



**PMC** 上海集优  
SHANGHAI PRIME

# SHANGHAI PRIME

## MACHINERY COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 2345)

# Interim Report 2008

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# Corporate Information

## Statutory Chinese Name

上海集優機械股份有限公司

## Statutory English Name

Shanghai Prime Machinery Company Limited

## Registered Address

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

## Principal Place of Business in Hong Kong

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

## Legal Representative

Liu Zhenduo

## Authorised Representatives

Hu Kang  
Chen Hui

## Alternative Authorised Representatives

Chan Chun Hong (Thomas)  
Li Wai Chung

## Company Secretary

Li Wai Chung (CPA)

## Qualified Accountant

Li Wai Chung (CPA)

## International 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

## H-share Registrar and Transfer Office

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

## Investor and Media Relations Consultant

iPR Ogilvy Ltd.

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  
Website: [www.pmcsh.com](http://www.pmcsh.com)  
Email: [pmcservice@pmcsh.com](mailto:pmcservice@pmcsh.com)  
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Fax: +86 (21) 6472 9889

## Summary

- Revenue for the six months ended 30 June 2008 (the “Period”) was RMB**1,664** million, representing an increase of **17%** over the corresponding period last year.
- Profit attributable to the equity holders of the Company for the Period was RMB**133** million, representing an increase of **30%** over the corresponding period last year.
- Basic earnings per share for the Period was RMB**9.23** cents.
- The Group’s fastener business has overcome the challenges such as the price surge of the raw materials, the increase of the labour costs and the rapid appreciation of Renminbi by adjusting upward the product prices, increasing the stock of raw materials and conducting currency forward contracts. The gross profit margin of fasteners increased 2 percentage points over the corresponding period last year, reaching a record high since the listing of the Group.
- The Group’s sales of 1,000MW ultra-super-critical power generation turbine blades amounted to RMB**73** million for the Period, representing an increase of **153%** over the corresponding period last year.
- The Group devoted itself to enhancing the production capability of railway bearings in order to meet the strong market demand. Sales of railway bearings amounted to RMB**130** million for the Period, representing an increase of **46%** over the corresponding period last year.

# Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Shanghai Prime Machinery Company Limited (the "Company"), I am pleased to announce the interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008 (the "Period"). The Group's interim results have not been audited but have been reviewed by our Audit Committee and international auditors, Ernst & Young.

## Results Review

The revenue of the Group for the Period reached RMB1,664 million (1H 2007: RMB1,420 million), representing an increase of 17% over the corresponding period last year. Profit attributable to equity holders of the Company was RMB133 million (1H 2007: RMB102 million), representing an increase of 30%. The total assets of the Group amounted to RMB3,524 million (31 December 2007: RMB3,289 million), representing an increase of 7%.

Looking back at the first half of 2008, our path was paved with both challenges and opportunities. An increasing price of raw materials and continuous appreciation of Renminbi brought challenges to the operation and management of the Group. When dealing with these unfavorable factors, the Group alleviated the negative impacts of macro-economy and market price fluctuation through a number of measures including adjusting the price quotation system and strengthening our internal cost control. All of our core businesses recorded a steady growth in operations during the first half of the year.

The sales of our turbine blades for ultra-super-critical turbines with 1,000 MW generation capacity for the first half of the year was RMB73 million, representing an increase of 153% over the corresponding period last year. With the continuous quality improvement of speed-lifting railway bearings for 80 tons heavy cargo trains, the sales of the railway bearing reached RMB130 million, representing an increase of 46% over the corresponding period last year. Cutting tool business benefited from sales network establishment and high applicable pricing policies, with sales reaching RMB264 million, representing an increase of 19% over the corresponding period last year. In respect of the fastener business, which faced double unfavorable factors including continuous appreciation of Renminbi and reduction in export tax refund rate, the Group raised its profitability through controlling the level of gross profit margins of new sales orders. The gross profit margin of fastener business during the first half of the year had a 2 percentage points increase over the corresponding period last year, reaching a record high since the listing of the Group.

## Business Outlook

### Turbine Blade

The demand growth of turbine blades used in coal-fired power generation equipment gradually becomes steady. With the maturity of new technology and the implementation of sustainable development strategy set by the State, it is expected that there will be a potential sales increase of turbine blades used in non-coal-fired power generation equipment. As a specialized turbine blades manufacturer with modernized production technology in the State, by implementing the project of building the manufacturing base for 1,000 MW extra large nuclear power generation turbine blades and technology upgrades for manufacturing aviation blade forgings, the Group further enhance the equipment capability and technological know-how to satisfy the growing demand for larger power and diversity from power generators. Meanwhile, the Group endeavored in research and development of technology and enhancement of proprietary and innovative products by increasing its investment in core technology, cooperating with products research institutions and registering the intellectual property right of techniques, which in turn strengthened the core competitiveness of the turbine blade business of the Group.

## Bearing

With the development of high value-added products as the focus of our strategy, the Group continuously optimized the bearing product mix and increased the production volume of high technology products such as speed lifting railway bearings for heavy cargo trains. In order to maintain sustained business growth, the Group will further strengthen its research and development as well as production in large bearings of, including but not limit to, wind power generation.

## Cutting Tool

Advancement in manufacturing technology on one hand pushed forward the rapid development of high-speed and high-efficiency machine tool, while on the other hand, supported an increasing demand for high-end cutting tools. The Group enhanced reputation as well as market competitiveness through speeding up the commencement of equipment operation and technologies development and accelerating the modification of product mix. Besides, by upholding "satisfy market demand, raise clients' satisfaction and capture market shares " as its objectives and by combining the brand name effect of high performance-cost ratio of its products, the Group not only strived to consolidate its presence in the existing market, but also expanded new markets and channels steadily to further optimize its present sales network.

## Fastener

The fastener export business of the Group is expanding with the growing demand of fastener from global manufacturing industries. As the largest manufacturing enterprise engaged in export trade business of fastener in China, the Group identified and monitored foreign exchange risks through increasing export sales to regions where Euro is the settlement currency and commencement of currency forward contracts. Facing surging prices of raw materials in fastener industry, the Group on one hand ensured product quality and made use of its logistic competitiveness of integrated supplying ancillary, while on the other hand it adjusted upward the pricing for new orders to deal with the increasing costs. The Group also insisted on a complementary balance between trading and manufacturing, bringing advancement to both its domestic and overseas sales.

The Company and Shanghai Biaowu High Tensile Fasteners Company Limited ("Biaowu Fasteners"), a wholly-owned subsidiary of the Company, are participating in an anti-dumping investigation on Chinese companies manufacturing carbon steel fasteners initiated by the European Commission on 9 November 2007. According to a letter from the European Commission dated 4 August 2008, the European Commission would not impose provisional measures and would continue the investigation. As of the date of this report, the investigation is still under way and is expected to be completed in February 2009. The on-going anti-dumping investigation is not a litigation.

## Conclusion

Looking forward, we are of full confidence. The Group will continue to uphold the corporate belief of "diligently serve customers, wholeheartedly strive for better returns to the shareholders". By speeding up the research and development of high technology and high value-added products, enlarging the scale of operation, actively exploring new model of business development, the Group will further enhance its competitive strength and strive to develop itself into an internationally advanced and domestically excellent service supplier of industrial parts and components.

Finally, I would like to take this opportunity to thank all shareholders for their ceaseless trust and long-term support, as well as the Board, Supervisory Committee, our management and the entire staff for their diligent, responsible and devoted contributions. The Company will continue to maintain its down-to-earth and solid style, leverage favorable market conditions, so as to continually enhance its corporate values and reward each shareholder with excellent operation results.

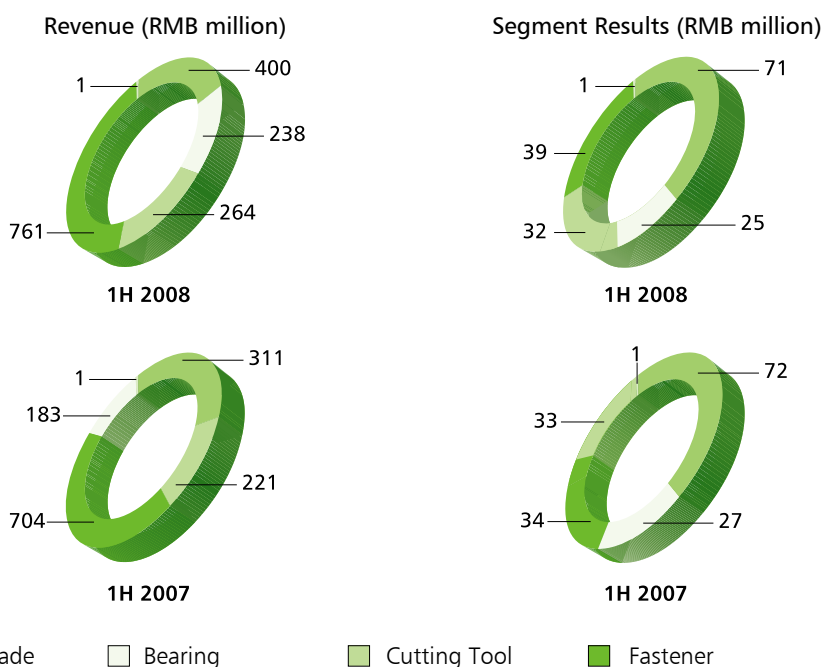
**Liu Zhenduo**  
Chairman of the Board  
Shanghai, PRC  
15 August 2008



# 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		Segment Results	
	For the six months ended 30 June 2008	2007	For the six months ended 30 June 2008	2007
Turbine Blade	400	311	71	72
Percentage of total	24%	22%	42%	43%
Bearing	238	183	25	27
Percentage of total	14%	13%	15%	16%
Cutting Tool	264	221	32	33
Percentage of total	16%	15%	19%	20%
Fastener	761	704	39	34
Percentage of total	46%	50%	23%	20%
Others ( inter-group transactions eliminated)	1	1	1	1
Percentage of total	0%	0%	1%	1%
<b>Total</b>	<b>1,664</b>	<b>1,420</b>	<b>168</b>	<b>167</b>

## Turbine Blade Business

For the six months ended 30 June 2008 (the "Period"), the revenue of turbine blade business amounted to RMB400 million (1H 2007: RMB311 million), representing an increase of 29% over the corresponding period in 2007. The segment result of the turbine blade business was RMB71 million (1H 2007: RMB72 million). Research and development costs for the Period was RMB15 million, representing an increase of RMB5 million over the corresponding period in 2007. The gross profit margin of the turbine blade business for the Period maintained at a comparatively high level, which was 31% (1H 2007: 33%). The export sales amounted to RMB46 million (1H 2007: RMB38 million).

### **Bearing Business**

For the Period, the revenue of the bearing business was RMB238 million (1H 2007: RMB183 million), representing an increase of 30% over the corresponding period in 2007. The segment result was RMB25 million (1H 2007: RMB27 million). Selling and distribution expenses for the Period were RMB11 million, representing an increase of RMB4 million over the corresponding period in 2007. During the Period, the gross profit margin was 25% (1H 2007: 25%). It maintained at a similar level as that of corresponding period last year. The total export sales reached RMB31 million (1H 2007: RMB38 million).

### **Cutting Tool Business**

For the Period, the revenue of the cutting tool business was RMB264 million (1H 2007: RMB221 million), representing an increase of 19% over the corresponding period in 2007. The segment result was RMB32 million (1H 2007: RMB33 million). Research and development costs for the Period was RMB9 million, representing an increase of RMB6 million over the corresponding period in 2007. The gross profit margin was 24% (1H 2007: 23%). It maintained at a similar level as corresponding period last year. Export sales of the cutting tool business amounted to RMB38 million (1H 2007: RMB43 million).

### **Fastener Business**

For the Period, the revenue of the fastener business reached RMB761 million (1H 2007: RMB704 million), representing an increase of 8% over the corresponding period in 2007. The segment result was RMB39 million (1H 2007: RMB34 million). The gross profit margin was 10% (1H 2007: 8%). Export sales, for the Period, amounted to RMB669 million (1H 2007: RMB593 million), representing an increase of 13% over the corresponding period in 2007 and accounting for 88% of the segment sales.

### **Share of Profits and Losses of Associates**

For the Period, share of profits of associates of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was RMB10 million (1H 2007: RMB8 million).

### **Finance Costs**

For the Period, finance costs were RMB4 million (1H 2007: RMB2 million).

### **Profit Attributable to Equity Holders of the Company**

Profit attributable to equity holders of the Company was RMB133 million for the Period (1H 2007: RMB102 million). Basic earnings per share was RMB9.23 cents (1H 2007: RMB7.12 cents).



# Management Discussion and Analysis

## Cash Flow

As at 30 June 2008, the Group's cash and bank balances were RMB561 million (31 December 2007: RMB882 million), of which RMB37 million were pledged deposits (31 December 2007: RMB19 million). During the Period, the Group had a net cash inflow from operating activities of RMB4 million (1H 2007: net cash inflow of RMB53 million), a net cash outflow from investing activities of RMB504 million (1H 2007: net cash inflow of RMB635 million), and a net cash inflow from financing activities of RMB16 million (1H 2007: net cash inflow of RMB50 million).

## Assets and Liabilities

As at 30 June 2008, the Group had total assets of RMB3,524 million (31 December 2007: RMB3,289 million), an increase of RMB235 million compared with the beginning of the year. Total current assets were RMB2,183 million (31 December 2007: RMB2,048 million), accounting for 62% of total assets and representing an increase of RMB135 million compared with the beginning of the year. Total non-current assets were RMB1,341 million (31 December 2007: RMB1,241 million), accounting for 38% of total assets and representing an increase of RMB100 million compared with the beginning of the year.

As at 30 June 2008, the total liabilities of the Group were RMB907 million (31 December 2007: RMB750 million), which represented an increase of RMB157 million compared with the beginning of the year. Total current liabilities were RMB862 million (31 December 2007: RMB701 million), accounting for 95% of total liabilities and representing an increase of RMB161 million compared with the beginning of the year, whereas total non-current liabilities were RMB45 million (31 December 2007: RMB49 million), accounting for 5% of total liabilities and representing a decrease of RMB4 million compared with the beginning of the year.

As at 30 June 2008, the net current assets of the Group were RMB1,321 million (31 December 2007: RMB1,347 million), representing a decrease of RMB26 million from the beginning of the year.

## Source of Funding and Indebtedness

As at 30 June 2008, the Group had an aggregate bank and other borrowings of RMB122 million (31 December 2007: RMB92 million), representing an increase of RMB30 million from the beginning of the year. Borrowings repayable within one year were RMB105 million (31 December 2007: RMB75 million), representing an increase of RMB30 million from the beginning of the year. Borrowings repayable after one year amounted to RMB17 million (31 December 2007: RMB17 million).

As at 30 June 2008, all bank and other borrowings of the Group were interest-bearing at fixed rates.

## Gearing Ratio

As at 30 June 2008, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 5% (31 December 2007: 4%).

### Pledges of Assets

As at 30 June 2008, the bank deposits pledged to banks were RMB37 million (31 December 2007: RMB19 million).

### Contingent Liabilities

As at 30 June 2008, the Group had total contingent liabilities of approximately RMB1 million (31 December 2007: approximately RMB2 million). During the Period, the Group provided a guarantee of approximately RMB1 million to an associate in connection with the banking facilities granted to and utilised by that associate.

### Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB140 million, which was principally invested in the upgrading of production technologies and equipment, and the expansion of production capacity.

### Risk of Foreign Exchange

The Group uses Renminbi as the reporting currency. During the Period, the market generally predicts an accelerating appreciation of Renminbi, which will, on one hand, increase the price of exporting products, and may lead to a negative influence on the Group's export sales, but a positive influence on the Group's materials and equipments import on the other hand.

In addition, as at 30 June 2008, the Group's deposits comprise USD1.1 million (approximately RMB8 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

### Significant Event

During the Period, Wuxi Turbine Blade Company Limited("Wuxi Turbine Blades"), a wholly owned subsidiary of the Company, entered into an agreement with Administrative Council of Wuxi Huishan Economic Development Zone, Wuxi city, Jiangsu province, the PRC, on 25 January 2008 to acquire a piece of land located in Wuxi Huishan Economic Development Zone for a consideration of RMB65 million in order to relocate the manufacturing plant of Wuxi Turbine Blades and accommodate additional new machinery and equipment. Wuxi Turbine Blades also has signed a Machinery Purchase Agreement on 1 August 2008 with China National Machinery & Equipment Import & Export Corporation, a PRC national corporation established in 1978, and SMS Meer GmbH, a company incorporated in Germany with limited liability, to acquire a 35,500 tons clutch operated screw press machine and its related components in order to produce large blades for ultra super-critical turbines and nuclear-powered turbines. The purchase price is EUR29.4 million (approximately RMB314 million), including EUR1.5 million (approximately RMB16 million) technical services fee.

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

### Employees

As at 30 June 2008, the Group had approximately 3,290 employees (31 December 2007: 3,307). The Group has short-term and long-term employee incentive programs and a range of training programs to assist staff in their career-development.

## Other Information

### Share Capital Structure

	Number of shares	Approximate percentage of issued share capital (%)
Domestic Shares	678,576,184	47.18
H Shares	<u>759,710,000</u>	<u>52.82</u>
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 2008, 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 Shanghai Prime Machinery Company Limited (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 /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	<u>26,247,327</u>	(1)	Interest of controlled corporation	Long position	<u>3.87</u>	<u>1.82</u>
		<b>678,576,184</b>				<b>100.00</b>	<b>47.18</b>
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
Templeton Asset Management Ltd.	H	137,442,000		Investment manager	Long position	18.09	9.56
Atlantis Investment Management Ltd.	H	69,680,000		Investment manager	Long position	9.17	4.84
Government of Singapore Investment Corporation Pte Ltd.	H	69,006,000		Investment manager	Long position	9.08	4.80
Citigroup Inc.	H	4,000	(2)	Interest of controlled corporation	Long position	0.0005	0.0003
	H	<u>63,289,915</u>	(2)	Custodian	Long position	<u>8.33</u>	<u>4.40</u>
		<b>63,293,915</b>				<b>8.33</b>	<b>4.40</b>
The Hamon Investment Group Pte Limited	H	40,026,000	(3)	Investment manager	Long position	5.27	2.78

**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 (%)	Number 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) Citigroup Inc. held a long position in 63,293,915 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 (%)	Number of shares
Citigroup Global Markets Ltd	100	4,000
Citibank N.A.	100	63,289,915

The interests of Citigroup Inc. included a lending pool of 63,289,915 shares.

- (3) The Hamon Investment Group Pte Limited held a long position in 40,026,000 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 (%)	Number of shares
Hamon Asset Management Limited	100	3,922,000
Hamon U.S. Investment Advisors Limited	100	34,398,000
Hamon Investment Management Limited	100	1,706,000

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 2008 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 Positions and Underlying Shares***

As at 30 June 2008, 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.

## Other Information

### ***Directors' and Supervisors' Interests and Short Positions and Underlying Shares (continued)***

As at 30 June 2008, 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.

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

The Company has adopted 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 during the six months ended 30 June 2008 (the "Period").

### ***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 (the "Board") believes that the Company has complied with the requirements set out in the Code and there have been no material deviations from the Code during the Period.

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

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

### ***Interim Dividend***

The Board 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 the Company consists of executive directors, namely Liu Zhenduo, 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 (the "Supervisory Committee") consists of Chen Jiaming, Hu Peiming and Lin Guanhong.

The present term of office of the Executive Directors of the Board and the Supervisory Committee members will expire on 28 September 2008, and the term of office of the Independent Non-executive Directors will expire on 27 April 2009. The resolution in respect of the re-election and appointment of the members of Board and the Supervisory Committee has been passed by the Board in the Board Meeting held on 15 August 2008. The new session of the Board will comprise executive directors, namely Liu Zhenduo, Zhu Weiming, Hu Kang, Ye Fucai, Zhu Xi and Deng Yuntian, and independent non-executive directors, namely Chan Chun Hong (Thomas), Zhou Feida and Liu Huangsong. The new session of the Supervisory Committee will comprise Chen Jiaming, Hu Peiming and Zhang Jianping. The appointments of the relevant directors and supervisors shall be subject to the approval of the extraordinary general meeting of the Company.

# Independent Auditors' Review Report

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

## Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 14 to 34, which comprise the interim condensed consolidated balance sheet of Shanghai Prime Machinery Company Limited and its subsidiaries as of 30 June 2008 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  
15 August 2008

# Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
<b>CONTINUING OPERATIONS</b>			
REVENUE	3	1,664,101	1,419,531
Cost of sales		(1,341,621)	(1,165,415)
Gross profit		322,480	254,116
Other income and gains	3	26,649	23,680
Selling and distribution costs		(46,909)	(34,408)
Administrative expenses		(98,671)	(67,862)
Other expenses		(42,904)	(22,253)
Finance costs		(4,073)	(1,889)
Share of profits and losses of associates		10,111	7,780
<b>PROFIT BEFORE TAX</b>	4	166,683	159,164
Tax	5	(32,676)	(56,867)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		134,007	102,297
<b>DISCONTINUED OPERATION</b>			
Profit for the period from a discontinued operation	6	-	1,173
<b>PROFIT FOR THE PERIOD</b>		134,007	103,470
ATTRIBUTABLE TO:			
Equity holders of the Company		132,773	102,368
Minority interests		1,234	1,102
		134,007	103,470
<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		9.23	7.12
- For profit from continuing operations		9.23	7.07



# Interim Condensed Consolidated Balance Sheet

30 June 2008

		30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	1,030,285	1,026,084
Prepaid land premiums/land lease payments	9	126,796	56,212
Goodwill		8,818	8,818
Other intangible assets		3,377	3,362
Investments in associates		119,644	96,155
Available-for-sale investments		1,072	1,072
Long-term prepayments		15,949	15,636
Deferred tax assets		35,566	33,898
<b>Total non-current assets</b>		<b>1,341,507</b>	<b>1,241,237</b>
<b>CURRENT ASSETS</b>			
Inventories		657,767	553,571
Trade receivables	10	431,376	337,868
Bills receivable		91,327	81,529
Prepayments, deposits and other receivables		149,907	113,328
Held-to-maturity investments	11	291,670	80,000
Pledged deposits		37,068	18,833
Cash and cash equivalents	12	523,848	863,303
<b>Total current assets</b>		<b>2,182,963</b>	<b>2,048,432</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	13	404,034	360,879
Bills payable		70,700	50,460
Tax payable		89,038	102,488
Other payables and accruals		192,953	112,528
Interest-bearing bank and other borrowings		105,000	75,000
<b>Total current liabilities</b>		<b>861,725</b>	<b>701,355</b>
<b>NET CURRENT ASSETS</b>		<b>1,321,238</b>	<b>1,347,077</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,662,745</b>	<b>2,588,314</b>

# Interim Condensed Consolidated Balance Sheet (continued)

30 June 2008

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,662,745</b>	<b>2,588,314</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		17,000	17,000
Government grants		19,670	21,286
Other long-term payables		2,676	3,465
Deferred tax liabilities		5,989	7,211
Total non-current liabilities		45,335	48,962
<b>Net assets</b>		<b>2,617,410</b>	<b>2,539,352</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	14	1,438,286	1,438,286
Reserves		1,166,052	1,033,279
Proposed final dividend		-	55,806
		2,604,338	2,527,371
<b>Minority interests</b>		<b>13,072</b>	<b>11,981</b>
<b>Total equity</b>		<b>2,617,410</b>	<b>2,539,352</b>

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	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		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
At 1 January 2008	1,438,286	702,606	(58,090)	52,451	336,312	55,806	2,527,371	11,981	2,539,352
Profit for the period	-	-	-	-	132,773	-	132,773	1,234	134,007
Total income and expenses for the period	-	-	-	-	132,773	-	132,773	1,234	134,007
Appropriation to surplus reserves	-	-	-	5,900	(5,900)	-	-	-	-
Final 2007 dividend declared	-	-	-	-	-	(55,806)	(55,806)	-	(55,806)
Dividend from a subsidiary	-	-	-	-	-	-	-	(143)	(143)
At 30 June 2008 (Unaudited)	1,438,286	702,606*	(58,090)*	58,351*	463,185*	-	2,604,338	13,072	2,617,410
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	-	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 RMB1,166,052,000 (31 December 2007: RMB1,033,279,000) in the unaudited interim condensed consolidated balance sheet.

# Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		3,580	52,955
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES		(503,979)	635,076
NET CASH INFLOW FROM FINANCING ACTIVITIES		16,084	50,068
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(484,315)	738,099
Effect of foreign exchange rate changes, net	3	-	(19,889)
Cash and cash equivalents at beginning of period		852,163	359,019
CASH AND CASH EQUIVALENTS AT END OF PERIOD		367,848	1,077,229
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents in the unaudited interim condensed consolidated balance sheet		523,848	1,084,996
Non-pledged deposits with original maturity of three months or more when acquired		(156,000)	(21,087)
Cash and cash equivalents attributable to a discontinued operation		-	13,320
		367,848	1,077,229

# Notes to Interim Condensed Consolidated Financial Statements

30 June 2008

## 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements have been 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 2007, except in relation to the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) as follows:

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

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group’s equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

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.

Six months ended 30 June 2008 (Unaudited)	Continuing operations						Total RMB'000
	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Elimination RMB'000	
Segment revenue:							
Sales to external customers	238,336	399,686	264,001	761,296	782	-	1,664,101
Inter-segment sales	-	-	-	-	123	(123)	-
Other revenue	2,521	6,565	5,957	1,196	13	-	16,252
<b>Total</b>	<b>240,857</b>	<b>406,251</b>	<b>269,958</b>	<b>762,492</b>	<b>918</b>	<b>(123)</b>	<b>1,680,353</b>
<b>Segment results</b>	<b>25,349</b>	<b>71,361</b>	<b>32,244</b>	<b>38,450</b>	<b>130</b>	<b>-</b>	<b>167,534</b>
Interest and dividend income and unallocated gains							10,397
Corporate and other unallocated expenses							(17,286)
Finance costs							(4,073)
Share of profits and losses of associates	3,334	-	1,289	-	5,488	-	10,111
Profit before tax							166,683
Tax							(32,676)
Profit for the period							134,007

## 2 SEGMENT INFORMATION (continued)

Six months ended 30 June 2007 (Unaudited)	Continuing operations						Total	Discontinued operation	
	Bearing	Turbine blade	Cutting tool	Fastener	Others	Elimination		Electric motor	Consolidated
	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

The Company and Shanghai Biaowu High Tensile Fasteners Company Limited ("Biaowu Fasteners"), a wholly-owned subsidiary of the Company, are participating in an anti-dumping investigation on Chinese companies manufacturing carbon steel fasteners initiated by the European Commission on 9 November 2007. According to a letter from the European Commission dated 4 August 2008, the European Commission would not impose provisional measures and would continue the investigation. As of the date of this report, the investigation is still under way and is expected to be completed in February 2009. The on-going anti-dumping investigation is not a litigation.



### 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 2008 (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:

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
<b>REVENUE</b>		
Sales of goods	1,655,571	1,413,358
Rendering of services	8,530	6,173
Attributable to continuing operations reported in the interim condensed consolidated income statement	1,664,101	1,419,531
Sales of goods attributable to a discontinued operation	-	194,263
	1,664,101	1,613,794
<b>Other income</b>		
Interest income for loan receivable, bank balances and deposits	10,397	16,205
Gross rental income	2,098	832
Profit on sales of raw materials, spare parts and semi-finished goods	10,584	13,132
Subsidy income	2,116	9,044
Others	847	2,750
	26,042	41,963
<b>Gains</b>		
Gain on disposal of items of property, plant and equipment, net	-	1,107
Gain on write-off of long-aged payables	607	-
Gain on disposal of investments	-	104
Fair value gains on derivatives financial instruments, net	-	395
Foreign exchange differences, net *	-	(19,889)
	607	(18,283)
<b>Total</b>	<b>26,649</b>	<b>23,680</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):

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007* (Unaudited) RMB'000
Cost of inventories sold	1,326,434	1,326,503
Cost of services provided	7,927	5,874
Depreciation	49,912	40,190
Recognition of prepaid land premiums/land lease payments	848	486
Amortisation of patents and licences	66	1,160
Amortisation of other intangible assets	365	283
Write-down of inventories to net realisable value	7,260	2,054
Research and development costs:		
Current period expenditure	25,187	13,087
Minimum lease payments under operating leases:		
Land and buildings	10,890	13,115
Vehicles	-	1,101
Employee benefits expenses	158,904	144,452
Loss on disposal of items of property, plant and equipment, net	391	-
Foreign exchange differences, net	9,815	25,536
Provision/(reversal) of impairment of accounts receivable	917	(235)

\* The disclosures for the six months ended 30 June 2007 presented in this note include those amounts charged / (credited) in respect of the discontinued operation.

#### 5 TAX

The Group is subject to the statutory corporate income tax rate of 25% for the Period (six months ended 30 June 2007: 33%) under the income tax rules and regulations of the People's Republic of China (the "PRC").

## 5 TAX (continued)

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	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Group:		
Current – the PRC		
Charge for the period	37,324	49,454
Over provision in prior years	(1,758)	(1,526)
Deferred	(2,890)	8,939*
<b>Total tax charge for the period</b>	<b>32,676</b>	<b>56,867</b>

\* During the 5th Session of the 10th National People's Congress on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law reduces the statutory tax rate from 33% to 25%. 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 six months ended 30 June 2007.

The share of tax attributable to associates amounting to RMB1,929,000 (six months ended 30 June 2007: RMB2,587,000) is included in "Share of profits and losses of associates" on the face of the interim condensed consolidated income statement.

## 6 DISCONTINUED OPERATION

In June 2007, the Company was committed to a plan to dispose of Shanghai Nanyang Motor Company Limited ("Nanyang Motor"). Nanyang Motor engages in production and sale of electric motors and accessories, and was a separate business segment that was part of the Group's operations. The Group 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 was completed on 30 November 2007.

## 6 DISCONTINUED OPERATION (continued)

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

	For the six months ended 30 June 2007 (Unaudited) RMB'000
Revenue	194,263
Other income and gains	2,899
<b>Total revenue</b>	<b>197,162</b>
Expenses	(193,672)
Finance costs	(2,043)
<b>Profit before tax from the discontinued operation</b>	<b>1,447</b>
Tax	(274)
<b>Profit for the period from the discontinued operation</b>	<b>1,173</b>

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

	For the six months ended 30 June 2007 (Unaudited) RMB'000
Operating activities	2,747
Investing activities	(6,582)
Financing activities	(2,043)
<b>Net cash outflow</b>	<b>(5,878)</b>
<b>Earnings per share:</b>	
Basic (RMB cents), from the discontinued operation	0.05

## 6 DISCONTINUED OPERATION (continued)

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

	For the six months ended 30 June 2007 (Unaudited)
Profit attributable to equity holders of the Company from the discontinued operation (RMB'000)	703
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (Number of shares)	1,438,286,184

## 7 DIVIDENDS

The directors do not recommend the payment of interim dividend (six months ended 30 June 2007: 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 2008 and 2007 as no diluting events occurred during these periods.

The calculations of basic earnings per share are based on:

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
<b>Earnings</b>		
Profit attributable to equity holders of the Company		
From continuing operations	132,773	101,665
From a discontinued operation	-	703
	132,773	102,368

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

	Number of shares For the six months ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period	1,438,286,184	1,438,286,184

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

As at 30 June 2008, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB1,567,000 (31 December 2007: RMB3,909,000).

## 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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within 3 months	405,027	311,678
Over 3 months but within 6 months	21,219	21,758
Over 6 months but within 1 year	4,599	3,593
Over 1 year but within 2 years	452	804
Over 2 years	79	35
	431,376	337,868

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 Held-to-maturity investments

The balance represents investments in money market with reputable banks in the PRC for maturity periods ranging from 51 to 201 days which bear expected interest rates ranging from 4.0% to 6.0% (31 December 2007: 3.8%) per annum.

## 12 CASH AND CASH EQUIVALENTS

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

	30 June 2008 (Unaudited)		31 December 2007 (Audited)	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
USD	1,108	7,603	826	6,033
JPY	-	-	12,615	808
HKD	-	-	215	201

## 13 TRADE PAYABLES

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

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within 3 months	325,165	291,830
Over 3 months but within 6 months	54,478	54,089
Over 6 months but within 1 year	15,194	6,893
Over 1 year but within 2 years	2,401	1,436
Over 2 years	6,796	6,631
	<b>404,034</b>	<b>360,879</b>



## 14 ISSUED CAPITAL

	30 June 2008 (Unaudited)		31 December 2007 (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	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>	<b>1,438,286</b>	<b>1,438,286</b>

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.

## 15 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.

## 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.

## 16 OPERATING LEASE COMMITMENTS (continued)

### (a) As lessor (continued)

As at 30 June 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	625	270
In the second to fifth years, inclusive	133	261
	<b>758</b>	<b>531</b>

### (b) As lessee

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

As at 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	13,132	21,401
In the second to fifth years, inclusive	21,106	21,502
After five years	5,200	7,049
	<b>39,438</b>	<b>49,952</b>

## 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 2008:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Contracted, but not provided for:		
- Plant and machinery	36,898	59,775
- Land and buildings	221	325
- Intangible assets	900	900
	<b>38,019</b>	<b>61,000</b>
Authorised, but not contracted for:		
- Plant and machinery	106,268	115,688
- Land and buildings	17,932	26,512
- Intangible assets	3,000	-
	<b>127,200</b>	<b>142,200</b>
	<b>165,219</b>	<b>203,200</b>

## 18 CONTINGENT LIABILITIES

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- Associate	1,400	1,800

## 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	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Purchase of materials from:	(i)		
Associates		43	153
SEC group companies *		1,496	454
		1,539	607
Sales of goods to:	(i)		
Jointly-controlled entity		-	4,615
Associates		719	340
SEC group companies *		107,291	145,515
		108,010	150,470
Receiving of manpower services from:	(i)		
SEC group companies *		664	-
Purchase of property, plant and equipment from:	(i)		
SEC group companies *		-	392
Rental fee payable to:	(ii)		
Ultimate holding company		1,952	2,131
SEC group companies *		8,378	10,866
		10,330	12,997
Interest income from:			
Jointly-controlled entity		-	126

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.

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

## 19 RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties

(i) During the period, one of the SEC group companies leased certain properties to Shanghai United Bearings Company Limited, a subsidiary of the Company, with no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to market rate is RMB1,121,000 per annum.

(ii) During the period, one of the SEC group companies leased certain properties to Shanghai Tools Works Company Limited, a subsidiary of the Company, with no consideration. The directors are of the opinion that the prevailing rental on these properties with reference to market rate is RMB3,292,000 per annum.

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

As disclosed in note 18, the Group provided a corporate guarantee of RMB1,400,000 (31 December 2007: RMB1,800,000) to a related company and its expiry date is 22 February 2010.

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

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Fees	233	302
Short term employee benefits	1,579	1,748
Post-employment benefits	62	84
	<b>1,874</b>	<b>2,134</b>

## 20 POST BALANCE SHEET EVENTS

On 1 August 2008, Wuxi Turbine Blades Company Limited, a wholly owned subsidiary of the Company, entered into a Machinery Purchase Agreement with China National Machinery & Equipment Import & Export Corporation, a PRC national corporation established in 1978, and SMS Meer GmbH, a company incorporated in Germany with limited liability, to acquire a 35,500 tons clutch operated screw press machine and its related components, in order to produce large blades for ultra super-critical turbines and nuclear-powered turbines. The purchase price is EUR29,430,000 (equivalent to approximately RMB313,603,000) including EUR1,500,000 (equivalent to approximately RMB15,984,000) technical services fee. The machinery will form one of the new production lines at the new manufacturing plant in Wuxi.

## 21 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 15 August 2008.