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)

2010 Interim Report

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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, 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
Zheng Yuanhu

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
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Summary

- Revenue for the six months ended 30 June 2010 (the "Period") was RMB1,382 million, representing an increase of 27% over the corresponding period of last year.

- Profit attributable to the owners of Shanghai Prime Machinery Company Limited (the "Company") for the Period was RMB96 million, representing an increase of 20% over the corresponding period of last year.

- Basic earnings per share for the Period was RMB6.66 cents.

- The Company and its subsidiaries (collectively referred to as the "Group") made substantial progress in the areas of blades for nuclear power and aviation industries during the Period and the relevant sales were RMB78 million. The blade products structure of the Group made a breakthrough from regular thermal power products to products applicable to nuclear power and aviation industries.

- On 28 February 2010, the Group completed the acquisition of Shanghai Zhenhua Bearing Factory Company Limited. The successful acquisition has not only driven the rapid development of the Group's business, but also expanded the business scope of bearing products of the Group, and such a development has provided an opportunity for the Group to enter into the fast-growing automobile bearing market in China. During the Period, the bearing business made a breakthrough and the sales of the segment of the Period recorded RMB352 million, representing an increase of 44% over the corresponding period of last year.

- The Group has been actively expanding sales network, aimed to cover wider geographical areas. By providing technical support to the distributors and end users, the Group is able to satisfy clients' actual needs through customized services and timely solutions. Benefitting from the above measures, the sales of cutting tool business during the Period amounted to RMB274 million, representing an increase of 54% over the corresponding period of last year. Among the major products, both the traditional bore-machining tools and the screw-threading cutting tools maintained their leading positions in domestic market for the Period with a sales of RMB149 million and RMB60 million, representing an increase of 50% and 57% over the corresponding period of last year, respectively.

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 2010 (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

Under the gradual improvement of the external environment and the implementation of internal economic stimulus policies, the recovery momentum of China's economy has been built up and a stable growth of economy is expected to be maintained. In the first half of the year, the Group has established a firm foundation for sustainable development by optimizing the market structure and effectively controlling cost. The Group has made extra efforts in expanding the market, improving information system, and enhancing efficiency as well as reforming its growth strategy by increasing the domestic sales and promoting services. In the first half of the year, all the actions taken by the Group against the financial crisis were proven to be effective as evidenced by the effective growth of the Group's operation and the full satisfaction of all the financial targets.

In terms of the turbine blade business, the Group followed closely to the structural adjustment of the market demand and the development of the regulatory policies and continued to invest in the scientific research of high-end turbine blades used in nuclear power, new energy and aviation industries to ensure the persistent improvement of the production technology. During the Period, the Group has obtained the ability to produce certain high-end products, such as 67-inch last-stage rotor blades for conventional steam turbine system as well as blades for aviation generators, some of which have been mass produced while others were made or available in small quantity. During the Period, the Group also made substantial progress in the areas of blades for nuclear power and aviation industries and the relevant sales were RMB78 million. The blade products structure of the Group made a breakthrough from regular thermal power products to products applicable to nuclear power and aviation industries.

In terms of the bearing business, the Group has completed the acquisition of Shanghai Zhenhua Bearings Factory Company Limited during the Period. The successful acquisition has expanded the business scope of the Group's bearing products, providing an opportunity for the Group to enter into the rapidly growing automobile bearing market and allowing sharing of resources, such as research and development, finance and human resources among all the bearing subsidiaries of the Group. During the Period, the bearing business recorded a stable increase, contributing a turnover of RMB352 million to the Group, representing an increase of 44% over the corresponding period of last year.

In terms of the cutting tool business, the Group has been actively expanding sales network, aimed to cover wider geographical areas. By providing technical support to the distributors and end users, the Group is able to satisfy clients' actual needs through customized services and timely solutions. Benefitting from the above measures, the sales of cutting tool business during the Period amounted to RMB274 million, representing an increase of 54% over the corresponding period of last year. Among the major products, both the traditional bore-machining tools and the screw-threading cutting tools maintained their leading positions in domestic market for the Period with a sales of RMB149 million and RMB60 million, representing an increase of 50% and 57% over the corresponding period of last year, respectively.

In terms of the fastener business, under the dual pressure of the financial crisis and anti-dumping duty, the Group developed a complementary business strategy aiming to strike a balance between domestic and overseas sales. The Group is committed to expand the customer base and actively developed the market by providing customers with timely and customized products and value-added services, utilizing modern logistics and supply chain management. During the Period, the sales of fastener business amounted to RMB379 million, representing an increase of 42% over the corresponding period of last year.

During the Period, the Group recorded revenue of RMB1,382 million (1H 2009: RMB1,091 million), representing an increase of 27% over the corresponding period of last year. Profit attributable to the owners of the Company was RMB96 million (1H 2009: RMB80 million), representing an increase of 20% over the corresponding period of last year. Total assets of the Group reached RMB4,299 million (31 December 2009: RMB3,894 million), representing an increase of 10%.

Outlook and Prospects

In 2010, the global economy is expected to continue its recovery, while the foundation of the economic recovery in China has become more solid. However, the Group will continue to face certain risks and uncertainties in future development in the following aspects : the effectiveness of political & economic policies taken by Western developed countries to continually recover their real economies; uncertain demand for export trade; weak domestic demand; impact to normal operation during plant relocation and the appreciation of the RMB and the fluctuation of raw materials prices.

In the future, the Group will, with the focus on national strategies and market demand, actively change business growth model through technology improvement and achieve the upgrade of the Group's main products through producer service which sees components & parts as a key for future development. By taking the following four measures, the Group intends to cope with the challenges to enhance the profitability to achieve performance objectives, and eventually aim to turn the Group into an industrial conglomerate with leading technology in manufacturing essential parts and components and providing relevant services.

To enhance the efforts in research and expand into newly emerged market. The Group will focus its research and development on the industrial application of new and advanced technology which is supported by our country, continuously increase the input of resources in the project of producing large turbine blade and aviation forging of the turbine blade business and the project of producing extra large bearing for wind power generator of the bearing business, and speed up the industrial application of new and advanced technology such as nuclear power blades and wind power bearings, for establishing a new growth point for the future development of our Group. Meanwhile, the establishment of the new production base for blades will serve to promote the formation of the Group's core technologies and realize a breakthrough in the production capacity which would in turn provide strong support to the Group's sustainable development.

To promote the industrial transformation and create new business model. The Group will expand the domestic sales market of its fastener business while leveraging e-commerce platforms to carry out new producer service model with direct distributor service, networking operation, informationalized support and standardized services. The Group will also aim to speed up the implementation of the strategic transformation of its principal businesses operating model towards a model which integrates manufacturing operation and producer services.

To proactively coordinate the relocation and minimize its impact on operation. The Group will put more efforts in coordination during the course of the relocation by making detailed plans in advance on the basis of the construction requirements of each of the manufacturing base, and promote steady construction of each industrial base in a safe and efficient manner, and hence promoting the sustainable business development of the Group while completing the relocation without suspension of operation and minimizing the impact from the relocation.

To promote lean production and improve the management standard. The Group will further enhance intelligent financial budget system, credit management system and e-commerce business platform named mechanical E-stop system, and improve the information integration capacity of the Group. At the same time, the Group will put extra efforts to carry out lean production to improve the quality of its products, enhance the production efficiency and lower the cost to improve overall production and management capacity.

Chairman's Statement

Finally, I would like to take this opportunity to thank all the shareholders for their continuous trust and support to the Group through the years, and express our gratitude to the directors, supervisors, members of the management and all the staff for their dedicated contribution and devoted hard work. Looking forward, we are confident that the Group will continue to, on the basis of the established strategic plan, adhere to its prudent policies, leverage on favourable conditions and actively address challenges, and continue to work prudently yet proactively, so as to enhance the Group's value, and through innovation, transformation and development, to generate stable income for the Group with a view to bringing outstanding return to the shareholders.

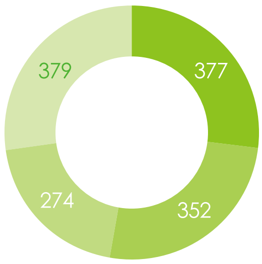
Zheng Yuanhu
Chairman
Shanghai, the PRC
13 August 2010

Management Discussion and Analysis

Operation Overview of Major Business Divisions

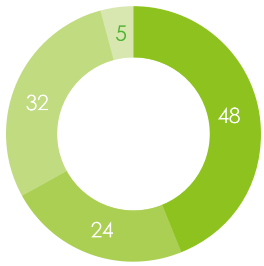
Set out below are the revenue and segment results for each individual business division:

Revenue (RMB million)

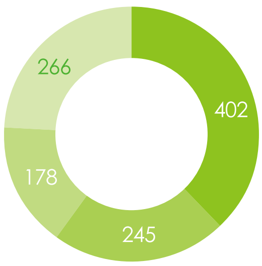


1H 2010

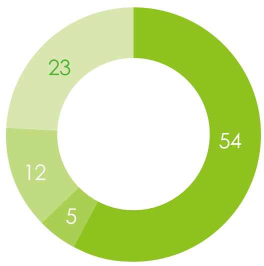
Segment Results (RMB million)



1H 2010



1H 2009



1H 2009

- Turbine Blade
- Bearing
- Cutting Tool
- Fastener

(RMB million)	Revenue Six months ended 30 June 2010	Revenue Six months ended 30 June 2009*	Segment Results Six months ended 30 June 2010	Segment Results Six months ended 30 June 2009*
Turbine Blade	**377**	402	**48**	54
Percentage of total	**27%**	37%	**44%**	58%
Bearing	**352**	245	**24**	5
Percentage of total	**26%**	23%	**22%**	5%
Cutting Tool	**274**	178	**32**	12
Percentage of total	**20%**	16%	**29%**	13%
Fastener	**379**	266	**5**	23
Percentage of total	**27%**	24%	**5%**	24%
Total	**1,382**	1,091	**109**	94

* The figures for the six months ended 30 June 2009 have been restated due to business combination under common control.

Management Discussion and Analysis

Turbine Blade Business

During the six months ended 30 June 2010 (the "Period"), the revenue of turbine blade business amounted to RMB377 million (1H 2009: RMB402 million), representing a decrease of 6% compared with the corresponding period of last year. The segment result was RMB48 million (1H 2009: RMB54 million), representing a decrease of 11% over the corresponding period of last year. Export sales amounted to RMB70 million (1H 2009: RMB99 million), representing a decrease of 29% compared with the corresponding period of last year.

Bearing Business

During the Period, the revenue of the bearing business was RMB352 million (1H 2009: RMB245 million), representing an increase of 44% over the corresponding period of last year. The segment result was RMB24 million (1H 2009: RMB5 million), representing an increase of 380% compared with the corresponding period of last year. Export sales amounted to RMB52 million (1H 2009: RMB26 million), representing an increase of 100% over the corresponding period of last year.

Cutting Tool Business

During the Period, the revenue of the cutting tool business was RMB274 million (1H 2009: RMB178 million), representing an increase of 54% over the corresponding period of last year. The segment result was RMB32 million (1H 2009: RMB12 million), representing an increase of 167% over the corresponding period of last year. Export sales amounted to RMB14 million (1H 2009: RMB20 million), representing a decrease of 30% over the corresponding period of last year.

Fastener Business

During the Period, the revenue of the fastener business was RMB379 million (1H 2009: RMB266 million), representing an increase of 42% over the corresponding period of last year. The segment result was RMB5 million (1H 2009: RMB23 million), representing a decrease of 78% over the corresponding period of last year. Export sales amounted to RMB312 million (1H 2009: RMB206 million), representing an increase of 51% over the corresponding period of 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 RMB284 million (1H 2009: RMB222 million). The Group's gross profit margin was 21% (1H 2009: 20%).

Share of Profits and Losses of Associates

During the Period, share of profits of associates of the Group was RMB14 million (1H 2009: RMB2 million).

Finance Costs

During the Period, finance costs were RMB3 million (1H 2009: RMB4 million).

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company was RMB96 million for the Period (1H 2009: RMB80 million). Basic earnings per share were RMB6.66 cents (1H 2009: RMB5.59 cents).

Cash Flow

As at 30 June 2010, the Group's cash and bank balances were RMB1,250 million (31 December 2009: RMB1,190 million), of which RMB66 million were restricted deposits (31 December 2009: RMB88 million). During the Period, the Group had a net cash inflow from operating activities of RMB93 million (1H 2009: net cash inflow of RMB186 million), a net cash outflow from investing activities of RMB317 million (1H 2009: net cash outflow of RMB210 million), and a net cash inflow from financing activities of RMB162 million (1H 2009: net cash outflow of RMB39 million).

Assets and Liabilities

As at 30 June 2010, the Group had total assets of RMB4,299 million (31 December 2009: RMB3,894 million), representing an increase of RMB405 million compared with the beginning of the Period. Total current assets were RMB2,652 million (31 December 2009: RMB2,419 million), accounting for 62% of total assets and representing an increase of RMB233 million compared with the beginning of the Period. Total non-current assets were RMB1,647 million (31 December 2009: RMB1,475 million), accounting for 38% of total assets and representing an increase of RMB172 million compared with the beginning of the Period.

As at 30 June 2010, the total liabilities of the Group were RMB1,426 million (31 December 2009: RMB1,002 million), which represented an increase of RMB424 million compared with the beginning of the Period. Total current liabilities were RMB1,130 million (31 December 2009: RMB766 million), accounting for 79% of total liabilities and representing an increase of RMB364 million compared with the beginning of the Period, whereas total non-current liabilities were RMB296 million (31 December 2009: RMB236 million), accounting for 21% of total liabilities and representing an increase of RMB60 million compared with the beginning of the Period.

As at 30 June 2010, the net current assets of the Group were RMB1,522 million (31 December 2009: RMB1,653 million), representing a decrease of RMB131 million from the beginning of the Period.

Source of Funding and Indebtedness

As at 30 June 2010, the Group had aggregate bank and other borrowings of RMB292 million (31 December 2009: RMB112 million), representing an increase of RMB180 million from the beginning of the Period. The Group had borrowings repayable within one year of RMB292 million (31 December 2009: RMB95 million) whereas the Group had no borrowings repayable after one year (31 December 2009: RMB17 million).

As at 30 June 2010, all bank and other borrowings of the Group were interest-bearing at fixed rates.

Gearing Ratio

As at 30 June 2010, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 10% (31 December 2009: 4%).

Pledges of Assets

As at 30 June 2010, the Group had restricted deposits of RMB66 million (31 December 2009: RMB88 million).

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2010, the Group had total contingent liabilities of RMB1 million (31 December 2009: RMB1 million).

Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB206 million (1H 2009: RMB64 million).

Risk of Foreign Exchange

The Group uses Renminbi ("RMB") as the reporting currency. Since the beginning of 2010, 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 2010, the Group's bank deposits denominated in foreign currencies were comprised of USD1 million and JPY 6 million. Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Significant Event

The Group had no significant discloseable event during the reporting period.

Employees

As at 30 June 2010, the Group had approximately 3,373 employees (31 December 2009: 3,417). 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 or supervisor or senior management of the company.

Name	Age	Position
Zheng Yuanhu	44	Executive Director and Chairman
Zhu Weiming	39	Executive Director and Vice Chairman
Hu Kang	46	Executive Director and Chief Executive Officer
Yu Xiufeng (Appointed on 28 May 2010)	47	Executive Director
Ye Fucai (Resigned on 28 May 2010)	59	Executive Director
Zhu Xi	46	Executive Director
Xu Jianguo (Appointed on 28 May 2010)	46	Executive Director
Deng Yuntian (Resigned on 28 May 2010)	37	Executive Director
Chan Chun Hong (Thomas)	46	Independent Non-executive Director
Ling Hong (Appointed on 28 May 2010)	50	Independent Non-executive Director
Zhou Feida (Resigned on 28 May 2010)	70	Independent Non-executive Director
Liu Huangsong	41	Independent Non-executive Director
Xu Chao (Appointed on 28 May 2010)	55	Supervisor and Chairman of the Supervisory Committee
Chen Jiaming (Resigned on 28 May 2010)	48	Supervisor and Chairman of the Supervisory Committee
Hu Peiming	52	Supervisor
Zhang Jianping	53	Supervisor

Directors

Zheng Yuanhu, aged 44, is a senior engineer. He was appointed as executive director and chairman of Shanghai Prime Machinery Company Limited (the "Company") in 2009. Mr. Zheng currently holds the positions of vice president of Shanghai Electric (Group) Corporation, president of Shanghai Electric Assets Management Company Limited as well as executive director of Shanghai Electric Group Assets Operation Company Limited. He has been the vice president of Shanghai Electric (Group) Corporation since 2008, president and vice president of Shanghai Electric Assets Management Company Limited since 2007. Mr. Zheng has acted as president and chairman of Pacific Mechatronic (Group) Co., Ltd. since 2002. During the period from 2003 to 2007, he also served at Shanghai Erfangji Co., Ltd. as chairman concurrently. Between 1998 and 2002, Mr. Zheng worked as deputy general manager and financial controller in Shanghai Diesel Engine Co., Ltd.. Mr. Zheng graduated from Tianjin University with a bachelor degree in internal combustion engineering in 1988. He also obtained a master degree in business administration from Fudan University in 2001.

Zhu Weiming, aged 39, is 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.

Biographical Details of Directors and Supervisors

Hu Kang, aged 46, is 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.

Yu Xiufeng, aged 47, is a senior engineer at professor level. He was appointed as executive director of the Company in 2010. He has been the deputy head of the industrial development department of Shanghai Electric Group Company Limited since November 2005, and has also been the deputy head of the strategic planning department of Shanghai Electric (Group) Corporation since December 2009. He was assistant to the general manager, and the deputy general manager of Shanghai Diesel Engine Co., Ltd. from June 1999 to November 2005. He held positions such as manager of the research and development department and deputy head of Engine Research Institute of Shanghai Diesel Engine Co., Ltd. from September 1996 to June 1999. Mr. Yu obtained his bachelor and master degrees from the Academy of Vehicle Engineering of the Technical Institute of Beijing majoring in Engine in 1986 and 1989 respectively. In September 1996, he graduated from the Academy of Vehicle Engineering of the Technical Institute of Beijing with a doctorate degree.

Ye Fucai, aged 59, is 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 and head of the strategic planning department of Shanghai Electric (Group) Corporation from 2007 to 2009. Mr. Ye is currently chairman of Pacific Mechatronic (Group) Co., Ltd.. Mr. Ye graduated from the business management department of PLAAF Political Academy.

Zhu Xi, aged 46, is 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. In 2003, she was appointed as director of Shanghai Electric (Group) Corporation Heng Lian Enterprise Development Limited. In 2004, she was head of budget department of Shanghai Electric (Group) Corporation. From 2004 to 2005, she served as deputy head of the asset finance department of Shanghai Electric Assets Management Company Limited. 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. She has served as supervisor of Shanghai Automation Instrumentation Co., Ltd. since May 2008. She has served as supervisor in Shanghai Electric Industry Corporation as well as Shanghai Electric International Fire Protection Equipments Co., Ltd since April 2010. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University.

Xu Jianguo, aged 46, is a senior accountant. He was appointed as executive director of the Company in 2010. He has been deputy head of the financial budget department of Shanghai Electric (Group) Corporation since December 2009. He was deputy head of the assets and finance department of Shanghai Electric Assets Management Company Limited from August 2008 to December 2009. From October 2005 to August 2008, he served as assistant to the financial manager of the first management department of Shanghai Electric Assets Management Company Limited, and chief financial controller of Shanghai Li Da Heavy Industrial Manufacturing Limited since April 2006. He also worked in the assets and finance department of Shanghai Cable Works, Shanghai Electric Assets Management Company Limited and check department of Shanghai Electric (Group) Corporation from July 1984 to September 2005. Mr. Xu graduated from the Correspondence Institute of the Party School of C.C. in 2004.

Deng Yuntian, aged 37, is 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 from 2009 to 2010. He is currently chairman of the labour union of Shanghai Electric Group Shanghai Electric Machinery Co., Ltd.. Mr. Deng graduated from Jiangsu University with a master degree.

Chan Chun Hong (Thomas), aged 46, 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 and managing director of China Agri-Products Exchange Limited and 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 accountancy and is a qualified accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Ling Hong, aged 50. He was appointed as independent non-executive director of the Company. He is the head, a professor and tutor of doctoral students at the information management and information system department of the faculty of management, Fudan University. He is also a guest professor at the Faculty of Business and Economics, The University of Hong Kong, an executive member of the council of China Information Economics Society (CIES) and a council member of the China Association for Information Systems, ISWorld (CNAIS). Mr. Ling has been a tutor at the faculty of management of Fudan University since 1984. From August 2001 to December 2001, he was a visiting scholar at the MIT Sloan School of Management in the United States. From August 1998 to February 1999, he was a deputy researcher of information systems at City University of Hong Kong. Mr. Ling obtained a bachelor degree in computer science and engineering from Tsinghua University in Beijing in 1984 and a doctoral degree in management science from Fudan University, Shanghai, in 2000.

Zhou Feida, aged 70, is 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 41, was appointed as independent non-executive director of the Company in 2005. Between 1996 to 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 program 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. On 13 August 2010, Mr. Liu was appointed as independent director of Jingwei Textile Machinery Company 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.

Biographical Details of Directors and Supervisors

Supervisors

Xu Chao, aged 55, is a senior economist. He was appointed as supervisor and chairman of the supervisory committee of the Company in 2010. He has been vice president and chief financial controller of Shanghai Electric Assets Management Company Limited since May 2008. He has also served as the executive director of Shanghai Electric Industrial Corporation since August 2009. From May 1986 to May 2010, Mr. Xu worked in Shanghai Turbine Works Company Limited and held the position of chief accountant, financial director, chief financial controller and vice president, etc. Mr. Xu obtained a master degree in business administration from Sino-European International Management Institute in 2000.

Chen Jiaming, aged 48, is 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, deputy president of Shanghai Electric Assets Management Company Limited and head of the reorganization department of the company, from 2004 to 2010. Mr. Chen is currently the general manager of Shanghai Electric international Economic and Trading Co., Ltd.. Mr. Chen graduated from Tongji University in 1988 majoring in automation.

Hu Peiming, aged 52, 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 53, is 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

Disclosure of Interests

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

As at 30 June 2010, 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	Number of shares	Notes	Capacity	Nature of interests	Percentage of Domestic Shares /H Shares (%)	Percentage of issued share capital (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
Atlantis Investment Management Limited	H	77,000,000	(2)	Investment manager	Long position	10.14	5.35
Liu Yang	H	77,000,000	(2)	Investment manager	Long position	10.14	5.35
Templeton Asset Management Ltd.	H	68,992,000		Investment manager	Long position	9.08	4.80
Government of Singapore Investment Corporation Pte Ltd	H	54,444,052		Investment manager	Long position	7.17	3.79
Prudential Plc	H	46,176,000	(3)	Interest of controlled corporation	Long position	6.08	3.21

Other Information

Notes:

(1) 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.

(2) The 40% share equity of Atlantis Investment Management Limited is owned by Liu Yang, thus Atlantis Investment Management Limited and Liu Yang are both deemed to be interested in the 77,000,000 share equity. The 77,000,000 share equity is the same tranche of shares of the Company.

(3) Prudential Plc is interested in 46,176,000 shares of the Company by virtue of its control over its 100% owned subsidiary Prudential Holdings Ltd, which in turn held a 100% interest in Prudential Corporation Holdings Ltd. Prudential Corporation Holdings Ltd in turn holds 100% interest in Prudential Asset Management (Hong Kong) Ltd, which holds the direct interests of 46,176,000 shares in the Company.

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 2010 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 2010, 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. As at 30 June 2010, 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.

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 2010 (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 Zheng Yuanhu, Zhu Weiming, Hu Kang, Yu Xiufeng, Zhu Xi and Xu Jianguo, and independent non-executive directors, namely, Chan Chun Hong (Thomas), Ling Hong and Liu Huangsong.

As at the date of this report, the supervisory committee of the company comprises of Xu Chao, 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.

Report on Review of Interim Financial Information

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

Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 19 to 42, 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 2010 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
13 August 2010

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Notes	For the six months ended 30 June 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000 (Restated)
REVENUE	3	**1,381,895**	1,091,224
Cost of sales		**(1,098,128)**	(869,079)
Gross profit		**283,767**	222,145
Other income and gains	3	**31,824**	29,371
Selling and distribution costs		**(49,161)**	(36,224)
Administrative expenses		**(120,609)**	(78,585)
Other expenses		**(47,678)**	(44,356)
Finance costs		**(3,434)**	(3,680)
Share of profits and losses of associates		**13,759**	2,258
PROFIT BEFORE TAX	4	**108,468**	90,929
Income tax expense	5	**(11,518)**	(10,692)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**96,950**	80,237
Profit and total comprehensive income attributable to:			
Owners of the Company		**95,854**	80,448
Non-controlling interests		**1,096**	(211)
		96,950	80,237
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic (RMB cents)			
- For profit for the period		**6.66**	5.59

Details of the dividends proposed for the interim period are disclosed in note 6 to the unaudited interim condensed consolidated financial statements.

Unaudited Interim Condensed Consolidated Statement of Financial Position

30 June 2010

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**1,116,027**	1,078,381
Prepaid land premiums/land lease payments	8	**126,820**	128,234
Goodwill		**8,818**	8,818
Other intangible assets		**5,878**	6,460
Investments in associates		**146,374**	129,767
Available-for-sale investments		**1,072**	1,072
Long-term prepayments		**216,979**	103,386
Deferred tax assets		**24,641**	19,240
Total non-current assets		**1,646,609**	1,475,358
CURRENT ASSETS			
Inventories		**714,419**	663,866
Trade receivables	9	**473,863**	346,838
Bills receivable		**109,806**	141,604
Prepayments, deposits and other receivables		**103,595**	76,644
Restricted deposits		**65,863**	87,967
Cash and cash equivalents	10	**1,184,470**	1,101,961
Total current assets		**2,652,016**	2,418,880
CURRENT LIABILITIES			
Trade payables	11	**421,478**	316,862
Bills payable		**139,200**	151,350
Tax payable		**51,897**	43,297
Other payables and accruals		**225,403**	159,532
Interest-bearing bank and other borrowings		**292,200**	95,200
Total current liabilities		**1,130,178**	766,241
NET CURRENT ASSETS		**1,521,838**	1,652,639
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,168,447**	3,127,997

Unaudited Interim Condensed Consolidated Statement of Financial Position (continued)

30 June 2010

	Notes	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,168,447**	3,127,997
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		-	17,000
Government grants		**272,020**	172,927
Other long-term payables		**20,973**	41,861
Deferred tax liabilities		**2,409**	3,679
Total non-current liabilities		**295,402**	235,467
Net assets		**2,873,045**	2,892,530
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	**1,438,286**	1,438,286
Reserves		**1,419,213**	1,399,522
Proposed final dividend		-	40,272
		2,857,499	2,878,080
Non-controlling interests		**15,546**	14,450
Total equity		**2,873,045**	2,892,530

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	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
For the six months ended 30 June 2010									
At 1 January 2010									
As previously reported	1,438,286	702,945	(58,090)	140,610	538,674	40,272	2,802,697	14,450	2,817,147
Acquisition of Zhenhua Bearing #	-	-	74,903	-	480	-	75,383	-	75,383
As restated	1,438,286	702,945*	16,813*	140,610*	539,154*	40,272	2,878,080	14,450	2,892,530
Total comprehensive income for the period	-	-	-	-	95,854	-	95,854	1,096	96,950
Acquisition of Zhenhua Bearing #	-	-	(76,163)	-	-	-	(76,163)	-	(76,163)
Final 2009 dividend declared	-	-	-	-	-	(40,272)	(40,272)	-	(40,272)
At 30 June 2010 (Unaudited)	1,438,286	702,945*	(59,350)*	140,610*	635,008*	-	2,857,499	15,546	2,873,045
For the six months ended 30 June 2009 (Restated)									
At 1 January 2009									
As previously reported	1,438,286	702,945	(58,090)	116,518	452,024	60,120	2,711,803	13,889	2,725,692
Acquisition of Zhenhua Bearing #	-	-	27,554	38	10,579	-	38,171	-	38,171
As restated	1,438,286	702,945	(30,536)	116,556	462,603	60,120	2,749,974	13,889	2,763,863
Total comprehensive income for the period	-	-	-	-	80,448	-	80,448	(211)	80,237
Final 2008 dividend declared	-	-	-	-	-	(60,120)	(60,120)	-	(60,120)
At 30 June 2009 (Unaudited)	1,438,286	702,945	(30,536)	116,556	543,051	-	2,770,302	13,678	2,783,980

* These reserve accounts comprise the consolidated reserves of RMB1,419,213,000 (31 December 2009: RMB1,399,522,000) in the unaudited interim condensed consolidated statement of financial position.

\# Zhenhua Bearing refers to Shanghai Zhenhua Bearing Factory Company Limited. Details are set out in note 14 to the unaudited interim condensed consolidated financial statements.

Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	93,296	186,251
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(316,931)	(209,801)
NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	161,712	(38,663)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(61,923)	(62,213)
Cash and cash equivalents at beginning of period	724,922	566,870
Effect of foreign exchange rate changes, net	(252)	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	662,747	504,657
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	620,738	479,657
Non-restricted deposits with original maturity of less than three months when acquired	42,009	25,000
Cash and cash equivalents as stated in the statement of cash flows	662,747	504,657

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2010

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 unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2009.

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which are generally effective for accounting periods beginning on or after 1 January 2010, noted below:

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs – Additional Exemptions for First-time Adopters*
HKFRS 1 (Revised)	*First Time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 18 Amendments	*Revenue*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HK-Int 4 Amendment	*Determination of Length of Lease Term in respect of Hong Kong Land Leases*

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs 2009** which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments are effective for annual periods beginning on or after 1 January 2010 although there is separate transitional provision for each standard.

* *Improvements to HKFRSs 2009* contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9.

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)

HKFRS 1 Amendments address the retrospective application of HKFRSs to particular situations (such as exempt entities using full cost method from retrospective application of HKFRSs for oil and gas assets or existing leasing contracts from reassessing the classification of those contracts in accordance with HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* when the application of their other accounting requirement produced the same result) and are aimed at ensuring that entities applying HKFRSs will not face undue cost or effort in the transition process. The amendments have had no impact on the financial position or results of operations of the Group.

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRS, the revisions are not applicable to the Group.

HKFRS 2 Amendments clarify its scope and the accounting for group companies' cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transactions. The amendments have had no impact on the financial position or results of operations of the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (currently the minority interests) at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree. The amendments have had no impact on the financial position or results of operations of the Group.

HKAS 18 Amendments provide additional guidance to determine whether an entity is acting as principal or agent. The additional guidance has had no impact on the financial position or results of operations of the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments are made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rate*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*. The amendments have had no impact on the financial position or results of operations 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)

Amendments to HKAS 32 address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendments contained in this update require that, provided that certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendments have had no impact on the financial position or results of operations of the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment has had no impact on the financial position or results of operations of the Group as the Group has not entered into any such hedges.

HK(IFRIC)-Int 17 standardises practice in the accounting for all non-reciprocal distributions of non-cash assets to owners. This new interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments are made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the Interpretation resulted in changes in accounting policy, the Interpretation has had no material impact on the financial position or results of operations of the Group.

HK-Int 4 was revised in December 2009 as a consequence of amendment to HKAS 17 made by *Improvements to HKFRSs* issued in May 2009. The amendment to HKAS 17 removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. The new guidance, paragraph 15A, indicates that entities should use judgment to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. A lease of land is therefore classified as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership to the lessee. Following this amendment, the scope of this Interpretation has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of properties accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The amendments have had no impact on the financial position or results of operations of the Group.

In May 2009, the HKICPA issued *Improvements to HKFRSs* which set out amendments to HKFRSs, primarily with a view to removing inconsistencies and clarifying wording. There is separate transitional provision for each standard. While the adoption of some of them resulted in changes in accounting policies, none of these amendments had a material impact on the financial position or results of operations 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)

HKFRS 2 *Share-based Payment*: It revises the scope that transaction in which an entity acquires goods as part of the net assets acquired in a business combination, in a combination of entities or business under common controls, or the contribution of a business on the formation of a joint venture does not fall under the scope of this HKFRS.

HKFRS 5 Amendments clarify that an entity that is committed to a sale plan involving loss of control of a subsidiary shall have relevant disclosures when the subsidiary is a disposal group that meets the definition of a discontinued operation.

HKFRS 8 *Operating Segments*: It clarifies that a measure of total assets for each reportable segment should be reported only if such information is regularly provided to the chief operating decision maker.

HKAS 7 *Statement of Cash Flows:* It specifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

HKAS 17 *Lease*: It removes the previous classification on leases with both land and building elements and requires separate assessment of each element as a finance or an operating lease accordingly.

HKAS 36 *Impairment of Assets*: It clarifies that each unit or group of units to which the goodwill is so allocated should not be larger than an operating segment before aggregation.

HKAS 38 *Intangible Assets*: It introduces amendments to measurement of fair value of an intangible asset acquired in a business combination. Intangible asset acquired in business combination may be separable together with a related contract and identifiable liability in addition to identifiable asset. Additional consequential amendments to this HKAS arising from the revised HKFRS 3 are also incorporated.

Amendment to HKAS 39 *Financial Instruments*: *Recognition and Measurement*: It 1) clarifies that prepayment option is considered closely related to the host contract when the exercise price of prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract; 2) clarifies that this HKAS is not applicable to forward contract between acquirer and selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date; and 3) also replaces the term "assets acquired or liability assumed" under cash flow hedges with "hedged forecast cash flows".

HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*: It revises the scope that this Interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a combination of entities or businesses under common control, or the formation of a joint venture.

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

Notes to Unaudited Interim Condensed Consolidated Financial Statements (continued)

30 June 2010

2. OPERATING SEGMENT INFORMATION

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Six months ended 30 June 2010 (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	351,628	377,403	274,237	378,627	-	1,381,895
Other revenue	2,188	10,810	7,039	4,539	-	24,576
Total	353,816	388,213	281,276	383,166	-	1,406,471
Segment results	23,659	48,261	32,246	4,375	-	108,541
Reconciliation:						
Interest and dividend income and unallocated gains						7,248
Corporate and other unallocated expenses						(17,646)
Finance costs						(3,434)
Share of profits and losses of associates	3,857	-	2,291	-	7,611	13,759
Profit before tax						108,468

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2009 (Unaudited, restated)	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	244,990	402,060	178,159	266,015	-	1,091,224
Other revenue	4,072	7,584	3,819	5,065	-	20,540
Total	249,062	409,644	181,978	271,080	-	1,111,764
Segment results	4,739	53,860	12,402	22,717	-	93,718
Reconciliation:						
Interest and dividend income and unallocated gains						8,831
Corporate and other unallocated expenses						(10,198)
Finance costs						(3,680)
Share of profits and losses of associates	(2,699)	-	298	-	4,659	2,258
Profit before tax						90,929

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 2010 (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	
	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000 (Restated)
Revenue		
Sales of goods	**1,374,761**	1,086,142
Rendering of services	**7,134**	5,082
	1,381,895	1,091,224
Other income		
Interest income from loans receivable, bank balances and deposits	**7,163**	8,569
Gross rental income	**21**	677
Profit on sales of raw materials, spare parts and semi-finished goods	**9,432**	5,853
Subsidy income	**9,130**	10,360
Others	**792**	2,284
	26,538	27,743
Gains		
Gain on disposal of items of property, plant and equipment, net	**-**	380
Gain on debt restructuring	**5,243**	-
Gain on write-off of long-aged payables	**43**	1,248
	5,286	1,628
Total	**31,824**	29,371

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Cost of inventories sold	**1,093,770**	884,891
Cost of services provided	**5,583**	5,344
Depreciation	**53,211**	59,505
Recognition of prepaid land premiums/land lease payments	**1,391**	1,369
Amortisation of patents and licences	**250**	-
Amortisation of other intangible assets	**790**	759
Reversal of write-down of inventories to net realisable value	**(1,225)**	(21,156)
Research and development costs:		
Current period expenditure	**32,789**	32,801
Minimum lease payments under operating leases:		
Land and buildings	**10,862**	9,593
Employee benefits expenses	**188,502**	157,702
Loss on disposal of items of property, plant and equipment, net	**519**	-
Foreign exchange differences, net	**4,704**	865
Provision of impairment of accounts receivable	**1,465**	254

5. TAX

The Group is subject to the statutory corporate income tax rate of 25% for the Period (six months ended 30 June 2009: 25%) under the income tax rules and regulations of the People's Republic of China (the "PRC").

Four subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Tian An Bearing Company Limited, Shanghai Tool Works Company Limited ("Tool Works") and Zhenhua Bearing are subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2008 and 2009 and the year ending 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, 25 December 2008 and 25 December 2008, respectively.

In addition, Wuxi Turbine Blade Company Limited was granted the HNTEs qualification by the relevant government authority on 27 May 2009, and accordingly is subject to a preferential corporate income tax rate of 15% for the year ended 31 December 2009 and the years ending 31 December 2010 and 2011.

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	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Group:		
Current – the PRC/Mainland China		
Charge for the Period	**20,704**	5,991
Over provision in prior years	**(2,515)**	(1,563)
Deferred	**(6,671)**	6,264
Total tax charge for the Period	**11,518**	10,692

The share of tax attributable to associates amounting to RMB2,755,000 (six months ended 30 June 2009: RMB1,618,000) 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 2009: Nil).

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY 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 ordinary 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 2010 and 2009 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	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	**95,854**	80,448

	Number of shares For the six months ended 30 June	
	2010	2009
	(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 2010, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB2,971,000 (31 December 2009: RMB2,944,000).

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 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000 (Restated)
Within 3 months	**427,489**	278,822
Over 3 months but within 6 months	**28,312**	42,512
Over 6 months but within 1 year	**12,670**	23,423
Over 1 year but within 2 years	**5,147**	2,081
Over 2 years	**245**	-
	473,863	346,838

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 2010 (Unaudited)		31 December 2009 (Audited)	
	Original currency in'000	RMB equivalent in'000	Original currency in'000 (Restated)	RMB equivalent in'000 (Restated)
Cash and bank balances:				
USD	**1,086**	**7,378**	814	5,557
EUR	**45**	**370**	81	792
JPY	**6,433**	**493**	7,660	565

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 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000 (Restated)
Within 3 months	**350,908**	213,047
Over 3 months but within 6 months	**36,777**	28,130
Over 6 months but within 1 year	**25,453**	22,917
Over 1 year but within 2 years	**5,829**	51,591
Over 2 years	**2,511**	1,177
	421,478	316,862

12. ISSUED CAPITAL

	30 June 2010 (Unaudited)		31 December 2009 (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. BUSINESS COMBINATION UNDER COMMON CONTROL

On 28 February 2010, the Group acquired 100% equity interest in Zhenhua Bearing from Shanghai Hydraulics & Pneumatics Works Company Limited, a wholly-owned subsidiary of Shanghai Electric Corporation, at a cash consideration of RMB76,163,000. Zhenhua Bearing is mainly engaged in the manufacturing of various types of bearings and bearing components, such as engine bearings, transmission bearings, clutch bearings and mower bearings. No significant adjustments were made to the net assets and net profit of Zhenhua Bearing as a result of the common control combination to achieve consistency of accounting policies.

The Group has applied merger accounting as prescribed in Hong Kong Accounting Guideline 5 *"Merger Accounting for Common Control Combination"* issued by the HKICPA to account for the business combination under common control. Accordingly, Zhenhua Bearing has been combined since 1 January 2009, the earliest financial period presented, as if the acquisition had been occurred at the date.

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 30 June 2010 and 31 December 2009 is as follows:

30 June 2010

	The Group excluding Zhenhua Bearing RMB'000	Zhenhua Bearing RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Cash and cash equivalents	1,140,028	44,442	-	1,184,470
Other current assets	1,402,479	77,731	(12,664)	1,467,546
Investment in a subsidiary	76,163	-	(76,163)	-
Other non-current assets	1,626,590	20,019	-	1,646,609
Current liabilities	(1,084,855)	(57,987)	12,664	(1,130,178)
Non-current liabilities	(293,484)	(1,918)	-	(295,402)
Net assets	2,866,921	82,287	(76,163)	2,873,045
Equity				
Equity attributable to owners of the Company				
Issued/paid-up capital	1,438,286	24,500	(24,500)	1,438,286
Reserves	1,413,089	57,787	(51,663)	1,419,213
	2,851,375	82,287	(76,163)	2,857,499
Non-controlling interests	15,546	-	-	15,546
Total equity	2,866,921	82,287	(76,163)	2,873,045

14. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

31 December 2009

	The Group excluding Zhenhua Bearing RMB'000	Zhenhua Bearing RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Cash and cash equivalents	1,004,784	97,177	-	1,101,961
Other current assets	1,258,707	58,212	-	1,316,919
Non-current assets	1,454,432	20,926	-	1,475,358
Current liabilities	(679,750)	(86,491)	-	(766,241)
Non-current liabilities	(221,026)	(14,441)	-	(235,467)
Net assets	2,817,147	75,383	-	2,892,530
Equity				
Equity attributable to owners of the Company				
Issued/paid-up capital	1,438,286	24,500	(24,500)	1,438,286
Reserves	1,324,139	50,883	24,500	1,399,522
Proposed final dividends	40,272	-	-	40,272
	2,802,697	75,383	-	2,878,080
Non-controlling interests	14,450	-	-	14,450
Total equity	2,817,147	75,383	-	2,892,530

The above adjustments represent adjustments to eliminate the paid-up capital of Zhenhua Bearing against the Group's investment cost in Zhenhua Bearing as at 30 June 2010 and 31 December 2009, respectively; and the cash deposited in cash pool of the Company as at 30 June 2010.

15. 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 a term of two 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 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within one year	**213**	426

(b) As lessee

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

As at 30 June 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within one year	**15,869**	19,246
In the second to fifth years, inclusive	**13,443**	16,408
	29,312	35,654

16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15(b) above, the Group had the following commitments as at 30 June 2010:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Contracted, but not provided for:		
- Land and buildings	-	515
- Plant and machinery	**610,409**	546,467
- Intangible assets	**680**	-
	611,089	546,982
Authorised, but not contracted for:		
- Plant and machinery	**177,097**	299,257
Contracted, but not provided for:		
-Capital contributions payable to an associate	-	3,715
Total	**788,186**	849,954

17. CONTINGENT LIABILITIES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- An associate	**1,000**	1,000

18. 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 2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000 (Restated)
Purchase of materials from:	(i)		
Associates		**90**	58
SEC group companies *		**1,158**	2,040
		1,248	2,098
Sales of goods to:	(i)		
Associates		**1,011**	484
SEC group companies *		**136,771**	142,418
		137,782	142,902
Receiving of manpower services from:	(i)		
Ultimate holding company		**22**	-
Associates		**51**	-
SEC group companies *		**2,253**	523
		2,326	523
Rendering of manpower services to:	(i)		
SEC group companies *		**324**	340
Rental fee payable to:	(ii)		
Ultimate holding company		**1,549**	2,304
SEC group companies *		**8,011**	8,019
		9,560	10,323
Purchase of items of property, plant and equipment from:			
SEC group companies *	(i)	**82**	-

18. 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 RMB1,342,000 per annum.

(ii) During the Period, one of the SEC group companies leased certain properties to Tool 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 RMB2,624,000 per annum.

(iii) During the Period, one of the SEC group companies leased certain properties to Zhenhua 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 RMB3,995,000 per annum.

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

As disclosed in note 17, the Group provided a corporate guarantee of RMB1,000,000 (31 December 2009: RMB1,000,000) to a related company and its expiry date is 31 December 2010.

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

	For the six months ended 30 June	
	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Fees	**262**	263
Short term employee benefits	**706**	682
Post-employment benefits	**54**	49
	1,022	994

Notes to Unaudited Interim Condensed Consolidated Financial Statements (continued)

30 June 2010

19. COMPARATIVE AMOUNTS

Due to the business combination under common control as further stated in note 14, the presentation of certain items and balances in the unaudited interim condensed consolidated financial statements have been restated and presented as if the entities or businesses had been combined as at 1 January 2009. Accordingly, certain comparative amounts have been restated to conform with the current period's presentation.

20. 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 13 August 2010.