**2005**
Turbine Blades	303,100	252,828	70,641	55,083
Percentage of total	21.8%	37.9%	31.2%	53.3%
Bearings	130,329	108,608	19,095	7,804
Percentage of total	9.4%	16.3%	8.4%	7.6%
Cutting Tools	186,620	177,421	52,326	28,204
Percentage of total	13.4%	26.5%	23.1%	27.3%
Electric Motors	198,730	128,812	21,212	12,188
Percentage of total	14.3%	19.3%	9.4%	11.8%
Fasteners	563,343	-	40,010	-
Percentage of total	40.4%	-	17.6%	-
Others (inter-group transaction eliminated)	11,291	-	23,416	-
Percentage of total	0.7%	-	10.3%	-
Total	1,393,413	667,669	226,700	103,279

*: Operating profit is profit before finance costs, share of profits and losses of associates and taxation.

Turbine Blade Business

Being a leading specialized provider of turbine blades for power station turbines in China, the Group is primarily focused on manufacturing the longest three stages of turbine blades. For the six months ended 30 June 2006, revenue amounted to RMB 303 million, representing an increase of 20% over the corresponding period last year. The gross profit margin was 32%, representing a slight increase compared to the corresponding period in 2005. In the first half of 2006, the Group sold approximately 104,000 turbine blades, representing an increase of 39% as compared to the corresponding period last year. The Group actively expanded the overseas market while maintaining the growth in the domestic market. In the first half of 2006, the export sales increased by 147% from RMB 19 million for the corresponding period last year to RMB 47 million. Export sales accounted for 16% of the total sales compared to 7% in the corresponding period last year.

Bearing Business

For the six months ended 30 June 2006, the total sales from the bearing business was RMB 130 million (1H 2005: RMB 109 million), representing an increase of 19% over the corresponding period in 2005. The operating profit was RMB 19 million (1H 2005: RMB 8 million), representing an increase of 138%. The gross profit margin for the Period was 26% (1H 2005:19%).

During the Period, revenue of Shanghai Tian An Bearing Company Limited was RMB 73 million, of which sales on high technological and high value-added precision aviation bearings reached RMB 21 million (1H 2005: RMB 16 million), representing an increase of 31% over the corresponding period in 2005.

During the Period, revenue of Shanghai United Bearing Company Limited ("United Bearings"), a 50% owned jointly controlled entity of the Group, from sales of railway bearings amounted to RMB 70 million (1H 2005: RMB 34 million), representing an increase of 106% over the corresponding period in 2005.

Cutting Tool Business

For the six months ended 30 June 2006, the Group improved the high value-added cutting tool business by enhancing efficiency and quality of production, leading to a further growth in the operating profit of the cutting tool business. During the Period, revenue from the cutting tool business was RMB 187 million (1H 2005: RMB 177 million), representing an increase of 6% over the corresponding period last year. For the same period, the operating profit increased by 86% to RMB 52 million (1H 2005: RMB 28 million) including a gain from the debt restructuring of RMB 22 million. The gross profit margin for the cutting tool business was 29% for the Period, which does not differ significantly from the result of the corresponding period in 2005.

Electric Motor Business

For the six months ended 30 June 2006, revenue for electric motor business increased by 54% from RMB 129 million for the first half of 2005 to RMB 199 million. The commencement of mass production of railway traction electric motors has resulted in a revenue of RMB 8 million for the electric motor business. As a result of the surge of copper prices, the gross profit margin of the electric motor business for the Period was 19%, representing a decrease compared to the corresponding period in 2005. The operating profits reached RMB 21 million due to cost control measures, representing an increase of 74% over the corresponding period in 2005. During the Period, the Group expanded its production capacity by setting up new production lines for elevator electric motors and hoist electric motors to improve the operating efficiency and meet the market needs.

Fastener Business

For the six months ended 30 June 2006, revenue, operating profit and the gross profit margin of the fastener business were RMB 563 million (1H 2005: nil), RMB 40 million (1H 2005: nil) and 11% (1H 2005: nil), respectively. In particular, export sales amounted to RMB 468 million, accounting for 83% of the total sales. Benefiting from the enhancement of sales and the logistic network, monthly export sales for June 2006 reached RMB 96 million.

Management Discussion and Analysis (continued)

Other Information

Share of Profits and Losses of Associates

During the six months ended June 30, 2006, the Group's share of profits of associates was RMB 5 million (1H 2005:RMB 5 million).

Profit Attributable to Equity Holders of the Company

According to the foregoing figure, profit attributable to equity holders of the Company for the first half of 2006 increased by 120% from the corresponding period last year to RMB 147 million (1H 2005: RMB 67 million).

For the six months ended 30 June 2006, basic earnings per share was RMB 14.85 cents (1H 2005: RMB 8.97 cents).

Cash flow

As at 30 June 2006, the cash and bank balances of the Group were RMB 1,515 million (31.12.2005: RMB 179 million), of which RMB 707 million (31.12.2005: RMB 14 million) were restricted deposits, representing an increase of RMB 693 million from the beginning of the period. During the Period, the Group had a net cash outflow from operating activities of RMB102 million (1H 2005: net cash inflow of RMB 99 million), a net cash outflow from investing activities of RMB 1,070 million (1H 2005: net cash outflow of RMB 57 million), and a net cash inflow from financing activities of RMB 1,493 million (1H 2005: net cash outflow of RMB 17 million).

Cash inflow from financing activities represents primarily the proceeds from the listing of our H shares in Hong Kong on 27 April 2006. The net proceeds amounted to RMB 1,382 million after deducting certain expenses and payments in respect of the listing.

Assets and Liabilities

As at 30 June 2006, the Group had total assets of RMB 3,512 million (31.12.2005: RMB 1,799 million), an increase of RMB 1,713 million or 95% compared with the beginning of the year. Total current assets increased from RMB 954 million at the beginning of the year to RMB 2,585 million, representing an increase of 171% from the beginning of the year and accounting for 74% of total assets.

As at 30 June 2006, the total liabilities of the Group were RMB 1,165 million (31.12.2005: RMB 985 million), which represented an increase of 18% compared to the beginning of the year. Total current liabilities increased by 20% from the beginning of the year to RMB 1,115 million (31.12.2005: RMB 933 million), whereas total non-current liabilities decreased by 2% to RMB 50 million (31.12.2005: RMB 51 million).

As at 30 June 2006, the total net current assets of the Group were RMB 1,470 million (31.12.2005: RMB 21 million) representing an increase of RMB 1,449 million from the beginning of the year.

Source of Funding and Indebtedness

As at 30 June 2006, the Group had an aggregate bank and other borrowings of RMB 416 million (31.12.2005: RMB 325 million), representing an increase of RMB 91 million from the beginning of the year. Borrowings repayable within one year and after one year were RMB 398 million (31.12.2005: RMB 307 million) and RMB 18 million (31.12.2005: RMB 18 million) respectively, representing no significant changes from the beginning of the year.

As at 30 June 2006, all bank and other borrowings of the Group were interest-bearing at fixed rates.

Pledges of Assets

As at 30 June 2006, bank deposits of RMB 707 million (31.12.2005: RMB 14 million) of the Group were pledged to banks or restricted for use. In addition, certain bank loans of the Group were secured by mortgages over certain of the Group's land use rights and machinery, which had an aggregate net book value of approximately RMB 45 million as at 30 June 2006 (31.12.2005: RMB 19 million).

Finance Costs

Finance costs for the first half of 2006 were RMB 11 million (1H 2005: RMB 8 million), representing an increase of 38% from the corresponding period last year. The increase of finance costs was primarily due to the increase of bank borrowing.

Gearing Ratio

As at 30 June 2006, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 18% (31.12.2005: 44%).

Contingent Liabilities

As at 30 June 2006, the Group had total contingent liabilities of RMB 54 million (31.12.2005: RMB 64 million). During the Period, the Group provides a RMB 24 million guarantee to an associate in connection with the banking facilities granted to and utilised by that associate.

Management Discussion and Analysis (continued)

Capital Expenditure

The total capital expenditure of the Group for the Period was approximately RMB 78 million (1H 2005: RMB 94 million), which was principally invested in the upgrading of technologies and equipment and the expansion of production capacity.

Risk of Foreign Exchange

The Group uses RMB as the reporting currency. General view of the market expects that the measurements used by the PRC Government may cause relatively large fluctuations in the future exchange rate than ever before. Appreciation of RMB will result in higher prices of export products, and may lead to a negative influence on the Group's export sales and a positive influence on the Group's import materials and equipments.

As at 30 June 2006, the Group's deposits comprise HKD 1,261 million, USD 1.7 million and JPY 0.7 million. Save as disclosed, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Significant Events

On 9 August 2006, the Company entered into the Share Purchase Agreement with TSB Group U.S.A. Inc. regarding the acquisition of 40% equity interest in United Bearings from TSB Group U.S.A. Inc. . The consideration was RMB 30 million.

Upon successful completion, United Bearings will become a 90% non-wholly owned subsidiary of the company.

The completion of the acquisition is subject to the approvals of the Shanghai State-Owned Assets Supervision and Administration Commission and the Shanghai Foreign Investment Commission.

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

Employees

As at 30 June 2006, the Group had approximately 4,151 employees (31.12.2005: 4,275). The Company has employee incentive programs to encourage employee performance and a range of training programs for the development of its staff.

Other Information

Share Capital Structure

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

Disclosure of Interests

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

As at 30 June 2006, the following persons (other than the directors, chief executives and supervisors of the Company) had interests 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 ("SFO"):

1. Interests and short positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company:

Name of Substantial Shareholder	Class of Shares	No. of Shares	Note	Capacity	Nature of interest	Percentage of total number of Domestic Shares in issue (%)	Percentage of total number of shares in issue (%)
Shanghai Electric (Group) Corporation	D	652,328,857		Beneficial owner	Long position	96.13	45.36
	D	26,247,327	(i)	Interest of controlled corporation	Long position	3.87	1.82
		678,576,184				100	47.18
State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government	D	678,576,184	(i)	Interest of controlled corporation	Long position	100	47.18

2. Interests and short positions of other substantial shareholders:

Name of Substantial Shareholder	Class of Shares	No. of Shares	Notes	Capacity	Nature of interest	Percentage of total number of H Shares in issue (%)	Percentage of total number of Shares in issue (%)
Commonwealth Bank of Australia	H	98,832,000	(ii)	Interest of controlled corporation	Long position	13.01	6.87
The Captial Group Companies, Inc	H	84,088,000	(iii)	Investment manager	Long position	11.07	5.85
Chinese National Social Security Fund	H	53,438,000		Beneficial owner	Long position	7.03	3.72
JPMorgan Chase & Co.	H	930,000	(iv)	Beneficial owner	Long position	0.12	0.07
	H	398,000	(iv)	Investment manager	Long position	0.05	0.03
	H	72,703,729	(iv)	Custodian	Long position	9.57	5.05
		74,031,729				9.74	5.15

Other Information (continued)

Notes

(i) Shanghai Electric (Group) Corporation held interests in 26,247,327 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company :

Name of controlled Corporation	Percentage of ownership in controlled corporation %	No. of shares
Shanghai Electric Industrial Corporation	100	23,519,451
Shanghai Electric Assets Management Company Limited	100	909,292
Shanghai Electric Group Assets Operation Company Limited	100	909,292
Shanghai General Machinery (Group) Corporation	100	909,292

Shanghai Electric (Group) Corporation was wholly owned by State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government and its interests in 678,576,184 shares of the Company were deemed to be the interests of State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(ii) Commonwealth Bank of Australia held interests in 98,832,000 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company :

Name of controlled Corporation	Percentage of ownership in controlled corporation %	No. of shares
First State Investments (Hong Kong) Ltd	100	96,010,000
First State Investments (Singapore)	100	2,080,000
First State Investment Management (UK) Limited	100	11,198,000

Among the aforesaid interests in shares, First State Investments (Hong Kong) Ltd had common interests in 2,080,000 shares with First State Investments (Singapore) and 8,376,000 shares with First State Investment Management (UK) Limited respectively. The Commonwealth Bank of Australia was therefore deemed interested in 98,832,000 shares of the Company only.

(iii) The Capital Group Companies, Inc. held 84,088,000 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company :

Name of controlled Corporation	Percentage of ownership in controlled corporation %	No. of shares
Capital International, Inc.	100	83,658,000
Capital International Limited	100	430,000

(iv) JPMorgan Chase & Co held a long position in 74,031,729 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company :

Name of controlled Corporation	Percentage of ownership in controlled corporation %	No. of shares
JPMorgan Chase Bank, N.A.	100	72,703,729
J.P. Morgan Whitefriars Inc.	100	930,000
JF Asset Management Limited	100	312,000
JF International Management Inc.	100	86,000

The interests of JPMorgan Chase & Co included a lending pool of 72,703,729 shares.

Save as disclosed above, the Company is not aware of any other person (other than the directors, chief executives and supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2006 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors' and Supervisors' Interests and Short Position in Securities

As at 30 June 2006, none of the directors, supervisors or chief executives of the Company or their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be recorded in the register as required to be kept under Section 352 of the SFO.

During the six months period ended 30 June 2006, none of the directors, supervisors or chief executives of the Company or their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"), nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Listing Rules. Further to the Company's enquiry, all Directors confirmed that they complied with the Model Code in the Period.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Other Information (continued)

Interim Dividend

The Directors do not recommend the payment of interim dividend for the Period.

Disclosure of Information on the Stock Exchange's Website

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) in due course.

Directors

As at the date of this report, the Board of Directors consists of executive directors, namely Mr. Zhou Zhiyan, Mr. Yan Qi, Mr. Hu Kang, Mr. Xia Sicheng, Mr. Chen Hui, Mr. Huang Wennong, and independent non-executive directors, namely Mr. Chan Chun Hong, Mr. Zhou Fei Da and Mr. Liu Huang Song.

By the order of the Board

Zhou Zhiyan
Chairman
Shanghai, China
18 August 2006

Corporate Governance Report

Corporate Governance Practices

The Board of Directors of the Company firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure its strict compliance with relevant regulatory requirements, a high level of transparency in corporate governance and an excellent performance in operation.

For the period from the date of the Company's listing on the Stock Exchange of Hong Kong Limited on 27 April, 2006 ("the Date of Listing") to 30 June, 2006, the Board of Directors believes that the Company has complied with the provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the management team has been well maintained and there exists no problem of over-centralization of management power on any particular person.

The Board will also review and monitor the corporate governance practices from time to time with the aim of maintaining and improving a good standard of corporate governance practices.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Listing Rules. Further to the Company's enquiry, all the directors confirmed that they complied with the required standard set out in the Model Code since the Date of Listing.

Board of Directors

As of the date of this report, the Board consists of nine directors, including six executive directors and three independent non-executive directors:

Executive Directors
Mr. Zhou Zhiyan (Chairman)
Mr. Yan Qi
Mr. Hu Kang
Mr. Chen Hui
Mr. Xia Sicheng
Mr. Huang Wennong

Independent Non-Executive Directors
Mr. Chan Chun Hong,Thomas
Mr. Zhou Feida
Mr. Liu Huangsong

All 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 terms of the independence guidelines set out in Rule 3.13 of the Listing Rules.

Corporate Governance (continued)

The Board of Directors is responsible for formulating the overall development strategy of the Company, monitoring its financial performance and maintaining an effective supervision over the management team's work. The Board aims at maximize shareholders' value in the process of discharging its duties and responsibilities. When determining the Group's business objectives and development direction, the Board takes into account the latest economic and market situations. Daily operation and management of the Group are delegated to the management team. 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, and implementing resolutions approved at the shareholders' meeting.

Every board member has the right to inspect various documents and relevant materials of the Board of Directors, to consult the Company Secretary on regulatory and compliance matters and to seek external professional advice when necessary. 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.

The Board convened one board meeting from the Date of Listing to 30 June 2006. The attendance of each director is summarized as follows:

Directors	Number of meetings	Attendance
Mr. Zhou Zhiyan	1	1
Mr. Yan Qi	1	1
Mr. Hu Kang	1	1
Mr. Chen Hui	1	1
Mr. Xia Sicheng	1	1
Mr. Huang Wennong	1	1
Mr. Chan Chun Hong, Thomas *	1	1
Mr. Zhou Feida *	1	1
Mr. Liu Huangsong *	1	1

* Independent non-executive directors

The Board meets regularly, and at least four times a year, the Company includes all matters to be discussed in the agenda of the board meeting. The board meeting notification should be sent out to the directors at least 14 days before the meeting along with the resolution proposals, which gives them sufficient time to review the resolutions. Draft and final version of minutes of the Board meeting should be sent to all the directors in a timely manner for their comments and records after the meeting is held.

Nomination of Directors

The Board has not established the Nomination Committee. Before the establishment of the Nomination Committee, the Board of Directors will be responsible for the nomination of new directors and the re-election of existing directors. All nominations need to be approved by shareholders in the general meetings.

Chairman and Chief Executive Officer

Pursuant to CG Code provision A2.1, the roles of the chairman and chief executive officer should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The Chairman of the Board is responsible for ensuring that the directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The Chairman is also responsible for conducting an interview individually with each non-executive director to understand his opinion and advice on the operation of the Group and the duties of the Board. At present, Mr. Zhou Zhiyan is the chairman of the Board. Mr. Hu Kang is the chief executive officer of the Company, who is fully responsible for the day to day operation of the Group and execution of instructions from the Board of Directors. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the management team has been well maintained and there exists no problem of over-centralization of management power on any particular person.

Tenure of non-executive directors

All current non-executive directors of the Company were appointed with a tenure of three years, and can be re-elected and re-appointed with their office tenure extended accordingly.

Remuneration of directors

The Board established a remuneration committee on 31 March 2006 with written terms of reference as suggested under the CG Code. The remuneration committee is mainly responsible for determining the policies in relation to the overall compensation policy and structure for directors, supervisors and senior management of the Company. For the avoidance of the doubt, the directors do not participate in decision making relating to their own remuneration. No remuneration committee meeting has been held for the period from the Date of listing to 30 June 2006 and the first meeting will be held in the second half of 2006.

This committee currently consists of Mr. Zhou Feida, Mr. Chan Chun Hong and Mr. Liu Huangsong and the chairman is Mr. Zhou Feida.

Audit Committee

The Board established an audit committee in compliance with the CG Code. It has the primary duties of reviewing and supervising our financial reporting process and internal control system, including review and approval of the unaudited interim condensed consolidated financial statements of the period. It currently comprises three independent non-executive directors, namely Mr. Chan Chun Hong (Chairman), Mr. Zhou Feida and Mr. Liu Huangsong. The first meeting of audit committee will be held on 18 August 2006.

Auditors' remuneration

For the period from the Date of listing to 30 June 2006, the remuneration paid or payable to the external auditors of the Company, Ernst & Young and its affiliate, is summarized as follows:

For services provided	**Amount paid/payable** (RMB in million)
Interim review	1.3
Capital verfication for increase in capital following the initial public offering	0.1

Corporate Governance Report (continued)

Directors' responsibilities for accounts

The directors acknowledge their responsibilities for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the six months ended 30 June 2006, the directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The directors are responsible for keeping proper accounting records with reasonable accuracy at any time.

Auditors' responsibilities for accounts

The responsibilities of the auditors are set out on page 19.

Internal control

The Board of Directors is responsible for the effective implementation of the internal control system within the Group. The internal control system is designed to safeguard the corporate assets, maintain proper accounting records and manage various risks of the Group within a certain acceptable risk level, rather than to completely eliminate the risk of failure to achieve the business objectives of the Group. Therefore, it can only provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial losses or fraud. In addition, it also ensures the compliance with relevant laws and regulations.

The management assists the Board of Directors in implementing the Board's policies and measures on risk management and internal control, determining and evaluating the confronted risks, and participating in design, operation and the supervision of appropriate internal control measures in order to mitigate and control such risks.

For the six months ended June 30, 2006, the Group set up an Audit and Law Department in order to enhance its internal control system. Audit and Law Department is responsible for implementing appropriate internal control procedures throughout the Group and monitoring its effectiveness. Every year, Audit and Law Department presents its internal audit plans and methodology to the Audit Committee for discussion and approval.

The Company is expected to complete the evaluation on the effectiveness of the internal control system in the second half of 2006.

By the order of the Board

Zhou Zhiyan
Chairman
Shanghai, China
18 August 2006

Independent Auditors' Review Report

To the Board of Directors of
Shanghai Prime Machinery Company Limited (the "Company")
(Incorporated in the People's Republic of China as a joint stock company with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 20 to 40.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion 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.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

Ernst & Young
Certified Public Accountants
Hong Kong
18 August 2006

Unaudited Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006	**2005**
		(Unaudited)	(Unaudited)
		RMB'000	*RMB'000*
REVENUE	3	1,393,413	667,669
Cost of sales		(1,109,073)	(486,757)
GROSS PROFIT		284,340	180,912
Other income and gains	3	79,514	11,497
Selling and distribution costs		(29,237)	(15,073)
Administrative expenses		(99,889)	(69,172)
Other expenses		(8,028)	(4,885)
Finance costs		(11,139)	(7,984)
Share of profits and losses of associates		4,635	4,921
PROFIT BEFORE TAX	4	220,196	100,216
Tax	5	(64,320)	(27,401)
PROFIT FOR THE PERIOD		155,876	72,815
ATTRIBUTABLE TO:			
Equity holders of the Company		147,488	67,027
Minority interests		8,388	5,788
		155,876	72,815
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
- Basic (RMB cents)	6	14.85	8.97
DIVIDEND PER SHARE	7	-	-

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	8	655,021	636,453
Prepaid land premiums/land lease payments	8	46,995	29,374
Intangible assets		20,453	20,593
Investments in associates		63,007	65,780
Available-for-sale equity investments		6,263	6,263
Other long term assets		87,983	40,546
Deferred tax assets		47,353	45,944
Total non-current assets		927,075	844,953
CURRENT ASSETS			
Inventories		538,506	452,327
Trade receivables	9	346,105	230,106
Bills receivable		32,870	15,515
Prepayments, deposits and other receivables		137,692	62,973
Loans receivable		14,122	14,000
Restricted deposits	10	707,003	14,341
Cash and cash equivalents	10	808,260	165,065
Total current assets		2,584,558	954,327
CURRENT LIABILITIES			
Trade payables	11	391,088	265,254
Bills payable		10,000	4,422
Tax payable		97,824	62,531
Other payables and accruals		218,001	294,397
Bank and other borrowings		397,860	306,860
Total current liabilities		1,114,773	933,464
NET CURRENT ASSETS		1,469,785	20,863
TOTAL ASSETS LESS CURRENT LIABILITIES		2,396,860	865,816

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Bank and other borrowings		17,809	17,880
Government grants		26,135	27,751
Other long term payables		3,693	3,275
Deferred tax liabilities		2,705	2,131
Total non-current liabilities		50,342	51,037
NET ASSETS		2,346,518	814,779
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	12	1,438,286	747,640
Reserves		834,933	(3,772)
		2,273,219	743,868
Minority interests		73,299	70,911
TOTAL EQUITY		2,346,518	814,779

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the Company							
	Issued capital	Capital reserve	Contributed surplus	Surplus reserves	Retained earnings/ (accumulated losses)	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2006	747,640	17,005	(58,756)	13,116	24,863	743,868	70,911	814,779
Net profit	-	-	-	-	147,488	147,488	8,388	155,876
Total income and expenses for the period	-	-	-	-	147,488	147,488	8,388	155,876
Issue of shares	690,646	691,217	-	-	-	1,381,863	-	1,381,863
Transfer/appropriation to surplus reserves	-	-	-	3,378	(3,378)	-	-	-
Transfer to capital reserve	-	45,906	-	-	(45,906)	-	-	-
Dividends from a subsidiary	-	-	-	-	-	-	(6,000)	(6,000)
As at 30 June 2006 (Unaudited)	1,438,286	754,128	(58,756)	16,494	123,067	2,273,219	73,299	2,346,518
As at 1 January 2005	218,283	104,438	61,307	8,630	(139,581)	253,077	41,090	294,167
Net profit	-	-	-	-	67,027	67,027	5,788	72,815
Total income and expenses for the period	-	-	-	-	67,027	67,027	5,788	72,815
Increase in paid-up capital of a subsidiary	49,605	-	-	-	-	49,605	-	49,605
Transfer to capital reserve	-	2,966	-	-	(2,966)	-	-	-
Transfer to contributed surplus	-	-	4,896	-	(4,896)	-	-	-
Dividends from associates	-	-	(4,877)	-	-	(4,877)	-	(4,877)
As at 30 June 2005 (Unaudited)	267,888	107,404	61,326	8,630	(80,416)	364,832	46,878	411,710

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITES	(101,640)	99,070
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(1,069,875)	(57,075)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	1,492,687	(17,408)
NET INCREASE IN CASH AND CASH EQUIVALENTS	321,172	24,587
Cash and cash equivalents at beginning of period	159,065	112,116
CASH AND CASH EQUIVALENTS AT END OF PERIOD	480,237	136,703
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents in the interim condensed consolidated balance sheet	808,260	142,703
Less: non-pledged deposits with original maturity of three months or more when acquired	(328,023)	(6,000)
	480,237	136,703

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

1. Basis of presentation and accounting policies

The interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that are adopted for the first time for the current period's financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosure
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) - Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) - Int 6	Liabilities arising from Participating in a Special Market -- Waste Electrical and Electronic Equipment

The adoption of these new and revised HKFRSs has had no material impact on the Group's results of operations or financial position.

2. Segment information

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The following tables present revenue and profit/(loss) of the Group's business segments:

Six months ended 30 June 2006 (Unaudited)	**Bearings** *RMB'000*	**Turbine blades** *RMB'000*	**Cutting tools** *RMB'000*	**Fasteners** *RMB'000*	**Electric motors** *RMB'000*	**Others** *RMB'000*	**Corporate and other unallocated amounts** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Segment revenue:									
Sales to external customers	130,329	303,100	186,620	563,343	198,730	11,291		-	1,393,413
Inter-segment sales	-	-	-	-	-	10,935		(10,935)	-
Other income	1,510	4,423	23,663	549	6,892	-		-	37,037
Total	131,839	307,523	210,283	563,892	205,622	22,226		(10,935)	1,430,450
Segment results	18,522	70,477	52,190	40,127	21,132	86			202,534
Interest and dividend income and unallocated gains							42,477		42,477
Corporate and other unallocated expenses							(18,311)		(18,311)
Finance costs							(11,139)		(11,139)
Share of profits and losses of associates	2,934	-	(802)	-	-	2,503			4,635
Profit before tax									220,196
Tax									(64,320)
Profit for the period									155,876
Attributable to:									
Equity holders of the Company									147,488
Minority interests									8,388
									155,876

Six months ended 30 June 2005 (Unaudited)	Bearings RMB'000	Turbine blades RMB'000	Cutting tools RMB'000	Fasteners RMB'000	Electric motors RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	108,608	252,828	177,421	-	128,812	-		-	667,669
Other income	2,426	4,599	2,819	-	1,158	-		-	11,002
Total	111,034	257,427	180,240	-	129,970	-		-	678,671
Segment results	7,740	54,958	27,966	-	12,120	-			102,784
Interest and dividend income and unallocated gains							495		495
Finance costs							(7,984)		(7,984)
Share of profits and losses of associates	2,511	-	25	-	-	2,385			4,921
Profit before tax									100,216
Tax									(27,401)
Profit for the period									72,815
Attributable to:									
Equity holders of the Company									67,027
Minority interests									5,788
									72,815

3. Revenue, other income and gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the six months ended 30 June 2006 (the "Period"), net of sale taxes and surcharges.

There is no major seasonality for the Group's revenue. An analysis of the Group's revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sales of goods	1,386,603	660,662
Rendering of services	6,810	7,007
	1,393,413	667,669
Other income		
Dividend income	1,269	35
Interest income for oversubscription funds	36,772	-
Interest income for bank balances and deposits	10,672	460
Interest income for loans receivable	330	-
Gross rental income	1,238	1,172
Profit on sales of raw materials, spare parts and semi-finished goods	3,043	5,375
Subsidy income	1,616	2,825
Others	2,075	907
	57,015	10,774
Gains		
Gain on disposal of items of property, plant and equipment, net	1,547	723
Gain from debt restructuring	27,683	-
Exchange losses, net*	(6,731)	-
	22,499	723
Total	79,514	11,497

* The exchange losses have been included in the same item disclosed in note 4.

4. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	1,102,694	481,662
Cost of services provided	6,379	5,095
Depreciation	35,150	33,407
Recognition of prepaid land premium/land lease payments	458	114
Amortisation of patents and licences	1,043	417
Amortisation of other intangible assets	200	4
Reversal of write-down of inventories to net realisable value	(989)	(223)
Research and development costs:		
Current period expenditure	2,034	1,057
Minimum lease payments under operating leases:		
Land and buildings	13,737	1,192
Plant and machinery	293	798
Vehicles	1,191	944
Staff costs	123,334	84,441
Exchange losses/(gains), net	8,090	(119)
Reversal of provision for bad and doubtful receivables	(538)	(458)
Impairment of property, plant and equipment	-	528
Impairment of investments in associates	-	279
Impairment of available-for-sale equity investments	-	326

5. Tax

The Group is subject to the statutory corporate income tax rate of 33% for the Period under the income tax rules and regulations of the People's Republic of China (the "PRC"), except for the below:

- Shanghai United Bearings Company Limited ("United Bearings") is subject to a corporate income tax rate of 27% as it is located in a coastal economic and technological development area and special economic region with foreign investment in the production business in the old city area;

- Shanghai Tian An Bearing Company Limited ("Tian An Bearings") was subject to a corporate income tax rate of 27% up to 31 August 2005 as it was located in a coastal economic and technological development area and special economic region with foreign investment in the production business in the old city area. From 1 September 2005 onwards, Tian An Bearings ceases to be a foreign investment enterprise and its applicable tax rate is 33%;

- Shanghai Shang Gong International Precision Tool Works Company Limited is subject to a corporate income tax rate of 15% as it was established in the Wai Gao Qiao Free Trade Zone, Shanghai; and

- Shanghai Nanyang Electric Motor Company Limited is subject to a corporate income tax rate of 27% as it was established in the Nan Xiang Industrial Zone, Jia Ding District, Shanghai.

In addition, foreign investment manufacturing enterprises are exempt from PRC state corporate income tax for two years starting from the first year they make assessable profits, after deducting the tax losses carried forward, and are granted a 50% reduction in tax for the three years thereafter. During the Period, certain company of the Group was entitled to such tax concessions.

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

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Group:		
Current - PRC		
Charge for the period	65,242	19,700
Over provision in prior years	(87)	(25)
Deferred tax	(835)	7,726
Total tax charge for the Period	64,320	27,401

Share of tax attributable to associates amounting to RMB 1,910,000 (six months ended 30 June 2005: RMB 1,994,000) is included in "Share of profits and losses of associates" on the face of the interim condensed consolidated income statement.

6. Earnings per share

The calculation of basic earnings per share for the Period is based on the net profit attributable to equity holders of the Company for the Period of RMB 147,488,000 and the weighted average number of shares of 993,173,700 in issue during the Period.

The calculation of basic earnings per share for the six months ended 30 June 2005 is based on the net profit attributable to equity holders of the Company for that period of RMB 67,027,000 and the number of shares of 747,640,184, representing the number of shares of the Company outstanding immediately before the global offering on the assumption that it had been in issue throughout that period.

No diluted earnings per share is presented as no diluting events occurred.

7. Dividend

The directors do not recommend the payment of interim dividend (six months ended 30 June 2005: Nil).

8. Property, plant and equipment and prepaid land premiums/land lease payments

As at 30 June 2006, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB 4,953,000 (31 December 2005: RMB 84,983,000).

9. Trade receivables

An ageing analysis of trade receivables, based on the invoice date, and net of provision for bad and doubtful debts, is as follows:

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Within 3 months	327,097	207,687
Over 3 months but within 6 months	12,887	11,587
Over 6 months but within 1 year	5,205	9,843
Over 1 year but within 2 years	885	903
Over 2 years	31	86
	346,105	230,106

The Group's trading terms with customers are mainly on credit except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally for a period of less than three months.

10. Cash and cash equivalents and restricted deposits

As at 30 June 2006, the Group's cash and cash equivalents and restricted deposits included HKD1,261,259,000, equivalent to RMB 1,298,340,000 (31 December 2005: Nil), USD 1,685,000, equivalent to RMB 13,472,000 (31 December 2005: USD 783,000, equivalent to RMB 6,320,000) and JPY 683,000, equivalent to RMB 47,000 (31 December 2005: JPY 6,035,000, equivalent to RMB 415,000).

11. Trade payables

An ageing analysis of trade payables, based on the invoice date, is as follows:

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Within 3 months	367,268	217,091
Over 3 months but within 6 months	10,857	15,618
Over 6 months but within 1 year	2,974	24,925
Over 1 year but within 2 years	3,468	2,080
Over 2 years	6,521	5,540
	391,088	265,254

12. Issued capital

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	Number of shares	Amount	Number of shares	Amount
	'000	*RMB'000*	*'000*	*RMB'000*
Registered, issued and fully paid:				
Domestic Shares of RMB1.00 each, currently not listed				
-State-Owned Shares	678,576	678,576	747,640	747,640
H Shares of RMB1.00 each	759,710	759,710	-	-
	1,438,286	1,438,286	747,640	747,640

The Domestic Shares are currently not listed on any stock exchange.

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.

600,562,000 new H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 April 2006. On 2 May 2006, the Company exercised its over-allotment option to offer 90,084,000 new H shares of the Company on the Stock Exchange. Pursuant to the "Provisional Administrative Measures for the Reduction of State-Owned Shares in Raising the Social Security Fund", 69,064,000 State-owned shares of the Company should be converted into 69,064,000 H shares and transferred to the Chinese National Social Security Fund (the "CNSSF") upon completion of the global offering. Accordingly, 69,064,000 State-Owned Shares of the Company were converted into 69,064,000 H shares and transferred to the CNSSF.

As a result of the exercise of the over-allotment option and the transfer of H shares to CNSSF, 759,710,000 H shares of the Company, comprising 690,646,000 new H shares and 69,064,000 transferred H shares, were listed on the Stock Exchange starting as at 2 May 2006. These H shares with a nominal value of RMB 1.00 each, other than the 69,064,000 H shares transferred to CNSSF, were issued to the public by way of the global offering at a price of HKD2.10 per share. After deducting the share issue expenses totalling approximately RMB 118,617,000, the Company raised net proceeds of approximately RMB 1,381,863,000, of which issued capital amounted to RMB 690,646,000 and capital reserve amounted to RMB 691,217,000.

13. Ultimate holding company

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

14. Operating lease commitments

(a) As lessor

The Group leases out certain of its building and plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from 2 to 10 years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

As at 30 June 2006, the Group had total future minimum lease receivable under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) *RMB'000*	**31 December 2005** (Audited) *RMB'000*
Within one year	655	739
In the second to fifth years, inclusive	835	1,243
After five years	80	160
	1,570	2,142

(b) As lessee

The Group leases certain land, buildings, motor vehicles and trademark under operating lease arrangements, with leases negotiated for terms ranging from 1 to 20 years.

As at 30 June 2006, the Group had a total future minimum lease payable under non-cancellable operating leases as follows:

	30 June 2006 (Unaudited) *RMB'000*	**31 December 2005** (Audited) *RMB'000*
Within one year	32,412	7,269
In the second to fifth years, inclusive	54,337	17,627
After five years	16,095	18,991
	102,844	43,887

In addition, the Group's share of the jointly-controlled entity's own total future minimum lease payments under non-cancellable operating leases is as follows:

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Within one year	1,665	1,590
In the second to fifth years, inclusive	6,569	6,387
After five years	2,868	3,583
	11,102	11,560

15. Commitments and contingent liabilities

In addition to the operating lease commitments detailed above, the Group had the following commitments and contingent liabilities as at 30 June 2006:

(a) Capital commitments

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Contracted, but not provided for:		
- land and buildings	570	14,058
- plant and machinery	40,028	70,729
- others	750	1,000
	41,348	85,787
Authorised, but not contracted for:		
- plant and machinery	508,240	268,000
	549,588	353,787

In addition, the Group's share of the jointly-controlled entity's own capital commitments is as follows:

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Contracted, but not provided for:		
- plant and machinery	1,350	1,122
Authorised, but not contracted for:		
- plant and machinery	16,037	19,000
	17,387	20,122

(b) Contingent liabilities

	30 June 2006 (Unaudited) *RMB'000*	31 December 2005 (Audited) *RMB'000*
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- jointly-controlled entity	30,000	24,700
- associate	24,400	-
- SEC group companies *	-	17,637
- third parties	-	22,000
	54,400	64,337

* SEC group companies are defined as the Group's related companies over which SEC is able to exert control or significant influence.

In respect of the bank guarantee given by the Group for the jointly-controlled entity as disclosed above, the Group's share of bank loan balances of RMB 15,000,000 has been recognised in the interim condensed consolidated balance sheet as at 30 June 2006 (31 December 2005: RMB 12,350,000).

16. Related party transactions

The Group had the following material transactions with related parties during the Period:

(a) Recurring

	Notes	For the six months ended 30 June	
		2006	**2005**
		(Unaudited)	(Unaudited)
		RMB'000	*RMB'000*
Purchase of materials from:	(i)		
Associates		-	2,166
SEC group companies		25,344	9,635
Other related companies		1,679	1,510
		27,023	13,311
Sales of goods to:	(i)		
Jointly-controlled entity *		10,935	-
Associates		-	686
SEC group companies		141,911	99,280
		152,846	99,966
Sales of scraps and spare parts to:	(i)		
SEC group companies		1,756	4,444
Receiving of manpower services from:	(i)		
SEC group companies		3,491	3
Rental fee payable to:	(ii)		
Ultimate holding company		9,248	-
SEC group companies		3,900	899
		13,148	899

Notes:

(i) The sales and purchases were conducted in accordance with mutually agreed terms with reference to the market conditions.
(ii) The rental fee was based on mutually agreed terms with reference to market rates.
(iii) The Directors are of the opinion that the above transactions were carried out in the ordinary course of business of the Group.

* The amounts of transactions with jointly-controlled entity disclosed in the table above are arrived at after deducting the Group's share portion, which has been eliminated in the proportionate consolidation of the Group's investment in the jointly-controlled entity.

(b) Non-recurring

	Notes	For the six months ended 30 June	
		2006	**2005**
		(Unaudited)	(Unaudited)
		RMB'000	*RMB'000*
Purchase of property, plant and equipment from:	(i)		
Other related companies		687	-
Interest expense payable to:	(ii)		
Ultimate holding company		-	315
SEC group companies		-	120
		-	435
Interest income from:	(ii)		
Jointly-controlled entity		331	-
SEC group companies		-	2
		331	2
Rental fee payable to:	(iii)		
SEC group companies		-	70

Notes:

(i) The purchases were conducted in accordance with mutually agreed terms with reference to the market conditions.

(ii) The interest income and interest expenses were based on mutually agreed terms with reference to market rates.

(iii) The rental fee was based on mutually agreed terms with reference to market rates.

(iv) The Directors are of the opinion that the above transactions were carried out in the ordinary course of business of the Group.

(c) Guarantees provided to/by related companies of the Group

(i) Guarantees provided to related companies of the Group
As disclosed in note 15(b), the Group provided corporate guarantees totalling RMB 54,400,000 to related companies as at 30 June 2006 (31 December 2005: RMB 42,337,000). The expiry dates of such guarantees fall between 14 July 2006 to 28 June 2007.

(ii) Guarantees provided by related companies of the Group
As at 30 June 2006, the Group's related companies did not provide corporate guarantees to the Group (31 December 2005: RMB 102,660,000).

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

	For the six months ended 30 June	
	2006	**2005**
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Fees	255	-
Short term employee benefits	1,619	903
Post-employment benefits	81	83
	1,955	986

(e) Debt restructuring

In October 2005, a subsidiary of the Group, namely Shanghai Tool Works Company Limited ("Shanghai Tools"), Shanghai General Machinery (Group) Corporation ("General Machinery"), one of the SEC group companies, and a commercial bank (the "Bank") entered into an agreement pursuant to which General Machinery agreed to repay, by certain property (the "Property"), a bank loan of RMB 66,300,000 due by Shanghai Tools to the Bank. The bank loan became a payable (the "Payable") due by Shanghai Tools to General Machinery.

In April 2006, the Property was sold via an auction at RMB 46,400,000. It was agreed between Shanghai Tools, General Machinery and the Bank that (i) the bank loan be settled in full by the auction proceeds, and (ii) Shanghai Tools was to pay General Machinery the same amount of RMB 46,400,000 to settle the Payable in full. As at 30 June 2006, the Payable balance had been settled by Shanghai Tools. A net gain on debt restructuring of RMB 18,972,000 was recognised in the interim condensed consolidated income statement for the Period.

17. Post balance sheet events

On 11 July 2006, the Company entered into a forward contract to sell HKD 150 million at a fixed exchange rate to hedge against foreign currency risk on certain deposits denominated in HKD. The contracted exercise date is 24 May 2007.

On 9 August 2006, the Company entered into an equity purchase agreement with TSB Group U.S.A Inc. to acquire a 40% interest in United Bearings. The purchase consideration of RMB 30,000,000 for the acquisition is in the form of cash and to be fully paid upon completion of the equity purchase agreement. The completion of the acquisition is subject to the approvals of the Shanghai State-Owned Assets Supervision and Administration Commission and the Shanghai Foreign Investment Commission.

18. Approval of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee.

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 18 August 2006.