



SHANGHAI PRIME

MACHINERY COMPANY LIMITED

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

Stock Code: 02345

2011 Interim Report



CONTENT

02	Corporate Information
03	Performance Highlights
04	Chairman's Statement
07	Management Discussion and Analysis
11	Biographical Details of Directors and Supervisors
15	Other Information
18	Report on Review of Interim Financial Information
19	Unaudited Interim Condensed Consolidated Statement of Comprehensive Income
20	Unaudited Interim Condensed Consolidated Statement of Financial Position
22	Unaudited Interim Condensed Consolidated Statement of Changes in Equity
23	Unaudited Interim Condensed Consolidated Statement of Cash Flows
24	Notes to Unaudited Interim Condensed Consolidated Financial Statements

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

Room 3509, 35th Floor,
Tower Two, 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 (Certified Public Accountant)

Qualified Accountant

Li Wai Chung (Certified Public Accountant)

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.

The 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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PERFORMANCE HIGHLIGHTS

- Revenue for the six months ended 30 June 2011 (the "Period") was RMB1,785 million, representing an increase of 29% over the corresponding period of last year.
- Profit attributable to the owners of the Company for the Period was RMB121 million, representing an increase of 27% over the corresponding period of last year.
- Basic earnings per share for the Period was RMB8.44 cents, representing an increase of 27% over the corresponding period of last year.
- During the first half of the year, Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") has achieved a significant increase in exports, with an export trading volume amounting to RMB639 million, representing a year-on-year increase of 42%. This was mainly driven by two factors: first, rapid growth in the exports of fasteners; and second, automobile bearings of the Group entering the customers' global procurement system.
- Technological enhancement projects in the cutting tool business have significantly improved the production capacity of numerically controlled cutting tools and thread cutting tools. Carbide cutting tools products which substituted imports achieved a revenue of RMB23 million in the first half of the year, representing a year-on-year increase of 67%. The revenue of the thread cutting tools amounted to RMB79 million representing a year-on-year increase of 31%, which further expanded its market presence.

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 2011 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee of the Company and Ernst & Young, the international auditors of the Company.

Review of Performance

During the first half of 2011, the Group has overcome a series of unfavorable factors such as worsened macro-economic inflation, accelerated appreciation of Renminbi, and the increase of raw material and labor costs by implementing the management measures focusing on "product upgrade, industry transformation, informationisation and precision". The Group has also achieved a steady economic growth during the first half of the year, and a profound improvement has even been achieved especially on the areas including export trade, production capacity upgrade for products and modern service industry. During the first half of the year, the Group has achieved a significant increase in exports, with an export trading volume amounting to RMB639 million, representing a year-on-year increase of 42%. This was mainly driven by two factors: first, rapid growth in the exports of fasteners; and second, automobile bearings of the Group entering the customers' global procurement system. During the first half of the year, the Group has gained great achievement of the high-end products and production capacity upgrade. In the turbine blade business, the press machine with a capacity of 35,500 ton was successfully put into operation, achieving a breakthrough of scale in production capacity. Technological enhancement projects in the cutting tool business have significantly improved the production capacity of numerically controlled cutting tools and thread cutting tools. Carbide cutting tools products which substituted imports achieved a revenue of RMB23 million in the first half of the year, representing a year-on-year increase of 67%. The revenue of the thread cutting tools amounted to RMB79 million representing a year-on-year increase of 31%, which further expanded its market

presence. For the modern service industry segment, there was a significant growth in the size of domestic sales of the fasteners of the Group, which achieved a domestic sales of fasteners of RMB110 million for the first half of the year, with a direct supply to hundreds of customers.

The revenue of the Group amounted to RMB1,785 million (1H 2010: RMB1,382 million) for the Period, representing a year-on-year increase of 29%. The profit attributable to the owners of the Company amounted to RMB121 million (1H 2010: RMB96 million), representing a year-on-year increase of 27%. The total assets of the Group was RMB5,003 million (31 December 2010: RMB4,576 million), representing a year-on-year increase of 9%.

Outlook and Prospects

For the five to ten years from now, the PRC economy is still under the period of significant strategies and opportunities for development, despite the continuous economic challenges including the slow-down of global economic recovery, the fluctuation of structural adjustment of global economy and the inflation pressure from global areas. However, as the PRC has entered the developing stage of "Twelfth Five Year Plan", a new stage of economic growth has begun. According to "Twelfth Five Year Plan", the Group will make transformation upgrade as core task, and self-innovation as support, adjusting the economic structure as the main approach to speed up the changes of economic model, further promoting "one focus", that is to focus on the pursuit of quality and benefits; and the "three changes", i.e changes towards technological advancement and management innovation, changes towards embedded integrated development and changes towards high value-added production, forming a modern industrial group featuring optimized structures, balanced business deployment, advanced technology.

Amid the fundamental duties for the industrial and economic development in the PRC, the nation has announced a series of policies on relevant industries, concerning speeding up, fostering and developing strategic emerging industries, concerning self-oriented innovation

on critical technological equipment, and concerning the revival of implementation solution of machinery parts and components industry. Being a modern machinery parts and components manufacturing industry corporation mainly engaging in the top four businesses of turbine blade, bearing, cutting tool and fastener, the Group will benefit greater opportunity for development under the national strategies on industries, especially under the guidance on the key industrial structures adjustment approach for the top seven strategic emerging industries including the development of high-end equipment manufacturing industry. These favorable policies have implemented a new round of industrial economic development for the Group, providing strategic opportunities and developing momentum on various aspects on a timely basis. During the second half of the year, targeting at the analysis on the macro-economic situation mentioned above, integrating the mission requirement of economic development in 2011, the Group will continue to adopt the developing strategies of "transformation upgrade, wisely create future", mainly implementing the four following major items, continuously implementing the Group's economic growth model and the changes in commercial model, marching towards the goal of becoming a key component servicing manufacturing group of technological advancement.

1. Speeding up product upgrade. Targeting at the national strategic policy of emerging industries, the Group will further take the technological and capital advantages, promoting the products of the top four subject businesses to develop towards the equipment package of high-end mainframe areas including new energy equipment, aviation and aerospace equipment, precise numerically controlled equipment and digitalized manufacturing.

2. Speeding up technology innovation. During the course of changing the implementation of development models, the Group will further enhance the technology of top four subject product businesses, implementing the construction of technology innovation system, resources allocation solution and R&D plans, to ensure the breakthrough of key areas on technology upgrade and the progress of overall scientific research results industry.

3. A ground-breaking transformation in industry. Amid the development approach incorporating the "informationised and precisionised" construction and manufacturing industries with service industry, the Group will further implement the objectives of the top four value-added services of direct supply and sales, operations of nil inventory, information support and standardized services, to speed up the development model for servicing manufacture industry and to promote the strategic transformation in the industry as a whole.

4. Continuously optimizing structures. Incorporating the adjustment on economic structure and the requirement of management innovation, the Group will further initiate from the requirement of specific economic system and operating mechanism of a listed company, with the reliance on the top four controlling systems of investment management, risk management, financial management and performance management to enhance the progress on the optimization of corporate structures, human resources, management mechanism and business model, promoting an orderly development for the economy of the Group.

Corporate development strategies

In the future, the Group will continue to rely on the approach of advanced technology changing economic development model, and setting high effective and clean energy equipment, high-end precise equipment and products, as well as a modernized service manufacturing industry model as key areas for development, taking "to supply high-end precise parts and components for modern equipment manufacturing industry, to provide highly effective services for global industry chain" as mission, working hard to become a global advanced and a domestic leading machinery parts and components industry corporation.

Turbine blade business: further implementing large turbine blades and aviation forging project, and through which, building up technological core and scale advantages for high-end products including nuclear-power, aviation turbine blades and large turbine blades, and gradually achieved the manufacture output of 550,000 pieces of turbine blade per

Chairman's Statement

annum, ultimately becoming a world-class turbine blade specialized manufacturing enterprise and aviation forgings supplier.

Bearing business: focusing on manufacturing products including extra large wind power bearings, extra precise small bearings, automobile bearings, to endeavor to develop cutting-edge products, to construct production base for high-end bearings and global leading digital and green plants in the PRC, marching forward towards the goal of becoming an advanced bearing specialized manufacturing company.

Cutting tool business: focusing on the development of the technological research on hard alloy and numerically controlled cutting tools, to establish the overall optimization application and design capacity for cutting tools. Further optimizing the network benefit from secondary distributors, utilizing the Internet of Things technology as well as the information management system including the purchase, inventory and sales between sales of corporate level and sales of distributor level, providing end-users with overall cutting technology solution and product delivery services solution, to establish a domestic leading and global excellent modernized metal cutting tool manufacturing corporation.

Fastener business: further building up the complementary capacity for renowned enterprises within the industry such as Shanghai Electric relying on the resources of import and export sales, extending towards end-users and domestic renowned enterprises, distributing products from fastener extending to bearing and cutting tool segments, and eventually achieving one-stop supply chain management through setting up an e-commerce platform, to become the leader of fasteners production service industry in the PRC.

Finally, I would like to take this opportunity to express my gratitude to all the shareholders for their continuous trust and long-term support to the Group, as well as to the board of directors, supervisors committee, members of the management and all the staff for their dedicated contribution and devoted hard work. Looking forward, we are confident that the Company will continue to adhere to

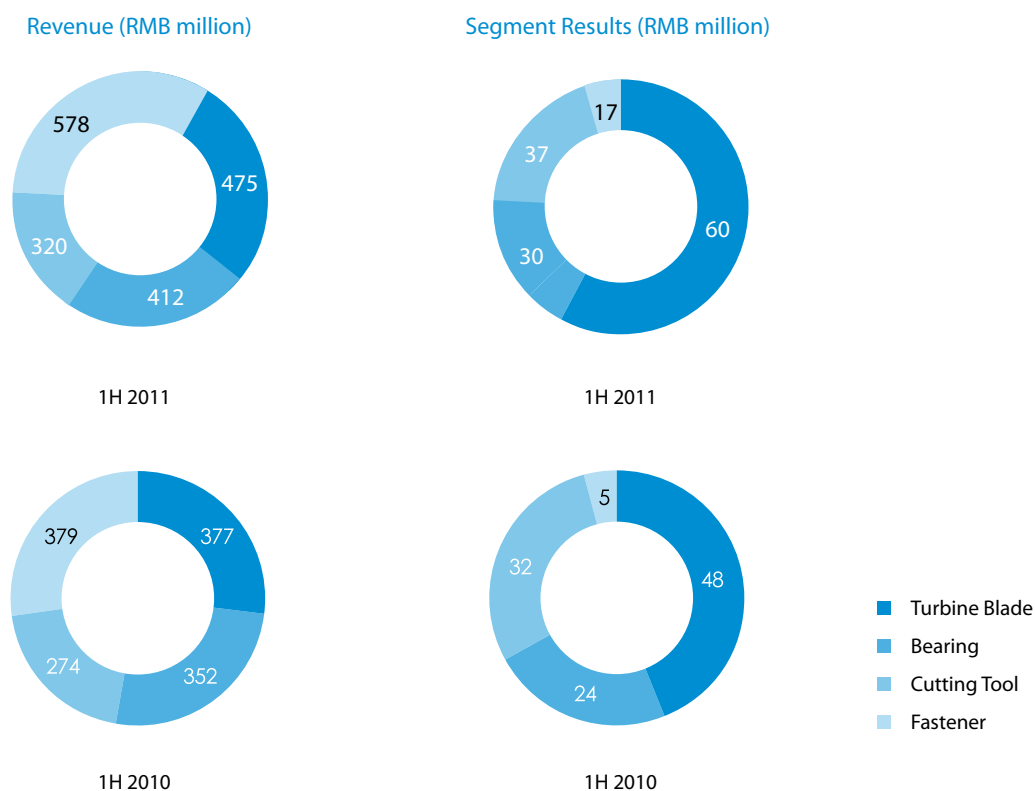
its prudent and steady working style, leverage on favorable conditions, actively address every challenge, work diligently, develop proactively, continue to increase the value of the Group, with a view to reward the shareholders with excellent operating results.

Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
12 August 2011

Management Discussion and Analysis

Operation Overview of Major Business Divisions

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



(RMB million)	Revenue		Segment Results	
	Six months ended 30 June		Six months ended 30 June	
	2011	2010	2011	2010
Turbine Blade	475	377	60	48
Percentage of total	27%	27%	42%	44%
Bearing	412	352	30	24
Percentage of total	23%	26%	21%	22%
Cutting Tool	320	274	37	32
Percentage of total	18%	20%	25%	29%
Fastener	578	379	17	5
Percentage of total	32%	27%	12%	5%
Total	1,785	1,382	144	109

Management Discussion and Analysis

Turbine Blade Business

During the six months ended 30 June 2011 (the "Period"), the revenue of turbine blade business amounted to RMB475 million (1H 2010: RMB377 million), representing an increase of 26% compared with the corresponding period of last year. The segment results amounted to RMB60 million (1H 2010: RMB48 million), representing an increase of 25% over the corresponding period of last year. Export sales amounted to RMB97 million (1H 2010: RMB70 million), representing an increase of 39% compared with the corresponding period of last year.

Bearing Business

During the Period, the revenue of the bearing business was



RMB412 million (1H 2010: RMB352 million), representing an increase of 17% over the corresponding period of last year. The segment results amounted to RMB30 million (1H 2010: RMB24 million), representing an increase of 25% compared with the corresponding period of last year. Export sales amounted to RMB61 million (1H 2010: RMB52 million), representing an increase of 17% over the corresponding period of last year.

Cutting Tool Business

During the Period, the revenue of the cutting tool business was RMB320 million (1H 2010: RMB274 million), representing an increase of 17% over the corresponding period of last year. The segment results amounted to RMB37 million (1H 2010: RMB32 million), representing an increase of 16% over the corresponding period of last year. Export sales amounted to RMB13 million (1H 2010: RMB14 million), representing a decrease of 7% over the corresponding period of last year.

Fastener Business

During the Period, the revenue of the fastener business was RMB578 million (1H 2010: RMB379 million), representing an increase of 53% over the corresponding period of last year. The segment results amounted to RMB17 million (1H 2010: RMB5 million), representing an increase of 240% over the corresponding period of last year. Export sales amounted to RMB468 million (1H 2010: RMB312 million), representing an increase of 50% over the corresponding period of last year.

Share of Profits and Losses of Associates

During the Period, share of profits of associates of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was RMB17 million (1H 2010: RMB14 million).

Finance Costs

During the Period, finance costs was RMB8 million (1H 2010: RMB3 million).

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company was RMB121 million for the Period (1H 2010: RMB96 million). Basic earnings per share was RMB8.44 cents (1H 2010: RMB6.66 cents).

Cash Flow

As at 30 June 2011, the Group's cash and bank balances were RMB1,076 million (31 December 2010: RMB1,066 million), of which RMB42 million were restricted deposits (31 December 2010: RMB103 million). During the Period, the Group had a net cash inflow from operating activities of RMB8 million (1H 2010: net cash inflow of RMB93 million), a net cash outflow from investing activities of RMB101 million (1H 2010: net cash outflow of RMB317 million), and a net cash inflow from financing activities of RMB188 million (1H 2010: net cash inflow of RMB162 million).

Assets and Liabilities

As at 30 June 2011, the Group had total assets of RMB5,003 million (31 December 2010: RMB4,576 million), representing an increase of RMB427 million compared with the beginning of the year. Total current assets were RMB2,840 million (31 December 2010: RMB2,548 million), accounting for 57% of total assets and representing an increase of RMB292 million compared with the beginning of the Period. Total non-current assets were RMB2,163 million (31 December 2010: RMB2,028 million), accounting for 43% of total assets and representing an increase of RMB135 million compared with the beginning of the Period.

As at 30 June 2011, the total liabilities of the Group were RMB1,967 million (31 December 2010: RMB1,616 million), representing an increase of RMB351 million compared with the beginning of the year. Total current liabilities were RMB1,246 million (31 December 2010: RMB974 million), accounting for 63% of total liabilities and representing an increase of RMB272 million compared with the beginning of

the Period. Total non-current liabilities were RMB721 million (31 December 2010: RMB642 million), accounting for 37% of total liabilities and representing an increase of RMB79 million compared with the beginning of the Period.

As at 30 June 2011, the net current assets of the Group were RMB1,594 million (31 December 2010: RMB1,574



million), representing an increase of RMB20 million from the beginning of the Period.

Source of Funding and Indebtedness

As at 30 June 2011, the Group had aggregated bank and other borrowings of RMB662 million (31 December 2010: RMB450 million), representing an increase of RMB212 million from the beginning of the year. The Group had borrowings repayable within one year of RMB262 million (31 December 2010: RMB120 million). The borrowings repayable after one year were RMB400 million (31 December 2010: RMB330 million).

As at 30 June 2011, all bank and other borrowings of the Group were interest-bearing at fixed rates.

Management Discussion and Analysis

Gearing Ratio

As at 30 June 2011, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 22% (31 December 2010: 15%).

Restricted Deposits

As at 30 June 2011, RMB42 million (31 December 2010: RMB103 million) in the bank deposits of the Group was restricted deposits.

Pledges of Assets

As at 30 June 2011, the Group had no other pledge of assets save for those disclosed above.

Contingent Liabilities

As at 30 June 2011, the Group had no contingent liabilities (31 December 2010: nil).

Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB207 million (1H 2010: RMB206 million).

Foreign Exchange Exposure

The Group uses Renminbi ("RMB") as the reporting currency. Since the beginning of 2011, despite the appreciation of RMB against the U.S. Dollars has slowed down, the exchange rates of RMB to other major currencies may still be strong. The appreciation of RMB will increase the price of the Group's products to export markets, 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 raw material and machinery and equipment from overseas.

In addition, as at 30 June 2011, the Group's bank deposits denominated in foreign currencies comprised of USD0.6 million, EUR0.3 million and JPY15.8 million. Save as the

above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Significant Event

On 12 August 2011, the Company issued a press announcement stating its intention to submit a bid to acquire Shanghai Electric (Group) Corporation's 100% equity interests in Shanghai High Strength Bolting Co., Ltd and 100% equity interest in Shanghai Fastener and Welding Material Technology Research Centre pursuant to a public tender launched by Shanghai Electric (Group) Corporation. Further details are available in the Company's press announcement dated 12 August 2011.

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

Employees

As at 30 June 2011, the Group had approximately 3,238 (31 December 2010: 3,359) employees. The Company has short-term and long-term incentive programs to motivate the performance of the staff and a series of training programs to enhance the development of the staff.

Biographical Details of Directors and Supervisors

The following table sets forth certain information concerning the directors and supervisors of the Company.

There are no family relationships among any director, supervisor or senior management of the Company.

Name	Age	Position
Zheng Yuanhu	45	Executive Director and Chairman
Zhu Weiming	40	Executive Director and Vice Chairman
Hu Kang	48	Executive Director and Chief Executive Officer
Yu Xiufeng	47	Executive Director
Zhu Xi	47	Executive Director
Xu Jianguo	46	Executive Director
Chan Chun Hong (Thomas)	47	Independent Non-executive Director
Liu Huangsong	42	Independent Non-executive Director
Ling Hong	50	Independent Non-executive Director
Xu Chao	55	Supervisor and Chairman of the Supervisory Committee
Hu Peiming	53	Supervisor
Zhang Jianping	54	Supervisor

Directors

Zheng Yuanhu, aged 45, 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 various positions including vice president of Shanghai Electric (Group) Corporation and executive director of Shanghai Electric Group Assets Operation Company Limited. He has been the vice president of Shanghai Electric (Group) Corporation since 2008. He has been the 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. 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 40, 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 then 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

Biographical Details of Directors and Supervisors

and manufacturing. He also obtained the qualification of national first class Chinese professional managers in 2005.

Hu Kang, aged 48, 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 Bearings Factory Company Limited, vice president of Shanghai Bearing (Group) Co., Ltd., president of Shanghai Shangling Electric Company Ltd., 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 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 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 various 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.

Zhu Xi, aged 47, 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 2000 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 assets and 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 asset and finance 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 of 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 officer of Shanghai Li Da Heavy Industrial Manufacturing Limited since April 2006. He also worked in Shanghai Cable Works, check department of Shanghai Electric (Group) Corporation and the assets and finance department of Shanghai Electric Assets Management Company Limited from July 1984 to September 2005. Mr. Xu graduated from the Correspondence Institute of the Party School of C.C. in 2004.

Chan Chun Hong (Thomas), aged 47. 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 and managing director of China Agri-Products Exchange Limited and PNG Resources Holdings Limited (formerly known as 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 those 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.

Liu Huangsong, aged 42. He was appointed as independent non-executive director of the Company in 2005. Between 1996 to 2001, he held the positions of deputy general 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. Mr. Liu is currently serving at the Shanghai Academy of Social Sciences as director, researching professor and PhD program supervisor of the Research Centre for Economic Prosperity, as well as standing counselor of the Shanghai Alumni Association of Fudan University, counselor of Shanghai Investment Society, executive counselor of Shanghai Association of Quantitative Economics and counselor of Shanghai Economic Society. Mr. Liu has been an independent non-executive director of Shanghai Xinyu Hengdeli Holdings Limited. On 13 August 2010, Mr. Liu was appointed as independent non-executive director of Jingwei Textile Machinery Company Limited. Mr. Liu graduated from Fudan University in 1989 with a bachelor degree in science, and obtained a master degree in science in 1992 and a doctorate degree in the School of Economics of Fudan University in 2005.

Ling Hong, aged 50. He was appointed as independent non-executive director of the Company in 2010. 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 honorable guest professor at the Faculty of Business and Economics, 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 the 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.

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 officer 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 primarily held the positions of chief accountant, financial director, chief financial officer and vice president, etc. Mr. Xu obtained a master degree in business administration from Sino-European International Management Institute in 2000.

Biographical Details of Directors and Supervisors

Hu Peiming, aged 53, was appointed as supervisor of the Company in 2005. Ms. Hu was vice president and chairwoman of the labour union of Shanghai Standard Component Import and Export Company Limited from 1988 to 2005. Ms. Hu graduated from Shanghai College of Electromechanics of the Chinese Communist Party in 1986, specializing in politics and management.

Zhang Jianping, aged 54, 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, during which years he was 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 East China University of Political Science and Law majoring 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 2011, the interests or short positions of the substantial shareholders who were entitled to exercise or control the exercise of 5% or more of the voting rights at any general meeting of Shanghai Prime Machinery Company Limited (the "Company"), (other than the directors, chief executives and supervisors of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") 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 total number of Domestic/H shares in issue (%)	Percentage of total number of shares in issue (%)
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)	of controlled corporation	Long position	100.00	47.18
Atlantis Investment Management (Hong Kong)Limited	H	85,000,000	(2)	Investment manager Interest	Long position	11.19	5.91
Liu Yang	H	85,000,000	(2)	of controlled corporation	Long position	11.19	5.91
Templeton Asset Management Ltd.	H	76,022,000		Investment manager	Long position	10.01	5.29
Government of Singapore Investment Corporation Pte Ltd	H	62,694,052		Investment manager	Long position	8.25	4.36
Prudential Plc	H	46,176,000	(3)	Interest of controlled corporation	Long position	6.08	3.21
Atlantis Fund Management (Guernsey) Limited	H	45,636,000	(4)	Investment manager	Long position	6.01	3.17

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 the Shanghai Municipal Government is deemed to be interested in the 678,576,184 shares of the Company held by Shanghai Electric (Group) Corporation.
- (2) Atlantis Investment Management (Hong Kong) Limited was owned as to 100% by Liu Yang, thus Atlantis Investment Management (Hong Kong) Limited and Liu Yang were deemed to be interested in 85,000,000 shares. The interest in 85,000,000 shares relates to the same block of shares in 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 held the direct interests of 46,176,000 shares in the Company.
- (4) Atlantis Fund Management (Guernsey) Limited is interested in 45,636,000 shares of the Company by virtue of its control over its 100% owned subsidiary Atlantis Investment Management Limited, which held the direct interest of 45,636,000 shares in the Company.

Save as disclosed above, the Company is not aware of any other person (other than the directors, chief executives and supervisors of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2011 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors' and Supervisors' Interests and Short Positions and Underlying Shares

As at 30 June 2011, 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 required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors, supervisors or chief executives to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. As at 30 June 2011, none of the directors, supervisors or chief executives of the Company or their respective associates were granted the right to acquire any interests in shares or debentures of the Company or any 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 2011 (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 36, 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 2011 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
12 August 2011

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTH ENDED 30 JUNE 2011

	Notes	For the six months ended 30 June	
		2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
REVENUE	3	1,784,976	1,381,895
Cost of sales		(1,442,573)	(1,098,128)
Gross profit		342,403	283,767
Other income and gains	3	89,295	31,824
Selling and distribution costs		(54,422)	(49,161)
Administrative expenses		(138,581)	(120,609)
Other expenses		(109,165)	(47,678)
Finance costs		(7,795)	(3,434)
Share of profits and losses of associates		16,983	13,759
PROFIT BEFORE TAX	4	138,718	108,468
Income tax expense	5	(16,238)	(11,518)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		122,480	96,950
Profit and total comprehensive income attributable to:			
Owners of the Company		121,340	95,854
Non-controlling interests		1,140	1,096
		122,480	96,950
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic (RMB cents)			
- For profit for the period		8.44	6.66

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 2011

	Notes	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,351,571	1,223,501
Prepaid land premiums/land lease payments	8	124,038	125,429
Goodwill		8,818	8,818
Other intangible assets		6,350	7,011
Investments in associates		162,679	145,696
Available-for-sale investments		872	872
Long-term prepayments		475,993	495,595
Deferred tax assets		32,832	21,564
Total non-current assets		2,163,153	2,028,486
CURRENT ASSETS			
Inventories		746,507	842,292
Trade receivables	9	633,377	384,276
Bills receivable		222,029	99,255
Prepayments, deposits and other receivables		162,582	155,658
Restricted deposits		42,337	102,899
Cash and cash equivalents	10	1,033,498	963,448
Total current assets		2,840,330	2,547,828
CURRENT LIABILITIES			
Trade payables	11	576,403	440,121
Bills payable		98,000	239,380
Tax payable		60,038	46,569
Other payables and accruals		250,175	127,862
Interest-bearing bank and other borrowings		261,776	120,200
Total current liabilities		1,246,392	974,132
NET CURRENT ASSETS		1,593,938	1,573,696
TOTAL ASSETS LESS CURRENT LIABILITIES		3,757,091	3,602,182

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION(continued)

30 JUNE 2011

	Notes	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,757,091	3,602,182
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		400,000	330,000
Government grants		305,261	296,717
Other long-term payables		13,895	13,901
Deferred tax liabilities		1,416	1,500
Total non-current liabilities		720,572	642,118
Net assets		3,036,519	2,960,064
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	1,438,286	1,438,286
Reserves		1,581,947	1,460,607
Proposed final dividend		-	46,025
		3,020,233	2,944,918
Non-controlling interests		16,286	15,146
Total equity		3,036,519	2,960,064

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

For the six months ended 30 June 2011

	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Issued capital	Capital reserve	Contributed surplus	Surplus reserves	Retained profits	Proposed final dividend			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	1,438,286	702,945	(57,458)	176,412	638,708	46,025	2,944,918	15,146	2,960,064
Total comprehensive income for the period	-	-	-	-	121,340	-	121,340	1,140	122,480
Final 2010 dividend declared	-	-	-	-	-	(46,025)	(46,025)	-	(46,025)
At 30 June 2011 (Unaudited)	1,438,286	702,945*	(57,458)*	176,412*	760,048*	-	3,020,233	16,286	3,036,519

For the six months ended 30 June 2010

	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Issued capital	Capital reserve	Contributed surplus	Surplus reserves	Retained profits	Proposed final dividend			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	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

* These reserve accounts comprise the consolidated reserves of RMB1,581,947,000 (31 December 2010: RMB1,460,607,000) in the unaudited interim condensed consolidated statement of financial position.

Zhenhua Bearing refers to Shanghai Zhenhua Bearing Factory Company Limited.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	For the six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	8,171	93,296
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(100,512)	(316,931)
NET CASH INFLOW FROM FINANCING ACTIVITIES	187,862	161,712
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	95,521	(61,923)
Cash and cash equivalents at beginning of period	912,369	724,922
Effect of foreign exchange rate changes, net	(485)	(252)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,007,405	662,747
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	402,345	620,738
Non-restricted deposits with original maturity of less than three months when acquired	605,060	42,009
Cash and cash equivalents as stated in the statement of cash flows	1,007,405	662,747

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2011

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 2010.

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 2010, 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 2011, noted below:

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

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

¹Effective for annual periods beginning on or after 1 February 2010

²Effective for annual periods beginning on or after 1 July 2010

³Effective for annual periods beginning on or after 1 January 2011

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government.

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)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. These amendments include:

- (a) *HKFRS 3 Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (b) *HKAS 1 Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

- (c) *HKAS 27 Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

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

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- (i) the bearing segment is engaged in the production and sale of bearings;
- (ii) the turbine blade segment is engaged in the production and sale of turbine blades;
- (iii) the cutting tool segment is engaged in the production and sale of cutting tools;
- (iv) the fastener segment is engaged in the production and sale of fasteners; and
- (v) "others" refers to investment in an associate, which is engaged in the production and sale of carbolic products and trading activities carried out by the Company.

Management monitors the results of the Group's 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. The adjusted profit before tax is measured consistently with the Group's profit before tax 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.

Segment assets exclude corporate and other unallocated head office assets as these assets are managed on a group basis.

Segment liabilities exclude corporate and other unallocated head office liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Six months ended 30 June 2011 (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	411,639	475,323	319,967	578,047	-	1,784,976
Other revenue	5,575	62,324	10,450	1,224	-	79,573
Total	417,214	537,647	330,417	579,271	-	1,864,549
Segment results	29,998	59,845	36,493	17,445	-	143,781
<i>Reconciliation:</i>						
Interest and dividend income and unallocated gains						9,722
Corporate and other unallocated expenses						(23,973)
Finance costs						(7,795)
Share of profits and losses of associates	4,346	-	1,813	-	10,824	16,983
Profit before tax						138,718

2. OPERATING SEGMENT INFORMATION(continued)

Six months ended 30 June 2011 (Unaudited)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
Segment assets	1,109,783	2,234,506	649,582	767,166	520,545	5,281,582
<i>Reconciliation:</i>						
Elimination of intersegment receivables						(1,175,806)
Investments in associates	60,148	-	20,834	-	81,697	162,679
Corporate and other unallocated assets						735,028
Total assets						5,003,483
Segment liabilities	391,104	808,916	190,603	458,690	631,278	2,480,591
<i>Reconciliation:</i>						
Elimination of intersegment payables						(1,175,806)
Corporate and other unallocated liabilities						662,179
Total liabilities						1,966,964
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
<i>Reconciliation:</i>						
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

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 2011 (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	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Revenue		
Sales of goods	1,762,393	1,374,761
Rendering of services	22,583	7,134
	1,784,976	1,381,895
Other income		
Interest income from loans receivable, bank balances and deposits	9,429	7,163
Gross rental income	48	21
Profit on sales of raw materials, spare parts and semi-finished goods	15,329	9,432
Subsidy income	59,413	9,130
Others	620	792
	84,839	26,538
Gains		
Gain on disposal of items of property, plant and equipment, net	817	-
Gain on debt restructuring	-	5,243
Gain on write-off of long-aged payables	3,639	43
	4,456	5,286
Total	89,295	31,824

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Cost of inventories sold	1,420,174	1,093,770
Cost of services provided	15,139	5,583
Depreciation	55,306	53,211
Amortisation of prepaid land premiums/land lease payments	1,391	1,391
Amortisation of other intangible assets	1,071	1,040
Write-down/(reversal of write-down) of inventories to net realisable value	7,260	(1,225)
Impairment of receivables	1,766	1,465
Impairment of property, plant and equipment	5,966	-
Relocation expenses	52,342	-
Research and development costs: Current period expenditure	41,291	32,789
Minimum lease payments under operating leases: Land and buildings	12,011	10,862
Employee benefits expenses	204,391	188,502
Loss on disposal of items of property, plant and equipment, net	-	519
Foreign exchange differences, net	2,176	4,704

5. TAX

The Group is subject to the statutory corporate income tax rate of 25% for the Period (six months ended 30 June 2010: 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, 2009 and 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 accordance with the requirements of the tax regulations in the PRC, these subsidiaries had submitted/will submit their application to renew their HNTEs qualification for another 3 years ending 31 December 2013.

5. TAX(continued)

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, 2010 and year ending 31 December 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	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Group:		
Current – the PRC/Mainland China		
Charge for the Period	30,683	20,704
Over provision in prior years	(3,093)	(2,515)
Deferred	(11,352)	(6,671)
Total tax charge for the Period	16,238	11,518

The share of tax attributable to associates amounting to RMB5,366,000 (six months ended 30 June 2010: RMB2,755,000) 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 2010: Nil).

During the year ended 31 December 2010, the Company had proposed final dividends of RMB3.20 cents per ordinary share, which had been approved by the Company's shareholders in the annual general meeting held on 17 June 2011. Pursuant to changes in the tax regulations of the PRC in 2011, the Company should withhold individual income tax for the dividends received by certain overseas resident individual shareholders of the Company. Further details are available in the Company's press announcement dated 22 July 2011.

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 2011 and 2010 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	
	2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	121,340	95,854

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY(continued)

The calculations of basic earnings per share are based on (continued):

	Number of shares	
	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	in'000	in'000
<u>Shares</u>		
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 2011, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB2,084,000 (31 December 2010: RMB2,187,000).

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	31 December
	2011	2010
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 3 months	515,548	298,810
Over 3 months but within 6 months	81,498	45,689
Over 6 months but within 1 year	29,635	35,461
Over 1 year but within 2 years	6,696	4,206
Over 2 years	-	110
	633,377	384,276

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 2011 (Unaudited)		31 December 2010 (Audited)	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
USD	613	3,970	919	6,084
EUR	323	3,022	1,879	16,548
JPY	15,788	1,267	2,642	215

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 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within 3 months	512,577	371,539
Over 3 months but within 6 months	33,535	39,719
Over 6 months but within 1 year	26,608	21,809
Over 1 year but within 2 years	2,339	4,597
Over 2 years	1,344	2,457
	576,403	440,121

12. ISSUED CAPITAL

	30 June 2011 (Unaudited)		31 December 2010 (Audited)	
	Number of Shares	Amount	Number of Shares	Amount
	'000	RMB'000	'000	RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed				
– State-owned shares	678,576	678,576	678,576	678,576
H shares of RMB1.00 each	759,710	759,710	759,710	759,710
	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

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 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Within one year	12,664	19,286
In the second to fifth years, inclusive	8,485	9,679
	21,149	28,965

15.COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following commitments as at 30 June 2011:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Contracted, but not provided for:		
- Plant and machinery	565,691	635,099
- Leasehold improvements	-	5,902
- Intangible assets	795	-
	566,486	641,001
Authorised, but not contracted for:		
- Plant and machinery	48,282	136,299
Total	614,768	777,300

16.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	
		2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Purchase of materials from:	(i)		
Associates		91	90
SEC group companies *		2,806	1,158
		2,897	1,248
Sales of goods to:	(i)		
Associates		1,302	1,011
SEC group companies *		192,816	136,771
		194,118	137,782

16.RELATED PARTY TRANSACTIONS (continued)

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

	Notes	For the six months ended 30 June	
		2011 (Unaudited) RMB'000	2010 (Unaudited) RMB'000
Receiving of manpower services from:	(i)		
Ultimate holding company		153	22
Associates		173	51
SEC group companies *		1,596	2,253
		1,922	2,326
Rendering of manpower services to:	(i)		
SEC group companies *		1	324
Rental fee payable to:	(ii)		
Ultimate holding company		1,169	1,549
SEC group companies *		7,800	8,011
		8,969	9,560
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies *		865	82
Discount of bills receivable to:	(iii)		
SEC group companies*		60,000	-

Notes:

- (i) The sales and purchases were conducted in accordance with mutually agreed terms with reference to the market conditions.
- (ii) The rental fee was based on mutually agreed terms with reference to market rates.
- (iii)The discount of bills receivable 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 RMB1,799,000 per annum.

16. RELATED PARTY TRANSACTIONS (continued)

(b) Other transactions with related parties (continued):

(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 RMB3,621,000 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 RMB4,343,000 per annum.

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

	For the six months ended 30 June	
	2011	2010
	(Unaudited) RMB'000	(Unaudited) RMB'000
Fees	252	262
Short term employee benefits	756	706
Post-employment benefits	59	54
	1,067	1,022

17. EVENT AFTER THE REPORTING PERIOD

On 12 August 2011, the Company issued a press announcement stating its intention to submit a bid to acquire Shanghai Electric Corporation's 100% equity interests in Shanghai High Strength Bolting Co., Ltd and 100% equity interest in Shanghai Fastener and Welding Material Technology Research Centre pursuant to a public tender launched by Shanghai Electric Corporation. Further details are available in the Company's press announcement dated 12 August 2011.

18. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 12 August 2011.