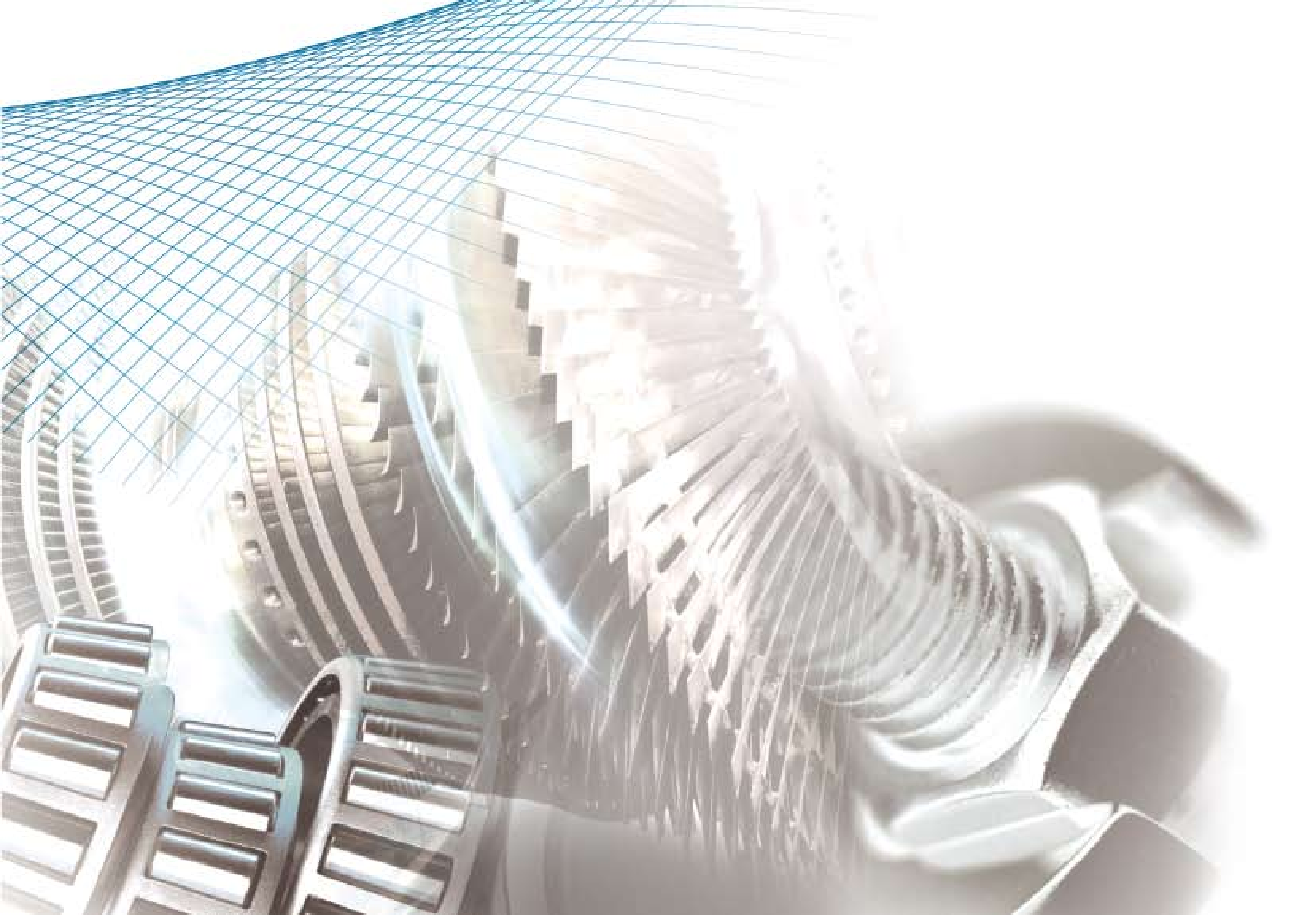
上海集优
SHANGHAI PRIME

SHANGHAI PRIME
MACHINERY COMPANY LIMITED

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

(Stock Code: 02345)

2009 Interim Report



CONTENT

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, the People's Republic of China
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
Zhu Weiming
Hu Kang

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

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: 02345
Website: www.pmcsh.com
Email: pmcservice@pmcsh.com
Telephone: +86 (21) 6472 9900
Fax: +86 (21) 6472 9889

Summary

- Revenue for the six months ended 30 June 2009 (the "Period") was RMB1,016 million, representing a decrease of 39% over the corresponding period last year.

- Profit attributable to the owners of Shanghai Prime Machinery Company Limited (the "Company") for the Period was RMB78 million, representing a decrease of 41% over the corresponding period last year.

- Basic earnings per share for the Period was RMB5.41 cents.

- Recent domestic demand for turbine blades used in coal-fired power generation equipment has been reduced, and customers delayed some of their orders, therefore the sales of turbine blades used in coal-fired power generation equipment decreased 24% during this Period. Facing the adjustment of market demand structure, the Company and its subsidiaries (collectively referred to as the "Group") increased efforts on the research and development of blades for jet engines, where we have achieved breakthrough. In the meantime, through expansion into the high precision and technology aviation forging market and international market, the product structures were optimized. During the Period, we recorded an export sales of RMB99 million, a surge of 115% from the corresponding period last year.

- During the Period, in line with government policies to focus on the development and utilisation of clean energy, the Group increased efforts on the research and development of extra large wind power bearings. It is now equipped with the initial bulk production capacity for extra large bearings for MW wind power generators, thus the Group's extra large bearing business realised a sales revenue of RMB17 million for the Period.

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 2009 (the "Period"). The Group's interim results have not been audited but have been reviewed by the Company's audit committee and the Company's international auditors, Ernst & Young.

Business Review

In the first half of 2009, the international financial crisis continued to disperse, seriously affecting the normal operation of global financial systems and gradually affecting real economies. Macro economy became more stringent, with increasing adversities and uncertainties in the economic environment, creating many challenges for the Group in 2009. The impact of the financial crisis shifted to real economies, leading to a decrease in global spending and a significant drop in overall product demand, thus the Group's sales performance, in particular export sales, has been much affected. As the decrease in domestic coal-fired power generation and railway logistics in the first half has affected the market demand for some of the principal products of the Group, the structure of product mix will require further adjustments and optimizations. During the Period, the Group was also involved in a fastener anti-dumping investigation by the European Union, and was charged an anti-dumping duty of 69.9% as a result, which adversely affected the export sales of the Company's fastener products.

In order to minimise the adverse effect from the negative economic environment, the Company adopted enhanced risk mitigating measures, grasped development opportunities and focused on developing government-encouraged areas, as well as put much efforts in adjusting its product portfolio and sought to expand domestic market, thereby sustained the stable and healthy development of the Group, and also helped to gradually realise the Company's medium and long-term strategic objectives in stages. Recent domestic demand for turbine blades used in coal-fired power generation equipment has been reduced, and customers delayed some of their orders, therefore the sales of turbine blades used in coal-fired power generation equipment decreased 24% during this Period. Facing the adjustment of market demand structure, the Group increased efforts on the research and development of blades for jet engines, where we have achieved breakthrough. In the meantime, through expansion into the high precision and technology aviation forging market and international market, the product structures were optimized. During the Period, we recorded an export sales of RMB99 million, a surge of 115% from the corresponding period last year. During the Period, in line with government policies to focus on the development and utilisation of clean energy, the Group increased efforts on the research and development of extra large wind power bearings. It is now equipped with the initial bulk production capacity for extra large bearings for MW wind power generators, thus the Group's extra large bearing business realised a sales revenue of RMB17 million for the Period. During the Period, the Group's cutting tool business obtained approval of the "high-end numerically-controlled machineries and manufacturing equipments" of the government's major projects on technology, and upgraded its development capabilities of high-performance cutting tools required for the processing of automobile essential parts and components and nano-coated cutting tools. As a result, we have established a patented technology with sole ownership to the intellectual property rights and we are gradually moving towards the goal of promoting the industrialisation of high-end numerically-controlled cutting tools. The Group's fastener business focused on the provision of customised and convenient services, and actively explored end-customers, to further optimise the market structure of its fastener business.

During the Period, being adversely affected by the financial crisis, the Group recorded a revenue of RMB1,016 million (1H 2008: RMB1,664 million), representing a decrease of 39% over the corresponding period last year. Profit attributable to the owners of the Company was RMB78 million (1H 2008: RMB133 million), representing a decrease of 41% over the corresponding period last year. Total assets of the Group reached RMB3,478 million (31 December 2008: RMB3,476 million).

Outlook and Prospects

According to the recent information of the manufacturing industry published globally, the global economy has begun to show signs of stepping out of recession and back to stabilisation. However, for the second half of the year, the economic condition is expected to remain uncertain, with drivers and factors for continued economic growth yet to be stabilised and the evolvement of the financial crisis and the adjustment cycle still remaining uncertain. All in all, the Group still faces a tough macro-economic environment. However, from a different perspective, there are still certain positive factors. Following the implementation of the RMB4 trillion investment initiated by the PRC government, the market potential of domestic spending is gradually starting to pick up. With an improved external environment, the Group will be in a good position to sustain development. The promulgation of the Plan of Restructuring and Reviving the Equipment Manufacturing Industry by the State Council has for the first time listed parts and components, energy facilities, railway facilities and construction machineries as four major industries for development. The railway facilities and the manufacture of auxiliary parts and components for new energy equipment engaged by the Group are all expected to benefit from this. In line with the promulgation of opinions on accelerating the development of modern service industries and advancement of manufacturing industry to build Shanghai into an international financial centre and international shipping centre by the State Council, the Shanghai municipal government recently announced a new policy, opinions on accelerating the advance technology industrialisation of Shanghai. The government will concentrate primarily on the development of modern service industry, and first focus on the development of advanced manufacturing industry, and will announce a series of preferential policies, which will bring new development opportunities to the Group as a supplier of machinery components for main machineries.

Besides benefiting from government policies, the Group will proactively adopt the following measures to cope with the stringent economic environment and to overcome operating challenges, so as to minimise the adverse impact of the financial crisis and ensure the stable development of the Group:

Closely integrate with development strategies of the government to implement projects targeted at advancing technology industrialisation. The Company will continue to closely integrate with the development strategies of the government, to grasp the planning direction of the government and actively tap into industries encouraged by government policies, so as to gradually advance and transform its business to explore the Group's full potentials. The Company will focus on areas strongly encouraged by the government's policy on promoting advance technology industrialisation, to promote and implement a series of forward-looking investment projects, including the building of manufacturing base for 1,000 MW extra large nuclear power generation turbine blades and technology upgrades for manufacturing aviation blade forgings in relation to the turbine blade business; the research and development of high-performance materials and production technology for numerically-controlled cutting tools in relation to the cutting tool business; and the technology advancement of extra large bearing for MW wind power generators in relation to the bearing business, so as to further enhance the overall competitiveness of the Group.

Accelerate the development of domestic sales market, and focus on alternative business to imported products. The Company will ride on the strategic dual high-speed industrialisation and urbanisation of the PRC, to accelerate the pace of domestic sales business and proactively explore the domestic machinery parts and components market. In the meantime, the Company will strive to explore alternative business to imported products, through strengthening its self-development capabilities and enhancing its product quality and its technology standards, enhance the Company's brand awareness and credit worthiness, and ultimately speed up the progress of the nationalisation of high-end machinery parts and components.

Promote the development of producer service and speed up strategic transformation. The Company will use its fastener business as its starting point and leverage an E-commerce platform to actively explore businesses such as on-line purchasing, sales and credit management, to promote the development of producer service as well as speed up implementation of the strategic transformation of its principal businesses operating model towards an integrated manufacturing and producer service enterprise.

Enhance its core technology standard and achieve product optimisation. The Company continues to utilise technology advancement as its pivot to enhance its technology innovation abilities, and continues to put more efforts on research and development, aiming to enhance its product technics and standards, production efficiency and product quality. The Company will also actively seek to explore the potentials and advantages in combining production, study and research, in order to achieve breakthrough in the bottlenecked development of major industries, to develop technologies that are critical to product upgrades, to improve its products and upgrade its core products.

Chairman's Statement

Strengthen its financial risk controls and actively mitigate operating risks. The Company will further strengthen its controls on cashflow to ensure a continued and stable cashflow to the Company, and effectively manage financial risks. Also, the Company will seek to improve its management by focusing on more details and effective internal controls to actively mitigate operating risks.

Corporate Development Strategies

Looking forward, the Group will actively rely on technology advancement to make changes in the way of economic development, focusing on developing producer service business to materialise the Group's strategic transformation of principal businesses. The Group will also build a risk management system based on risk assessment, to fortify its risk management and further enhance corporate governance standards, so as to achieve a healthy and continued development, towards its goal of becoming an internationally advanced and domestically superior service provider of quality industrial parts and components.

Turbine blade business: Through focusing on the nationalisation of 1,000 MW extra large power generation turbine blades, turbine blades for nuclear power generators and gas depressors, to capture the high-end product market, and upgrade its technology and facilities to materialise business transformation. The Company will strive to become a professional and outstanding supplier of turbine blades and precision forgings, and eventually evolve into an international leading top-quality turbine blades and high-end precision forgings supplier.

Bearing business: By tapping into the clean energy business, to enhance efforts on the research and development of wind energy bearings, and seek to optimise its high-end products such as railway bearings, wind energy bearings, aviation bearings and precision bearings, seeks to take the lead in the PRC bearing industry and become a professional manufacturer of high-end bearings in the PRC.

Cutting tool business: Extra efforts will be put into the development of numerically-controlled cutting tools to expand its product portfolio, so as to develop its integrated capacity in offering hard metal materials, numerically-controlled cutting tools, numerically-controlled arbors and measuring tools; and to perfect its sales network to build itself as a domestically leading and internationally top manufacturer of modern metal cutting tools.

Fastener business: Aiming at expanding domestic demand and exploring new markets, to build an E-commerce platform for its machinery components, to integrate upstream and downstream supply chains, to gradually become a one-stop unified supply chain management and a pioneer in the fastener producer service in the PRC.

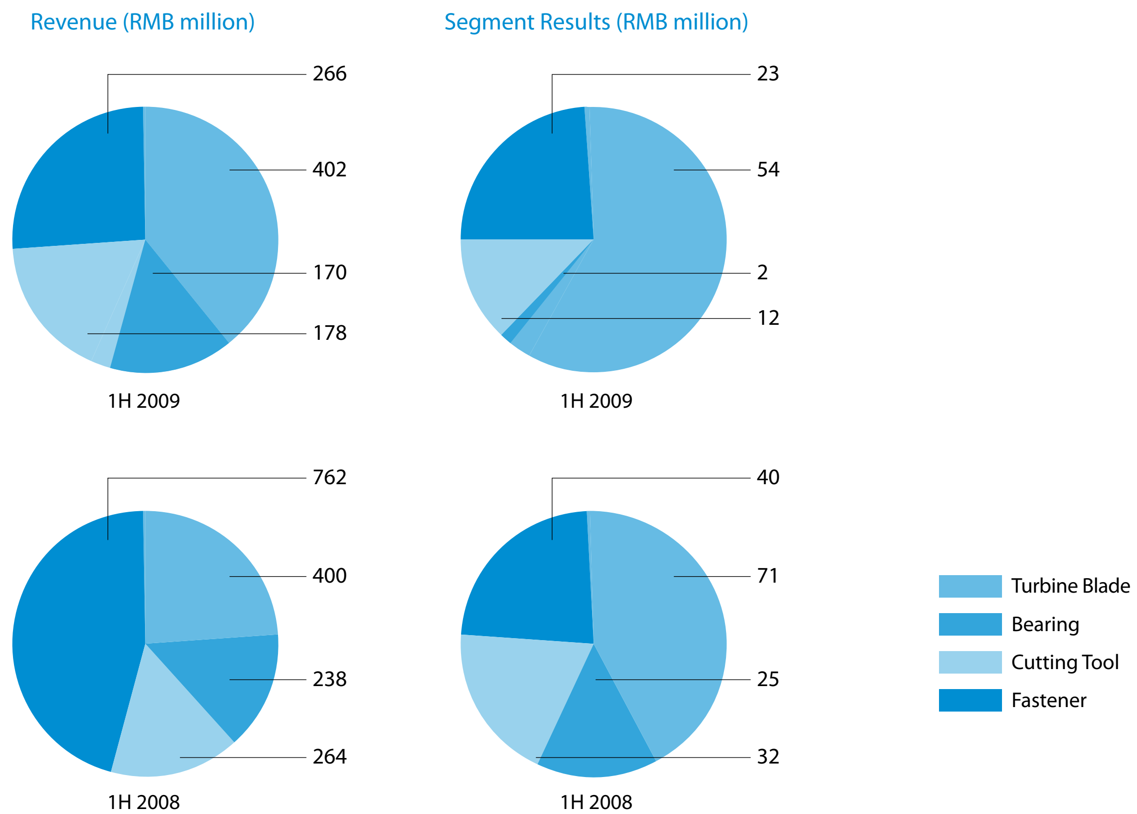
Finally, I would like to take this opportunity to thank all the shareholders for your continuous trust and support to the Company through the years, and express our gratitude to the directors, supervisors, members of the management and all staff for their dedicated contribution and devoted hard work. Looking forward, we are confident that the Company will continue to adhere to its prudent policies, to leverage on favourable conditions and actively address challenges, and continue to work prudently yet proactively, so as to enhance the Company's value and to bring outstanding return to the shareholders.

Liu Zhenduo
Chairman
Shanghai, the PRC
14 August 2009

Management Discussion and Analysis

Segment Results of Major Business Divisions

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



	Revenue		Segment Results	
	Six months ended 30 June		Six months ended 30 June	
(RMB million)	2009	2008	2009	2008
Turbine Blade	**402**	400	**54**	71
Percentage of total	**40%**	24%	**60%**	42%
Bearing	**170**	238	**2**	25
Percentage of total	**17%**	14%	**2%**	15%
Cutting Tool	**178**	264	**12**	32
Percentage of total	**17%**	16%	**13%**	19%
Fastener	**266**	762	**23**	40
Percentage of total	**26%**	46%	**25%**	24%
Total	**1,016**	1,664	**91**	168

Management Discussion and Analysis

Turbine Blade Business

During the six months ended 30 June 2009 (the "Period"), the revenue of turbine blade business amounted to RMB402 million (1H 2008: RMB400 million). The segment result was RMB54 million (1H 2008: RMB71 million), representing a decrease of 24% over the corresponding period last year. Export sales amounted to RMB99 million (1H 2008: RMB46 million), representing an increase of 115% compared with the corresponding period last year.

Bearing Business

During the Period, the revenue of the bearing business was RMB170 million (1H 2008: RMB238 million), representing a decrease of 29% over the corresponding period last year. The segment result was RMB2 million (1H 2008: RMB25 million), representing a decrease of 92% compared with the corresponding period last year. Export sales amounted to RMB22 million (1H 2008: RMB31 million), representing a decrease of 29% over the corresponding period last year.

Cutting Tool Business

During the Period, the revenue of the cutting tool business was RMB178 million (1H 2008: RMB264 million), representing a decrease of 33% over the corresponding period last year. The segment result was RMB12 million (1H 2008: RMB32 million), representing a decrease of 63% over the corresponding period last year. Export sales amounted to RMB20 million (1H 2008: RMB38 million), representing a decrease of 47% over the corresponding period last year.

Fastener Business

During the Period, the revenue of the fastener business was RMB266 million (1H 2008: RMB762 million), representing a decrease of 65% over the corresponding period last year. The segment result was RMB23 million (1H 2008: RMB40 million), representing a decrease of 43% over the corresponding period last year. Export sales amounted to RMB206 million (1H 2008: RMB669 million), representing a decrease of 69% over the corresponding period last year.

Gross Profit

During the Period, the gross profit of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was RMB209 million (1H 2008: RMB322 million). The Group's gross profit margin was 21% (1H 2008: 19%).

Share of Profits and Losses of Associates

During the Period, share of profits of associates of the Group was RMB2 million (1H 2008: RMB10 million).

Finance Costs

During the Period, finance costs were RMB3 million (1H 2008: RMB4 million).

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was RMB78 million for the Period (1H 2008: RMB133 million). Basic earnings per share were RMB5.41 cents (1H 2008: RMB9.23 cents).

Cash Flow

As at 30 June 2009, the Group's cash and bank balances were RMB997 million (31 December 2008: RMB864 million), of which RMB116 million were restricted deposits (31 December 2008: RMB64 million). During the Period, the Group had a net cash inflow from operating activities of RMB178 million (1H 2008: net cash inflow of RMB4 million), a net cash outflow from investing activities of RMB208 million (1H 2008: net cash outflow of RMB504 million), and a net cash inflow from financing activities of RMB2 million (1H 2008: net cash inflow of RMB16 million).

Assets and Liabilities

As at 30 June 2009, the Group had total assets of RMB3,478 million (31 December 2008: RMB3,476 million), an increase of RMB2 million compared with the beginning of the year. Total current assets were RMB2,073 million (31 December 2008: RMB2,066 million), accounting for 60% of total assets and representing an increase of RMB7 million compared with the beginning of the year. Total non-current assets were RMB1,405 million (31 December 2008: RMB1,410 million), accounting for 40% of total assets and representing a decrease of RMB5 million compared with the beginning of the year.

As at 30 June 2009, the total liabilities of the Group were RMB734 million (31 December 2008: RMB749 million), which represented a decrease of RMB15 million compared with the beginning of the year. Total current liabilities were RMB690 million (31 December 2008: RMB701 million), accounting for 94% of total liabilities and representing a decrease of RMB11 million compared with the beginning of the year, whereas total non-current liabilities were RMB44 million (31 December 2008: RMB48 million), accounting for 6% of total liabilities and representing a decrease of RMB4 million compared with the beginning of the year.

As at 30 June 2009, the net current assets of the Group were RMB1,384 million (31 December 2008: RMB1,365 million), representing an increase of RMB19 million from the beginning of the year.

Source of Funding and Indebtedness

As at 30 June 2009, the Group had an aggregate bank and other borrowings of RMB112 million (31 December 2008: RMB107 million), representing an increase of RMB5 million from the beginning of the year. The Group had borrowings repayable within one year of RMB95 million (31 December 2008: RMB90 million) whereas borrowings repayable after one year amounted to RMB17 million (31 December 2008: RMB17 million).

As at 30 June 2009, all bank and other borrowings of the Group were interest-bearing at fixed rates.

Gearing Ratio

As at 30 June 2009, 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 2008: 4%).

Restriction on Assets

As at 30 June 2009, the Group had restricted bank deposits of RMB116 million (31 December 2008: RMB64 million).

Management Discussion and Analysis

Pledges of Assets

As at 30 June 2009, save as disclosed above, the Group has no other pledges of assets.

Contingent Liabilities

As at 30 June 2009, the Group had total contingent liabilities of RMB1 million (31 December 2008: RMB1 million). During the Period, the Group provided a guarantee of approximately RMB1 million to an associate in relation to the banking facilities granted to and utilised by the associate.

Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB63 million (1H 2008: RMB140 million).

Risk of Foreign Exchange

The Group uses Renminbi ("RMB") as the reporting currency. Since the beginning of 2009, despite the appreciation of RMB to US Dollars has slowed down, the exchange rates of RMB against other major currencies may still be strong. The appreciation of RMB will increase the price of the Group's export products, and may lead to a negative impact on the Group's export sales. However, the Group may also benefit from the appreciation of RMB when importing materials and equipments from overseas.

In addition, as at 30 June 2009, the Group's bank deposits comprised of USD1 million. Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Significant Event

on 19 June 2009, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") entered into a compensation agreement with Office of Wuxi City Industrial Township Planning Department and Jiangsu Guyunhe, pursuant to which Jiangsu Guyunhe is required to make a total compensation of RMB300 million, including RMB25 million as land compensation, to Wuxi Turbine Blade in respect of relocating its plant from the land. For further details of the compensation agreement, please refer to the Company's announcement dated 23 June 2009.

Save as the above, the Group had no significant discloseable event during the reporting period.

Employees

As at 30 June 2009, the Group had approximately 3,180 employees (31 December 2008: 3,317). The Group has short-term and long-term employee incentive programs and a range of training programs to assist staff in their career-development.

Biographical Details of Directors and Supervisors

The following table sets forth certain information concerning our directors and supervisors.

There are no family relationships between any director, supervisor or senior management of the company.

Name	Age	Position
Liu Zhenduo	61	Executive Director and Chairman
Zhu Weiming	38	Executive Director and Vice Chairman
Hu Kang	45	Executive Director and Chief Executive Officer
Ye Fucai	58	Executive Director
Zhu Xi	45	Executive Director
Deng Yuntian	36	Executive Director
Chan Chun Hong (Thomas)	45	Independent Non-executive Director
Zhou Feida	69	Independent Non-executive Director
Liu Huangsong	40	Independent Non-executive Director
Chen Jiaming	47	Supervisor and Chairman of the Supervisory Committee
Hu Peiming	51	Supervisor
Zhang Jianping	51	Supervisor

Directors

Liu Zhenduo, aged 61, a senior economist. He was appointed as executive director and chairman of Shanghai Prime Machinery Company Limited (the "Company") in 2007. Mr. Liu joined Shanghai Electric (Group) Corporation in 1986 and has been vice president of Shanghai Electric (Group) Corporation since 1997 as well as general manager and director of Shanghai Mechanical & Electrical Industry Company Limited since 2005. From 2007 to 2008, Mr. Liu acted as president of Shanghai Electric Assets Management Company Limited. Mr. Liu graduated from East China Normal University Postgraduate School in 2000. He also obtained a master degree of business administration awarded by Asia International Open University (Macau) in 2003.

Zhu Weiming, aged 38, an engineer. He was appointed as executive director and vice chairman of the Company in 2008. From 1999 to 2003, Mr. Zhu was assistant to the general manager of Shanghai Li Da Pressing Machines Company Limited as well as deputy head of the company's punching and shearing machine factory and thereafter its vice president. From 2003 to 2007, Mr. Zhu was vice president and then director of Shanghai RiYong-JEA Gate Electric Co., Ltd. Mr. Zhu graduated from Shanghai Polytechnic University in 1993 with a bachelor degree in machine design and manufacturing. He also obtained the qualification of first class chinese professional managers in 2005. And in 2008, he obtained a doctorate degree in business administration from West Coast University in the United States.

Hu Kang, aged 45, a senior economist. He was appointed as executive director and chief executive officer of the Company in 2005. He joined Shanghai Electric (Group) Corporation in 1982. Since 1996, he has been factory director of Shanghai Zhenhua Bearing Head Works, vice president of Shanghai Bearing (Group) Co., Ltd., president of Shanghai Shangling Electric Company Ltd., all of which are part of Shanghai Electric (Group) Corporation, and president of the second management department of Shanghai Electric Assets Management Company Limited, one of the promoters of the Company. Mr. Hu graduated from Shanghai University of Finance & Economics in 1988 with a degree in statistics, and graduated from the Shanghai College of the Chinese Communist Party in 1998 majoring in management. In 2001, he obtained a MBA degree from Macau University of Science and Technology.

Biographical Details of Directors and Supervisors

Ye Fucai, aged 58, a senior economist. He was appointed as executive director of the Company in 2008. Mr. Ye has previously worked in Shanghai Electrical Appliances Mated Plant, and acted as chairman of Siemens Switch Co., Ltd., a Sino-German joint venture, head of the general machinery department of Shanghai Electric (Group) Corporation, and general manager of Shanghai General Machinery (Group) Corporation. From 2004 to 2008, he was deputy head of the industrial development department of Shanghai Electric Group Company Limited, and was standing deputy head of the strategic planning department of Shanghai Electric (Group) Corporation from 2007 to 2008. Mr. Ye is currently head of the strategic planning department of Shanghai Electric (Group) Corporation. Mr. Ye graduated from the business management department of PLAAF Political Academy.

Zhu Xi, aged 45, a senior accountant. She was appointed as executive director of the Company in 2008. From 1986 to 1995, she served at the financial department of Shanghai Mechanical and Electrical Industry Administration Bureau. From 1996 to 2004, she was deputy head of the funding and planning department of Shanghai Electric (Group) Corporation and director of Shanghai Electric (Group) Corporation Heng Lian Enterprise Development Limited respectively. In 2004, she was head of budget department of Shanghai Electric (Group) Corporation. She served as deputy head of the asset finance department of Shanghai Electric Assets Management Company Limited from 2004 to 2005. Ms. Zhu is now deputy head of financial budget department of Shanghai Electric (Group) Corporation as well as head of assets management department of Shanghai Electric Assets Management Company Limited. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University.

Deng Yuntian, aged 36, an engineer. He was appointed as Executive Director of the Company in 2008. He began his career in 1997 and held middle-management positions in Shanghai Boiler Works Co., Ltd. and Shanghai Heavy Machinery Plant Co., Ltd., subsidiaries of Shanghai Electric (Group) Corporation. He joined Shanghai Electric (Group) Corporation in 2002 and served as director of public relations and manager of the office of significant projects of the company. In 2004, he was manager of the industrial development department of Shanghai Electric Group Company Limited. Between 2004 and 2006, he was general manager of SEC-IHI Power Generation Environment Protection Engineering Co., Ltd., and served concurrently as chairman from 2003 to 2004, and has been director since 2004. From 2006 to 2008, he was deputy head of the investment management department of Shanghai Electric Assets Management Company Limited, and has been vice president of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. since 2009. Mr. Deng graduated from Jiangsu University with a master degree.

Chan Chun Hong (Thomas), aged 45, a qualified accountant, a fellow of the Association of Chartered Certified Accountants and associate member of the Hong Kong Institute of Certified Accountants. He was appointed as an independent non-executive director of the Company in 2005. Mr. Chan holds directorships in various companies listed in Hong Kong and is currently chairman of China Agri-Products Exchange Limited, chairman and managing director of Leroi Holdings Limited, and managing director of Wang On Group Limited and Wai Yuen Tong Medicine Holdings Limited, responsible for the overall corporate management and supervision of the companies. Mr. Chan graduated from Hong Kong Polytechnic University with a bachelor degree in accounting.

Zhou Feida, aged 69, an engineer. He was appointed as independent non-executive director of the Company in 2005. Mr. Zhou was factory director of Shanghai Turbine Works Company Limited from 1985 to 1994, and chief executive officer of Shanghai Electric (Group) Corporation from 1994 to 2001. Mr. Zhou graduated from Xi'an Jiao Tong University with a bachelor degree in 1963 and later with a master degree in 1966, both in mechanical engineering.

Liu Huangsong, aged 40, was appointed as independent non-executive director of the Company in 2005. Between 1996 and 2001, he held the position of deputy manager of Shanghai Worldbest Group Co., Ltd., assistant to the chief executive officer of China Worldbest Group Co., Ltd., director of Changzhou Worldbest Radici Co., Ltd. and counselor of the Shanghai Economic Review. He has been financial consultant of the Pudong New Area Trade Union since 2003. Mr. Liu is currently serving at the Shanghai Academy of Social Sciences as director, researching professor and PhD programme supervisor of research centre for economic prosperity, as well as standing counselor of the Shanghai alumni association of Fudan University, counselor of Shanghai investment society and counselor of Shanghai association of quantitative economics. Mr. Liu has been independent non-executive director of Shanghai Xinyu Hengdeli Holdings Limited. Mr. Liu graduated from Fudan University in 1989 with a bachelor degree in management, and later obtained a doctorate degree in the school of economics of Fudan University in 2005.

Supervisors

Chen Jiaming, aged 47, a senior engineer. He was appointed as supervisor and chairman of the supervisory committee of the Company in 2005. Mr. Chen was previously deputy head of the heavy machinery department of Shanghai Electric (Group) Corporation from 2001 to 2004 and general manager of the first management department and head of reorganization department of Shanghai Electric Assets Management Company Limited, one of the promoters of the Company, from 2004 to 2008. Mr. Chen is currently deputy president of Shanghai Electric Assets Management Company Limited and head of the reorganization department of the company. Mr. Chen graduated from Tongji University in 1988 majoring in automation.

Hu Peiming, aged 51, was appointed as supervisor of the Company in 2005. Ms. Hu was vice president and chairperson of the employee committee of Shanghai Standard Component Import and Export Company Limited (a subsidiary of the Shanghai Electric (Group) Corporation), from 1988 to 2005. Ms. Hu graduated from the Shanghai College of Electromechanics of the Chinese Communist Party in 1986, majoring in politics and management.

Zhang Jianping, aged 51, a political affair officer. He was appointed as supervisor of the Company in 2008. He worked in Shanghai Tool Works Company Limited ("Shanghai Tool Works") from 1984 to 2003 where he served as chairman of the equipment automation labour union as well as deputy head of workshop one. From 2003 to 2005, he served as vice chairman of the labour union of Shanghai Tool Works. Since 2005, he has been chairman of the labour union of Shanghai Tool Works. Mr. Zhang graduated from the East China University of Political Science and Law majored in business laws.

Other Information

Share Capital Structure

	Number of shares	Approximate percentage of issued share capital (%)
Domestic Shares	678,576,184	47.18
H Shares	759,710,000	52.82
Total	1,438,286,184	100.00

Disclosure of Interests

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

As at 30 June 2009, the interests or short positions of the substantial shareholders (other than directors, chief executives and supervisors of the Company) 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") 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") and to the knowledge of the directors of the Company were as follows:

Name of substantial shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Percentage of Domestic Shares /H Shares (%)	Percentage of issued share capital (%)
Shanghai Electric (Group) Corporation	Domestic	652,328,857		Beneficial owner	Long position	96.13	45.36
	Domestic	26,247,327	(1)	Beneficial owner	Long position	3.87	1.82
		678,576,184				100.00	47.18
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(2)	Interest of controlled corporation	Long position	100.00	47.18
Atlantis Investment Management Ltd	H	65,510,000		Investment manager	Long position	8.62	4.55
Templeton Asset Management Ltd.	H	65,456,000		Investment manager	Long position	8.62	4.55
Government of Singapore Investment Corporation Pte Ltd	H	52,312,052		Investment manager	Long position	6.89	3.64
The Capital Group Companies, Inc.	H	38,960,000	(3)	Investment manager	Long position	5.13	2.71

Notes:

(1) According to the reply to the issues regarding the transfer of shares held by state-owned shareholders of Shanghai Prime Machinery Company Limited issued by the State-owned Assets Supervision and Administration Commission ("SASAC") on 23 March 2009, the SASAC has agreed to the transfer of 23,519,451 shares (representing 1.64% of total share capital), 909,292 shares (representing 0.06% of total share capital), 909,292 shares (representing 0.06% of total share capital) and 909,292 shares (representing 0.06% of total share capital) of the Company held by Shanghai Electric Industrial Corporation, Shanghai Electric Assets Management Company Limited, Shanghai General Machinery (Group) Corporation and Shanghai Electric Group Assets Operation Company Limited respectively, totalling to 26,247,327 shares (representing 1.82% of total share capital) to Shanghai Electric (Group) Corporation. Following the share transfer, Shanghai Electric (Group) Corporation holds 678,576,184 shares of the Company, representing 47.18% of total share capital. The share transfer is subject to the approval of authority in charge of foreign investment.

(2) Shanghai Electric (Group) Corporation is wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, thus State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government is deemed to be interested in the 678,576,184 shares of the Company held by Shanghai Electric (Group) Corporation.

(3) The Capital Group Companies, Inc. has controlled over Capital Group International Inc. ("CGII"), and thus is deemed to be interested in the 38,960,000 shares of the Company owned by CGII. CGII holds interests in the same tranche of shares of the Company by virtue of its control over the following entities, which directly holds shares of the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	Number of shares
Capital Guardian Trust Company	100	2,574,000
Capital International, Inc	100	31,974,000
Capital International Limited	100	4,412,000

Save as disclosed above, the Company is not aware of any other person (other than 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 2009 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 in Shares and Underlying Shares

As at 30 June 2009, 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 which were required to be recorded in the register as required to be kept under Section 352 of the SFO, or 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"). As at 30 June 2009, none of the directors, supervisors or chief executives of the Company or their respective associates has been granted the right to acquire any interests in the 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. 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 2009 (the "Period").

Compliance with the Code on Corporate Governance Practices

The Company is committed to high standards of corporate governance and has taken measures to comply with the provisions set out in the Code on Corporate Governance Practices (the "Code"). The board of directors (the "Board") considers 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 the 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 comprises of 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.

As at the date of this report, the supervisory committee of the company comprises of Chen Jiaming, Hu Peiming and Zhang Jianping.

This Interim Report (in both English and Chinese versions) has been posted on the Company's website at http://www.pmcsh.com. Shareholders who have chosen to rely on copies of the Company's corporate communication (including but not limited to annual report and summary financial report (where applicable), interim report, summary interim report (where applicable)), posted on the Company's website in lieu of the printed copies thereof may request the printed copy of the Interim Report. Shareholders who have chosen to receive the corporate communication using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to the Interim Report posted on the Company's website will promptly upon request be sent the Interim Report in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's Corporate Communication by notice in writing to the H Share Registrar and Transfer Office, Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

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 18 to 38, which comprise the interim condensed consolidated statement of financial position of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2009 and the related interim condensed consolidated statements of comprehensive 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" (" HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. 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 HKICPA. 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 HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
14 August 2009

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	For the six months ended 30 June 2009 (Unaudited) RMB'000	 2008 (Unaudited) RMB'000
REVENUE	3	**1,015,690**	1,664,101
Cost of sales		**(806,961)**	(1,341,621)
Gross profit		**208,729**	322,480
Other income and gains	3	**29,134**	26,649
Selling and distribution costs		**(35,941)**	(46,909)
Administrative expenses		**(70,442)**	(98,671)
Other expenses		**(42,325)**	(42,904)
Finance costs		**(3,160)**	(4,073)
Share of profits and losses of associates		**2,258**	10,111
PROFIT BEFORE TAX	4	**88,253**	166,683
Tax	5	**(10,594)**	(32,676)
PROFIT FOR THE PERIOD		**77,659**	134,007
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**77,659**	134,007
PROFIT/TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		**77,870**	132,773
Non-controlling interests		**(211)**	1,234
		77,659	134,007
DIVIDENDS			
Proposed interim	6	**-**	-
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic (RMB cents)			
- For profit for the period		**5.41**	9.23

Interim Condensed Consolidated Statement of Financial Position

30 June 2009

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	**981,879**	1,012,093
Prepaid land premiums/land lease payments	8	**129,604**	125,462
Goodwill		**8,818**	8,818
Other intangible assets		**5,228**	5,987
Investments in associates		**122,843**	120,302
Available-for-sale investments		**1,072**	1,072
Long-term prepayments		**137,224**	110,931
Deferred tax assets		**18,239**	25,262
Total non-current assets		**1,404,907**	1,409,927
CURRENT ASSETS			
Inventories		**617,024**	690,935
Trade receivables	9	**355,464**	341,117
Bills receivable		**33,780**	87,193
Prepayments, deposits and other receivables		**70,487**	82,986
Restricted deposits		**116,228**	63,733
Cash and cash equivalents	10	**880,414**	800,279
Total current assets		**2,073,397**	2,066,243
CURRENT LIABILITIES			
Trade payables	11	**300,048**	309,328
Bills payable		**71,536**	125,900
Tax payable		**53,889**	66,696
Other payables and accruals		**169,411**	108,974
Interest-bearing bank and other borrowings		**95,000**	90,000
Total current liabilities		**689,884**	700,898
NET CURRENT ASSETS		**1,383,513**	1,365,345
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,788,420**	2,775,272

Interim Condensed Consolidated Statement of Financial Position (continued)

30 June 2009

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,788,420**	2,775,272
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**17,000**	17,000
Government grants		**17,457**	18,054
Other long-term payables		**6,001**	8,767
Deferred tax liabilities		**3,791**	4,819
Total non-current liabilities		**44,249**	48,640
Net assets		**2,744,171**	2,726,632
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	**1,438,286**	1,438,286
Reserves		**1,292,207**	1,214,337
Proposed final dividend		**-**	60,120
		2,730,493	2,712,743
Non-controlling interests		**13,678**	13,889
Total equity		**2,744,171**	2,726,632

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Attributable to owners of the Company								
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	1,438,286	702,945	(58,090)	116,518	452,964	60,120	2,712,743	13,889	2,726,632
Total comprehensive income for the period	-	-	-	-	77,870	-	77,870	(211)	77,659
Final 2008 dividend declared	-	-	-	-	-	(60,120)	(60,120)	-	(60,120)
At 30 June 2009 (Unaudited)	1,438,286	702,945*	(58,090)*	116,518*	530,834*	-	2,730,493	13,678	2,744,171
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
Total comprehensive income 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

* These reserve accounts comprise the consolidated reserves of RMB1,292,207,000 (31 December 2008: RMB1,214,337,000) in the unaudited interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**178,412**	3,580
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(208,117)**	(503,979)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**1,840**	16,084
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(27,865)**	(484,315)
Cash and cash equivalents at beginning of period	**800,279**	852,163
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**772,414**	367,848
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents in the unaudited interim condensed consolidated statement of financial position	**880,414**	523,848
Non-restricted deposits with original maturity of three months or more when acquired	**(108,000)**	(156,000)
	772,414	367,848

Notes to Interim Condensed Consolidated Financial Statements

30 June 2009

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 ("HKICPA"). 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 2008, except in relation to the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) as follows:

<u>New and revised HKFRSs adopted for the first time for the current period's unaudited interim condensed consolidated financial statements</u>

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The amendments have had no impact on the financial position or performance of the Group.

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2009

1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

New and revised HKFRSs adopted for the first time for the current period's unaudited interim condensed consolidated financial statements (continued)

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group currently has no share-based payment scheme, the adoption of these amendments has had no impact on the financial position or performance of the Group.

The HKFRS 7 Amendments require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The adoption of these amendments has had no impact on the financial position or performance of the Group.

HKFRS 8, which has replaced HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 *Segment Reporting*. Disclosures about each of these segments are shown in note 2 to the unaudited interim condensed consolidated financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present them in one single statement.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the adoption of the revised standard has had no impact on the financial position or performance of the Group.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the adoption of these amendments has had no impact on the financial position or performance of the Group.

1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

New and revised HKFRSs adopted for the first time for the current period's unaudited interim condensed consolidated financial statements (continued)

The HK(IFRIC)-Int 9 Amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. The HKAS 39 Amendment now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments has had no impact on the financial position or performance of the Group.

HK(IFRIC)-Int 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award schemes, the adoption of this interpretation has had no impact on the financial position or performance of the Group.

HK(IFRIC)-Int 15 replaced HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sales of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently does not involve in any activity of construction of real estate, the interpretation has had no impact on the financial position or performance of the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the adoption of this interpretation has had no impact on the financial position or performance of the Group.

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out certain amendments to a number of HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. The Group adopts the amendments to HKFRSs that became effective for annual periods beginning on or after 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of them may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2009

2 SEGMENT INFORMATION

For management purpose, the Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. The operating segments are identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

Six months ended 30 June 2009 (Unaudited)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	169,456	402,060	178,159	266,015	-	1,015,690
Other revenue	4,140	7,584	3,819	5,065	-	20,608
Total	173,596	409,644	181,978	271,080	-	1,036,298
Segment results	1,939	53,860	12,402	22,717	-	90,918
Interest and dividend income and unallocated gains						8,526
Corporate and other unallocated expenses						(10,289)
Finance costs						(3,160)
Share of profits and losses of associates	(2,699)	-	298	-	4,659	2,258
Profit before tax						88,253
Tax						(10,594)
Profit for the period						77,659

2 SEGMENT INFORMATION (continued)

Six months ended 30 June 2008 (Unaudited)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	238,336	399,686	264,001	762,078	-	1,664,101
Other revenue	2,521	6,565	5,957	1,209	-	16,252
Total	240,857	406,251	269,958	763,287	-	1,680,353
Segment results	25,349	71,361	32,244	38,580	-	167,534
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

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2009

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 2009 (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	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sales of goods	**1,010,608**	1,655,571
Rendering of services	**5,082**	8,530
	1,015,690	1,664,101
Other income		
Interest income from loans receivable, bank balances and deposits	**8,263**	10,397
Gross rental income	**677**	2,098
Profit on sales of raw materials, spare parts and semi-finished goods	**6,017**	10,584
Subsidy income	**10,360**	2,116
Others	**2,284**	847
	27,601	26,042
Gains		
Gain on disposal of items of property, plant and equipment, net	**285**	-
Gain on write-off of long-aged payables	**1,248**	607
	1,533	607
Total	**29,134**	26,649

4 PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**822,773**	1,326,434
Cost of services provided	**5,344**	7,927
Depreciation	**57,049**	49,912
Recognition of prepaid land premiums/land lease payments	**1,369**	848
Amortisation of patents and licences	**553**	66
Amortisation of other intangible assets	**206**	365
(Reversal of write-down)/write-down of inventories to net realisable value	**(21,156)**	7,260
Research and development costs:		
Current period expenditure	**30,648**	25,187
Minimum lease payments under operating leases:		
Land and buildings	**9,593**	10,890
Employee benefits expenses	**143,612**	158,904
Loss on disposal of items of property, plant and equipment, net	**-**	391
Foreign exchange differences, net	**966**	9,815
Provision of impairment of accounts receivable	**262**	917

5 TAX

The Group is subject to the statutory corporate income tax rate of 25% for the Period (six months ended 30 June 2008: 25%) under the income tax rules and regulations of the People's Republic of China (the "PRC").

Three subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Tian An Bearing Company Limited and Shanghai Tool Works Company Limited ("Tool Works") were subject to a preferential corporate income tax rate of 15% for the year ended 31 December 2008 and the years ending 31 December 2009 and 31 December 2010, as they were granted the High and New Technology Enterprises ("HNTEs") qualification by the relevant government authority on 25 December 2008, 29 December 2008 and 25 December 2008, respectively.

Pursuant to a notification from the High and New Technology Enterprises Certification Management Committee of Jiangsu Province dated 26 May 2009, Su Gao Qi Xie [2009] No. 6, a subsidiary of the Company, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") has been qualified as one of the companies for the second batch of HNTEs qualification in Jiangsu Province in 2009, and eligible itself for the public notification for a period of 15 days commencing 27 May 2009. Wuxi Turbine Blade has adopted a preferential corporate income tax rate of 15% as the public notification has completed and the registration of HNTEs status is expected to be ready by the end of 2009.

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	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Group:		
Current – the PRC/ Mainland China		
Charge for the Period	**5,603**	37,324
Over provision in prior years	**(1,004)**	(1,758)
Deferred	**5,995**	(2,890)
Total tax charge for the Period	**10,594**	32,676

The share of tax attributable to associates amounting to RMB1,618,000 (six months ended 30 June 2008: RMB1,929,000) is included in "Share of profits and losses of associates" in the unaudited interim condensed consolidated statement of comprehensive income.

6 DIVIDENDS

The directors do not recommend the payment of interim dividend (six months ended 30 June 2008: Nil).

7 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 2009 and 2008 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	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings		
Profit attributable to equity holders of the Company	**77,870**	132,773

	Number of shares For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	in'000	in'000
Shares		
Weighted average number of ordinary shares in issue during the Period	**1,438,286**	1,438,286

8 PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

As at 30 June 2009, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB3,044,000 (31 December 2008: RMB3,404,000).

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2009

9 TRADE RECEIVABLES

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

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	**267,907**	303,008
Over 3 months but within 6 months	**73,701**	30,201
Over 6 months but within 1 year	**12,508**	7,448
Over 1 year but within 2 years	**1,103**	460
Over 2 years	**245**	-
	355,464	341,117

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

10 CASH AND CASH EQUIVALENTS

The Group's cash and bank balances are denominated in RMB at the end of each reporting period, except for the followings:

	30 June 2009 (Unaudited)		31 December 2008 (Audited)	
	Original currency in'000	**RMB equivalent in'000**	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
USD	**1,430**	**9,771**	1,960	13,395
EUR	**11**	**105**	100	969

11 TRADE PAYABLES

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

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within 3 months	**237,243**	242,843
Over 3 months but within 6 months	**28,343**	32,007
Over 6 months but within 1 year	**25,939**	28,761
Over 1 year but within 2 years	**6,292**	3,165
Over 2 years	**2,231**	2,552
	300,048	309,328

12 ISSUED CAPITAL

	30 June 2009 (Unaudited)		31 December 2008 (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
	1,438,286	**1,438,286**	1,438,286	1,438,286

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

13 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.

14 OPERATING LEASE COMMITMENTS

(a) As lessor

The Group leases out certain of its building and plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from two to five 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 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within one year	**434**	383
In the second to fifth years, inclusive	**150**	-
	584	383

(b) As lessee

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

As at 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Within one year	**17,118**	21,201
In the second to fifth years, inclusive	**24,364**	40,861
After five years	**-**	4,086
	41,482	66,148

15 COMMITMENTS

In addition to the operating lease commitments detailed in note 14(b) above, the Group had the following commitments as at 30 June 2009:

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Contracted, but not provided for:		
- Plant and machinery	**337,929**	289,430
- Intangible assets	**207**	-
- Capital contributions payable to an associate	**3,656**	-
	341,792	289,430
Authorised, but not contracted for:		
- Plant and machinery	**687,835**	589,316
	1,029,627	878,746

16 CONTINGENT LIABILITIES

	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- An associate	**1,000**	1,000

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2009

17 RELATED PARTY TRANSACTIONS

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

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
Purchase of materials from:	(i)		
Associates		**58**	43
SEC group companies *		**1,859**	1,496
		1,917	1,539
Sales of goods to:	(i)		
Associates		**484**	719
SEC group companies *		**125,478**	107,291
		125,962	108,010
Receiving of manpower services from:	(i)		
SEC group companies *		**417**	664
Rendering of manpower services to:	(i)		
SEC group companies *		**340**	-
Rental fee payable to:	(ii)		
Ultimate holding company		**2,304**	1,952
SEC group companies *		**8,019**	8,378
		10,323	10,330

17 RELATED PARTY TRANSACTIONS (continued)

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

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.

(b) Other transactions with related parties:

(i) During the Period, one of the SEC group companies leased certain properties to United Bearing, 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 Tools Works, 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 RMB3,950,000 per annum.

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

As disclosed in note 16, the Group provided a corporate guarantee of RMB1,000,000 (31 December 2008: RMB1,000,000) to a related company and its expiry date is 23 December 2009.

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

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Fees	**263**	233
Short term employee benefits	**682**	1,579
Post-employee benefits	**49**	62
	994	1,874

Notes to Interim Condensed Consolidated Financial Statements (continued)

30 June 2009

18 EVENTS AFTER THE REPORTING PERIOD

On 17 July 2009, Wuxi Turbine Blade entered into a construction contract with China Nuclear Industry Hua Xing Construction Co., Ltd. ("HXCC"), pursuant to which HXCC undertakes the construction of the single buildings for the manufacturing base of 1,000MW extra large nuclear power generation turbine blades and technology upgrades for manufacturing aviation blade forgings and some extraventricular works. The consideration of the construction contract is RMB152,980,000 (subject to adjustment), which will be paid on an instalment basis.

19 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 14 August 2009.