

**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 **2007**

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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 Address

Room 1501, Jidian Edifice, 600 Heng Feng Road ,  
Shanghai, China  
Postal code: 200070

## Principal Place of Business in Hong Kong

2901, 29th Floor, Tower One, Lippo Centre  
89 Queensway, Hong Kong

## Legal Representative

Zhou Zhiyan

## Authorized Representatives

Hu Kang  
Chen Hui

## Alternative Authorized Representatives

Chan Chun Hong, Thomas  
Li Wai Chung

## Company Secretary

Li Wai Chung (CPA)

## Qualified Accountant

Li Wai Chung (CPA)

## International Auditor

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

## H share Registrar and Transfer Office

*Effective up to 31 August 2007:*

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wanchai, Hong Kong

*Effective from 1 September 2007:*

Tricor Investor Services Limited  
Level 26, Tesbury Centre, 28 Queen's Road East,  
Wanchai, Hong Kong

## Investor and Media Relations Consultant

iPR Ogilvy Ltd.

## Listing Information

**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**

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# Summary

- ◆ Revenue for the six months ended 30 June 2007 was RMB **1,614** million, representing an increase of **16%** over the corresponding period last year.
- ◆ Profit attributable to the equity holders of the Company for the six months ended 30 June 2007 was RMB **102** million. After deducting the impact of exceptional income (which represented the net interest income from over-subscription funds and the net gain from debt restructuring) in 2006, profit attributable to shareholders maintained at a similar level as that of the corresponding period last year.
- ◆ Basic earnings per share for the six months ended 30 June 2007 was RMB **7.12** cents.
- ◆ The Group strived for development of high precision turbine blades and made a breakthrough in production of turbine blades for ultra-super-critical turbines with 1,000 MW generation capacity.
- ◆ The Group devoted itself to the development of railway bearings for cargo trains, sales of railway bearings amounted to RMB **89** million in the first half of 2007, representing an increase of **27%** over the corresponding period last year.
- ◆ The Group overcame the impact of rapid Renminbi appreciation and made efforts in expanding the overseas markets and establishing the overseas sales network. Export sales reached RMB **712** million during the first half of the year, with an increase of **22%** over the corresponding period last year, of which cutting tool business contributed RMB **43** million, representing an increase of **34%** over the corresponding period last year.

# 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 2007 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and Company's international auditors, Ernst & Young.

## Performance Results

The revenue of the Group for the six months ended 30 June 2007 was RMB1,614 million (1H 2006: RMB1,393 million), representing an increase of 16% over the corresponding period last year. Profit attributable to equity holders of the Company was RMB102 million (1H 2006: RMB147 million). After deducting the impact of exceptional income (which represented the net interest income from over-subscription funds and the net gain from debt restructuring) in 2006, profit attributable to shareholders maintained at a similar level as that of the corresponding period last year. Basic earnings per share was RMB7.12 cents (1H 2006: RMB14.85 cents).

As at 30 June 2007, the total assets of the Group amounted to RMB3,599 million (31 December 2006: RMB3,266 million), while total liabilities amounted to RMB1,116 million (31 December 2006: RMB837 million). The total shareholders' equity was RMB2,483 million (31 December 2006: RMB2,429 million), of which RMB2,404 million (31 December 2006: RMB2,357 million) was attributable to the equity holders of the Company. The net asset value per share was RMB1.67 (31 December 2006: RMB1.64).

## Business Outlook

### Turbine Blade

Though the increase pace of the domestic demand for turbine blades has been slowing down, the high quality turbine blades manufactured by the Group are gradually gaining international recognition. Therefore, the Group is expanding the product scopes for turbine blades used in non-coal-fired power generation equipment, with an aim to further specializing in the turbine blades' production. Meanwhile, in order to strengthen the core competitiveness, the Group also plans to increase the production capacity of medium-to-large blade forgings. In addition, in response to the market demand for a variety of high-powered power station units, the Group has sped up its new product development and increased its market share of small-to-medium sized turbine blades. Under the target of improving products quality, the Group is endeavored to become a global specialized turbine blade provider.

### Bearing

With the growth of the bearing industry, the Group expects the demand for bearings will continue to increase. The Group has fully capitalized on the competitive edges of the brand name and its good relationship with customers to strive for the expansion of export market for high precision bearings. The Group will further increase the production capacity of speed-lifting railway bearings for heavy cargo trains and plan to develop the large and extra-large bearings. The marketing strategy of the bearing business will focus on the development of high value-added bearings with advanced technology level.

### Cutting Tool

The rapid development of numerically-controlled machine continuously stimulates the demand for high-end cutting tools, it also makes favorable the market development potential for cutting tools. The Group expands its market share on developing high value-added high-end cutting tools. By improving the quality of its products and gradually substituting imported cutting tools, the Group aims at increasing the level of the competitive advantages for the cutting tool business.

## Electric Motor

In the first half of 2007, the operating environment of electric motor segment remains unfavourable to the Group given keen competition of the motor industry in China and high cost of raw materials. In this light, the Company entered into an agreement dated 16 August 2007 to dispose its entire 60% interest in Shanghai Nanyang Electric Motor Company Limited to Shanghai Electric (Group) Corporation. Detailed information of the disposal is set out in the Company's announcement dated 16 August 2007. Upon completion of the disposal, the Company will cease its electric motor business.

## Fastener

As the number of customers and the demand for fasteners are continuously growing, the Group is expanding its production facilities and the logistic system so as to improve the production capacity and distribution network. The fastener business is expected to contribute more profit to the Group in the future.

## Conclusion

The export business of the Group is expected to be affected by the rapid appreciation of Renminbi and the adjustment of the PRC's new export tax refund policies in the second half of the year. The Group will seek to mitigate the impacts of changing macro-economic policy on its export business by capitalising on the competitive edges of its brand and accelerating the development of new medium-to-high end products. The Group's export business is anticipated to achieve further growth in 2008. According to the latest taxation rules and regulations in China, the corporate income tax rate shall be 25%, effective from 2008, and the Group will enjoy certain tax benefits under the new taxation policy.

The Group is endeavoured to look for suitable future acquisition and investment opportunities to enhance the future revenue stream and performance. The Group hasn't had any specified target company so far.

The Group and its employees are confident of the future. We will strive for excellence and create value for the shareholders. Through our ceaseless efforts, we believe, the Group will gradually become the leading global supplier of industrial parts and components.

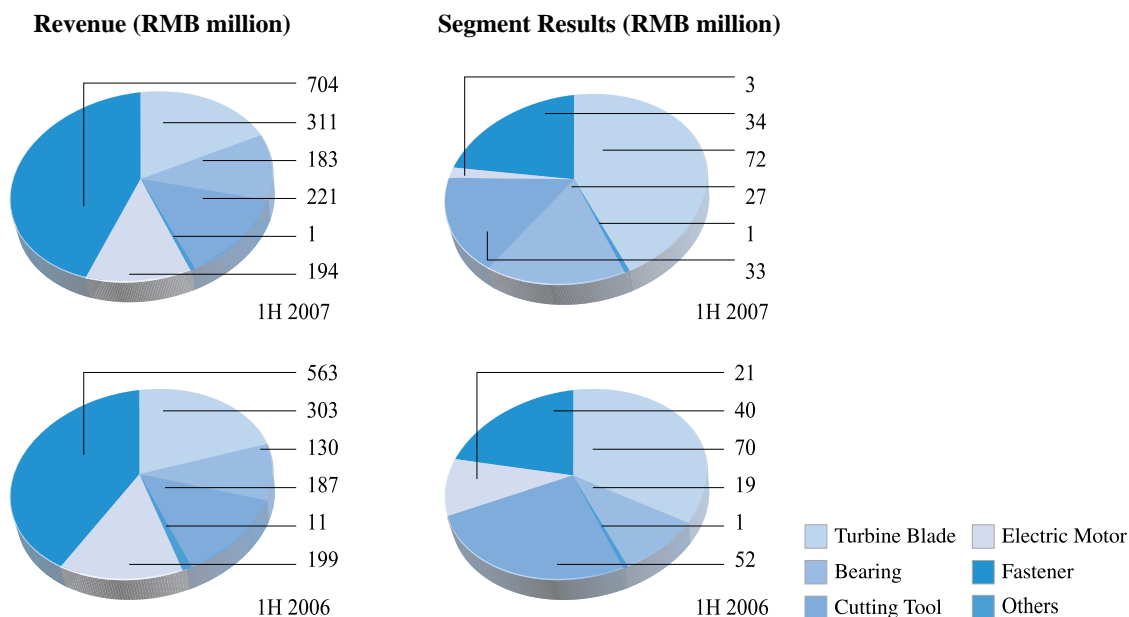
Last but not least, I would like to take this opportunity to thank all the shareholders for their support and trust, and all the directors, supervisors, management members and all the staff for their contributions and devotion during the Period.

**Zhou Zhiyan**  
Chairman  
Shanghai, PRC  
17 August 2007

# Management Discussion and Analysis

## Segment Results of Major Business Divisions

Set out below are the revenue and segment results for each individual business division:



(RMB million)	Revenue For the six months ended 30 June		Segment Results For the six months ended 30 June	
	2007	2006	2007	2006
Turbine Blade	311	303	72	70
Percentage of total	19%	22%	42%	34%
Bearing	183	130	27	19
Percentage of total	11%	9%	16%	9%
Cutting Tool	221	187	33	52
Percentage of total	14%	13%	19%	26%
Electric Motor (Discontinuing operation)	194	199	3	21
Percentage of total	12%	14%	2%	10%
Fastener	704	563	34	40
Percentage of total	44%	40%	20%	20%
Others (inter-group transactions eliminated)	1	11	1	1
<b>Total</b>	<b>1,614</b>	<b>1,393</b>	<b>170</b>	<b>203</b>

### Turbine Blade Business

For the six months ended 30 June 2007, the revenue amounted to RMB311 million (1H 2006: RMB303 million), representing an increase of 3% over the corresponding period in 2006. The segment result of the turbine blade business was RMB72 million (1H 2006: RMB70 million), representing an increase of 3% over the corresponding period in 2006. In the first half of 2007, the export sales amounted to RMB38 million (1H 2006: RMB47 million). The gross profit margin of the turbine blade business for the Period maintained at a comparatively high level, which was 33% (1H 2006: 32%).

### Bearing Business

For the six months ended 30 June 2007, the revenue of the bearing business was RMB183 million (1H 2006: RMB130 million), representing an increase of 41% over the corresponding period in 2006. The segment result was RMB27 million (1H 2006: RMB19 million), representing an increase of 42% over the corresponding period in 2006. During the Period, the gross profit margin was 25% (1H 2006: 26%).

Capitalized on the competitive edges of the brand name and its excellent service to the customers, the Group further expands its export market for high precision bearings. The total export sales reached RMB38 million, representing an increase of 9% over the corresponding period in 2006. The Group devoted itself to the development of railway bearings for cargo trains, with sales of railway bearings amounting to RMB89 million in the first half of the year, representing an increase of 27% over the corresponding period last year.

### Cutting Tool Business

The cutting tool products of the Group are well-known in China. For the six months ended 30 June 2007, the revenue of the cutting tool business was RMB221 million (1H 2006: RMB 187 million), representing an increase of 18% over the corresponding period in 2006. The segment result was RMB33 million (1H 2006: RMB52 million, of which, a one-off gain from debt restructuring equal to RMB22 million was recorded). The gross profit margin was 24% (1H 2006: 29%). Export sales of the cutting tool business amounted to RMB43 million, representing an increase of 34% over the corresponding period in 2006.

### Electric Motor Business

For the six months ended 30 June 2007, the revenue for electric motor business decreased to RMB194 million (1H 2006: RMB 199 million). With copper prices staying high during the Period, the gross profit margin of the electric motor business declined to 14% (1H 2006: 19%). As a result, the segment result decreased to RMB3 million.



# Management Discussion and Analysis

## Fastener Business

For the six months ended 30 June 2007, the revenue of the fastener business reached RMB704 million (1H 2006: RMB563 million), representing an increase of 25% over the corresponding period in 2006. The segment result was RMB34 million (1H 2006: RMB40 million). Under the impact of appreciation of Renminbi, the gross profit margin decreased to 8% (1H 2006: 11%). Export sales, for the Period, amounted to RMB593 million (1H 2006: RMB468 million), representing an increase of 27% over the corresponding period in 2006 and accounting for 84% of the segment sales.

## Share of Results of Associates

During the six months ended 30 June 2007, the Group's share of profits of associates was RMB8 million (1H 2006: RMB5 million).

## Finance Costs

For the six months ended 30 June 2007, finance costs were RMB2 million (1H 2006: RMB10 million). The decrease of finance costs was primarily due to the repayment of bank borrowings.

## Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company was RMB102 million (1H 2006: RMB147 million) for the six months ended 30 June 2007. After deducting the impact of exceptional income (which represented the net interest income from over-subscription funds and the net gain from debt restructuring) in 2006, profit attributable to shareholders maintained at a similar level as that of the corresponding period last year. Basic earnings per share was RMB7.12 cents (1H 2006: RMB14.85 cents), calculated by the weighted average number of ordinary shares of 1,438,286,184 (1H 2006: 993,173,700) in issue.

## Cash flow

As at 30 June 2007, the cash and bank balances of the Group were RMB1,085 million (31 December 2006: RMB1,187 million), none of which were restricted deposits (31 December 2006: RMB660 million). During the Period, the Group had a net cash inflow from operating activities of RMB53 million (1H 2006: net cash outflow of RMB95 million), a net cash inflow from investing activities of RMB635 million (1H 2006: net cash outflow of RMB1,070 million), and a net cash inflow from financing activities of RMB50 million (1H 2006: net cash inflow of RMB1,493 million).

## Assets and Liabilities

As at 30 June 2007, the Group had total assets of RMB3,599 million (31 December 2006: RMB3,266 million), an increase of RMB333 million compared with the beginning of the year. Total current assets increased by RMB358 million from the beginning of the year to RMB2,607 million (31 December 2006: RMB2,249 million), accounting for 72% of total assets. Total non-current assets decreased by RMB25 million from the beginning of the year to RMB992 million (31 December 2006: RMB1,017 million), accounting for 28% of total assets.

As at 30 June 2007, the total liabilities of the Group were RMB1,116 million (31 December 2006: RMB837 million), which represented an increase of RMB279 million compared with the beginning of the year. Total current liabilities increased by RMB286 million from the beginning of the year to RMB1,062 million (31 December 2006: RMB776 million), accounting for 95% of total liabilities, whereas total non-current liabilities decreased by RMB7 million from the beginning of the year to RMB54 million (31 December 2006: RMB61 million), accounting for 5% of total liabilities.

As at 30 June 2007, the net current assets of the Group were RMB1,545 million (31 December 2006: RMB1,473 million), representing an increase of RMB72 million from the beginning of the year.

## Source of Funding and Indebtedness

As at 30 June 2007, the Group had an aggregate bank and other borrowings of RMB101 million (31 December 2006: RMB107 million), representing a decrease of RMB6 million from the beginning of the year. Borrowings repayable within one year were RMB84 million, representing a decrease of RMB6 million. Borrowings repayable after one year amounted to RMB17 million (31 December 2006: RMB17 million).

## Gearing Ratio

As at 30 June 2007, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 4% (31 December 2006: 5%).

## Pledges of Assets

As at 30 June 2007, none of the bank deposits were pledged to banks or restricted for use (31 December 2006: RMB660 million). In addition, certain bank loans of the Group were secured by mortgages over certain of the Group's land use rights, building and machinery, which had an aggregate net book value of approximately RMB107 million as at 30 June 2007 (31 December 2006: RMB120 million).

# Management Discussion and Analysis

## Contingent Liabilities

As at 30 June 2007, the Group had total contingent liabilities of RMB2 million (31 December 2006: RMB56 million). During the Period, the Group provided a RMB2 million guarantee to an associate in connection with the banking facilities granted to and utilized by that associate.

## Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB205 million, which was principally invested in the production technology improvement, equipment upgrade and the expansion of production capacity.

## Risk of Foreign Exchange

The Group uses RMB as the reporting currency. During the Period, the market generally predicts a continual appreciation of Renminbi, which will, on the one hand, make exporting products more expensive, and may lead to a negative influence on the Group's export sales overseas, but a positive influence on the Group's imported materials and equipments from overseas on the other hand.

In addition, as at 30 June 2007, the Group's deposits comprise HKD657 million, USD1 million and JPY12 million. Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

## Significant Event

On 16 August 2007, the Company entered into a share transfer agreement with Shanghai Electric (Group) Corporation, pursuant to which the Company agreed to transfer 60% equity interest in Shanghai Nanyang Electric Motor Company Limited, for a cash consideration of RMB122.57 million.

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

## Employees

As at 30 June 2007, the Group had approximately 4,113 employees (31 December 2006: 4,182). The Company has comprehensive employee incentive programs and a range of training programs for the development of its staff.

# Other Information

## Share Capital Structure

	Number of Share	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 2007, the interests or short positions of the substantial shareholders who were entitled to exercise or control the exercise of 5% or more of the voting rights at any general meeting of the Company (other than the directors, chief executives and supervisors of the Company) in the shares and underlying 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”) were as follows:

Name of Substantial Shareholder	Class of Shares	No. of Shares	Notes	Capacity	Nature of Interest	Percentage of total number of Domestic Shares /H Shares in Issue (%)	Percentage of total number of Shares in Issue (%)
Shanghai Electric (Group) Corporation	Domestic	652,328,857		Beneficial owner	Long position	96.13	45.36
	Domestic	26,247,327	(1)	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	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100	47.18
The Capital Group Companies, Inc.	H	76,098,000	(2)	Investment manager	Long position	10.02	5.29
Baillie Gifford & Co.	H	27,090,000	(3)	Investment manager	Long position	3.57	1.88
	H	41,134,000	(3)	Interest of controlled corporation	Long position	5.41	2.86
		68,224,000				8.98	4.74
Anderson James	H	68,224,000	(3)	Interest of controlled corporation	Long position	8.98	4.74
Callander Alex	H	68,224,000	(3)	Interest of controlled corporation	Long position	8.98	4.74

# Other Information

Name of Substantial Shareholder	Class of Shares	No. of Shares	Notes	Capacity	Nature of Interest	Percentage of total number of Domestic Shares /H Shares in Issue (%)	Percentage of total number of Shares in Issue (%)
Menzies Robin	H	68,224,000	(3)	Interest of controlled corporation	Long position	8.98	4.74
Plowden Charles	H	68,224,000	(3)	Interest of controlled corporation	Long position	8.98	4.74
Warden Alison	H	68,224,000	(3)	Interest of controlled corporation	Long position	8.98	4.74
Whitley Sarah	H	68,224,000	(3)	Interest of controlled corporation	Long position	8.98	4.74
JPMorgan Chase & Co.	H	28,300,000	(4)	Investment manager	Long position	3.73	1.97
	H	23,478,000	(4)	Custodian	Long position	3.09	1.63
		51,778,000				6.82	3.60

**Notes:**

- (1) 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.

- (2) The Capital Group Companies, Inc. was deemed to be interested in 76,098,000 shares held by Capital International, Inc. (“CII”) by virtue of its holding of entire shares in issue of Capital Group International, Inc., which in turn wholly owned CII.

- (3) Baillie Gifford & Co. was deemed to be interested in 41,134,000 shares of the Company by virtue of its holding of entire shares in issue of Baillie Gifford Overseas Limited. The interests in 68,224,000 shares of the Company held by Baillie Gifford & Co. were deemed to be held by Anderson James, Callander Alex, Menzies Robin, Plowden Charles, Warden Alison and Whitley Sarah (collectively referred to as the “Controllers”) as Baillie Gifford & Co. or its directors usually acted or were required to act upon the directions of the Controllers. The interests in the aforementioned 68,224,000 shares of the Company refer to the same block of shares of the Company.
- (4) JPMorgan Chase & Co. held a long position in 51,778,000 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
JPMorgan Chase Bank, N.A.	100	23,478,000
JF Asset Management Limited	100	28,300,000

The interests of JPMorgan Chase & Co. included a lending pool of 23,478,000 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 or underlying shares of the Company as at 30 June 2007 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 2007, 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.

As at 30 June 2007, 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.

# Other Information

## *Compliance with the Model Code for the Securities Transactions*

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the “ Model Code ” ). Having made specific enquiry of all directors and supervisors of the Company, the directors and supervisors of the Company have strictly complied with the required standard set out in the Model Code for the six months ended 30 June 2007.

## *Compliance with the Code on Corporate Governance Practices*

The Company is committed to high standards of corporate governance and has taken actions to comply with the provisions set out in the Code on Corporate Governance Practices (the “ Code ”) . The Board of Directors of the Company believes that the Company has complied with the requirements set out in the Code during the six months ended 30 June 2007 and there have been no material deviations from the Code.

## *Purchase, Sale or Redemption of Securities of the Company*

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s securities.

## *Interim Dividend*

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

## *Audit Committee*

The audit committee has reviewed with management and the Company’s international auditors, Ernst & Young, the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters, including the review of this Interim Report.

## *Board of Directors and Supervisory Committee*

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

As at the date of this report, the Supervisory Committee of the Company consists of Chen Jiaming, Hu Peiming and Lin Guanhong.

# Independent Auditors' Review Report

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

### Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 16 to 41, which comprise the interim condensed consolidated balance sheet of Shanghai Prime Machinery Company Limited and its subsidiaries as of 30 June 2007 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**Ernst & Young**

**Certified Public Accountants**

Hong Kong

17 August 2007



# Interim Condensed Consolidated Financial Statements

## Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>CONTINUING OPERATIONS</b>			
<b>REVENUE</b>	3	<b>1,419,531</b>	1,194,683
Cost of sales		<b>(1,165,415)</b>	(948,629)
<b>Gross profit</b>		<b>254,116</b>	246,054
Other income and gains	3	<b>23,680</b>	72,542
Selling and distribution costs		<b>(34,408)</b>	(24,121)
Administrative expenses		<b>(67,862)</b>	(82,317)
Other expenses		<b>(22,253)</b>	(6,670)
Finance costs		<b>(1,889)</b>	(9,846)
Share of profits and losses of associates		<b>7,780</b>	4,635
<b>PROFIT BEFORE TAX</b>	4	<b>159,164</b>	200,277
Tax	5	<b>(56,867)</b>	(65,120)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>102,297</b>	135,157
<b>DISCONTINUING OPERATION</b>			
Profit for the period from a discontinuing operation	6	<b>1,173</b>	20,719
<b>PROFIT FOR THE PERIOD</b>		<b>103,470</b>	155,876
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>102,368</b>	147,488
Minority interests		<b>1,102</b>	8,388
		<b>103,470</b>	155,876
<b>DIVIDENDS</b>			
Proposed interim	7	-	-
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
Basic (RMB cents)	8		
- For profit for the period		<b>7.12</b>	14.85
- For profit from continuing operations		<b>7.07</b>	13.60

## Interim Condensed Consolidated Balance Sheet

30 June 2007

	Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	694,481	771,232
Prepaid land premiums/land lease payments	9	14,432	45,860
Intangible assets		2,951	19,002
Investments in associates		77,582	70,402
Available-for-sale investments		5,010	6,263
Goodwill		8,818	-
Long-term prepayments		151,002	57,470
Deferred tax assets		37,751	47,036
<b>Total non-current assets</b>		<b>992,027</b>	<b>1,017,265</b>
<b>CURRENT ASSETS</b>			
Inventories		483,076	529,691
Trade receivables	10	393,381	336,487
Bills receivable		58,149	71,983
Prepayments, deposits and other receivables		114,078	107,788
Loan receivable		-	14,139
Derivative financial instruments		2,010	1,615
Restricted deposits	11	-	659,805
Cash and cash equivalents	11	1,084,996	527,318
		<b>2,135,690</b>	<b>2,248,826</b>
Assets of a disposal group classified as held for sale	6	470,930	-
<b>Total current assets</b>		<b>2,606,620</b>	<b>2,248,826</b>

## Interim Condensed Consolidated Balance Sheet (continued)

		30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
	Notes		
<b>CURRENT LIABILITIES</b>			
Trade payables	12	366,236	412,673
Bills payable		17,000	11,800
Tax payable		87,176	72,758
Other payables and accruals		216,321	188,722
Bank and other borrowings		84,000	90,000
		770,733	775,953
Liabilities directly associated with the assets classified as held for sale	6	291,354	-
<b>Total current liabilities</b>		<b>1,062,087</b>	<b>775,953</b>
<b>NET CURRENT ASSETS</b>		<b>1,544,533</b>	<b>1,472,873</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,536,560</b>	<b>2,490,138</b>
<b>NON-CURRENT LIABILITIES</b>			
Bank and other borrowings		17,000	17,000
Government grants		22,902	24,519
Other long-term payables		3,553	6,309
Deferred tax liabilities		10,687	13,422
<b>Total non-current liabilities</b>		<b>54,142</b>	<b>61,250</b>
<b>Net assets</b>		<b>2,482,418</b>	<b>2,428,888</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	13	1,438,286	1,438,286
Reserves		965,693	861,030
Proposed final dividend		-	57,531
		2,403,979	2,356,847
<b>Minority interests</b>		<b>78,439</b>	<b>72,041</b>
<b>Total equity</b>		<b>2,482,418</b>	<b>2,428,888</b>

## Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company							Minority interests	Total equity	
	Issued capital	Capital reserve	Contributed surplus	Surplus reserves	Retained profits	Proposed final dividend	Total			
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000
At 1 January 2006		747,640	17,005	(58,756)	13,116	24,863	-	743,868	70,911	814,779
Profit for the period		-	-	-	-	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
Appropriation to surplus reserves		-	-	-	3,378	(3,378)	-	-	-	-
Transfer to capital reserve		-	45,906	-	-	(45,906)	-	-	-	-
Dividend from a subsidiary		-	-	-	-	-	-	-	(6,000)	(6,000)
At 30 June 2006 (Unaudited)		1,438,286	754,128	(58,756)	16,494	123,067	-	2,273,219	73,299	2,346,518
At 1 January 2007		1,438,286	758,849	(58,756)	42,849	118,088	57,531	2,356,847	72,041	2,428,888
Profit for the period		-	-	-	-	102,368	-	102,368	1,102	103,470
Total income and expenses for the period		-	-	-	-	102,368	-	102,368	1,102	103,470
Acquisition of a subsidiary	15	-	2,295	-	-	-	-	2,295	5,296	7,591
Adjustments of surplus reserves		-	-	-	3,087	(3,087)	-	-	-	-
Transfer to capital reserve		-	4,650	-	-	(4,650)	-	-	-	-
Final 2006 dividend declared		-	-	-	-	-	(57,531)	(57,531)	-	(57,531)
At 30 June 2007 (Unaudited)		1,438,286	765,794*	(58,756)*	45,936*	212,719*	-	2,403,979	78,439	2,482,418

\* These reserve accounts comprise the consolidated reserves of RMB965,693,000 (31 December 2006: RMB861,030,000) in the unaudited interim condensed consolidated balance sheet.

## Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		<b>52,955</b>	(94,909)
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>635,076</b>	(1,069,875)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>50,068</b>	1,492,687
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>738,099</b>	327,903
Effect of foreign exchange rate changes, net	3	<b>(19,889)</b>	(6,731)
Cash and cash equivalents at beginning of period		<b>359,019</b>	159,065
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>1,077,229</b>	480,237
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents in the unaudited interim condensed consolidated balance sheet		<b>1,084,996</b>	808,260
Non-restricted deposits with original maturity of three months or more when acquired		<b>(21,087)</b>	(328,023)
Cash and cash equivalents attributable to a discontinuing operation	6	<b>13,320</b>	-
		<b>1,077,229</b>	480,237

# Notes to Interim Condensed Consolidated Financial Statements

30 June 2007

## 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except in relation to the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) and certain accounting policy as follows:

### New and revised HKFRSs adopted for the first time for the current period’s unaudited interim condensed consolidated financial statements

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

### Significant accounting policy newly adopted by the Group

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquirees’ identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

## 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

### Significant accounting policy newly adopted by the Group (continued)

Goodwill arising on acquisition is recognised in the unaudited interim condensed consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

## 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.

Six months ended 30 June 2007 (Unaudited)	Continuing operations						Discontinuing operation		Consolidated
	Bearing	Turbine blade	Cutting tool	Fastener	Others	Elimination	Total	Electric motor	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue:</b>									
Sales to external customers	183,167	310,224	221,034	704,430	676	-	1,419,531	194,263	1,613,794
Inter-segment sales	-	-	-	-	38,518	(38,518)	-	-	-
Other revenue	4,495	9,272	3,381	9,720	-	-	26,868	2,814	29,682
<b>Total</b>	<b>187,662</b>	<b>319,496</b>	<b>224,415</b>	<b>714,150</b>	<b>39,194</b>	<b>(38,518)</b>	<b>1,446,399</b>	<b>197,077</b>	<b>1,643,476</b>
<b>Segment results</b>	<b>27,173</b>	<b>71,929</b>	<b>33,463</b>	<b>33,642</b>	<b>739</b>	<b>-</b>	<b>166,946</b>	<b>3,405</b>	<b>170,351</b>
Interest and dividend income and unallocated gains							(3,188)	85	(3,103)
Corporate and other unallocated expenses							(10,485)	-	(10,485)
Finance costs							(1,889)	(2,043)	(3,932)
Share of profits and losses of associates	4,906	-	(189)	-	3,063	-	7,780	-	7,780
Profit before tax							159,164	1,447	160,611
Tax							(56,867)	(274)	(57,141)
Profit for the period							102,297	1,173	103,470



## 2 SEGMENT INFORMATION (continued)

Six months ended 30 June 2006 (Unaudited)	Continuing operations						Discontinuing operation		Consolidated RMB'000
	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000	Electric motor RMB'000	
<b>Segment revenue:</b>									
Sales to external customers	130,329	303,100	186,620	563,343	11,291	-	1,194,683	198,730	1,393,413
Inter-segment sales	-	-	-	-	10,935	(10,935)	-	-	-
Other revenue	1,510	4,423	23,663	549	-	-	30,145	6,892	37,037
<b>Total</b>	<b>131,839</b>	<b>307,523</b>	<b>210,283</b>	<b>563,892</b>	<b>22,226</b>	<b>(10,935)</b>	<b>1,224,828</b>	<b>205,622</b>	<b>1,430,450</b>
<b>Segment results</b>	<b>18,522</b>	<b>70,477</b>	<b>52,190</b>	<b>40,127</b>	<b>86</b>	<b>-</b>	<b>181,402</b>	<b>21,132</b>	<b>202,534</b>
Interest and dividend income and unallocated gains							42,397	80	42,477
Corporate and other unallocated expenses							(18,311)	-	(18,311)
Finance costs							(9,846)	(1,293)	(11,139)
Share of profits and losses of associates	2,934	-	(802)	-	2,503	-	4,635	-	4,635
Profit before tax							200,277	19,919	220,196
Tax							(65,120)	800	(64,320)
Profit for the period							135,157	20,719	155,876

### 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 2007 (the "Period"), net of sales 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:

	Note	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>Revenue</b>			
Sales of goods		1,413,358	1,187,873
Rendering of services		6,173	6,810
Attributable to continuing operations reported in the interim condensed consolidated income statement			
Sales of goods attributable to a discontinuing operation	6	194,263	198,730
		<b>1,613,794</b>	<b>1,393,413</b>
<b>Other income</b>			
Dividend income from available-for-sale investments		-	1,269
Interest income for over-subscription funds		-	36,772
Interest income for bank balances and deposits		16,079	10,593
Interest income for loan receivable		126	330
Gross rental income		832	1,238
Profit on sales of raw materials, spare parts and semi-finished goods		13,132	2,291
Subsidy income		9,044	1,616
Others		2,750	2,074
		<b>41,963</b>	<b>56,183</b>
<b>Gains</b>			
Gain on disposal of items of property, plant and equipment, net		1,107	1,247
Gain from debt restructuring		-	21,843
Gain on disposal of investments		104	-
Fair value gains on derivatives financial instruments, net		395	-
Foreign exchange differences, net *		(19,889)	(6,731)
		<b>(18,283)</b>	<b>16,359</b>
Total		<b>23,680</b>	<b>72,542</b>

\* 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) \*:

	<b>For the six months ended 30 June</b>	
	<b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>2006</b> <b>(Unaudited)</b> <b>RMB'000</b>
Cost of inventories sold	<b>1,326,503</b>	1,102,694
Cost of services provided	<b>5,874</b>	6,379
Depreciation	<b>40,190</b>	35,150
Recognition of prepaid land premiums/land lease payments	<b>486</b>	458
Amortisation of patents and licences	<b>1,160</b>	1,043
Amortisation of other intangible assets	<b>283</b>	200
Write-down/(reversal of write-down) of inventories to net realisable value	<b>2,054</b>	(989)
<b>Research and development costs:</b>		
Current period expenditure	<b>13,087</b>	2,034
<b>Minimum lease payments under operating leases:</b>		
Land and buildings	<b>13,115</b>	13,737
Plant and machinery	-	293
Vehicles	<b>1,101</b>	1,191
Employee benefits expenses	<b>144,452</b>	123,334
Foreign exchange differences, net	<b>25,536</b>	8,090
Reversal of impairment of account receivables	<b>(235)</b>	(538)

\* The disclosures presented in this note include those amounts charged/credited in respect of the discontinuing operation.

## 5 TAX

Except for the following companies, 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"):

- Shanghai United Bearings Company Limited ("United Bearings") is subject to a corporate income tax rate of 27% up to 28 February 2007 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. From 1 March 2007 onwards, United Bearings ceases to be a foreign investment enterprise and its applicable tax rate is 33%; and

## 5 TAX (continued)

- Shanghai Nanyang Electric Motor Company Limited (“Nanyang Motor”) 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 further 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 of the companies of the Group were 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.

	<b>For the six months ended 30 June</b>	
	<b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>2006</b> <b>(Unaudited)</b> <b>RMB'000</b>
<b>Group:</b>		
Current-the PRC		
Charge for the period	<b>49,454</b>	65,242
Over provision in prior years	<b>(1,526)</b>	(87)
Deferred *	<b>8,939</b>	(35)
<b>Total tax charge for the period</b>	<b>56,867</b>	65,120

\* During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (“ the New Corporate Income Tax Law”) was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. This change in the income tax rate will directly change the Group’s effective tax rate prospectively from 2008. According to HKAS12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, the change in the corporate income tax rate has resulted in an increase in deferred tax charge of RMB7,510,000 of the Group for the Period.

The share of tax attributable to associates amounting to RMB2,587,000 (six months ended 30 June 2006: RMB1,910,000) is included in “Share of profits and losses of associates” on the face of the interim condensed consolidated income statement.

## 6 DISCONTINUING OPERATION

In June 2007, the Company was committed to a plan to dispose of Nanyang Motor. Nanyang Motor engages in production and sale of electric motors and accessories, and is a separate business segment that is part of the Group's operations. The Group has decided to cease its electric motors business because of the decreasing profit margin and the uncertainties in the market circumstances. The disposal of Nanyang Motor is expected to be completed within one year. As at 30 June 2007, the final negotiations for the sale were in progress and Nanyang Motor was classified as a disposal group held for sale.

The results of Nanyang Motor for the Period are presented below:

	<b>For the six months ended 30 June</b>	
	<b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>2006</b> <b>(Unaudited)</b> <b>RMB'000</b>
Revenue	194,263	198,730
Other income and gains	2,899	6,972
Total revenue	197,162	205,702
Expenses	(193,672)	(184,490)
Finance costs	(2,043)	(1,293)
Profit before tax from the discontinuing operation	1,447	19,919
Tax	(274)	800
Profit for the period from the discontinuing operation	1,173	20,719

The major classes of assets and liabilities of Nanyang Motor classified as held for sale as at 30 June 2007 are as follows:

	<b>30 June</b>	<b>31 December</b>
	<b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>2006</b> <b>(Audited)</b> <b>RMB'000</b>
<i>Assets</i>		
Property, plant and equipment	144,716	-
Prepaid land premiums/land lease payments	30,942	-
Intangible assets	16,661	-

**6 DISCONTINUING OPERATION (continued)**

	<b>30 June 2007 (Unaudited) RMB'000</b>	<b>31 December 2006 (Audited) RMB'000</b>
Long-term prepayments	828	-
Inventories	126,448	-
Trade receivables	54,235	-
Bills receivable	76,170	-
Prepayments, deposits and other receivables	7,274	-
Restricted deposits	336	-
Cash and cash equivalents	13,320	-
Assets classified as held for sale	<b>470,930</b>	-
<i>Liabilities</i>		
Trade payables	(168,274)	-
Other payables and accruals	(47,806)	-
Tax payable	(274)	-
Bank and other borrowings	(75,000)	-
Liabilities directly associated with the assets classified as held for sale	<b>(291,354)</b>	-
Net assets directly associated with the disposal group	<b>179,576</b>	-

The net cash flows incurred by Nanyang Motor are as follows:

	<b>For the six months ended 30 June</b>	
	<b>2007 (Unaudited) RMB'000</b>	<b>2006 (Unaudited) RMB'000</b>
Operating activities	2,747	(11,606)
Investing activities	(6,582)	(27,706)
Financing activities	(2,043)	53,707
Net cash inflow/(outflow)	(5,878)	14,395
Earnings per share:		
Basic (RMB cents), from the discontinuing operation	<b>0.05</b>	1.25

## 6 DISCONTINUING OPERATION (continued)

The calculations of basic earnings per share from the discontinuing operation are based on:

	<b>For the six months ended 30 June</b>	
	<b>2007</b> <b>(Unaudited)</b>	<b>2006</b> <b>(Unaudited)</b>
Profit attributable to equity holders of the Company from the discontinuing operation (RMB'000)	703	12,431
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (Number of shares)	<b>1,438,286,184</b>	993,173,700

## 7 DIVIDENDS

The directors do not recommend the payment of interim dividend (six months ended 30 June 2006: Nil).

## 8 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts for the Period is based on the profit for the Period attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the Period.

No diluted earnings per share amounts have been presented for the six months ended 30 June 2007 and 2006 as no diluting events occurred during these periods.

The calculations of basic earnings per share are based on:

	<b>For the six months ended 30 June</b>	
	<b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>2006</b> <b>(Unaudited)</b> <b>RMB'000</b>
<u>Earnings</u>		
Profit attributable to equity holders of the Company		
From continuing operations	<b>101,665</b>	135,057
From a discontinuing operation	<b>703</b>	12,431
	<b>102,368</b>	147,488

## 8 EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

	Number of shares	
	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
<hr/>		
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period	1,438,286,184	993,173,700

## 9 PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND PREMIUMS/ LAND LEASE PAYMENTS

As at 30 June 2007, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a net book value of approximately RMB4,367,000 (31 December 2006: RMB5,638,000).

## 10 TRADE RECEIVABLES

An ageing analysis of trade receivables as at the balance sheet date, based on the invoice date, and net of provisions, is as follows:

	30 June	31 December
	2007	2006
	(Unaudited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	380,838	307,106
Over 3 months but within 6 months	8,377	15,800
Over 6 months but within 1 year	3,531	10,258
Over 1 year but within 2 years	630	3,278
Over 2 years	5	45
	<hr/>	<hr/>
	393,381	336,487

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.



## 11 CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

The Group's cash and bank balances are denominated in RMB at each balance sheet date, except for the followings:

	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Original currency <i>in'000</i>	RMB equivalent <i>in'000</i>	Original currency <i>in'000</i>	RMB equivalent <i>in'000</i>
Cash and bank balances:				
USD	720	5,486	525	4,097
JPY	12,490	772	683	45
HKD	656,532	639,699	696,744	699,998

## 12 TRADE PAYABLES

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

	30 June 2007 (Unaudited) <i>RMB'000</i>	31 December 2006 (Audited) <i>RMB'000</i>
Within 3 months	322,354	332,930
Over 3 months but within 6 months	25,045	55,656
Over 6 months but within 1 year	5,543	14,710
Over 1 year but within 2 years	4,559	2,371
Over 2 years	8,735	7,006
	<b>366,236</b>	<b>412,673</b>

## 13 ISSUED CAPITAL

	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic Shares of RMB1.00 each, currently not listed				
-State-owned Shares	678,576	678,576	678,576	678,576
H Shares of RMB1.00 each	759,710	759,710	759,710	759,710
	<b>1,438,286</b>	<b>1,438,286</b>	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.

## 14 ULTIMATE HOLDING COMPANY

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

## 15 BUSINESS COMBINATION

On 1 March 2007, the Group completed its acquisition of an additional 40% interest in United Bearings from the foreign investor of United Bearings and thus increased its equity interest in United Bearings as to 90%. United Bearings is engaged in the production and sale of bearings and related specific equipment. The purchase consideration of RMB30,000,000 for the acquisition was in the form of cash, which has been fully paid up to the balance sheet date.

The fair values of the identifiable assets and liabilities of United Bearings as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

## 15 BUSINESS COMBINATION (continued)

	Fair value recognised on acquisition <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Property, plant and equipment	70,190	64,070
Available-for-sale investments	200	200
Deferred tax assets	7,837	7,837
Inventories	53,384	53,384
Trade receivables	42,145	42,145
Bills receivable	10,481	10,481
Prepayments, deposits and other receivables	11,406	11,406
Cash and cash equivalents	10,278	10,278
Trade payables	(57,857)	(57,857)
Tax payable	(2,214)	(2,214)
Other payables and accruals	(33,363)	(33,363)
Bank and other borrowings	(58,000)	(58,000)
Deferred tax in relation to fair value adjustments	(1,530)	-
Minority interests	(5,296)	(4,837)
	47,661	43,530
Goodwill on acquisition	8,818	
Revaluation surplus	(2,295)	
	54,184	
Satisfied by cash	30,000	
Offset by the proportionate consolidation before business combination	24,184	
	54,184	
Offset of balances arising from the business combination:		
Trade receivables	(7,493)	
Prepayments, deposits and other receivables	(10,537)	
Loan receivable	(14,250)	
Trade payables	7,493	
Other payables and accruals	10,787	
Bank and other borrowings	14,000	

## 15 BUSINESS COMBINATION (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary was as follows:

	<i>RMB'000</i>
Cash consideration	30,000
Cash and cash equivalents acquired	(10,278)
Proportionate consolidation effect	5,139
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	24,861

Since its acquisition, United Bearings contributed RMB94,012,000 to the Group's turnover and RMB6,058,000 to the consolidated profit for the Period. These figures include the Group's share of United Bearings' turnover and profit of RMB47,006,000 and RMB3,029,000, respectively, under proportionate consolidation for the said period had the acquisition not taken place and United Bearings remained a jointly-controlled entity of the Group.

Had the combination taken place at the beginning of the Period, the revenue from continuing operations and profit of the Group for the Period would have been RMB1,436,656,000 and RMB104,720,000, respectively.

## 16 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 of 3 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 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30 June 2007 (Unaudited) <i>RMB'000</i></b>	<b>31 December 2006 (Audited) <i>RMB'000</i></b>
Within one year	<b>204</b>	308
In the second to fifth years, inclusive	<b>188</b>	480
	<b>392</b>	788

## 16 OPERATING LEASE COMMITMENTS (continued)

### (b) As lessee

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

As at 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June</b> <b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>31 December</b> <b>2006</b> <b>(Audited)</b> <b>RMB'000</b>
Within one year	<b>22,403</b>	23,690
In the second to fifth years, inclusive	<b>29,046</b>	25,465
After five years	<b>9,795</b>	8,543
	<b>61,244</b>	57,698

## 17 COMMITMENTS

In addition to the operating lease commitments detailed in note 16(b) above, the Group had the following commitments as at 30 June 2007:

	<b>30 June</b> <b>2007</b> <b>(Unaudited)</b> <b>RMB'000</b>	<b>31 December</b> <b>2006</b> <b>(Audited)</b> <b>RMB'000</b>
Contracted, but not provided for:		
- Plant and machinery	<b>95,385</b>	163,945
- Land and buildings	<b>93,035</b>	24,569
- Intangible assets	<b>1,221</b>	1,891
- Others	<b>-</b>	21,000
	<b>189,641</b>	211,405

**17 COMMITMENTS (continued)**

	<b>30 June 2007 (Unaudited) RMB'000</b>	<b>31 December 2006 (Audited) RMB'000</b>
Authorised, but not contracted for:		
- Plant and machinery	<b>193,047</b>	279,350
- Land and buildings	-	26,512
	<b>193,047</b>	305,862
	<b>382,688</b>	517,267

**18 CONTINGENT LIABILITIES**

	<b>30 June 2007 (Unaudited) RMB'000</b>	<b>31 December 2006 (Audited) RMB'000</b>
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- Jointly-controlled entity	-	30,000
- Associate	<b>1,800</b>	25,500
	<b>1,800</b>	55,500

## 19 RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>Purchase of materials from:</b>			
	(i)		
Associates		153	-
SEC group companies *		454	25,344
Other related companies		-	1,679
		<b>607</b>	<b>27,023</b>
<b>Sales of goods to:</b>			
	(i)		
Jointly-controlled entity **		4,615	10,935
Associates		340	-
SEC group companies *		145,515	141,911
		<b>150,470</b>	<b>152,846</b>
<b>Sales of scraps and spare parts to:</b>			
	(i)		
SEC group companies *		-	1,756
<b>Receiving of manpower services from:</b>			
	(i)		
SEC group companies *		-	3,491
<b>Purchase of property, plant and equipment from:</b>			
	(i)		
SEC group companies *		392	-
Other related companies		-	687
		<b>392</b>	<b>687</b>

## 19 RELATED PARTY TRANSACTIONS (continued)

(a) The Group had the following material transactions with related parties during the Period (continued):

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Rental fee payable to:	(ii)		
Ultimate holding company		2,131	9,248
SEC group companies *		10,866	3,900
		<b>12,997</b>	13,148
Interest income from:	(iii)		
Jointly-controlled entity **		126	331

### 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 interest income was based on mutually agreed terms with reference to market rates.

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

\*\* The amounts of transactions with jointly-controlled entity disclosed in the tables 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) Other transactions with related parties

- (i) During the Period, Shanghai Electric Corporation leased certain properties to United Bearings with no consideration.
- (ii) During the Period, one of the SEC group companies leased certain properties to a subsidiary of the Group with no consideration.
- (iii) During the Period, two subsidiaries of Sweden Ruihua Group Corporation, who owns 40% equity interest in Nanyang Motor, provided certain properties to Nanyang Motor with no consideration.



## 19 RELATED PARTY TRANSACTIONS (continued)

### (c) Guarantee provided to a related company of the Group

As disclosed in note 18, the Group provided a corporate guarantee of RMB1,800,000 (31 December 2006: RMB55,500,000) to a related company and its expiry date is 20 September 2009.

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

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Fees	302	255
Short term employee benefits	1,748	1,619
Post-employment benefits	84	81
	<b>2,134</b>	1,955

## 20 POST BALANCE SHEET EVENTS

- (a) On 16 August 2007, the Company entered into an equity transfer agreement with Shanghai Electric Corporation, pursuant to which the Company agreed to dispose, subject to satisfaction of certain conditions, a 60% interest in Nanyang Motor at a cash consideration of RMB122,568,000. Upon completion of the transaction, Nanyang Motor will cease to be the Company's subsidiary.
- (b) On 13 April 2007, the Company entered into an equity purchase agreement with Shanghai Electric Industrial Corporation, pursuant to which the Company agreed to acquire, subject to satisfaction of certain conditions, a 30% interest in Shanghai Morganite Company Limited at a cash consideration of RMB18,470,000. Subsequent to the balance sheet date, the Company obtained approvals from the relevant PRC government authorities.
- (c) On 13 April 2007, a subsidiary of the Company, namely Shanghai Biaowu High Tensile Fasteners Company Limited ("Biaowu Fasteners") entered into an asset purchase agreement with one of the SEC group companies, pursuant to which Biaowu Fasteners agreed to purchase, subject to satisfaction of certain conditions, certain properties and equipment at a cash consideration of RMB97,965,000. Subsequent to the balance sheet date, Biaowu Fasteners obtained the related property ownership certificate issued by the properties administration authority.

## **21 COMPARATIVE AMOUNTS**

The comparative interim condensed consolidated income statement has been re-presented as if the discontinuing operation during the Period had been discontinuing at the beginning of the comparative period (note 6).

## **22 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 unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 17 August 2007.