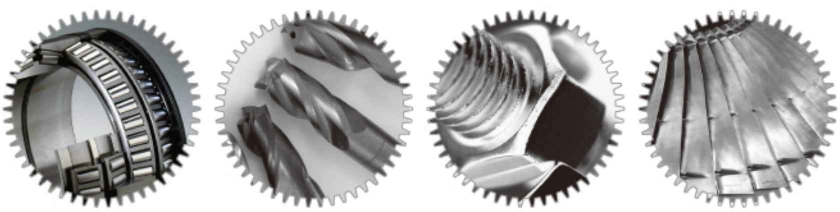
PMC 上海集优 SHANGHAI PRIME

2014
SHANGHAI PRIME
MACHINERY COMPANY LIMITED
INTERIM REPORT



(A joint stock limited company incorporated in the People's Republic of China with limited liability) **(Stock Code: 02345)**

CONTENTS

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 2602, 26th Floor,
Tower One, Lippo Centre,
89 Queensway, Hong Kong

Legal Representative
Wang Qiang

Authorised Representatives
Zhou Zhiyan
Zhang Jianping

Alternative Authorised Representatives
Chan Oi Fat
Li Wai Chung

Company Secretary
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
Level 22, Hopewell Centre, 183 Queen's Road East, 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
Website: www.pmcsh.com
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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 2014 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee of the Company .

Business Review

During the first half of 2014, the global economy has shown signs of recovery despite various uncertainties. In China, the economy maintained moderate growth with transformation and reforms in progress. However, the development mode is still subject to adjustment due to the imbalanced economic structure. In 2014, the Group strives to achieve sustainable development by adhering to the strategy of "going global".

During the Period, the Group realized revenue of RMB1,680 million (1H 2013: RMB1,691 million), which was similar to that of the corresponding period of last year. Profit attributable to the owners of the Company was RMB38 million for the Period (1H 2013: RMB48 million), representing a decrease of 21% as compared with the corresponding period of last year. Total assets of the Group amounted to RMB5,807 million (31 December 2013: RMB5,744 million), representing an increase of 1% as compared with the beginning of this year.

Steady Progress of Regular Businesses

Turbine blade business: By taking advantage of the resumption of nuclear power projects, we have enhanced the competitiveness of niche products in order to increase our sales. In addition to expanding the state-of-art aviation components business, we will also put great efforts in the expansion of overseas aviation business. With the expansion of Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") and its subsidiaries in the gas turbine market, the Group will actively develop the overseas gas turbine business, and seek to consolidate its market position and achieve new breakthroughs.

Bearing business: We will attach great importance to the development of major bearing business such as railway bearings and wind power bearings to maintain our leading market share in China. We will also increase our research efforts in tension pulley bearings and steering bearings for automobiles in order to meet the standard requirement of the new vehicle production lines. While maintaining our advantage in miniature aviation and aerospace bearings, we will also develop new products such as high-end medical equipment bearings to compete with imported products.

Cutting tool business: On top of maintaining and enhancing the market shares of bore machining cutting tools and thread cutting tools, we will increase the sales of numerically controlled tools and strengthen the research and development of high-end products, such as modern and efficient cutting tools, high performance and high speed steel cutting tools, coated cutting tools and super-hard cutting tools. Besides, we will accelerate the research and development of new products and upgrade products to mid- to high-end level so as to further strengthen our leading position in the industry.

Fastener business: We aim to maintain steady growth of overseas sales and expand the domestic sales to achieve economies of scale and improve profitability. We will improve the production facilities for high strength bolts by undertaking major construction projects at home and abroad. In addition, we will expand the scale of testing business by focusing on the testing of ultra large and ultra small products.

Optimize the Industrial Structure by Expanding New Businesses and Disposal of Non-profit-making Businesses

The Group implemented corporate restructure by exploring new markets and business areas, while disposing entities without long-term growth potential, so as to improve the asset quality and profitability of the Company, and to cope with the intensified competition in the overall machine component market.

CHAIRMAN'S STATEMENT

Through the acquisition of Shanghai Cyeco Environmental Technology Company Limited ("Cyeco Environmental"), the Group expanded its scope of business to cover environmental protection by promptly entering into the high-end marine water treatment equipment market. The International Convention for the Management of Ballast Water passed by the International Maritime Organization has come into effect recently. This will lead to a blowout in the demand for the ballast water processing system. Cyeco Environmental, with a number of certificates or certifications such as China Classification Society (CCS) certification (one of the only seven companies in China, and the only company in Shanghai) and Alternative Management System (AMS) certification as examined by US Coast Guard (USCG) using the emission standards of ship's ballast water, has accumulated years of practical experience in the field of marine anti-corrosion and anti-pollution. By combining its technology advantage and high quality and leveraging on the economic and effective anti-corrosion and anti-pollution solutions, Cyeco Environmental, with the brand advantage, strong equipment manufacturing capabilities and international operation capacity of Shanghai Electric Corporation and its subsidiaries, is able to accelerate the expansion of markets and product portfolio, and further enhance its market share and profitability.

Through the acquisition of the 100% equity of Nedfast Investment B.V. ("Nedschroef"), the Company entered into the high-value fasteners market. Headquartered in the Netherlands, Nedshcroef is one of the largest suppliers of fasteners in the world. Nedshcroef, ranked top in the European automobile standard component market in terms of market share, has a solid leading position. It has customers from Europe, American and Asia, including high-end customers such as Volkswagen, Audi and BMW. Focusing on its business for decades, Nedshcroef has become a quick and efficient supplier of solutions for high-end fastener system, providing one-stop solutions for customers with different needs. In 2013, Nedshcroef recorded a revenue of approximately RMB4,415 million, with net profit of RMB112 million. Through the acquisition of Nedshcroef, the Group is able to bring its result to a new level. After the simulated merge, the Group will have a revenue of approximately RMB7,813 million, with net profit of RMB109 million. The acquisition of Nedschroef is an important and strategic measure of the Group as the Group can bring its products such as high-end cutting tools and bearings which are auto parts into the European market through the channels of Nedschroef. Moreover, in response to the growing demand in the automobile standard component market in China, Nedschroef will expand to the PRC market and then enter the Asian market, and to rapidly develop the fasteners business.

We have disposed the 100% equity of Shanghai Electric Insulating Material Company Limited ("Shanghai Insulating") and intend to transfer 80% equity of Shanghai Dalong Machinery Works Company Limited ("Dalong Machinery"). Taking into account of the operating conditions and the principal businesses of Shanghai Insulating and Dalong Machinery according to the strategies of the Group, the Company disposed the equity interests of Shanghai Insulating in February 2014, and intends to transfer 80% equity of Dalong Machinery in the near future. The disposal of Shanghai Insulating has improved the financial performance of the the Group. We aim to introduce strategic investors and seek new opportunities for further development of Dalong Machinery through the transfer of its equity. These two transfers will allow the Group to focus on its core businesses, define its strategic position more clearly, and strengthen and expand its predominant businesses.

Incentive Scheme to Enhance our Management Standard

In 2014, we have implemented the incentive plan. The senior management of the bearing and cutting tool businesses were granted funds to purchase certain equity interests in the Company, which links their interests with the performance and share price of the Company. The implementation of the incentive scheme will enable the Group to retain and attract the core talent and improve our management standard, and it has become one of the competitive advantages of the Group, which facilitate long-term, continuous and rapid growth of the Group.

Strengthen Corporate Governance with Focus on Social Responsibility

In 2014, the new session of the Board has been elected. Re-elections were also carried out for the members of committees under the Board. The management will step up its supervision on all operation indicators. With tighter control over risks associated with contracts, the Group will strive for healthy and rapid development.

While focusing on corporate development, the Group is also committed to the performance of social responsibility. It was awarded as a One-star Creditable Enterprise of Shanghai (上海市一星級誠信創建企業) by Shanghai Corporate Integrity Organisation Committee (上海市企業誠信創建活動組委員會). Furthermore, the Group also actively contributes to the society by participating in community activities.

Future Prospects

In the second half of 2014, the Group will strive to develop into a major machine component provider in response to market demands through further business restructuring and efficiency improvement. Committed to reformation and overseas expansion, the Group will pave a solid foundation for its future rapid development in line with market changes.

Better globalized operation based on synergy effects. Significant synergy effects have been seen through the cooperation between the Group and Nedschroef in distribution channel, technology research and development, purchase of raw materials and components and capacity utilization. The Group will be devoted to becoming a world-class, one-stop integrated service supplier of industrial mechanical components by strengthening the synergy effects and ancillary facilities of other segments within the Group.

Further restructuring to promote sound development. The Group will focus on its major businesses and allocate more resources on industries supported by the government. Efforts will also be made to adjust its corporate structure and optimize its asset quality and profitability with a view to maximizing its economy of scale and asset quality.

Technology advancement and market expansion. The Group will strengthen its research and development to take advantage of the growth of new energy business. The market share of its bearing business will expand into areas such as wind power, railway, aviation and military as well as medical apparatus. In addition, the Group will expand its turbine blade business into the aeronautic forge piece and gas turbine markets.

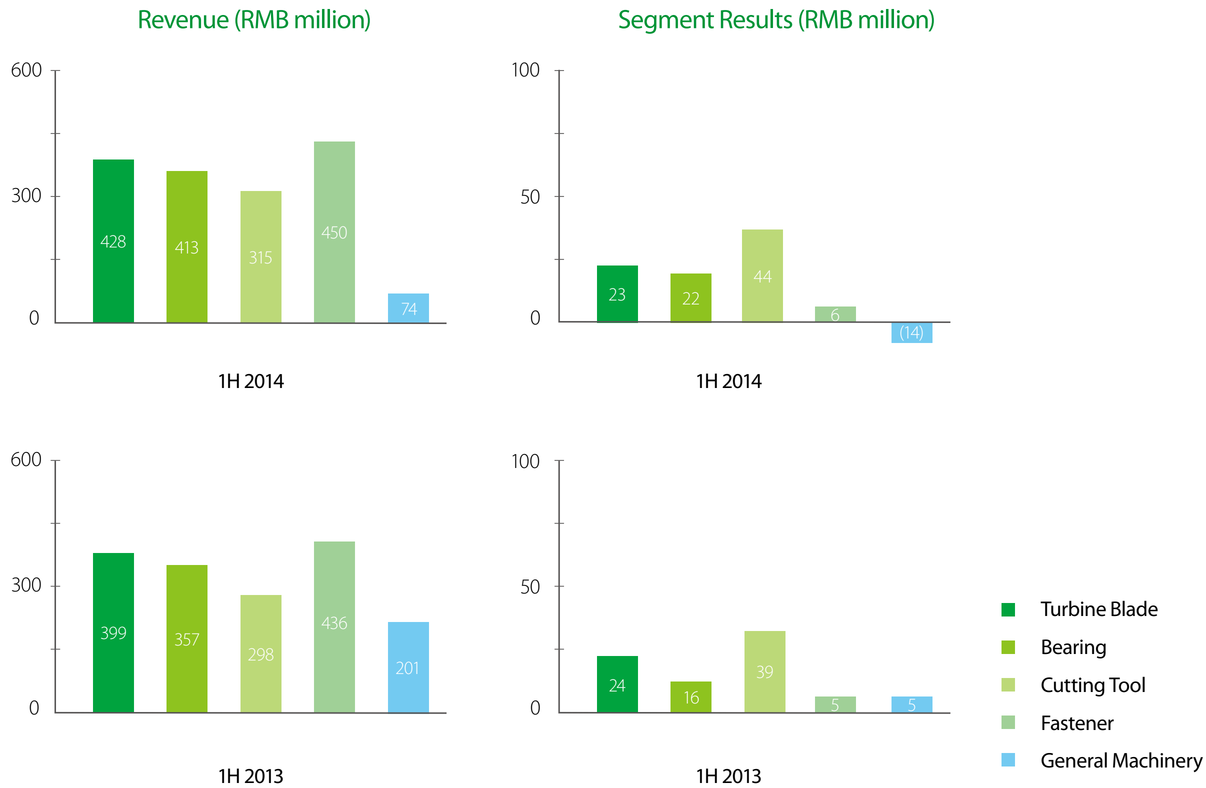
2014 is a significant year for the transformation and development of the Group. We are devoted to overcoming the challenges and difficulties, grasping the opportunities through transformation and by further strengthening resource integration to realize sound and sustainable growth. I, hereby, would like to take this opportunity to express my gratitude to all the shareholders for their continuous trust and long-term support to the Company, as well as to the Board, supervisory committee, senior management and all staff for their contributions. We believe that our value will be increased with the diligent work and proactive development and we will achieve an excellent results.

Wang Qiang
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
15 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Overview of Major Business Divisions

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



(RMB million)	Revenue For the six months ended 30 June		Segment Results For the six months ended 30 June	
	2014	2013	2014	2013
Turbine Blade	**428**	399	**23**	24
Percentage of total	**25%**	23%	**28%**	27%
Bearing	**413**	357	**22**	16
Percentage of total	**25%**	21%	**27%**	18%
Cutting Tool	**315**	298	**44**	39
Percentage of total	**19%**	18%	**55%**	43%
Fastener	**450**	436	**6**	5
Percentage of total	**27%**	26%	**7%**	6%
General Machinery	**74**	201	**(14)**	5
Percentage of total	**4%**	12%	**(17%)**	6%
Total	**1,680**	1,691	**81**	89

Turbine Blade Business

During the six months ended 30 June 2014 (the "Period"), the revenue of the turbine blade business amounted to RMB428 million (1H 2013: RMB399 million), representing an increase of 7% as compared with the corresponding period of last year. The segment results amounted to RMB23 million (1H 2013: RMB24 million), representing a decrease of 4% over the corresponding period of last year. Export sales was RMB112 million (1H 2013: RMB113 million), which was similar to that of the corresponding period of last year.

Bearing Business

During the Period, the revenue of the bearing business was RMB413 million (1H 2013: RMB357 million), representing an increase of 16% over the corresponding period of last year. The segment results amounted to RMB22 million (1H 2013: RMB16 million), representing an increase of 38% as compared with the corresponding period of last year. Export sales amounted to RMB46 million (1H 2013: RMB64 million), representing a decrease of 28% over the corresponding period of last year.

Cutting Tool Business

During the Period, the revenue of the cutting tool business was RMB315 million (1H 2013: RMB298 million), representing an increase of 6% over the corresponding period of last year. The segment results amounted to RMB44 million (1H 2013: RMB39 million), representing an increase of 13% over the corresponding period of last year.

Fastener Business

During the Period, the revenue of the fastener business was RMB450 million (1H 2013: RMB436 million), representing an increase of 3% over the corresponding period of last year. The segment results amounted to RMB6 million (1H 2013: RMB5 million), representing an increase of 20% over the corresponding period of last year. Export sales amounted to RMB319 million (1H 2013: RMB298 million), representing an increase of 7% over the corresponding period of last year.

General Machinery Business

During the Period, the revenue of the general machinery business was RMB74 million (1H 2013: RMB201 million), representing a decrease of 63% over the corresponding period of last year. Due to the decrease of demand resulting from the market downturn of general machinery business, the segment results were loss of RMB14 million (1H 2013: profit of RMB5 million) representing a decrease of 380% over the corresponding period of last year.

Gross Profit and Gross Profit Margin

During the Period, the gross profit and the gross profit margin of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (the "Group") were RMB342 million (1H 2013: RMB355 million) and 20% (1H 2013: 21%) respectively.

Share of Profits and Losses of Associates

During the Period, share of losses of associates of the Group was RMB6 million (1H 2013: share of profits of associates was RMB3 million).

Finance Costs

During the Period, finance costs amounted to RMB22 million (1H 2013: RMB30 million).

Profit Attributable to the owners of the Company

Profit attributable to the owners of the Company was RMB38 million for the Period (1H 2013: RMB48 million). Basic earnings per share was RMB2.61 cents (1H 2013: RMB3.31 cents).

Cash Flow

As at 30 June 2014, the cash and bank balances of the Group were RMB823 million (31 December 2013: RMB924 million), of which RMB76 million were restricted deposits (31 December 2013: RMB40 million). During the Period, the Group had a net cash inflow from operating activities of RMB33 million (1H 2013: net cash outflow of RMB108 million), a net cash inflow from investing activities of RMB34 million (1H 2013: net cash outflow of RMB111 million), and a net cash outflow from financing activities of RMB61 million (1H 2013: net cash inflow of RMB14 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Assets and Liabilities

As at 30 June 2014, the Group had total assets of RMB5,807 million (31 December 2013: RMB5,744 million), representing an increase of RMB63 million as compared with the beginning of the year. Total current assets were RMB3,306 million (31 December 2013: RMB3,357 million), accounting for 57% of the total assets and representing a decrease of RMB51 million as compared with the beginning of the year. Total non-current assets were RMB2,501 million (31 December 2013: RMB2,387 million), accounting for 43% of the total assets and representing an increase of RMB114 million as compared with the beginning of the year.

As at 30 June 2014, the Group had total liabilities of RMB2,448 million (31 December 2013: RMB2,487 million), representing a decrease of RMB39 million over the beginning of the year, of which total current liabilities were RMB1,664 million (31 December 2013: RMB1,692 million), accounting for 68% of total liabilities and representing a decrease of RMB28 million as compared with the beginning of the year. Total non-current liabilities were RMB784 million (31 December 2013: RMB795 million), accounting for 32% of total liabilities and representing a decrease of RMB11 million as compared with the beginning of the year.

As at 30 June 2014, the net current assets of the Group were RMB1,642 million (31 December 2013: RMB1,665 million), representing a decrease of RMB23 million over the beginning of the year.

Sources of Funding and Indebtedness

As at 30 June 2014, the Group had company bonds, interest-bearing bank and other borrowings with an aggregate amount of RMB601 million (31 December 2013: RMB653 million), representing a decrease of RMB52 million as compared with the beginning of the year. The Group had borrowings repayable within one year of RMB106 million (31 December 2013: RMB158 million) and the Group had borrowings repayable after one year of RMB 495 million (31 December 2013: RMB 495 million).

As at 30 June 2014, all company bonds, interest-bearing bank and other borrowings of the Group were interest-bearing at fixed rates.

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group, which represents the ratio of company bonds, interest-bearing bank and other borrowings to equity attributable to owners of the Company, was 19% (31 December 2013: 20%).

Restricted Deposits

As at 30 June 2014, among the bank deposits of the Group, RMB76 million (31 December 2013: RMB40 million) was restricted deposits.

Pledges of Assets

As at 30 June 2014, except for restricted deposit, trade receivables of the Group of RMB35 million (31 December 2013: RMB55 million) were pledged.

Contingent Liabilities

As at 30 June 2014, the Group has no contingent liabilities (31 December 2013: nil).

Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB28 million (1H 2013: RMB56 million).

Foreign Exchange Exposure

The Group uses Renminbi ("RMB") as its reporting currency. Since the beginning of 2014, notwithstanding the mitigated appreciation trend of RMB against the U.S. Dollars, the exchange rates of RMB against 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 2014, the Group's bank deposits denominated in foreign currencies comprised of USD17 million and EUR0.3 million, JPY115 million and HKD4.7 million. Save as disclosed above, the Group was not exposed to any significant risks related to foreign exchange fluctuations.

Significant Event

On 27 May 2014, the board of directors of the Company (the"Board") passed a resolution relating to an acquisition of 100% equity of Nedfast Investment B. V. ("Nedschroef"). On 27 May 2014, the Company signed a contract with the existing shareholder of Nedschroef relating to the acquisition of the 100% equity of Nedschroef. The aggregate consideration for the acquisition, which is equivalent to the sum of the purchasing price for the shares to be sold and the purchasing price for the shareholder loans, will be paid to the seller in cash by the Company upon the completion of the acquisition. The extraordinary general meeting of the Company (the "EGM") was held on 4 August 2014, and the resolution proposed at the EGM was duly passed by poll. The acquisition has not been completed. Details of the acquisition are induded in the circular of the Company dated 25 June 2014.

On 15 August 2014, the Board passed a resolution in relation to the shareholder loan provided for the acquisition of Nedschroef by Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") or the related companies over which Shanghai Electric Corporation is able to exert control or significant influence ("SEC Group companies") to Shanghai Prime (HK) Investment Management Company Limited with an aggregate amount of USD300,000,000. The loans are unsecured, bearing interest at rate 3.3% per annum and for periods no longer than five years.

On 15 August 2014, the Board passed a resolution in relation to the potential disposal of 80% of the entire equity interest of Shanghai Dalong Machinery Works Company Limited ("Dalong Machinery") (the "Potential Disposal"). Neither any legally-binding agreement nor equity transfer agreement has been entered into between the Company and any party in relation to the Potential Disposal by the date of approval of these financial statements. The Company will make further announcements in respect of the Potential Disposal in accordance with applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as and when appropriate.

Employees

As at 30 June 2014, the Group had approximately 3,024 (31 December 2013: 3,295) 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 our directors and supervisors..

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

Name	Age	Position
Wang Qiang	56	Executive director and chairman
Zhou Zhiyan	51	Executive director, vice chairman and general manager
Zhang Jianping	57	Executive director
Zhu Xi	50	Executive director
Sun Wei	44	Executive director
Chen Hui	46	Executive director and deputy general manager
Chan Chun Hong, Thomas (Resigned on 27 June 2014)	50	Independent non-executive director
Chan Oi Fat (Appointed on 27 June 2014)	35	Independent non-executive director
Ling Hong	53	Independent non-executive director
Li Yin	50	Independent non-executive director
Dong Jianhua	49	Supervisor and chairman of the supervisory committee
Yu Yun	45	Supervisor
Wei Li	42	Supervisor

Directors

Wang Qiang, aged 56, is a senior economist and senior political affair officer. He was appointed as the executive director and chairman of Shanghai Prime Machinery Company Limited (the "Company") since February 2013. He currently serves as the director, deputy secretary of the party committee and president of Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation"), the vice chairman, non-executive director and deputy secretary of the party committee of Shanghai Electric Group Company Limited. From June 1995 to March 2001, he worked as the deputy director of cadres bureau of Shanghai Industry Committee Party of Communist Party of China. From March 2001 to May 2008, he worked as the head of the human resources department, head of cadres bureau and the head of cadres human resources department of Shanghai Electric Corporation, the deputy secretary of the party committee of Shanghai Electric Group Company Limited and Shanghai Electric Corporation. From May 2008 to February 2011, he worked as the deputy secretary of the party committee and head of cadres human resources department of Shanghai Electric Corporation, the deputy secretary of the party committee and head of human resources department of Shanghai Electric Group Company Limited and the secretary to the party committee of Shanghai Electric Assets Management Company Limited. Mr. Wang Qiang obtained a postgraduate qualification from the Central Party School of the Communist Party of China majoring in politics.

Zhou Zhiyan, aged 51, is a senior accountant and the general manager of the Company. He was appointed as the executive director and the vice chairman of the Company since 2013. Mr. Zhou Zhiyan joined Shanghai Electric Corporation in August 1983 and joined the Company since September 2005. From September 2005 to October 2007, he worked as the chairman and executive director of the Company. Mr. Zhou served as chief financial officer for one of the business departments of Shanghai Electric Corporation from 1999 to 2000; the vice general accountant of Shanghai Electric Corporation from 2000 to 2003; mainly being the president of Shanghai Electric Industrial Corporation from 2003 to 2009; the head of investment management department, investment director and chief financial officer of Shanghai Electric Assets Management Company Limited from 2004 to December 2013; mainly being the executive vice head of overseas business department and head of financial budget department of Shanghai Electric Corporation from 2009 to 2013; deputy chief economist of Shanghai Electric Corporation from December 2013 till now. Mr. Zhou Zhiyan graduated from the School of Accounting of Shanghai Industry and Commerce Institute in 1988 majoring in finance and accounting and obtained a MBA degree from Shanghai Jiao Tong University in 1994.

Zhang Jianping, aged 57, is a political affair officer. He was appointed as the supervisor of the Company in 2008 and was re-elected and appointed as the supervisor of the Company in 2011. He resigned as the supervisor of the Company effective from December 2012 and was appointed as the executive director of the Company. He worked as the chairman of the equipment automation labour union and the deputy head of workshop one in Shanghai Tool Work Company Limited ("Shanghai Tool Works") from 1984 to 2003. From 2003 to 2005, he acted as the vice chairman of the labour union of Shanghai Tool Works. He was the chairman of the labour union of Shanghai Tool Works from 2005 to December 2012 and the vice chairman of the labour union of the Company from 2006 to August 2013. He has been secretary of the party committee of the Company since September 2012 and the chairman of labour union and secretary of the disciplinary committee of the Company since August 2013. Mr. Zhang graduated from East China University of Political Science and Law with a major in business laws.

Zhu Xi, aged 50, is a senior accountant. She was appointed as the executive director of the Company since 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 the deputy head of the funding and planning department of Shanghai Electric Corporation. From 2003 to December 2012, she was appointed as the director of Shanghai Electric (Group) Corporation Heng Lian Enterprise Development Limited. In 2004, she was the head of the budget department of Shanghai Electric Corporation. From 2004 to 2006, she served as the deputy head and head of the asset and finance department of Shanghai Electric Assets Management Company Limited. From 2007 to April 2012, Ms. Zhu was the deputy head of financial budget department of Shanghai Electric Corporation as well as the head of the asset and finance department of Shanghai Electric Assets Management Company Limited. From April 2012 to November 2013, she acted as the executive vice head and head of the asset and finance department of Shanghai Electric Group Company Limited. From May 2008 to June 2014, she served as the supervisor of Shanghai Automation Instrumentation Co., Ltd. She has been the supervisor of Shanghai Electric Industry Corporation since April 2010. She has been the director of Shanghai Rail Traffic Equipment Development Co., Ltd. and the supervisor of Shanghai Electric Financial Leasing Co., Ltd. since December 2013. In addition, Ms. Zhu also serves as the head of the audit department of Shanghai Electric Group Company Limited. Ms. Zhu graduated from the department of business management of the adult education college, East China Normal University. She also obtained an EMBA degree from Arizona State University in June 2012.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SUPERVISORS

Sun Wei, aged 44, is a senior engineer. He was appointed as the executive director of the Company since 2011. Mr. Sun joined Shanghai Electric Corporation in 1993. From 2003 to 2005, he worked as the deputy general 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 Group Company Limited and the assistant to general manager in Shanghai Rail Traffic Equipment Co., Ltd. From 2006 to 2010, he was promoted to the position of deputy general manager of 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 has been working as the deputy head of the strategic planning department of Shanghai Electric Corporation and was promoted to the position of head of strategic planning department in 2011 and has concurrently acted as the head of the industrial development department of Shanghai Electric Group Company Limited since 2012. He has also been serving as the director of the sixth board of directors of Shanghai Highly (Group) Co., Ltd. since 2011. Mr. Sun graduated from Shanghai Jiao Tong University with a double bachelor's degree in industrial management and welding technology and equipment in 1993 and obtained a master degree in project management in 2010. He also obtained an EMBA degree from Arizona State University in June 2012.

Chen Hui, aged 46, is an engineer and a senior economist. He was appointed as an executive director of the Company since 2013 and was appointed as the deputy general manger and secretary to the Board of the Company in 2005 and has been serving as the deputy general manager of the Company till now. From September 2005 to October 2008, he served as an executive director of the Company. He joined Shanghai Electric Corporation in July 1987. From 2002 to 2004, he served as the factory director and was responsible for the management of the bearing business division of Shanghai Electric Corporation before the reorganization. Mr. Chen was also the general manager of Shanghai Electric Bearings Company Limited, a holding company of our bearing subsidiaries prior to the reorganization, from 2004 to 2005. Mr. Chen graduated from Shanghai University with a degree in mechanical automation in October 1996 and from the Central College of the Communist Party in 2001 with a bachelor degree in management. He obtained a master degree from Macau University of Science and Technology in 2002.

Chan Oi Fat, aged 35, was appointed as an independent non-executive director of the Company in 2014. He is currently the financial officer and the company secretary of the Ta Yang Group Holdings Limited (Stock code: 1991), which is listed on the Main Board of the Stock Exchange in Hong Kong. Mr. Chan has held position in Deloitte Touche Tohmatsu for over eight years. He graduated from The City University of Hong Kong with a bachelor in accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has extensive experience in professional accounting, auditing and corporate financial services.

Ling Hong, aged 53, was appointed as an independent non-executive director of the Company since 2010 and was re-elected and appointed as an independent non-executive director of the Company in 2011. He is the head, a professor and tutor of doctoral students of the information management and information system department of the faculty of management in Fudan University. He is also an honorable guest professor of the Faculty of Business and Economics in 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 in 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 in Shanghai in 2000.

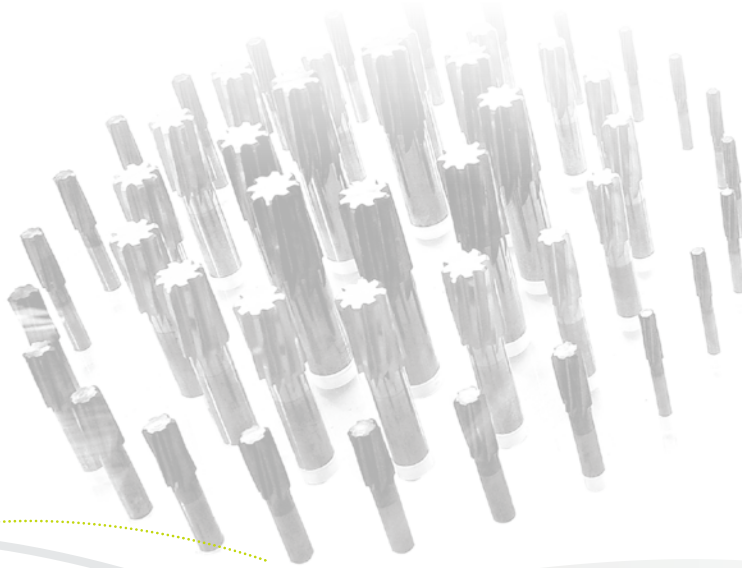
Li Yin, aged 50, is a senior engineer. He was appointed as an independent non-executive director of the Company since 2011. He worked as an editor and a reporter for the Chinese Academy of Agricultural Mechanization Sciences Farm Machinery Magazine from 1984 to 1996 as well as the vice president of the Magazine from 1997 to 2001. From 2000 to 2001, Mr. Li served as the deputy secretary general of China Construction Machinery Association. He has been working as the head for the China Construction Machinery Magazine and the 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 carried out further study in strategic manufacturing management for four months at the University of Warwick in Britain.

Supervisors

Dong Jianhua, aged 49, is a senior economist. He was appointed as the chairman of the supervisory committee and a supervisor of the Company since 2013 and joined Shanghai Electric Group Company Limited in December 2010. He is currently the chairman of the supervisory committee of Shanghai Electric Group Company Limited. Mr. Dong Jianhua joined the Shanghai Electric Corporation as the chief financial officer in April 2008. Mr. Dong has extensive experience in internal audit and supervision. Prior to joining Shanghai Electric Corporation, Mr. Dong was the assistant to the head and deputy head of Infrastructure Office of Shanghai Municipal Audit Bureau, deputy head and head of Fixed Assets Investment and Audit Office, as well as head of Audit Office between 1987 and 2008. Mr. Dong has been involved in professional auditing for more than 25 years. Mr. Dong graduated from Shanghai Tongji University with a bachelor's degree in engineering. He also obtained a master degree in business administration from Shanghai Jiao Tong University.

Yu Yun, aged 45, is a political affair officer. He was appointed as a supervisor of the Company since 2012. From 1986 to 2001, he worked as the deputy head of the training division, deputy secretary of the party committee and vice chairman of the labour union of Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as the director of the administration office, vice chairman of the labour union and manager of the human resources department of Shanghai Huatong Switch Co., Ltd. He has been the deputy secretary of the party committee, secretary of the disciplinary committee and chairman of the labour union of Shanghai Tian An Bearing Company Limited since 2005. Mr. Yu obtained a master degree in business administration from Asia International Open University (Macau) in 2007.

Wei Li, aged 42, is an engineer. She is the vice chairlady of the labor union of the Company and was appointed as a supervisor of the Company in 2013. From July 1993 to July 2001, she had been the tutor and general secretary of the Communist Youth League of the Workers College under the Machine Tool Branch of Shanghai University of Mechanical and Electrical Technology（上海機電工業大學機床分校）. She has served as the chairlady of the labor union of the Department of the Technical Centre, the head of Information Department of the Technical Centre, the deputy head and head of Party-Masses Relationship, chairlady of the labor union, assistant to the secretary of the party committee and deputy secretary of the party committee of Shanghai Tool Works since July 2001. Ms. Wei Li graduated from the Shanghai Second Polytechnic University, majoring in mechatronic engineering.



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 2014, the following persons had interests of 5% or more in the shares of Shanghai Prime Machinery Company Limited (the "Company") as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, Hong Kong ("SFO"):

Name of substantial shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
	H	34,870,000	(1)	Beneficial owner	Long position	4.59	2.42
State-owned Assetts Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	34,870,000	(1)	Interest of controlled corporation	Long position	4.59	2.42
Government of Singapore Investment Corporation Pte Ltd	H	51,682,052		Investment manager	Long position	6.80	3.59
Templeton Asset Management Ltd.	H	44,184,000		Investment manager	Long position	5.82	3.07

Notes:

(1) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government was deemed to be interested in the 678,576,184 domestic shares and 34,870,000 H shares of the Company held by Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") by virtue of its 100% ownership in Shanghai Electric Corporation.

As at 30 June 2014, except for the domestic shares of the Company, Shanghai Electric Corporation has also held 34,870,000 H shares of the Company, representing 4.59% of the H share class and 2.42% of the issued shares of the Company as disclosed by the Shanghai Electric Corporation to the Company. Shanghai Electric Corporation holds 713,446,184 issued shares of the Company in aggregate, representing 49.60% of the issued shares of the Company.

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 30 June 2014 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Directors', supervisors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2014, none of the directors, supervisors or chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified by the directors, supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") set out in Appendix 10 to the Listing Rules. Also, as at 30 June 2014, no right to acquire the aforementioned interests had been granted to the directors, supervisors or chief executives or their respective associates of the Company.

Compliance with the 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 standards set out in the Model Code during the six months ended 30 June 2014 (the "Period").

Compliance with the Corporate Governance Code and the Corporate Governance Report

The Company is committed to high standards of corporate governance and has taken measures to comply with the provisions set out in the Corporate Governance Code and Corporate Governance Report set out in the Appendix 14 to the Listing Rules Governing the listing of securities on the Stock Exchange of HongKong Limited. The board of directors of the Company (the "Board ") considers that from 1 January 2014 to the date of this report, the Company has complied with the requirements set out in the Corporate Governance Code and Corporate Governance Report, and there have been no material deviations from the Corporate Governance Code.

OTHER INFORMATION

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 of the Company, 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 Wang Qiang, Zhou Zhiyan, Zhang Jianping, Zhu Xi, Sun Wei and Chen Hui, and independent non-executive directors, namely, Chan Oi Fat , Ling Hong and Li Yin.

As at the date of this report, the supervisory committee of the Company comprises Dong Jianhua, Yu Yun and Wei Li.

This Interim Report (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, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Notes	For the six months ended 30 June 2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
REVENUE	3	1,679,804	1,690,760
Cost of sales		(1,337,984)	(1,336,182)
Gross profit		341,820	354,578
Other income and gains	3	44,029	56,265
Selling and distribution costs		(79,583)	(74,356)
Administrative expenses		(164,398)	(163,797)
Other expenses		(67,253)	(94,991)
Finance costs		(22,044)	(29,631)
Share of profits and losses of associates		(6,265)	2,794
PROFIT BEFORE TAX	4	46,306	50,862
Income tax expense	5	(8,441)	(2,231)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		37,865	48,631
Profit and total comprehensive income attributable to:			
Owners of the Company		37,605	47,572
Non-controlling interests		260	1,059
		37,865	48,631
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic (RMB cents)			
- For profit for the period		2.61	3.31

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 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,844,475	1,921,239
Prepaid land premiums/land lease payments	8	148,050	156,965
Goodwill		25,054	8,818
Other intangible assets		208,727	30,579
Investments in associates		189,553	195,818
Available-for-sale investments		872	872
Long-term prepayments		1,133	147
Deferred tax assets		83,055	72,250
Total non-current assets		2,500,919	2,386,688
CURRENT ASSETS			
Inventories		774,420	730,321
Trade receivables	9	1,184,801	1,123,486
Bills receivable		386,339	425,416
Prepayments, deposits and other receivables		137,535	153,840
Restricted deposits		76,037	39,673
Cash and cash equivalents	10	746,537	884,688
Total current assets		3,305,669	3,357,424
CURRENT LIABILITIES			
Trade payables	11	860,437	875,608
Bills payable		241,669	310,267
Tax payable		37,061	40,371
Other payables and accruals		418,300	307,720
Interest-bearing bank and other borrowings		106,031	158,257
Total current liabilities		1,663,498	1,692,223
NET CURRENT ASSETS		1,642,171	1,665,201
TOTAL ASSETS LESS CURRENT LIABILITIES		4,143,090	4,051,889

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 JUNE 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		4,143,090	4,051,889
NON-CURRENT LIABILITIES			
Government grants		275,386	290,318
Other long-term payables		4,820	408
Company bond		495,392	494,704
Deferred tax liabilities		8,807	9,381
Total non-current liabilities		784,405	794,811
Net assets		3,358,685	3,257,078
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	1,438,286	1,438,286
Reserves		1,803,798	1,766,102
Proposed final dividend		-	16,684
		3,242,084	3,221,072
Non-controlling interests		116,601	36,006
Total equity		3,358,685	3,257,078

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

For the six months ended 30 June 2014

	Notes	Attributable to owners of the Company										
		Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Special reserves RMB'000	Surplus reserves RMB'000	Exchange fluctuation reserve 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 2014		1,438,286	702,945	17,329	5,491	253,155	-	787,182	16,684	3,221,072	36,006	3,257,078
Profit for the period		-	-	-	-	-	-	37,605	-	37,605	260	37,865
Exchange differences on translation of foreign operations		-	-	-	-	-	91	-	-	91	-	91
Total comprehensive income for the period		-	-	-	-	-	91	37,605	-	37,696	260	37,956
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	(200)	(200)
Final 2013 dividends declared		-	-	-	-	-	-	-	(16,684)	(16,684)	-	(16,684)
Acquisition of Cyeco Environmental[2]	14	-	-	-	-	-	-	-	-	-	80,535	80,535
Disposal of Shanghai Insulating[2]	15	-	-	-	(5,491)	-	-	5,491	-	-	-	-
Transfer from retained profits		-	-	-	403	-	-	(403)	-	-	-	-
At 30 June 2014 (Unaudited)		1,438,286	702,945[1]	17,329[1]	403[1]	253,155[1]	91[1]	829,875[1]	-	3,242,084	116,601	3,358,685

For the six months ended 30 June 2013

	Attributable to owners of the Company									
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Special reserves 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 2013	1,438,286	702,945	107,526	5,042	229,363	761,120	31,642	3,275,924	35,727	3,311,651
Total comprehensive income for the period	-	-	-	-	-	47,572	-	47,572	1,059	48,631
Final 2012 dividends declared	-	-	-	-	-	-	(31,642)	(31,642)	(1,668)	(33,310)
Acquisition of Dalong Machinery[2]	-	-	(89,622)	-	-	-	-	(89,622)	-	(89,622)
Transfer from retained profits	-	-	-	1,100	-	(1,100)	-	-	-	-
Others	-	-	(351)	-	-	-	-	(351)	-	(351)
At 30 June 2013 (Unaudited)	1,438,286	702,945	17,553	6,142	229,363	807,592	-	3,201,881	35,118	3,236,999

1 These reserve accounts comprise the consolidated reserves of RMB1,803,798,000 (31 December 2013: RMB1,766,102,000) in the unaudited interim condensed consolidated statement of financial position.

2 Cyeco Environmental, Shanghai Insulating and Dalong Machinery refer to Shanghai Cyeco Environmental Technology Company Limited, Shanghai Electric Insulating Materials Company Limited, and Shanghai Dalong Machinery Works Company Limited, respectively.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	32,894	(107,782)
NET CASH INFLOW / (OUTFLOW) FROM INVESTING ACTIVITIES	34,236	(111,287)
NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES	(60,979)	14,288
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	6,151	(204,781)
Cash and cash equivalents at beginning of period	703,606	1,081,439
Effect of foreign exchange rate changes, net	759	(1,600)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	710,516	875,058
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	507,038	397,547
Non-restricted deposits with original maturity of less than three months when acquired	203,478	477,511
Cash and cash equivalents as stated in the statement of cash flows	710,516	875,058

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and in compliance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").The interim financial statements do not include all the information and disclosures required in annual financial statements, and should be read in conjunction with the 2013 Annual Report of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (the "Group").

The interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the Group's 2013 Annual Report, except for the changes in accounting policies as set out in the note below.

The interim condensed consolidated financial statements comprise the interim financial statements of the Company and its subsidiaries as at and for the period ended 30 June 2014. The interim financial statements of the subsidiaries and a jointly-controlled entity are prepared for the same reporting period as the Group, using consistent accounting policies.

<u>Changes in accounting policies and disclosures</u>

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which are generally effective for accounting periods beginning on or after 1 January 2014. The Group has adopted the following new and revised HKFRSs issued up to 30 June 2014 which are pertinent to its operations and relevant to these interim financial statements.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK (IFRIC)-Int 21	*Levies*

The principal effects of adopting these new and revised HKFRSs are as follows:

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The amendments do not have any material impact on the Group.

HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set-off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments do not have any material impact on the Group.

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

Changes in accounting policies and disclosures (continued)

The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments do not have any material impact on the Group.

HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation does not have any material impact on the Group.

Impact of issued but not yet effective HKFRSs

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 9	*Financial Instrument*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39[3]
HKFRS 11 Amendments	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[2]
HKAS 16 and HKAS 38 Amendments	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits - Defined Benefit Plans: Employee Contributions*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]

1 Effective for annual periods beginning on or after 1 July 2014

2 Effective for annual periods beginning on or after 1 January 2016

3 No mandatory effective date yet determined but is available for adoption

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

Impact of issued but not yet effective HKFRSs (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

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.

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 as 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.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

The HKFRS 11 Amendments requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in HKFRS 3 *Business Combinations*, to apply all of the principles on business combinations accounting in HKFRS 3 and other HKFRSs. In addition, the acquirer shall also disclose the information required by HKFRS 3 and other HKFRSs for business combinations. The amendments do not have any material impact on the Group.

HKFRS 14 was issued in February 2014 and it allows rate-regulated entities to continue recognizing regulatory deferral accounts in connection with their first-time adoption of HKFRS. Existing HKFRS preparers are prohibited from adopting this standard. Entities that adopt HKFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the income statement and OCI. The standard also requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. The standard does not have any material impact on the Group.

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

Impact of issued but not yet effective HKFRSs (continued)

The HKAS 16 and HKAS 38 Amendments both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments do not have any material impact on the Group.

The HKAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of the service cost in the period in which the related service is rendered. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2015.

The Annual Improvements to HKFRSs 2010-2012 and 2011-2013 Cycles issued in January 2014 set out amendments to a number of HKFRSs and shall be applied for a financial period beginning on or after 1 July 2014, except where otherwise indicated. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant 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 six 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;
(v) the general machinery segment is engaged in the production and sale of general machinery; and
(vi) "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 2014 (Unaudited)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	General machinery RMB'000	Others RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	413,306	428,117	315,078	449,790	73,513	-	1,679,804
Segment results	21,758	23,366	44,105	5,744	(14,030)	-	80,943
Reconciliation:							
Interest and dividend income and unallocated gains							9,620
Corporate and other unallocated expenses							(15,948)
Finance costs							(22,044)
Share of profits and losses of associates	3,893	-	(556)	-	-	(9,602)	(6,265)
Profit before tax							46,306
Segment assets	1,244,126	2,479,205	646,994	720,090	654,448	616,934	6,361,797
Reconciliation:							
Elimination of intersegment receivables							(1,063,046)
Investments in associates	97,683	-	18,243	-	-	73,627	189,553
Corporate and other unallocated assets							318,284
Total assets							5,806,588
Segment liabilities	336,431	1,275,966	163,826	361,072	341,600	926,023	3,404,918
Reconciliation:							
Elimination of intersegment payables							(1,063,046)
Corporate and other unallocated liabilities							106,031
Total liabilities							2,447,903

2. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2013 (Unaudited)	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	General machinery RMB'000	Others RMB'000	Total RMB'000
Segment revenue:							
Sales to external customers	356,628	398,777	297,780	436,873	200,702	-	1,690,760
Segment results	15,479	23,764	39,398	5,285	5,469	-	89,395
Reconciliation:							
Interest and dividend income and unallocated gains							5,794
Corporate and other unallocated expenses							(17,490)
Finance costs							(29,631)
Share of profits and losses of associates	(1,508)	-	(969)	-	-	5,271	2,794
Profit before tax							50,862

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 2014 (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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Revenue		
Sales of goods	1,659,853	1,670,319
Rendering of services	19,951	20,441
	1,679,804	1,690,760
Other income		
Interest income from loans receivable, bank balances and deposits	9,338	9,975
Gross rental income	1,850	325
Profit on sales of raw materials, spare parts and semi-finished goods	10,389	11,181
Government grant*	12,330	28,028
Technology service income	6,004	222
Others	967	4,850
	40,878	54,581
Gains		
Gain on disposal of items of property, plant and equipment	1,836	904
Gain on write-off of long-aged payables	396	780
Foreign exchange differences, net	811	-
Gain on disposal of a subsidiary	108	-
	3,151	1,684
Total	44,029	56,265

* Various government grants have been received during the six months ended 30 June 2014 and 2013. 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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Cost of inventories sold	1,310,158	1,296,205
Cost of services provided	16,696	16,065
Depreciation	86,070	85,529
Amortisation of prepaid land premiums/land lease payments	1,737	1,822
Amortisation of other intangible assets	7,768	4,233
Write-down of inventories to net realisable value	11,130	23,912
Impairment of receivables	(3,958)	24,891
Impairment of property, plant and equipment	-	693
Research and development costs:		
Current period expenditure	42,024	53,886
Minimum lease payments under operating leases:		
Land and buildings	23,190	19,982
Employee benefits expenses	246,229	227,839
Loss on disposal of items of property, plant and equipment	1,079	552
Foreign exchange differences, net	-	4,340

5. TAX

The Group is subject to the statutory corporate income tax rate of 25% for the Period (six months ended 30 June 2013: 25%) under the income tax rules and regulations of the People's Republic of China (the "PRC").

Three subsidiaries of the Company, namely Shanghai United Bearing Company Limited ("United Bearing"), Shanghai Zhenhua Bearing Factory Company Limited ("Zhenghua Bearing") and Shanghai Tool Works Company Limited ("Tool Works") were granted the High and New Technology Enterprises ("HNTEs") qualification by the relevant government authority on 20 October 2011 and accordingly are subject to a preferential corporate income tax rate of 15% for the three years ending 31 December 2013. These subsidiaries had submitted their application to renew their HNTEs qualification for another 3 years ending 31 December 2016. The Group is of the opinion that these subsidiaries will be successful in the application and accordingly, the applicable corporate income tax rate is 15% for 3 years ending 31 December 2016.

5. TAX (continued)

Wuxi Turbine Blade Company Limited ("Wuxi Turbine Blade"), Dalong Machinery and Shanghai Tian An Bearing Company Limited ("Tian An Bearing") were granted the HNTEs qualification by the relevant government authority on 6 August 2012, 23 September 2012 and 18 November 2012 respectively and accordingly are subject to a preferential corporate income tax rate of 15% for 3 years ending 31 December 2014.

Shanghai High Strength Bolt Company Limited ("Bolt") was granted the HNTEs qualification by the relevant government authority on 19 November 2013 and accordingly is subject to a preferential corporate income tax rate of 15% for 3 years ending 31 December 2015.

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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Group:		
Current – the PRC/Mainland China		
Charge for the Period	21,746	17,090
Over provision in prior years	(2,154)	(5,451)
Deferred	(11,151)	(9,408)
Total tax charge for the Period	8,441	2,231

The share of tax attributable to associates amounting to RMB2,686,000 (six months ended 30 June 2013: RMB3,271,000) is included in "Share of profits and losses of associates" in the unaudited interim condensed consolidated statement of comprehensive income.

6. DIVIDENDS

The board of directors of the Company (the "Board") does not recommend the payment of interim dividend (six months ended 30 June 2013: Nil).

During the year ended 31 December 2013, the Company had proposed final dividends of RMB1.16 cents per ordinary share, which had been approved by the Company's shareholders in the annual general meeting held on 27 June 2014.

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 2014 and 2013 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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company	37,605	47,572

	Number of shares For the six months ended 30 June	
	2014 (Unaudited) in'000	2013 (Unaudited) 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 2014, the Group had not obtained real estate title certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB388,655,000 (31 December 2013: RMB393,342,000).

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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 3 months	792,540	709,062
Over 3 months but within 6 months	186,392	211,383
Over 6 months but within 1 year	143,999	135,451
Over 1 year but within 2 years	56,345	65,874
Over 2 years	5,525	1,716
	1,184,801	1,123,486

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 three to six 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 2014 (Unaudited)		31 December 2013 (Audited)	
	Original currency in'000	RMB equivalent in'000	Original currency in'000	RMB equivalent in'000
Cash and bank balances:				
USD	17,016	104,695	2,614	15,928
EUR	326	2,737	88	737
JPY	114,992	6,993	13,876	802
HKD	4,681	3,716	-	-
CAD	27	159	-	-

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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 3 months	672,860	718,709
Over 3 months but within 6 months	86,332	53,059
Over 6 months but within 1 year	66,429	51,715
Over 1 year but within 2 years	21,425	39,858
Over 2 years	13,391	12,267
	860,437	875,608

12. ISSUED CAPITAL

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed				
– State-owned shares	678,576	678,576	678,576	678,576
H shares of RMB1.00 each	759,710	759,710	759,710	759,710
	1,438,286	1,438,286	1,438,286	1,438,286

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

13. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is Shanghai Electric (Group) Corporation ("Shanghai Electric Corporation") , a state-owned enterprise established in the PRC.

14. BUSINESS COMBINATION

Acquisitions of a subsidiary

On 31 March 2014, the Company subscribed for the additional registered capital of Cyeco Environmental of RMB1,071,000 at consideration of RMB45,000,000 to hold 17.64% of its equity interest. On 7 May 2014, the Company acquired a total of 47.36% equity interest in Cyeco Environmental held by Ji Ming and Zeng Xiaoyan at consideration of RMB120,800,000. Upon the acquisition, the Company held 65% equity interest in Cyeco Environmental. Cyeco Environmental is mainly engaged in technology development, transfer and consultation of environmental protection engineering and anti-corrosion and anti-pollution of ships, design and research of electrolytic anti-marine biology device, ship cathodic protection device and ballast water treatment device, sales of ship equipment, parts, instruments and meters and water-based paint, and installation, maintenance and services of ship, electrical and mechanical, chemical engineering and environment protection equipment and projects. The condideration for the acquisition was settled in cash, with RMB45,000,000 paid on 31 March 2014 and the remaining RMB120,800,000 paid on 7 May 2014.

The Company has elected to measure the non-controlling interest in Cyeco Environmental at the non-controlling interests' proportionate share of Cyeco Environmental's identifiable net assets.

The fair values of the identifiable net assets and liabilities of Cyeco Environmental as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	1,548
Other intangible assets	180,118
Inventories	2,896
Bills receivable	132
Trade receivables	8,406
Prepayments, deposits and other receivables	372
Cash and cash equivalents	46,647
Trade payables	(602)
Other payables and accruals	(9,353)
Tax payable	(65)
Total identifiable net assets at fair value	230,099
Non-controlling interests	(80,535)
Goodwill on acquisition	16,236
	165,800
Satisfied by cash	165,800

The Company incurred transaction costs of RMB592,000 for this acquisition. These transaction costs have been expensed and are included in the consolidated statement of comprehensive income for the Period.

14. BUSINESS COMBINATIONS (continued)

Acquisition of a subsidiary (continued)

An analysis of the cash flows in respect of the acquisitions of a subsidiary is as follows:

	RMB'000
Cash consideration	(165,800)
Cash and bank balances acquired	46,647
Transaction costs of the acquisition	(592)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	(119,745)

Since the acquisition, Cyeco Environmental contributed RMB1,673,000 to the Group's turnover and a loss of RMB3,008,000 to the consolidated profit for the Period.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the Period would have been RMB1,686,264,000 and RMB41,279,000, respectively.

15. DISPOSAL OF A SUBSIDIARY

On 18 February 2014, the Company disposed its 100% equity interest in Shanghai Insulating and transferred its control thereof to Shanghai Xinzhi Investment Company Limited. As a result, the Group deconsolidated Shanghai Insulating since the date of losing control.

The carrying amounts of the assets and liabilities of Shanghai Insulating as at the date of the disposal were as follows:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	13,660
Prepaid land lease payments (Including current portion)	7,349
Inventories	7,092
Bills receivable	8,457
Trade receivables	21,289
Prepayments, deposits and other receivables	503
Cash and cash equivalents	5,629
Trade payables	(9,932)
Other payables and accruals	(15,730)
Tax payable	(284)
Deferred tax liabilities	(227)
	37,806
Gain on disposal of a subsidiary	108
	37,914
Satisfied by Cash	37,914

15. DISPOSAL OF A SUBSIDIARY (continued)

The Company incurred transaction costs of RMB165,000 for this disposal. These transaction costs have been expensed and are included in the consolidated statement of comprehensive income for the Period.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration	37,914
Cash and cash equivalents disposed of	(5,629)
Transaction costs of the disposal	(165)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	32,120

16. OPERATING LEASE COMMITMENTS

(i) As lessor

The Group leases its machinery under an operating lease arrangement, with a lease negotiated for a term of 5 years.

As at 30 June 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within one year	4,729	4,729
In the second to fifth years, inclusive	11,823	14,187
	16,552	18,916

16. OPERATING LEASE COMMITMENTS (continued)

(ii) As lessee

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

As at 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within one year	23,741	29,636
In the second to fifth years, inclusive	14,523	20,923
	38,264	50,559

17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following commitments as at 30 June 2014:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Contracted, but not provided for:		
- Acquisition of a subsidiary	1,623,100	165,800
- Land and buildings	4,460	-
- Plant and machinery	53,536	40,537
- Intangible assets	-	4,981
	1,681,096	211,318

18. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Shanghai Electric Corporation, which is a state-owned enterprise subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly or indirectly controls a significant number of entities through government authorities and other state-owned entities.

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

	Notes	For the six months ended 30 June 2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Purchase of materials from:	(i)		
Associates		430	44
SEC group companies *		5,456	4,854
		5,886	4,898
Sales of goods to:	(i)		
Associates		464	757
SEC group companies *		198,091	146,755
		198,555	147,512
Receiving of manpower services from:	(i)		
Associates		-	46
SEC group companies *		703	732
		703	778
Rendering of research and development services to:	(i)		
SEC group companies *		6,410	-
Rental fee payable to:	(ii)		
Ultimate holding company		7,556	1,200
SEC group companies *		9,158	8,225
		16,714	9,425
Purchase of items of property, plant and equipment from:	(i)		
SEC group companies *		-	816
Discount of bills receivable from:	(iii)		
SEC group companies*		25,000	60,000

18. RELATED PARTY TRANSACTIONS (continued)

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

Notes:

(i) The sales and purchases of goods and services 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:

During the Period, the ultimate holding company leased certain properties to Tool Works for no consideration with total area of 18,288 square meters.

(c) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases of materials, property, plant and equipment, receiving of services, sale of goods, rendering of services and making deposits and borrowings with state-owned entities, othet than the SEC group companies, in the normal course of business at terms comparable to those with other non-state-owned entities.

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

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Fees	188	233
Short term employee benefits	553	403
Post-employment benefits	74	36
	815	672

19. EVENT AFTER THE REPORTING PERIOD

On 27 May 2014, the Board passed a resolution relating to an acquisition of the 100% equity of Nedfast Investment B.V. ("Nedschroef"). On 27 May 2014, the Company signed a contract with the existing shareholder of Nedschroef relating to the acquisition of the 100% equity of Nedschroef. The aggregate consideration for the acquisition, which is equivalent to the sum of the purchasing price for the shares to be sold and the purchasing price for the shareholder loans, will be paid to the seller in cash by the Company upon the completion of the acquisition. The extraordinary general meeting (the "EGM") of the Company was held on 4 August 2014 and the resolution proposed at the EGM was duly passed by the shareholders of the Company by way of poll. The acquidition has not been completed. Details of the acquisition are included in the circular of the Company dated 25 June 2014.

On 15 August 2014, the Board passed a resolution in relation to the shareholder loan provided for the acquisition of Nedschroef by Shanghai Electric Corporation or SEC group companies to Shanghai Prime (HK) Investment Management Company Limited with an aggregate amount of USD300,000,000. The loans are unsecured, bearing interest at rate 3.3% per annum and for periods no longer than five years.

On 15 August 2014, the Board passed a resolution in relation to the potential disposal of 80% of the entire equity interest of Dalong Machinery (the "Potential Disposal"). Neither any legally-binding agreement nor equity transfer agreement has been entered into between the Company and any party in relation to the Potential Disposal by the date of approval of these financial statements. The Company will make further announcements in respect of the Potential Disposal in accordance with applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as and when appropriate.

20. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 15 August 2014.