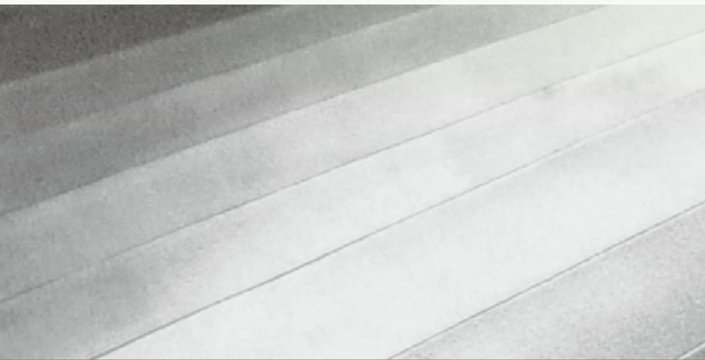
PMC 上海集优 SHANGHAI PRIME

SHANGHAI PRIME
MACHINERY COMPANY LIMITED

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

(Stock Code: 02345)

2012 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
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600 Heng Feng Road,
Shanghai, the People's Republic of China
Postal code: 200070

Principal Place of Business in Hong Kong
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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
Clifford Chance LLP

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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RESULT SUMMARY

- Revenue for the six months ended 30 June 2012 (the "Period") was RMB1,695 million, representing a decrease of 9% over the corresponding period of last year.

- Profit attributable to owners of Shanghai Prime Machinery Company Limited (the "Company") for the Period was RMB106 million, representing a decrease of 22% over the corresponding period of last year.

- Basic earnings per share for the Period was RMB7.40 cents, representing a decrease of 22% over the corresponding period of last year.

- The board of directors (the "Board") does not recommend the payment of interim dividend for the Period.

- The turbine blade business had initially realized the strategic transformation to focus on the manufacturing of high-end parts and components tailored for power station and aviation, and successfully expanded its penetration in the markets of parts and components of aero engines and aero structural parts, therefore gaining a sales revenue of aviation-motive components of RMB54 million during the first half of the year, representing a year-on-year increase of 200%.

- Insisted to be market-oriented, the company and its subsidiaries (collectively referred to as the "Group") deeply enhances its emphasis on bore-machining cutting tools and thread cutting tools in order to motivate the overall steady growth of the cutting tool business. In the first half of the year, the cutting tool business achieved a turnover of RMB357 million, representing a year-on-year growth of 12%.

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 2012 (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.

Business Review

During the first half of 2012, with sophisticated international economic situation and domestic inflation both exerting dramatic pressure, enterprises in the Mainland China had to face various challenges, including the unrestrained soaring of production costs, tightened financing requirements and decreasing demands from both internal and external markets. Confronting the severe economic situation, the Group had been focusing on preserving the growth and facilitating in full force the spirit of "innovation and initiative, transition and development", encouraging an in-depth expansion of high-end products and the scale of external sales as well as realizing stable development in the first half of the year.

During the Period, the Group had devoted great effort in developing mid to high-end products so as to strengthen its core competitiveness and optimize its product portfolio. The turbine blade business had initially realized the strategic transformation to focus on the manufacturing of high-end parts and components tailored for power station and aviation, and successfully expanded its penetration in the markets of parts and components of aero engines and aero structural parts, therefore gaining a sales revenue of aviation-motive components of RMB54 million during the first half of the year, representing a year-on-year increase of 200%. Bearing business had been focusing on the expansion into precise aviation and aerospace market. During the first half of the year, the sales revenue of precise aviation and aerospace bearing business reached RMB21 million, including the bearing products used for Shenzhou No. Nine Manned Spacecraft, representing a year-on-year increase of 11%. Insisted to be market-oriented, the Group deeply enhances its emphasis on bore-machining cutting tools and thread cutting tools in order to motivate the overall steady growth of the cutting tool business. In the first half of the year, the cutting tool business achieved a turnover of RMB357 million, representing a year-on-year growth of 12%.

During the Period, the Group had insisted on the development of foreign trade business which matching high-end customers with high-end products. Albeit the deteriorating environment that both domestic and overseas demands continued to shrink during the first half of the year, the foreign trade business had been able to withstand and grow by leveraging on the Group's stable and reliable product quality and long-term goodwill. The turbine blade business had been transformed from exporting mainly forging parts to the high-end customers such as Toshiba and Hitachi to deliver finished products. During the first half of the year, the sales gained from foreign trade of turbine blade business reached RMB106 million, representing a year-on-year increase of 9%. In respect of the bearing business, the Group's export of roller bearing to GKN, a multi-national company, increased significantly, driving sales of the bearing export business to rise to RMB77 million, representing a year-on-year increase of 26%.

Turnover of the Group amounted to RMB1,695 million (1H 2011: RMB1,853 million) for the Period, representing a year-on-year decrease of 9%. Profit attributable to the owners of the Company amounted to RMB106 million (1H 2011: RMB137 million), representing a year-on-year decrease of 22%. Total assets of the Group was RMB5,448 million (31 December 2011: RMB5,301 million), representing a year-on-year increase of 3%.

Outlook and Prospects

Currently, the macro-economy of the Mainland China is facing sluggish external demand and insufficient domestic demand, while there is no sign of improvement to the slowdown of economic development. According to the economic statistics released by the National Bureau of Statistics on 13 July 2012, the GDP reached a year-on-year growth of 7.8% in the first half of the year. Of which, the growth for the first quarter and the second quarter was 8.1% and 7.6% respectively. The GDP growth for the second quarter showed a new low since the second quarter of 2009. Under the unfavourable slow-down of economic growth , the macro austerity measures have undergone considerable changes from previously "restraining inflation" to currently "enabling stable growth". In May 2012, the State Council rolled out 11 measures to "enable stable growth", of which emphasis had been placed on "accelerating preliminary works" for a series of important projects in respect of railway development, energy saving and environmental protection under the "12th Five-year Plan". The plan of strategic emerging industries of the country promulgated by the State Council in July 2012 expressly stated that the manufacture of high-end equipment and modern service industry are the important development direction of the emerging industries under the strategy.

To respond to the above analysis of the macro-economic situation and to assume the responsibility of driving the economic development in 2012, the Group will actively figure out measures to achieve innovations and transformation based on the strategy of "transformation upgrade, and future development". Focus will be placed on three key aims as set out below in order to continue promoting business growth and business transformation of the Group, marching towards its mission to become a high-tech, service-oriented leading machinery parts manufacturing group.

Driving product upgrade and developing high-end manufacturing. Focusing on the target of "product upgrade", the Group will strive to develop strategic emerging industry and high-tech manufacturing industry like "manufacturing high-end equipment" to actively realize technology innovations and adjustment to product portfolio, as well as expediting the building up of the Group's core strategic advantages. With the implementation of the large turbine blades and aviation-motive components projects, the turbine blade business will undergo a new round of high technical industrialization. Based on the effort made on the expansion and consolidation of the existing core business of the large turbine blade for power stations, the Group is able to create competitive edges for the two specialized segments known as turbine blade and forging parts business by stepping into the emerging markets like nuclear power, gas turbine and overseas markets, commencing the development of seed business like aviation, and insisting on a diversified business portfolio involving nuclear power station business, overseas business and aviation business. Bearing business will continue to march into the high-end market segment so as to differentiate itself from competitors. Leveraging on its advantageous position in three main markets namely railways, automotives and precise aviation and aerospace bearing, the Group will deploy resources to speed up the progress of the three projects involving the increase of market share of the extra large bearings, the development of technology for testing the design of tensioning wheel for automotives, and the identification of alternatives to bearings for high-precision miniature, aiming to continuously expand the high-end market. In respect of the cutting tool business, some important projects of the State, namely the "development of high effective, high performance numerically controlled cutting tools for automotive and aviation engines", and the "development of a series of cutting tools made of composite materials

CHAIRMAN'S STATEMENT

specialized for aviation and aerospace industry" will be conducted to enhance the levels of innovation, application and development of the Group's high-end cutting tool products. Meanwhile, the Group will expedite the comprehensive industrialization of its high-end product like the numeric, carbide cutting tools, set up a production line of high-performance carbide alloy materials for numeric cutting tools, and build up the capabilities for bulk production and supply of high-end cutting tool to the market.

Accelerating and exploring transformation to service-oriented manufacturing model. Adhering to its aim of "synchronized integration of manufacturing and service-oriented approach", the Group will transform from manufacturing its core traditional products to the provision of services consisting of rich portfolio of products and technical support so as to further facilitate the transformation of industrial structure and maximize the development of the productive service industry. Starting with the fastener business , the Group will realize gradual and optimized productive service industry featuring new business mode of "end-user-oriented, quick response, standardized procedures, one-stop service and low transaction cost". Such mode will help the Group to change into a manufacturing model which is digitalized, network connected, intelligent and service oriented. More resources will also be allocated to focus on two aspects of the manufacturing industry, i.e. technical research and development and marketing, as well as exploring new service industry of "providing comprehensive solution".

Implementing lean management to enhance the Group's monitoring capability. The Group will further excel its production management by gradually transforming from push production to pull production so as to raise production efficiency, shorten production cycle, strengthen cost and inventory control and enable quicker response to the ever-changing market situation. On the other hand, the Group will fortify informationisation and promote strong and detailed management. Information technology will be used for economic forecast to better master the operations, thereby enabling the realization of "three edges", i.e. "standardized", "controllable" and "intelligent", and gradually forming the competitive advantage of Shanghai Prime of having an intelligently informationised and service-oriented manufacturing business mode.

Corporate Development Strategies

In the future, by transforming its business development mode with advanced technology, and focusing on the development of high effective and clean energy equipment, high-end precise equipment and modernized service-oriented manufacturing model, the Group will act in line with its vision of "applying high-end precise basic parts to the equipment manufacturing industry, providing highly effective productive services to global industrial chain, and providing supports to basic part segment for industrialization", and will strive to become the world's leading, national top-class machinery basic part manufacturing enterprise.

Turbine blade business: Focusing on two strategic targets, i.e becoming "the world's leading turbine blades supplier" and "the national top-class aviation component supplier", and committed to developing the ability of "manufacturing dedicated forging parts tailored for the aviation industry", together with the development of both domestic and overseas power stations at the same time, the Group will continue to achieve an upgrade and transformation of the industry structure, in order to maintain balanced proportion of three main businesses, namely the manufacturing of turbine blades for domestic and overseas power stations and parts and aviation-motive components, to the total turnover, and gradually form a new model that allows synchronized development of two dedicated products. The Group will try its best effort to become a national-class manufacturer of dedicated turbine blade and dedicated parts and components for aviation engine.

Bearing business: On top of its emphasis on improving product precision and prolonging useful life, the Group will strengthen the development of high-end products, such as extra-large bearings, robot angular contact ball bearings, precise aviation and aerospace bearings and medical equipment bearings, which possess substantial market potential and are able to act as alterative to imported bearings and support the growth of strategic emerging industry. Product upgrade will be continued by technical improvements on the new products such as robot angular contact ball bearings, pivot bearing for heavy trucks and automobile bearings. All these effort will help the establishment of a national-class production base for high-end bearing and the world's top digitalized eco-friendly factory, and the Group will thereby realize its objective of becoming the manufacturer of dedicated high-end bearing in the Mainland China.

Cutting tool business: The key development will be placed on the high-end thread cutting tool series which are made of powerful high speed steel, powder metallurgy high speed steel, generally carbide and super-hard materials and feature our own intellectual property rights so as to facilitate high and new-tech industrialization. In terms of high-end technology process flow, the Group will carry out comprehensive research and development in all respects ranging from raw materials, processing to application, and set up production lines for powerful carbide alloy materials used for numerically controlled cutting tools. At the same time, insisting on the customer oriented approach, the Group will extend sales network to middle and western China and remote areas, implement different sales strategies customized to varied areas and clients and further capitalize on its secandary distributing network. Building on the diversified product portfolio and extended business scale, the Group is transforming in terms of brand, services and technologies. Overall cutting technology solution and product delivery service solution will be provided to customers by utilizing the Internet of Things technology. With these measures, the Group will become a national leading, world-class manufacturer of modernized metal cutting tools.

Fastener business: The Group will further intensify its transformation to productive service business, and develop innovative business mode of "providing direct delivery and end-user services". At present, the Group has in place a fastener department which is in charge of the integration of the fastener businesses of Shanghai Biaowu High Tensile Fasteners Company Limited, 100% originally owned by the Company and the newly acquired companies known as Shanghai High Strength Bolt Factory Company Limited and Shanghai Fastener and Welding Material Technology Research Centre Company Limited. Through resources integration, the Group will work on front-end research and development, testing skills as well as the middleware for high-end manufacturing. Meanwhile, the Group will gradually build up the complementary capacity tailored for some renowned enterprises within the industry such as Shanghai Electric, and relying on the resources for import and export sales, extending customer base towards end-users and renowned domestic enterprises, diversifying product range from fasteners to bearings and cutting tools, become a pioneer of the fastener productive service industry in the Mainland China.

On the basis of facilitating the development of the four largest major existing business, the Group will focus our resources on developing the new business of "service-oriented manufacturing" in the second half of the year. Supported by innovative information technology and logistics technology, the Group will perfect B2B electronic business model and commence online transactions, thereby build up a sales service platform with service functions such as sales and delivery for industrial consumables to implement the transformation of "service-oriented manufacturing".

CHAIRMAN'S STATEMENT

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, senior management and all staff for their dedicated contribution and devoted hard work. Looking forward, we are confident that the Company will continue to adhere to its prudent and steady approach, leverage on favorable conditions, actively address every challenge, work diligently, develop proactively, continue to increase the value of the Group, with an aim to reward the shareholders with excellent operating results.

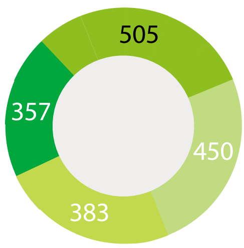
Zheng Yuanhu
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
10 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

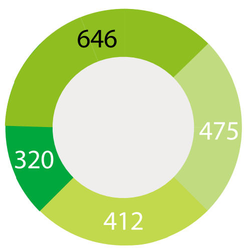
Operation Overview of Major Business Divisions

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

Revenue (RMB million)

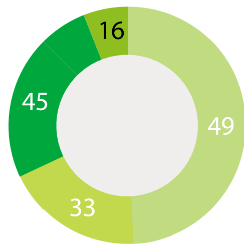


1H 2012

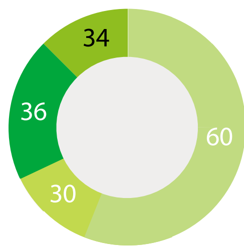


1H 2011

Segment Results (RMB million)



1H 2012



1H 2011

- Turbine Blade
- Bearing
- Cutting Tool
- Fastener

	Revenue For the six months ended 30 June		Segment Results For the six months ended 30 June	
(RMB million)	**2012**	**2011**	**2012**	**2011**
Turbine blade	**450**	475	**49**	60
Percentage of total	**26%**	26%	**34%**	38%
Bearing	**383**	412	**33**	30
Percentage of total	**23%**	22%	**23%**	19%
Cutting tool	**357**	320	**45**	36
Percentage of total	**21%**	17%	**32%**	22%
Fastener	**505**	646	**16**	34
Percentage of total	**30%**	35%	**11%**	21%
Total	**1,695**	1,853	**143**	160

MANAGEMENT DISCUSSION AND ANALYSIS

Turbine Blade Business

During the six months ended 30 June 2012 (the "Period"), the revenue of turbine blade business amounted to RMB450 million (1H 2011: RMB475 million), representing a decrease of 5% as compared with the corresponding period of last year. The segment results amounted to RMB49 million (1H 2011: RMB60 million), representing a decrease of 18% over the corresponding period of last year. Export sales was RMB106 million (1H 2011: RMB97 million), representing an increase of 9% as compared with the corresponding period of last year.

Bearing Business

During the Period, the revenue of the bearing business was RMB383 million (1H 2011: RMB412 million), representing a decrease of 7% over the corresponding period of last year. The segment results amounted to RMB33 million (1H 2011: RMB30 million), representing an increase of 10% as compared with the corresponding period of last year. Export sales amounted to RMB77 million (1H 2011: RMB61 million), representing an increase of 26% over the corresponding period of last year.

Cutting Tool Business

During the Period, the revenue of the cutting tool business was RMB357 million (1H 2011: RMB320 million), representing an increase of 12% over the corresponding period of last year. The segment results amounted to RMB45 million (1H 2011: RMB36 million), representing an increase of 25% over the corresponding period of last year. Export sales amounted to RMB13 million (1H 2011: RMB13 million).

Fastener Business

During the Period, the revenue of the fastener business was RMB505 million (1H 2011: RMB646 million), representing a decrease of 22% over the corresponding period of last year. The segment results amounted to RMB16 million (1H 2011: RMB34 million), representing a decrease of 53% over the corresponding period of last year. Export sales amounted to RMB339 million (1H 2011: RMB468 million), representing a decrease of 28% over the corresponding period of last year.

Gross Profit Margin

During the Period, the gross profit margin of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was 20% (1H 2011: 19%). The gross profit margin of the turbine blade business was 20% (1H 2011: 24%) while that of the bearing business was 21% (1H 2011: 22%). The cutting tool business realized a gross profit margin of 27% (1H 2011: 25%) and that of the fastener business reached 12% (1H 2011: 11%).

Share of Profits and Losses of Associates

During the Period, share of profits of associates of the Group was RMB9 million (1H 2011: RMB17 million).

Finance Costs

During the Period, finance costs amounted to RMB23 million (1H 2011: RMB8 million).

Profit Attributable to Owners of the Company

Profit attributable to the owners of the Company was RMB106 million for the Period (1H 2011: RMB137 million). Basic earnings per share was RMB7.40 cents (1H 2011: RMB9.52 cents).

Cash Flow

As at 30 June 2012, the Group's cash and bank balances were RMB915 million (31 December 2011: RMB925 million), of which RMB94 million were restricted deposits (31 December 2011: RMB57 million). During the Period, the Group had a net cash inflow from operating activities of RMB123 million (1H 2011: net cash inflow of RMB15 million), a net cash outflow from investing activities of RMB99 million (1H 2011: net cash outflow of RMB85 million), and a net cash outflow from financing activities of RMB73 million (1H 2011: net cash inflow of RMB174 million).

Assets and Liabilities

As at 30 June 2012, the Group had total assets of RMB5,448 million (31 December 2011: RMB5,301 million), representing an increase of RMB147 million as compared with the beginning of the year. Total current assets were RMB3,080 million (31 December 2011: RMB2,942 million), accounting for 57% of the total assets and representing an increase of RMB138 million as compared with the beginning of the year. Total non-current assets were RMB2,368 million (31 December 2011: RMB2,359 million), accounting for 43% of the total assets and representing an increase of RMB9 million as compared with the beginning of the year.

As at 30 June 2012, the Group had total liabilities of RMB2,264 million (31 December 2011: RMB2,170 million), representing an increase of RMB94 million over the beginning of the year, of which total current liabilities were RMB1,556 million (31 December 2011: RMB1,434 million), accounting for 69% of total liabilities and representing an increase of RMB122 million as compared with the beginning of the year. Total non-current liabilities were RMB708 million (31 December 2011: RMB736 million), accounting for 31% of total liabilities and representing a decrease of RMB28 million as compared with the beginning of the year.

As at 30 June 2012, the net current assets of the Group were RMB1,524 million (31 December 2011: RMB1,508 million), representing an increase of RMB16 million over the beginning of the year.

Sources of Funding and Indebtedness

As at 30 June 2012, the Group had an aggregate bank and other borrowings of RMB677 million (31 December 2011: RMB727 million), representing a decrease of RMB50 million from the beginning of the year. The Group had borrowings repayable within one year of RMB322 million (31 December 2011: RMB347 million) and the borrowings repayable after one year of RMB355 million (31 December 2011: RMB380 million).

As at 30 June 2012, all bank and other borrowings of the Group were interest-bearing at fixed rates.

Gearing Ratio

As at 30 June 2012, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to total shareholders' equity, was 21% (31 December 2011: 23%).

Restricted Deposits

As at 30 June 2012, among the bank deposits of the

MANAGEMENT DISCUSSION AND ANALYSIS

Group, RMB94 million (31 December 2011: RMB57 million) was restricted deposits.

Pledges of Assets

As at 30 June 2012, save as disclosed above, the Group had no other pledge of assets (31 December 2011:nil).

Contingent Liabilities

As at 30 June 2012, the Group had no other contingent liabilities (31 December 2011: nil).

Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB71 million (1H 2011: RMB210 million).

Foreign Exchange Exposure

The Group uses Renminbi ("RMB") as its reporting currency. Since the beginning of 2012, notwithstanding the mitigated appreciation trend of RMB against the U.S. Dollars, the exchange rates of RMB to other major currencies may still be strong. The appreciation of RMB will, on the one hand, increase the price of the Group's products which are exported to overseas market and may bring negative impact on the Group's export sales, while on the other hand may be favorable to the Group in respect of import of raw material, machineries and equipment from overseas.

In addition, as at 30 June 2012, the Group's bank deposits denominated in foreign currencies comprised of USD1 million, JPY23 million and EUR2 million. Save as the above, the Group was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Event

On 24 February 2012, the Company successfully bid for the 100% equity interest of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") disposed of by Shanghai Electric Development Co., Ltd. ("SED") through Shanghai United Assets and Equity Exchange. The successful bid price for Shanghai Insulating was RMB40 million. On 5 March 2012, the Company entered into the Shanghai Insulating Acquisition Agreement with SED to acquire 100% equity interest of Shanghai Insulating from SED at the successful bid price. Details of the Acquisition are set out in the announcement of the Company dated 5 March 2012. The acquisition has not been completed at the date of this report.

In the meeting of the board held by the Company on 25 April 2012, the board has considered and approved the proposed issuance of the guaranteed corporate bonds in the PRC with an aggregate amount of not exceeding RMB1,000,000,000 (1 billion). In the annual general meeting held on 15 June 2012, the shareholders have approved the Company's proposed issuance of the guaranteed corporate bonds of the Company with an aggregate amount not exceeding RMB1,000,000,000 and authorized the board to deal with matters relating to the issue of these corporate bonds. Details of the issuance of the corporate bonds are set out in the announcement and circular of the Company dated 25 April and 21 May 2012 respectively and the announcement of the poll voting results of the annual general meeting of the Company dated 15 June 2012. As of 30 June 2012, China Securities Regulatory Commission has not yet approved the matters relating to the public issuance of the corporate bonds by the Company.

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

Employees

As at 30 June 2012, the Group had approximately 3,196 (31 December 2011: 3,398) employees. The Company has short-term and long-term incentive programs to motivate the performance of the staff as well as a series of training programs to facilitate the self-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 between any director, supervisor or senior management of the Company.

Name	Age	Position
Zheng Yuanhu	46	Executive Director and Chairman
Zhu Weiming	41	Executive Director and Vice Chairman
Hu Kang	49	Executive Director and Chief Executive Officer
Zhu Xi	48	Executive Director
Sun Wei	42	Executive Director
Yuan Mifang	59	Executive Director
Chan Chun Hong (Thomas)	48	Independent Non-executive Director
Ling Hong	51	Independent Non-executive Director
Li Yin	48	Independent Non-executive Director
Xu Chao	56	Supervisor and Chairman of the Supervisory Committee
Hu Peiming	54	Supervisor
Zhang Jianping	55	Supervisor

Directors

Zheng Yuanhu, aged 46, is a senior engineer. He was appointed as executive director and chairman of Shanghai Prime Machinery Company Limited (the "Company") in 2009 and was re-elected and appointed as executive director and chairman of the Company in 2011. Mr. Zheng currently holds various positions including vice president of Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") and executive director of Shanghai Electric Group Assets Operation Company Limited. He has been the vice president of Shanghai Electric Corporation since 2008. 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. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISORS

Zhu Weiming, aged 41, is an engineer. He was appointed as executive director and vice chairman of the Company in 2008 and was re-elected and appointed as executive director and vice chairman of the Company in 2011. 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 Corporation Limited. Mr. Zhu graduated from Shanghai Polytechnic University in 1993 with a bachelor degree in machine design and manufacturing. He also obtained the qualification of national first class Chinese professional managers in 2005.

Hu Kang, aged 49, is a senior economist. He was appointed as executive director and chief executive officer of the Company in 2005. He was re-elected and appointed as executive director and chief executive officer of the Company in 2011. He joined Shanghai Electric Corporation in 1982. Since 1996, he has been factory director of Shanghai Zhenhua Bearing 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 our promoters. 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 an MBA degree from Macau University of Science and Technology.

Zhu Xi, aged 48, is a senior accountant. She was appointed as executive director of the Company in 2008 and was re-elected and appointed as executive director of the Company in 2011. 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 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 Corporation. From 2004 to 2005, she served as deputy head of the asset and finance department of Shanghai Electric Assets Management Company Limited. From 2005 to 2012, she was the head of asset and finance department of Shanghai Electric Assets Management Company Limited. Of which, she also served the position of deputy head of financial budget department of Shanghai Electric Corporation from 2007 to 2012. 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. In 2012, Ms. Zhu was appointed as the executive deputy head of the asset and finance department of Shanghai Electric Group Company Limited as well as the director of Shanghai Mechanical & Electrical Industry Co., Ltd. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University.

Sun Wei, aged 42, is a senior engineer. He was appointed as executive director of the Company in 2011. Mr. Sun joined Shanghai Electric Corporation in 1993. From 2003 to 2005, he worked as the deputy manager of Shanghai Faiveley Transportation Equipment Company Limited. From 2005 to 2010, Mr. Sun worked as the manager of the industrial development department of Shanghai Electric Corporation and assistant to general manager in Shanghai Rail Traffic Equipment Co., Ltd. From 2006 to 2010, he was promoted as deputy general manager in Shanghai Rail Traffic Equipment Co., Ltd. and general manager of Shanghai Rail Traffic Equipment Co., Ltd. Screen Door Engineering Company. From 2010 till now, he works as the deputy head of the strategic planning department of Shanghai Electric Corporation and was promoted to the head of strategic planning department in 2011. He also serves as the director of the sixth board of directors of Shanghai Highly (Group) Co., Ltd. since 2011. In 2012, Mr. Sun was appointed as the head of the industrial development department of Shanghai Electric Group Company Limited. Mr. Sun graduated from Shanghai Jiao Tong University with a double bachelor's degree majored in industrial management, welding technology and equipment in 1993 and obtained a master degree in project management in 2010.

Yuan Mifang, aged 59, is an accountant. He was appointed as executive director of the Company in 2011. Mr. Yuan joined Shanghai Electric Corporation in 1999. From 1999 to 2004, Mr. Yuan worked as the chief finance executive of the electricity transmission and distribution department of Shanghai Electric Corporation as well as the chief finance executive of Shanghai Electricity Transmission and Distribution Equipment Company Limited from 1999 to 2001. From 2000 to 2001, Mr. Yuan also worked as the vice chairman of the Chuanqi (China) Company Limited. From 2004 till now, Mr.Yuan has been working as the head of audit and inspection office of Shanghai Electric Corporation and head of audit department of Shanghai Electric Corporation since 2007. From 2009, Mr. Yuan has been appointed as the supervisor of the sixth board of supervisors of Shanghai Mechanical & Electrical Industry Co., Ltd. From 2011, Mr. Yuan has also been appointed as the supervisor and the chairman of the sixth board of supervisors of Shanghai Highly (Group) Co., Ltd. Mr.Yuan graduated from the Evening College of Shanghai University of Finance and Economics majored in industrial accounting in 1982.

Chan Chun Hong (Thomas), aged 48. He was appointed as an independent non-executive director of the Company in 2005 and was re-elected and appointed as independent non-executive director of the Company in 2011. 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, 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.

Ling Hong, aged 51. He was appointed as independent non-executive director of the Company in 2010 and was re-elected and appointed as independent non-executive director of the Company in 2011. 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 an honorable 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 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.

Li Yin, aged 48, is a senior engineer. He was appointed as independent non-executive director of the Company in 2011. He worked as an editor and reporter of Chinese Academy of Agricultural Mechanization Sciences Farm Machinery Magazine during the year 1984 to 1996. From 1997 to 2001, he worked as the Vice President of the Magazine. For the year 2000 to 2001, Mr. Li worked as the Deputy Secretary General of China Construction Machinery Association. He has been working as the head of the China Construction Machinery Magazine and

BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISORS

President of Beijing Green Media Co., Ltd. since 2001. Mr. Li graduated from China Agricultural University in 1984 with a bachelor degree in engineering. In 1996, he pursued further study in strategic manufacturing management for four months at the University of Warwick in Britain.

Supervisors

Xu Chao, aged 56, is a senior economist. He was appointed as supervisor and chairman of the supervisory committee of the Company in 2010 and was re-elected and appointed as supervisor and chairman of the supervisory committee of the Company in 2011. 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.

Hu Peiming, aged 54, was appointed as supervisor of the Company in 2005 and was re-elected and appointed as supervisor of the Company in 2011. 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 55, is a political affair officer. He was appointed as supervisor of the Company in 2008 and was re-elected and appointed as supervisor of the Company in 2011. 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 2012, 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	No. 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 H	678,576,184 6,708,000	(1) (1)	Beneficial owner Beneficial owner	Long position Long position	100.00 0.88	47.18 0.47
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic H	678,576,184 6,708,000	(1) (1)	Others Others	Long position Long position	100.00 0.88	47.18 0.47
Atlantis Capital Holdings Limited	H	85,000,000	(2)	Interest of controlled corporation	Long position	11.19	5.91
Liu Yang	H	85,000,000	(2)	Interest 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	60,624,052		Investment manager	Long position	7.98	4.22
Prudential Plc	H	61,340,000	(3)	Interest of controlled corporation	Long position	8.07	4.26

OTHER INFORMATION

Notes:

(1) Shanghai Electric (Group) Corporation (the "Shanghai Electric 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 domestic shares and 6,708,000 H shares of the Company held by Shanghai Electric Corporation.

As at 30 June 2012, except for the domestic shares of the Company, Shanghai Electric Corporation has also held 6,708,000 H shares of the Company, representing 0.88% of the H share class and 0.47% of the issued shares of the Company as disclosed by the Shanghai Electric Corporation to the Company. Shanghai Electric Corporation holds 685,284,184 issued shares of the Company in aggregate, representing 47.65% of the issued shares of the Company.

(2) Atlantis Capital Holdings Limited was owned as to 100% by Liu Yang, thus Atlantis Capital Holdings 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) For the purpose of Part XV of the SFO, Prudential plc was deemed to be interested in the 61,340,000 shares in the Company held by its controlled corporations as at 30 June 2012.

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 2012 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 2012, none of the directors, supervisors or chief executives of the Company and 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 set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. As at 30 June 2012, 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 Securities Transactions by Directors of Listed Issuers ("Model Code")

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 2012(the "Period").

Compliance with the Code on Corporate Governance Practices and Corporate Governance Code

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") and the amended Code, namely Corporate Governance Code. The board of directors (the "Board") considers that from 1 January 2012 to 31 March 2012 the Company has complied with the requirements set out in the Code and there have been no material deviations from the Code and from 1 April 2012 to the date of this report, the Company has complied with the requirements set out in the Corporate Governance Code, and there have been no material deviations from the Corporate Governance Code.

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 executive directors, namely Zheng Yuanhu, Zhu Weiming, Hu Kang, Zhu Xi, Sun Wei and Yuan Mifang, and independent non-executive directors, namely, Chan Chun Hong (Thomas), Ling Hong and Li Yin.

As at the date of this report, the supervisory committee of the Company comprises 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 21 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 2012 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
10 August 2012

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	For the six months ended 30 June 2012 (Unaudited) RMB'000	 2011 (Unaudited) RMB'000 (Restated)
REVENUE	3	1,695,029	1,852,597
Cost of sales		(1,362,581)	(1,497,140)
Gross profit		332,448	355,457
Other income and gains	3	71,943	107,178
Selling and distribution costs		(67,959)	(55,751)
Administrative expenses		(143,425)	(148,083)
Other expenses		(58,562)	(112,802)
Finance costs		(23,264)	(7,795)
Share of profits and losses of associates		9,392	16,983
PROFIT BEFORE TAX	4	120,573	155,187
Income tax expense	5	(13,613)	(17,133)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		106,960	138,054
Profit and total comprehensive income attributable to:			
Owners of the Company		106,446	136,914
Non-controlling interests		514	1,140
		106,960	138,054
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic (RMB cents)			
- For profit for the period		7.40	9.52

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 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,911,406	1,933,170
Prepaid land premiums/land lease payments	8	154,960	155,944
Goodwill		8,818	8,818
Other intangible assets		25,679	23,928
Investments in associates		178,670	196,180
Available-for-sale investments		872	872
Long-term prepayments		44,995	8,290
Deferred tax assets		42,656	31,814
Total non-current assets		2,368,056	2,359,016
CURRENT ASSETS			
Inventories		771,045	789,266
Trade receivables	9	785,865	688,060
Bills receivable		404,859	371,674
Prepayments, deposits and other receivables		203,725	168,254
Restricted deposits		94,107	56,595
Cash and cash equivalents	10	820,423	867,968
Total current assets		3,080,024	2,941,817
CURRENT LIABILITIES			
Trade payables	11	755,009	689,809
Bills payable		175,534	124,210
Tax payable		44,822	63,673
Other payables and accruals		258,551	210,119
Interest-bearing bank and other borrowings		322,229	346,590
Total current liabilities		1,556,145	1,434,401
NET CURRENT ASSETS		1,523,879	1,507,416
TOTAL ASSETS LESS CURRENT LIABILITIES		3,891,935	3,866,432

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 JUNE 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,891,935	3,866,432
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		355,000	380,000
Government grants		332,966	328,446
Other long-term payables		11,623	18,377
Deferred tax liabilities		8,747	8,832
Total non-current liabilities		708,336	735,655
Net assets		3,183,599	3,130,777
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	1,438,286	1,438,286
Reserves		1,728,195	1,621,232
Proposed final dividend		-	54,655
		3,166,481	3,114,173
Non-controlling interests		17,118	16,604
Total equity		3,183,599	3,130,777

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

For the six months ended 30 June 2012

	Attributable to owners of the Company								
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	1,438,286	702,945	(48,783)	207,129	759,941	54,655	3,114,173	16,604	3,130,777
Total comprehensive income for the period	-	-	-	-	106,446	-	106,446	514	106,960
Final 2011 dividends declared	-	-	-	-	-	(54,655)	(54,655)	-	(54,655)
Acquisition of Bolting and Research Centre[2]	-	-	517	-	-	-	517	-	517
At 30 June 2012 (Unaudited)	1,438,286	702,945 [1]	(48,266)[1]	207,129 [1]	866,387 [1]	-	3,166,481	17,118	3,183,599

For the six months ended 30 June 2011 (Restated)

	Attributable to owners of the Company								
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	1,438,286	702,945	(37,951)	178,814	646,761	46,025	2,974,880	15,146	2,990,026
Total comprehensive income for the period	-	-	-	-	136,914	-	136,914	1,140	138,054
Appropriation to surplus reserves	-	-	-	667	(667)	-	-	-	-
Final 2010 dividends declared	-	-	-	-	(14,300)	(46,025)	(60,325)	-	(60,325)
Acquisition of Bolting and Research Centre[2]	-	-	9,356	-	-	-	9,356	-	9,356
At 30 June 2011 (Unaudited)	1,438,286	702,945	(28,595)	179,481	768,708	-	3,060,825	16,286	3,077,111

1 These reserve accounts comprise the consolidated reserves of RMB1,728,195,000 (31 December 2011: RMB1,621,232,000) in the unaudited interim condensed consolidated statement of financial position.

2 On 31 October 2011, the Group acquired 100% equity interests in Shanghai High Strength Bolt Factory Company Limited ("Bolting") and Shanghai Fastener and Welding Material Technology Research Centre Company Limited ("Research Centre") from Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), at cash considerations of RMB26,730,000 and RMB42,644,000, respectively. Further details were disclosed in the Group's annual financial statements for the year ended 31 December 2011. During the six months ended 30 June 2012, the Group and Shanghai Electric Corporation mutually agreed to revise the consideration by RMB517,000.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended 30 June 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000 (Restated)
NET CASH INFLOW FROM OPERATING ACTIVITIES	123,189	14,815
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(99,360)	(84,577)
NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES	(73,498)	173,562
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(49,669)	103,800
Cash and cash equivalents at beginning of period	856,296	935,201
Effect of foreign exchange rate changes, net	(433)	(485)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	806,194	1,038,516
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	357,044	433,456
Non-restricted deposits with original maturity of less than three months when acquired	449,150	605,060
Cash and cash equivalents as stated in the statement of cash flows	806,194	1,038,516

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 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 for the year ended 31 December 2011.

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 2011, 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 2012, as noted below:

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments*: *Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First Time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 1 Amendments add an exception to the retrospective application of HKFRSs to require that first-time adopters apply the requirements in HKFRS 9 *Financial Instruments* and HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to HKFRSs. This means that first-time adopters shall not recognise the corresponding benefit of government loans at a below-market rate of interest as government grants. However, entities may choose to apply the requirements of HKFRS 9 and HKAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time when that loan was initially accounted for. These amendments give first-time adopters the same relief as existing preparers of HKFRS financial statements. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013. The application of this new standard is unlikely to have any material financial impact on the Group.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013. The application of this revised standard is unlikely to have any material financial impact on the Group.

HKAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement systems may be considered equivalent to net settlements. The Group expects to adopt the amendments from 1 January 2014. The application of these amendments is unlikely to have any material financial impact on the Group.

HK (IFRIC)-Int 20 addresses the recognition of waste removal costs that are incurred in surface mining activity during the production phase of a mine as an asset, as well as the initial measurement and subsequent measurement of the stripping activity asset. To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the costs incurred are accounted for in accordance with HKAS 2 *Inventories*. To the extent that the benefit improves access to ore and when criteria set out in the interpretation are met, the waste removal costs are recognised as a stripping activity asset under non-current assets. The interpretation has no financial impact on 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.

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2012 (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	383,158	449,864	357,352	504,655	-	1,695,029
Other revenue	12,554	39,160	6,645	5,628	-	63,987
Total	395,712	489,024	363,997	510,283	-	1,759,016
Segment results	32,757	49,006	45,499	16,112	-	143,374
Reconciliation:						
Interest and dividend income and unallocated gains						7,956
Corporate and other unallocated expenses						(16,885)
Finance costs						(23,264)
Share of profits and losses of associates	2,342	-	665	-	6,385	9,392
Profit before tax						120,573
Segment assets	1,223,998	2,504,294	676,900	763,025	400,960	5,569,177
Reconciliation:						
Elimination of intersegment receivables						(910,269)
Investments in associates	90,940	-	19,477	-	68,253	178,670
Corporate and other unallocated assets						610,502
Total assets						5,448,080
Segment liabilities	386,234	923,705	195,156	366,338	625,856	2,497,289
Reconciliation:						
Elimination of intersegment payables						(910,269)
Corporate and other unallocated liabilities						677,461
Total liabilities						2,264,481

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2011 (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	411,639	475,323	319,967	645,668	-	1,852,597
Other revenue	5,575	62,324	10,450	19,107	-	97,456
Total	417,214	537,647	330,417	664,775	-	1,950,053
Segment results	29,998	59,845	36,493	33,914	-	160,250
Reconciliation:						
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						155,187

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 2012 (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:

3. REVENUE, OTHER INCOME AND GAINS (continued)

	For the six months ended 30 June 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000 (Restated)
Revenue		
Sales of goods	1,677,252	1,826,024
Rendering of services	17,777	26,573
	1,695,029	1,852,597
Other income		
Dividend income	90	8,361
Interest income from loans receivable, bank balances and deposits	7,636	9,456
Gross rental income	166	636
Profit on sales of raw materials, spare parts and semi-finished goods	12,200	15,348
Government grants*	29,326	59,905
Technology service income	3,690	-
Others	1,334	945
	54,442	94,651
Gains		
Gain on disposal of items of property, plant and equipment	3,372	1,868
Gain on disposal of prepaid land premiums	1,991	-
Gain on disposal of available for sale investments	-	3,632
Gain on write-off of long-aged payables	12,138	7,027
	17,501	12,527
Total	71,943	107,178

* Various government grants have been received during the six months ended 30 June 2012 and 2011. There are no unfulfilled conditions or contingencies relating to these grants.

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Cost of inventories sold	1,335,760	1,470,637
Cost of services provided	14,428	18,082
Depreciation	84,136	55,894
Amortisation of prepaid land premiums/land lease payments	1,763	1,391
Amortisation of other intangible assets	2,941	1,071
Write-down of inventories to net realisable value	12,393	8,421
Impairment of receivables	2,061	1,821
Impairment of property, plant and equipment	-	5,966
Relocation expenses	-	52,342
Research and development costs:		
Current period expenditure	46,793	44,054
Minimum lease payments under operating leases:		
Land and buildings	13,440	12,011
Employee benefits expenses	210,175	211,586
Loss on disposal of items of property, plant and equipment	468	101
Foreign exchange differences, net	269	2,176

5. TAX

The Group is subject to the statutory corporate income tax rate of 25% for the Period (six months ended 30 June 2011: 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 Tool Works Company Limited ("Tool Works") , Shanghai Zhenhua Bearing Factory Company Limited ("Zhenhua Bearing") and Research Centre were granted the High and New Technology Enterprises ("HNTEs") qualification by the relevant government authority on 20 October 2011, and accordingly, is subject to a preferential corporate income tax rate of 15% for the year ended 31 December 2011, 2012 and 2013.

In addition, Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade") is subject to a preferential corporate income tax rate of 15% for the years ended 31 December 2009, 2010 and 2011, as it was granted the HNTEs qualification by the relevant government authority on 27 May 2009. In accordance with the requirements of the tax regulations in the PRC, Wuxi Turbine Blade had submitted its application to renew its HNTEs qualification for another 3 years ending 31 December 2014.

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	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	RMB'000	**RMB'000**
		(Restated)
Group:		
Current – the PRC/Mainland China		
Charge for the Period	29,790	32,164
Over provision in prior years	(5,250)	(3,235)
Deferred	(10,927)	(11,796)
Total tax charge for the Period	13,613	17,133

The share of tax attributable to associates amounting to RMB3,440,000 (six months ended 30 June 2011: RMB5,366,000) 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 2011: Nil).

During the year ended 31 December 2011, the Company had proposed final dividends of RMB3.80 cents per ordinary share, which had been approved by the Company's shareholders in the annual general meeting held on 15 June 2012.

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 2012 and 2011 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	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	RMB'000	**RMB'000**
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company	106,446	136,914

	Number of shares For the six months ended 30 June	
	2012	**2011**
	(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 2012, the Group had not obtained real estate certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB1,890,000 (31 December 2011: RMB1,970,000).

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 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 3 months	508,810	517,450
Over 3 months but within 6 months	176,986	123,708
Over 6 months but within 1 year	96,446	44,890
Over 1 year but within 2 years	3,285	2,002
Over 2 years	338	10
	785,865	688,060

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 2012 (Unaudited)		31 December 2011 (Audited)	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
USD	592	3,743	1,125	7,096
EUR	2,024	15,749	929	7,584
JPY	23,105	1,840	8,110	658

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 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within 3 months	617,177	580,785
Over 3 months but within 6 months	71,484	71,462
Over 6 months but within 1 year	56,913	29,566
Over 1 year but within 2 years	7,427	6,103
Over 2 years	2,008	1,893
	755,009	689,809

12. ISSUED CAPITAL

	30 June 2012 (Unaudited)		31 December 2011 (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 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 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Within one year	17,034	14,266
In the second to fifth years, inclusive	30,917	16,710
	47,951	30,976

15. COMMITMENTS

In addition to the operating lease commitments detailed in note 14 above, the Group had the following commitments as at 30 June 2012:

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Contracted, but not provided for:		
- Land and buildings	76,395	1,600
- Plant and machinery	143,132	238,903
	219,527	240,503
Authorised, but not contracted for:		
- Plant and machinery	234	14,450
Total	219,761	254,953

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 2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000 (Restated)
Purchase of materials from:	(i)		
Associates		163	91
SEC group companies *		1,620	2,806
		1,783	2,897
Sales of goods to:	(i)		
Associates		1,550	1,302
SEC group companies *		260,744	192,816
		262,294	194,118
Receiving of manpower services from:	(i)		
Ultimate holding company		9	153
Associates		67	173
SEC group companies *		302	1,596
		378	1,922
Rendering of manpower services to:	(i)		
Associates		90	-
SEC group companies *		-	1
		90	1
Rental fee payable to:	(ii)		
Ultimate holding company		1,200	1,169
SEC group companies *		9,158	7,800
		10,358	8,969
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies *		-	865
Discount of bills receivable to:	(iii)		
SEC group companies*		43,968	60,000

16. 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.

(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 RMB1,017,000 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 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 RMB3,995,000 per annum.

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

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	**(Unaudited)**
	RMB'000	**RMB'000**
Fees	242	252
Short term employee benefits	693	756
Post-employment benefits	65	59
	1,000	1,067

17. EVENTS AFTER THE REPORTING PERIOD

(a) On 24 February 2012, the Company successfully bid for the 100% equity interest of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") disposed by Shanghai Electric Development Co., Ltd. (" Shanghai Electric Development"), a wholly-owned subsidiary of Shanghai Electric Corporation through Shanghai United Assets and Equity Exchange. The successful bid price for Shanghai Insulating was RMB40,000,000. On 5 March 2012, the Company entered into the Shanghai Insulating Acquisition Agreement with Shanghai Electric Development at the successful bid price. Further details are available in the Company's press announcement dated 5 March 2012. The acquisition has not been completed as at the date of this report.

(b) On 25 April 2012, the Board announced that the Company planned to issue the guaranteed corporate bonds in the PRC with an aggregate amount of not exceeding RMB1,000,000,000. Further details are available in the Company's press announcement dated 25 April and 21 May 2012. The proposal has been approved by the shareholders at the annual general meeting held on 15 June 2012. As of 30 June 2012, China Securities Regulatory Commission has not yet approved the matters relating to the public issuance of the corporate bonds by the company.

(c) On 10 August 2012, the Company issued a press announcement stating its intention to submit a bid to acquire Shanghai Electric Corporation's 100% equity interest in Shanghai Dalong Machinery Factory Company Limited pursuant to a public tender launched by Shanghai Electric Corporation. Further details are available in the Company's press announcement dated 10 August 2012.

18. COMPARATVE AMOUNTS

Due to the business combination under common control, 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 2011. Accordingly, certain comparative amounts have been restated to conform with the current period presentation.

19. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 10 August 2012.