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)**

2016
INTERIM REPORT

This report is printed on environmentally friendly paper

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CORPORATE INFORMATION

Statutory Chinese Name

上海集優機械股份有限公司

Statutory English Name

Shanghai Prime Machinery Company Limited

Registered Address

Room 1501, Jidian Edifice,
600 Heng Feng Road,
Shanghai, the People's Republic of China
Postal code: 200070

Principal Place of Business in Hong Kong

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Tower One, Lippo Centre,
89 Queensway, Hong Kong

Legal Representative

Zhou Zhiyan

Authorised Representatives

Zhou Zhiyan
Zhang Jianping

Alternative Authorised Representatives

Chan Oi Fat
Ng Kwong, Alexander

Company Secretary

Ng Kwong, Alexander (CPA)

International Auditors

Deloitte Touche Tohmatsu

Legal Advisers

As to Hong Kong and 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 the "Group") for the six months ended 30 June 2016 (the "Period") which has been reviewed by Deloitte Touche Tohmatsu.

Business Review

In the first half of 2016, global economic growth continued to be weak and downside risk remained high. China's economy faced various challenges and measures needed to be taken to reduce manufacturing capacity, real estate inventory and financial leverage. Domestic growth momentum has been weak and potential growth is subject to the progress of transformation and restructuring of the economy. Against this complicated and ever-changing macroeconomic backdrop, the Group remained committed to our strategy of "synergy enhancement and transformational upgrade", and strove to internationalize corporate management and to develop high-end technologies. As a result, the Group successfully achieved moderate growth while maintaining a stable operating environment despite challenges in a competitive market with excess capacity and soft demand.

During the Period, the Group recorded a revenue of RMB3,846 million (during the six months ended 30 June 2015 ("1H 2015"): RMB3,610 million), representing an increase of 7% as compared with the corresponding period of last year. Profit attributable to owners of the Company was RMB113 million (1H 2015: RMB101 million), representing an increase of 12% as compared with the corresponding period of last year. Total assets of the Group amounted to RMB8,968 million (31 December 2015: RMB8,824 million), representing an increase of 2% as compared with the beginning of this year.

Strengthening synergy effects and developing domestic and overseas markets

Since the completion of the acquisition of Nedfast Investment B.V. (together with its subsidiaries, collectively referred to as "Nedschroef") in August 2014, the Company is committed to achieving international management integration and creating business synergy, as well as building up an international marketing network. During the Period, Nedschroef's business in European automobile market continued to grow steadily. Meanwhile, the Company made a concerted effort with Nedschroef to further implement its mid-to-long term market development plan in China. The significant increase in domestic orders had marked Nedschroef's remarkable business results in China. Upon successfully obtaining AS9100 (航空質量體系) certification, the Company proactively assisted Nedschroef with the registration as a qualified supplier in terms of COMAC in China. In response to technological changes in the automobile sector, the Company also assisted Nedschroef with the research and development of fasteners of new energy automobiles. As for creating synergy in the European market, Nedschroef is proactively seeking to spur the performance of the Group's other business segments.

CHAIRMAN'S STATEMENT

Optimizing product structures and increasing high-end market share

The equipment manufacturing industry in China is inclined to high-end development. Each of the Group's business segments, therefore, also speeds up its research and development and industrialization of new high-end products with promising market prospects. During the Period, there was a significant increase in overseas sales income of energy of turbine blade business, especially a substantial increase in the orders of high-end gas turbine blades. Furthermore, the sales income of nuclear power micro bearings, coupled with the bolt orders relating to the ultra-high voltage demonstration construction projects of State Grid Corporation of China secured by the Group, had marked its breakthrough in the development of ancillary products for strategic and emerging industries such as nuclear power and ultra-high voltage products, which will have great potentials in the future. The Group recorded a promising increase in the sales income of aerospace bearings, and new automobile bearings products supplement to clients' new automotive models were also recognized by the clients in terms of the quality. Our fastener testing business has passed a biennial review and the growth of sales income remained stable. In order to develop and expand our business in future, the Group will increase its high-end market share through further optimizing the product structures.

Improving management and lowering costs by efficiency enhancement

Due to the fact that it is difficult to rectify macroeconomic overcapacity in China in the short term, "de-capacity" will be a lengthy process. The major clients of the Group may reduce their procurement costs as far as possible, which puts certain pressure on the Group. The Group not only enhanced its bargaining power through strengthening the competitiveness of our products, but also strove for excellence and increased its operation and management efficiency. We have been emphasizing scientific development, focusing on improving management standard, increasing production efficiency and consolidating fundamental management. We, in addition, laid stress on expenditure control and potential exploration, and made every effort to control cost, enhance efficiency and increase cost-efficiency. Strengthened management, broadened sources of income and lowered cost were achieved through sophisticated management of its core business. Therefore, the Group recorded good performance in net operating cash flows, witnessing an evident result.

Future Prospects

In the second half of 2016, the Group will continue to adhere to its strategy of expanding the scale of high-end products, effecting long-term quality management as well as international operation and management. The Group will also do our utmost to enhance product competitiveness and market bargaining power; and adjust its product structures to follow the market trend. The Group is all ready to strive for changes, focus on innovation and keep sharpening its competitive edge comprehensively.

Expanding the scale of high-end products

To expand the scale of high-end products for each business segment in terms of production and sales, the Group will seize every potential opportunity in the market, improve its workflow, enhance production efficiency, strengthen technical services, and exert our best efforts to meet the demand of the orders.

Effecting long-term quality management

The Group will improve its product quality through specific measures, such as continuously stepping up and strictly enforcing the manufacturing practice, further enhancing equipment automation and raising its staff's awareness of quality from time to time, so as to lay down a solid foundation for market development.

CHAIRMAN'S STATEMENT

International operation and management

As for international operation, based on its sound development foundation, the Group will keep strengthening different forms of collaboration with Nedschroef in a comprehensive way and in various fields. Furthermore, the Group will further consolidate its fundamental management of international operation, and gradually establishing and improving its international risk management system. We believe that combining business operation and cross-cultural construction will be beneficial to our international operation.

2016 is the commencing year of the strategic "13th Five-Year Plan". Based on our good operating performance achieved in the first half of the year, we, against all odds, will facilitate transformation, maintain stable growth through innovation and emphasize product quality in the second half of the year. Meanwhile, we will take the initiative to develop our market, keep strengthening our core competitiveness and achieve sustainable development.

Hereby I would like to extend my sincere gratitude to all shareholders for their consistent trust and long-term support, and to the Board, supervisory committee, senior management and employees of the Company for their hard work. We firmly believe that we will enter a new stage of development through speeding up transformation and persisting in innovation.

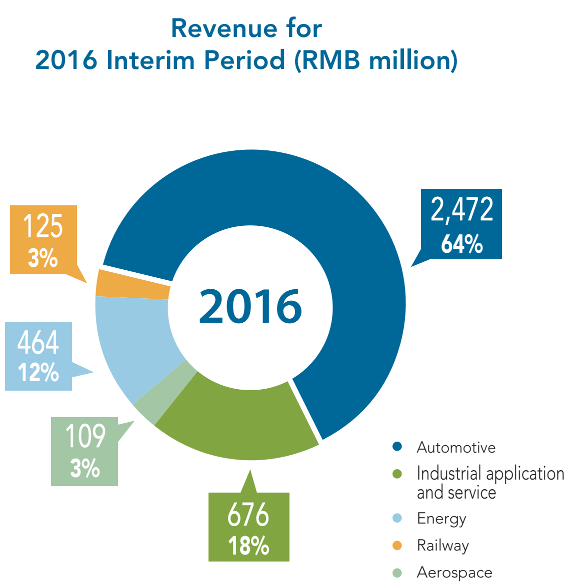
Zhou Zhiyan
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC
19 August 2016

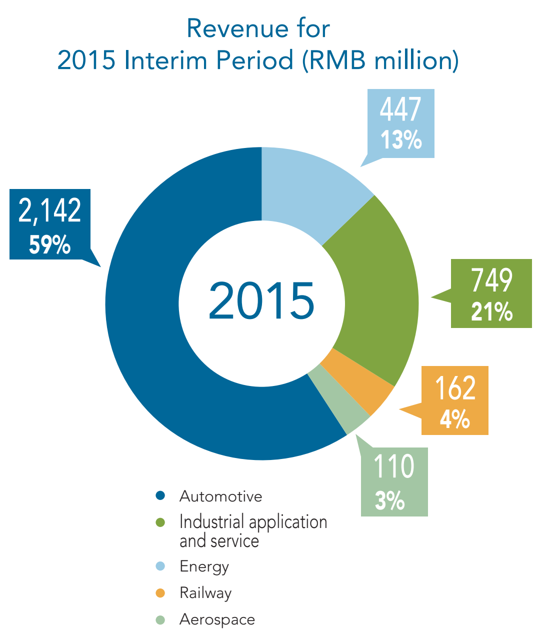
MANAGEMENT DISCUSSION AND ANALYSIS

Results of Principal Businesses

Set out below are the revenue, gross profit and gross profit margin in terms of business segments:

	Revenue For the six months ended 30 June		Gross Profit For the six months ended 30 June		Gross Profit Margin For the six months ended 30 June	
(RMB in million)	**2016**	2015	**2016**	2015	**2016**	2015
Automotive	**2,472**	2,142	**475**	432	**19%**	20%
Percentage of total	**64%**	59%	**59%**	57%		
Industrial application and service	**676**	749	**152**	159	**22%**	21%
Percentage of total	**18%**	21%	**19%**	20%		
Energy	**464**	447	**93**	81	**20%**	18%
Percentage of total	**12%**	13%	**12%**	11%		
Railway	**125**	162	**34**	53	**27%**	33%
Percentage of total	**3%**	4%	**4%**	7%		
Aerospace	**109**	110	**47**	36	**43%**	33%
Percentage of total	**3%**	3%	**6%**	5%		
Total	**3,846**	3,610	**801**	761	**21%**	21%





MANAGEMENT DISCUSSION AND ANALYSIS

Operating Performance by Business Segments

Automotive Business

The Group primarily provides automotive fasteners for the automotive industry. Nedschroef, a supplier of many well-known automobile enterprises and acquired by the Company in 2014, is the main revenue contributor to the automotive business of the Company. During the Period, the revenue of automotive business amounted to RMB2,472 million (1H 2015: RMB2,142 million), representing an increase of 15% over the corresponding period of last year, which accounted for 64% (1H 2015: 59%) of the total sales of the Company, representing an increase of five percentage points over the corresponding period of last year. The Group's long-term partners for the automotive business include famous automotive manufacturers, such as Mercedes-Benz, BMW, Audi and Volkswagen. The average gross profit margin of automotive business for the Period was 19% (1H 2015: 20%).

Industrial Application and Service Business

The Group's industrial application and service business provides products such as fasteners, cutting tools and bearings, and also provides customers with premium one stop services, such as testing services, logistics and warehousing, ERP (enterprise resource planning) and electronic business. During the Period, the revenue of industrial application and service amounted to RMB676 million (1H 2015: RMB749 million), which accounted for 18% (1H 2015: 21%) of the total sales of the Company. The average gross profit margin of industrial application and service business for 1H 2016 was 22% (1H 2015: 21%).

Energy Business

The Group's energy business includes the new energy business and traditional power station business. The Group mainly provides turbine blades, bearings and fasteners for the energy industry. During the Period, the revenue of energy business amounted to RMB464 million (1H 2015: RMB447 million), which accounted for 12% (1H 2015: 13%) of the total sales of the Company. The average gross profit margin of energy business for the Period was 20% (1H 2015: 18%).

Railway Business

The Group's railway business segment mainly provides bearings, fasteners and repair and maintenance services for railways. During the Period, the revenue of railway business amounted to RMB125 million (1H 2015: RMB162 million), which accounted for 3% (1H 2015: 4%) of the total sales of the Company. The average gross profit margin of railway business for the Period was 27% (1H 2015: 33%).

Aerospace Business

The Group mainly provides forging products, bearings and fasteners for aerospace industry. During the Period, the revenue of aerospace business amounted to RMB109 million (1H 2015: RMB110 million), which accounted for 3% (1H 2015: 3%) of the total sales of the Company. The average gross profit margin of aerospace business for the Period was 43% (1H 2015: 33%).

Gross Profit and Gross Profit Margin

During the Period, the gross profit and the gross profit margin of the Group were RMB801 million (1H 2015: RMB761 million) and 21% (1H 2015: 21%) respectively.

Share of Profits and Losses of Associates

During the Period, share of profits of associates of the Group was RMB16 million (1H 2015: share of profits of associates of RMB10 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

During the Period, finance costs amounted to RMB62 million (1H 2015: RMB80 million).

Profit Attributable to Owners of the Company

During the Period, profit attributable to owners of the Company was RMB113 million (1H 2015: RMB101 million). Basic earnings per share was RMB7.98 cents (1H 2015: RMB7.12 cents).

Cash Flow

As at 30 June 2016, the balance of cash and bank deposits of the Group was RMB1,034 million (31 December 2015: RMB1,007 million), of which RMB95 million was restricted deposits (31 December 2015: RMB98 million). During the Period, the Group had a net cash inflow from operating activities of RMB192 million (1H 2015: net cash inflow of RMB48 million), a net cash outflow from investing activities of RMB90 million (1H 2015: net cash inflow of RMB148 million), and a net cash outflow from financing activities of RMB90 million (1H 2015: net cash outflow of RMB147 million).

Assets and Liabilities

As at 30 June 2016, the Group had total assets of RMB8,968 million (31 December 2015: RMB8,824 million), representing an increase of RMB144 million as compared with the beginning of the year. Total current assets were RMB4,701 million (31 December 2015: RMB4,556 million), accounting for 52% of the total assets and representing an increase of RMB145 million as compared with the beginning of the year. Total non-current assets were RMB4,267 million (31 December 2015: RMB4,268 million), accounting for 48% of the total assets and representing a decrease of RMB1 million as compared with the beginning of the year.

As at 30 June 2016, the Group had total liabilities of RMB5,714 million (31 December 2015: RMB5,626 million), representing an increase of RMB88 million as compared with the beginning of the year. Total current liabilities were RMB2,428 million (31 December 2015: RMB2,387 million), accounting for 42% of the total liabilities and representing an increase of RMB41 million as compared with the beginning of the year. Total non-current liabilities were RMB3,286 million (31 December 2015: RMB3,239 million), accounting for 58% of the total liabilities and representing an increase of RMB47 million as compared with the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2016, the net current assets of the Group were RMB2,273 million (31 December 2015: RMB2,169 million), representing an increase of RMB104 million as compared with the beginning of the year.

Sources of Funding and Indebtedness

As at 30 June 2016, the Group had company bonds, interest-bearing bank and other borrowings with an aggregate amount of RMB3,066 million (31 December 2015: RMB3,027 million), representing an increase of RMB39 million as compared with the beginning of the year. The Group had borrowings repayable within one year of RMB200 million (31 December 2015: RMB191 million) and the Group had borrowings repayable after one year of RMB2,866 million (31 December 2015: RMB2,836 million).

Gearing Ratio

As at 30 June 2016, 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 96% (31 December 2015: 96%).

Restricted Deposits

As at 30 June 2016, among the bank deposits of the Group, RMB95 million (31 December 2015: RMB98 million) was restricted deposits.

Pledges of Assets

As at 30 June 2016, except for restricted deposit, trade receivables of RMB33 million (31 December 2015: RMB51 million) and bills receivable of RMB125 million (31 December 2015: RMB147 million) of the Group and the equity interests held by the Company in certain of its subsidiaries were pledged assets.

Contingent Liabilities

As at 30 June 2016, the Group has no contingent liabilities (31 December 2015: nil).

Capital Expenditure

The total capital expenditure of the Group during the Period was approximately RMB81 million (1H 2015: RMB117 million).

Risk of Foreign Exchange Fluctuation

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EUR. The Group uses foreign currency forward contracts to hedge against the significant foreseeable risks. The management has closely monitored foreign exchange exposures and has taken necessary measures to mitigate the foreign exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant Events

On 18 March 2016, the Board of the Company resolved to establish the risk management committee, and considered and approved the terms of reference of the risk management committee and the revised terms of reference of the audit committee of the Company.

On 27 May 2016, the appointment of Mr. Mao Yizhong as an executive director, Mr. Dong Yeshun as a non-executive director, Mr. Sun Zechang as an independent non-executive director and Mr. Xu Jianguo as a supervisor (non-employee representative) have respectively been approved at the annual general meeting for a term commencing from 27 May 2016 and ending on the expiry of the terms of the current session of the Board/the supervisory committee. Meanwhile, Mr. Sun Wei has ceased to be an executive director of the Company, Mr. Li Yin has ceased to be an independent non-executive director of the Company and Mr. Dong Jianhua has ceased to be a chairman of the supervisory committee and a supervisor (non-employee representative) of the Company. In the meantime, Mr. Sun Wei has tendered his resignation as a member of the strategy committee of the Board of the Company, and Mr. Li Yin has tendered his resignation as a member of the audit committee, the remuneration committee, the strategy committee and the nomination committee of the Board of the Company. After consideration and discussion by the Board, Mr. Mao Yizhong has been appointed as a member of the strategy committee of the Board, Mr. Dong Yeshun has been appointed as a member of the audit committee, the remuneration committee and the strategy committee of the Board, and Mr. Sun Zechang has been appointed as a member of the strategy committee and the nomination committee of the Board.

On 27 May 2016, the re-appointment of Deloitte Touche Tohmatsu as the auditors of the Company for the year of 2016 has also been approved at the annual general meeting.

On 27 May 2016, Mr. Xu Jianguo has been appointed as the chairman of the supervisory committee of the Company for a term commencing from 27 May 2016 and ending on the expiry of the terms of the current session of the supervisory committee.

On 20 July 2016, Mr. Li Wai Chung has tendered his resignation as a vice president, company secretary, secretary to the Board, alternative authorised representative and agent for the service of process in Hong Kong. Mr. Ng Kwong, Alexander, an investment director of the Company, has been appointed as the company secretary, alternative authorised representative and agent for the service of process in Hong Kong with effect from 20 July 2016 by way of a written resolution of the Board of the Company. On 19 August 2016, a physical Board meeting was held by the Company for ratification in such regard.

On 19 July 2016, Mr. Wang Pin has tendered his resignation as a chief financial officer of the Company. The Company is currently identifying suitable candidate to fill the vacancy of the chief financial officer.

On 19 August 2016, the Board of the Company agreed to put forward the "Resolution on the Adjustments to the Incentive Scheme of Shanghai Prime" at the general meeting after review, and proposed to make adjustments to the incentive scheme of the Company approved at the general meeting on 17 January 2014. Such resolution shall be effective from the date of approval at the general meeting. For details, please refer to the announcement of the Company dated 19 August 2016 in relation to the proposed adjustments to the incentive scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees

As at 30 June 2016, the Group had approximately 4,419 (31 December 2015: 4,424) 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.

Incentive Scheme

Due to the fact that the adjustments to the incentive scheme proposed by the Company are still subject to the approval at the general meeting, as of 30 June 2016, the Company has yet to make incentive distribution to the relevant participants under the operating results of the Group for 2015.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Name	Age	Position
Zhou Zhiyan	53	Executive director, chairman and president
Zhang Jianping	59	Executive director
Zhu Xi	52	Executive director
Sun Wei (resigned on 27 May 2016)	46	Executive director
Mao Yizhong (appointed on 27 May 2016)	54	Executive director
Chen Hui	48	Executive director and vice president
Dong Yeshun (appointed on 27 May 2016)	55	Non-executive director
Chan Oi Fat	37	Independent non-executive director
Ling Hong	55	Independent non-executive director
Li Yin (resigned on 27 May 2016)	52	Independent non-executive director
Sun Zechang (appointed on 27 May 2016)	63	Independent non-executive director
Dong Jianhua (resigned on 27 May 2016)	51	Chairman of the supervisory committee
Xu Jianguo (appointed on 27 May 2016)	51	Chairman of the supervisory committee
Yu Yun	47	Supervisor
Wei Li	44	Supervisor
Wang Pin (resigned on 19 July 2016)	42	Chief financial officer
Li Wai Chung (resigned on 20 July 2016)	38	Vice president, secretary to the Board and company secretary
Ng Kwong, Alexander (appointed on 20 July 2016)	38	Company secretary and investment director

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is a chairman and president of the Company. Mr. Zhou joined the Company in 2005. From 2005 to 2007, he served as the chairman and executive director of the Company. He has served as the vice chairman, executive director and president of the Company since 2013. Mr. Zhou joined SEG in August 1983. He served as the chief financial officer for the business department of SEG, the deputy chief accountant of SEG, the president of Shanghai Electric Industrial Corporation, the head of investment management department, investment director and chief financial officer of Shanghai Electric Assets Management Company Limited, the executive deputy head of overseas business department and head of financial budget department of SEG. Mr. Zhou 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 1992. He is a senior accountant.

Mr. Zhang Jianping

Mr. Zhang Jianping is an executive director, secretary of the Party Committee, chairman of labour union and secretary of the disciplinary committee of the Party of the Company. Mr. Zhang joined the Company in 2006. Since 2006, he has served as the vice chairman of the labour union, secretary of the Party Committee, chairman of labour union and secretary of the disciplinary committee of the Party of the Company. Mr. Zhou acted as the supervisor of the Company from 2008 to December 2012 and has been appointed as the executive director of the Company since December 2012. From 1984 to 2012, he served as the chairman of the equipment & power section labour union, deputy head of branch one, vice chairman of the labour union and chairman of the labour union of Shanghai Tool Works Company Limited. Mr. Zhang graduated from East China University of Political Science and Law majoring in economic law. He is a political affair officer.

Ms. Zhu Xi

Ms. Zhu Xi is an executive director of the Company as well as the head of the audit department of Shanghai Electric Group Company Limited. She has been appointed as an executive director of the Company since 2008. From 1986 to 1995, she served at the financial section of Shanghai Mechanical and Electrical Industry Administration Bureau. Ms. Zhu joined SEG in 2000. She served as the deputy head of the funding and planning department, head of the budget section, deputy head of financial budget department, head of the audit department, head of office of the supervisory committee, employee representative supervisor and other positions of SEG, the deputy head and head of the asset and finance department of Shanghai Electric Assets Management Company Limited, the executive deputy head, head of the asset and finance department and head of the audit department of Shanghai Electric Group Company Limited, a supervisor of Shanghai Electric Transmission & Distribution Group Co., Ltd. and a director of Shanghai Electric New Century Co., Ltd.. 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 of America in June 2012. She is a senior accountant.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Mao Yizhong

Mr. Mao Yizhong is an executive director of the Company as well as the vice president of Shanghai Electric Power Generation Group (上海電氣電站集團), the president of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司) and the director of Shanghai Highly (Group) Co., Ltd. (上海海立（集團）股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600619, 900910 (B share)). Mr. Mao has over thirty years of experience in the electric industry. Mr. Mao joined SEG in 1984. Mr. Mao served as a designer and the deputy head of the design division of Shanghai Electric Motor Factory (上海電機廠), the head of the commerce department of Shanghai Turbine Generator Co., Ltd. (上海汽輪發電機有限公司), the deputy manager of the power station business department and head of the technical procurement department of Shanghai Electric (Group) Corporation, the deputy general manager and general manager of the procurement department of Shanghai Electric Power Generation Group (上海電氣電站集團), the head of the procurement department of Shanghai Electric Power Generation Engineering Company (上海電氣電站工程公司), the general manager and deputy secretary of CPC Party Committee of the generator factory of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司), and a director of SEC — IHI Power Generation Environment Protection Engineering Co., Ltd. (上海電氣石川島電站環保工程有限公司). He graduated from Nanjing Institute of Technology with a bachelor's degree in engineering majoring in electric technology in 1984. He is a senior engineer of professorial level.

Mr. Chen Hui

Mr. Chen Hui is an executive director and vice president of the Company. Mr. Chen joined the Company since 2005 and has served as the vice president, secretary to the Board and executive director of the Company. He joined SEG in July 1987 and served as a director of Shanghai Zhenhua Bearing Factory (上海振華軸承總廠). Mr. Chen was also the president of Shanghai Electric Bearings Company Limited. Mr. Chen graduated from Shanghai University with a degree in mechanical automation in 1996. He obtained an EMBA degree from Shanghai Jiao Tong University in 2014. He is an engineer, a senior economic engineer and vice chairman of China Bearing Industry Association (中國軸承工業協會).

Mr. Dong Yeshun

Mr. Dong Yeshun is a non-executive director of the Company as well as a partner of IDG Capital, an independent director of AXA SPDB Investment Managers Co., Ltd. (浦銀安盛基金管理有限公司), the chairman of IMS Automotive Electronic System Co. Ltd. (上海艾銘思汽車電子系統有限公司) and an independent director of Shanghai Xintonglian Packaging Co., Ltd. (上海新通聯包裝股份有限公司) (listed on Shanghai Stock Exchange, stock code: 603022). Mr. Dong served as the general manager of Shanghai Shenya Seal Components Co., Ltd. (上海申雅密封件系統有限公司), the general manager of United Automobile Electronic Systems Co., Ltd. (聯合汽車電子有限公司), the deputy general manager of Shanghai United Investment Co., Ltd. (上海聯和投資有限公司), the chairman and chief executive officer of Shanghai Hongli Semiconductor Manufacturing Co., Ltd. (上海宏力半導體製造有限公司), the chairman of Shanghai Lianchuang Investment Fund Management Corporation (上海聯創投資基金管理公司), the chairman of MSN China Co., Ltd. (MSN中國有限公司), the chairman of Nantong Nanya Lianke Pharmaceutical Co., Ltd. (南通南亞聯科藥業有限公司) and the secretary of CPC Party Committee of Yanfeng Weishitong Automotive Trim Systems Co., Ltd. (延鋒偉世通汽車飾件系統有限公司). He obtained a bachelor's degree from Shanghai Institute of Mechanics in 1988 and an EMBA degree from China Europe International Business School in 2001. He is a senior engineer.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chan Oi Fat

Mr. Chan Oi Fat is an independent non-executive director of the Company as well as the chief financial officer and company secretary of Ta Yang Group Holdings Limited (Stock code: 1991) listed on the Main Board of the Hong Kong Stock Exchange. He has been appointed as an independent non-executive director of the Company since 2014. 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's degree 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 financing services.

Mr. Ling Hong

Mr. Ling Hong is an independent non-executive director of the Company as well as the head, professor and tutor of doctoral students of information management and information system department of the faculty of management in Fudan University, the honourable 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). He has been appointed as an independent non-executive director of the Company since 2010. 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 an associate researcher of information systems at the City University of Hong Kong. Mr. Ling obtained a bachelor's 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.

Mr. Sun Zechang

Mr. Sun Zechang is an independent non-executive director of the Company as well as the chief professor of automotive electronics and the head of the institute of automotive electronics of Tongji University, the doctoral tutor for the automotive engineering of Tongji University, the chair professor for automotive electronics and the chair professor for new energy automobile of the Sino-Germany School of Tongji University, the vice chairman of the Automotive Electronics Committee and the vice chairman of the Electromobile Committee of Society of Automotive Engineering of China. Mr. Sun has over twenty years of experience in the automobile engineering industry. He served as a professor of the automotive engineering department, the head of the automotive teaching and research section, the deputy head of the new energy automobile engineering center and the vice dean of the School of Automobile of Tongji University. He graduated from Harbin Institute of Technology in 1976, and obtained a master's degree in engineering majoring in industrial automation from Harbin Institute of Technology in 1981 and a doctor's degree in engineering majoring in control theory and control engineering from Tongji University in 1999.

Supervisors

Mr. Xu Jianguo

Mr. Xu Jianguo is the chairman of the supervisory committee of the Company as well as the head of the financial budget department of Shanghai Electric (Group) Corporation, the director of Shanghai Electric Group Finance Co., Ltd., the director of Shanghai Highly (Group) Co., Ltd. (上海海立（集團）股份有限公司) (listed on Shanghai Stock Exchange, stock code: 600619, 900910 (B share))and the chairman of the supervisory committee of Shanghai Automation Instrumentation Co., Ltd.. He joined SEG in 1984 and served as the deputy head of the financial budget department of Shanghai

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Electric (Group) Corporation, the director of the Company, the deputy head of the assets and finance department of Shanghai Electric Assets Management Company Limited, the assistant to the financial manager of the first management department of Shanghai Electric Assets Management Company Limited and the chief financial officer of Shanghai Li Da Heavy Industrial Manufacturing Limited. He also worked for Shanghai Cable Works and the assets and finance department of Shanghai Electric Assets Management Company Limited. Mr. Xu graduated from the Correspondence Institute of the Party School of C.C. in 2004 and obtained his EMPACC degree from The Chinese University of Hong Kong in 2013. He is a senior accountant.

Mr. Yu Yun

Mr. Yu Yun is a supervisor of the Company as well as the deputy secretary of Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union of Shanghai Tian An Bearing Company Limited. He has been appointed as a supervisor of the Company since 2012. From 1986 to 2001, he worked as deputy head of the training division, deputy secretary of the Youth League and vice chairman of the labour union of Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as director of the GM office, vice chairman of the labour union and manager of the human resources department of Shanghai Huatong Switch Co., Ltd. He has been deputy secretary of Communist Party, secretary of the disciplinary committee of the Party 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. He is a political affair officer.

Ms. Wei Li

Ms. Wei Li is a supervisor and vice chairlady of the labour union of the Company. She has been appointed as a supervisor of the Company since 2013. From July 1993 to July 2001, she was 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 technician, chairlady of the labour union and deputy secretary of the party sub-branch of the Department of the Technical Centre, head of Information Department of the Technical Centre, deputy head and head of Party-Masses Relationship department, chairlady of the labour union, assistant to secretary of the party committee and deputy secretary of the party committee of Shanghai Tool Works Company Limited since July 2001. Ms. Wei graduated from the Shanghai Second Polytechnic University, majoring in mechatronic engineering. She is an engineer.

Senior Management

Mr. Ng Kwong, Alexander

Mr. Ng Kwong, Alexander is the company secretary and investment director of the Company. Prior to joining the Company in 2016, Mr. Ng was the senior vice-president of both the finance and the corporate finance departments of Genting Hong Kong Limited (Stock Code:00678), and held various positions in different financial institutions in Hong Kong including Lazard and Nomura. Mr. Ng began his career as a staff accountant of Ernst & Young (currently known as EY) and has extensive experience in accounting, investment, financial management and corporate finance. Mr. Ng graduated from the Hong Kong University of Science and Technology with a degree of Master of Science in Financial Analysis and from the Chinese University of Hong Kong with a degree of Bachelor of Business Administration. He is a Certified Public Accountant and member of the Hong Kong Institute of Certified Public Accountants.

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

Save as disclosed in the section headed "Directors', supervisors' and chief executives' interests and short positions in shares, underlying shares and debentures", as at 30 June 2016, to the best information/knowledge of the Company, the following persons had interests of 5% or more in the 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, Hong Kong ("SFO"):

Name of substantial shareholder	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	Domestic	678,576,184	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	63,882,000	(1)(2)	Interest of controlled corporation	Long position	8.41	4.44
Shanghai Electric (Group) Corporation	Domestic	678,576,184	(1)	Beneficial owner	Long position	100.00	47.18
	H	63,882,000	(2)	Interest of controlled corporation	Long position	8.41	4.44
Shanghai Electric Group Hongkong Company Limited	H	63,882,000	(1)(2)	Beneficial owner	Long position	8.41	4.44

OTHER INFORMATION

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 63,882,000 H shares of the Company respectively held by Shanghai Electric (Group) Corporation by virtue of its 100% ownership in Shanghai Electric (Group) Corporation.

(2) Shanghai Electric (Group) Corporation was deemed to be interested in the 63,882,000 H shares of the Company held by Shanghai Electric Group Hongkong Company Limited by virtue of its 100% ownership in Shanghai Electric Group Hongkong Company Limited.

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 2016 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

OTHER INFORMATION

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

As at 30 June 2016, the interests or short positions of directors, supervisors or chief executives of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) which were required, pursuant to Section 352 of the SFO, to be registered in the register required to be kept by the Company; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

Name of director	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
Zhou Zhiyan	H	392,000	(1)	Beneficial owner	Long position	0.05	0.00
Zhang Jianping	H	392,000	(1)	Beneficial owner	Long position	0.05	0.00
Chen Hui	H	219,500	(1)	Beneficial owner	Long position	0.03	0.00
Wei Li	H	219,700	(1)	Beneficial owner	Long position	0.03	0.00

Note:

(1) Shares were awarded pursuant to the incentive scheme of the Company as adopted on 17 January 2014.

Save as disclosed above, as at 30 June 2016, none of the directors, supervisors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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 Period.

OTHER INFORMATION

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 code provisions set out in the Corporate Governance Code and Corporate Governance Report in the Appendix 14 to the Listing Rules. The Board believes that the Company has complied with the requirements set out in the Corporate Governance Report from 1 January 2016 to the date of this report, but there have been deviations from code provision A.2.1 and code provision F.1.2.

Pursuant to code provision A.2.1 of the Corporate Governance Code, roles of the chairman and the president should be segregated and should not be performed by the same individual. The division of responsibilities between the chairman and the president should be clearly established and set out in writing. The chairman of the Board is responsible for ensuring that all directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The chairman is also responsible for initiating a culture of open forum and facilitating directors, especially non-executive directors, to make contribution to the Board. At present, Mr. Zhou Zhiyan is the chairman and president of the Company. The Company has explained the obligation and responsibilities of the chairman to Mr. Zhou, and Mr. Zhou has acknowledged that he understood the obligation and responsibilities of various positions of a listed company. The Company will continue to seek for suitable candidate in order to separate the roles of the chairman and the president in full compliance with the Corporate Governance Code.

Pursuant to code provision F.1.2 of the Corporate Governance Code, the appointment and dismissal of the company secretary should be dealt with by a physical board meeting rather than a written board resolution. The appointment of Mr. Ng as the company secretary of the Company on 19 July 2016 was not dealt with by a physical board meeting as the former company secretary will leave the post shortly while the directors of the Company were geographically dispersed, which caused difficulties in convening the physical board meeting in terms of time constraint. The biography of Mr. Ng had been included in the board resolution to ensure all directors had given sufficient consideration. Mr. Ng is a certified public accountant in Hong Kong and a member of the Hong Kong Institute of Certified Public Accountants. The Board is confident of his qualification as the company secretary and competency. Meanwhile, all directors were individually consulted on such matter without any dissenting opinion. The matter, therefore, was first approved by way of a written resolution, and was subsequently ratified and approved at a physical board meeting held on 19 August 2016.

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.

OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of interim dividend for the Period.

Audit Committee

The audit committee of the Company 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 consists of executive directors, namely Zhou Zhiyan, Zhang Jianping, Zhu Xi, Mao Yizhong and Chen Hui, non-executive director, namely Dong Yeshun, and independent non-executive directors, namely Chan Oi Fat, Ling Hong and Sun Zechang.

As at the date of this report, the supervisory committee of the Company consists of Xu Jianguo, 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.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the members of Shanghai Prime Machinery Company Limited

Introduction

We have reviewed the condensed consolidated financial statements of Shanghai Prime Machinery Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 54, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain 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. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, 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 Hong Kong Institute of Certified Public Accountants. A review of these 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June 2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Continuing operations			
Revenue	5	3,846,117	3,609,863
Cost of sales		(3,045,588)	(2,848,999)
Gross profit		800,529	760,864
Other income and other gains and losses	5	36,525	54,776
Selling and distribution expenses		(182,573)	(184,411)
Administrative expenses		(306,941)	(267,891)
Research expenditure		(143,627)	(133,895)
Other expenses		(319)	(1,028)
Finance costs		(61,583)	(79,825)
Share of profits of associates		16,155	9,801
Share of loss of a joint venture		(74)	(733)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	158,092	157,658
Income tax expense	7	(44,332)	(51,947)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		113,760	105,711
Discontinued operations			
LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS	21	–	(4,479)
PROFIT FOR THE PERIOD		113,760	101,232
Profit (loss) for the period attributable to owners of the Company			
— Continuing operations		112,828	103,794
— Discontinued operations		–	(2,912)
		112,828	100,882
Profit (loss) for the period attributable to non-controlling interests			
— Continuing operations		932	1,917
— Discontinued operations		–	(1,567)
		932	350
		113,760	101,232

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June 2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Other comprehensive (expense) income			
Item that will not be subsequently reclassified to profit or loss:			
Re-measurement of defined benefit pension plans		**(6,658)**	6,352
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(6,807)**	(113,003)
Fair value adjustment on forward contract designated as net investment hedge		**–**	(21,320)
Fair value adjustment on interest rate swap contracts designated as hedging instruments		**(1,857)**	807
Income tax relating to components of other comprehensive expense		**464**	269
Other comprehensive expense for the period, net of income tax		**(14,858)**	(126,895)
TOTAL COMPREHENSIVE INCOME (EXPENSES) FOR THE PERIOD		**98,902**	(25,663)
Total comprehensive income (expenses) for the period attributable to:			
Owners of the Company		**97,900**	(26,013)
Non-controlling interests		**1,002**	350
		98,902	(25,663)
EARNINGS PER SHARE	9		
From continuing and discontinued operation			
Basic (RMB cents)		**7.98**	7.12
Diluted (RMB cents)		**7.96**	7.12
From continuing operations			
Basic (RMB cents)		**7.98**	7.33
Diluted (RMB cents)		**7.96**	7.33

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,368,307**	2,404,534
Prepaid lease payments		**141,106**	142,839
Goodwill	11	**1,431,825**	1,378,452
Intangible assets		**20,703**	26,433
Interest in a joint venture		**1,909**	1,909
Interests in associates		**161,027**	160,575
Available-for-sale investments		**872**	872
Deferred tax assets		**140,922**	152,710
		4,266,671	4,268,324
CURRENT ASSETS			
Prepaid lease payments		**3,474**	3,474
Inventories		**1,614,308**	1,546,678
Trade receivables	12	**1,364,360**	1,296,992
Bills receivable		**477,517**	466,989
Prepayments, deposits and other receivables		**208,132**	234,778
Restricted deposits		**94,956**	97,771
Bank balances and cash		**938,783**	908,962
		4,701,530	4,555,644
CURRENT LIABILITIES			
Trade payables	13	**1,304,388**	1,332,247
Bills payable		**360,814**	349,757
Other payables and accruals		**477,904**	423,728
Derivative financial instruments		**17,237**	4,725
Tax liabilities		**53,900**	72,314
Government grants		**13,686**	14,159
Bank borrowings	14	**200,329**	190,536
		2,428,258	2,387,466
NET CURRENT ASSETS		**2,273,272**	2,168,178
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,539,943**	6,436,502

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2016

	Notes	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Shareholders' loan		**1,645,928**	1,599,133
Company bonds	15	**498,305**	497,580
Bank borrowings	14	**721,208**	739,846
Government grants		**248,807**	243,363
Other long-term payables		**32,074**	29,133
Deferred tax liabilities		**21,100**	28,865
Retirement benefit obligations		**117,926**	100,749
		3,285,348	3,238,669
NET ASSETS		**3,254,595**	3,197,833
CAPITAL AND RESERVE			
Share capital	16	**1,438,286**	1,438,286
Reserves		**1,769,385**	1,716,417
Total equity attributable to owners of the Company		**3,207,671**	3,154,703
Non-controlling interests		**46,924**	43,130
TOTAL EQUITY		**3,254,595**	3,197,833

The condensed consolidated financial statements on pages 23 to 54 were approved and authorised for issue by the board of directors on 19 August 2016 and are signed on its behalf by:

Zhou Zhiyan
DIRECTOR

Zhang Jianping
DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company													
	Share capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Share-based payments reserves RMB'000	Surplus reserves RMB'000	Hedge reserves RMB'000	Actuarial reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Foreign currency translation difference RMB'000	Share held for Incentive Scheme (defined in note 17) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016 (audited) As previously reported	1,438,286	702,945	50,469	1,093	296,369	(3,635)	9,893	949,981	46,025	(306,298)	(30,425)	3,154,703	43,130	3,197,833
Profit for the period	–	–	–	–	–	–	–	112,828	–	–	–	112,828	932	113,760
Other comprehensive income (expense) for the period	–	–	–	–	–	(1,393)	(6,658)	–	–	(6,877)	–	(14,928)	70	(14,858)
Total comprehensive income (expense) for the period	–	–	–	–	–	(1,393)	(6,658)	112,828	–	(6,877)	–	97,900	1,002	98,902
Final 2015 dividends declared	–	–	–	–	–	–	–	–	(46,025)	–	–	(46,025)	–	(46,025)
Capital injection from non-controlling shareholders upon incorporation of a subsidiary (note)	–	–	–	–	–	–	–	–	–	–	–	–	2,792	2,792
Recognition of equity-settled share-based payments	–	–	–	1,093	–	–	–	–	–	–	–	1,093	–	1,093
Balance at 30 June 2016 (Unaudited)	1,438,286	702,945	50,469	2,186	296,369	(5,028)	3,235	1,062,809	–	(313,175)	(30,425)	3,207,671	46,924	3,254,595

Note: On 25 March 2016, Shanghai Premier Tension Control Bolts Co., Ltd ("SPTCB") was established by Shanghai Prime Machinery Company Limited (the "Company"). The Company owned 57% of the paid-in capital of SPTCB, representing 57% equity interest in SPTCB. The remaining 43% equity interests are accounted for as non-controlling interests.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2015

	Attributable to owners of the Company													
	Share capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Share-based payments reserves RMB'000	Surplus reserves RMB'000	Hedge reserves RMB'000	Actuarial reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Foreign currency translation difference RMB'000	Share held for Incentive Scheme (defined in note 17) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015 (audited) As previously reported	1,438,286	702,945	16,408	–	273,117	(2,429)	11,177	833,226	20,136	(150,732)	–	3,142,134	106,116	3,248,250
Profit for the period	–	–	–	–	–	–	–	100,882	–	–	–	100,882	350	101,232
Other comprehensive income (expense) for the period	–	–	–	–	–	(20,244)	6,352	–	–	(113,003)	–	(126,895)	–	(126,895)
Total comprehensive income (expense) for the period	–	–	–	–	–	(20,244)	6,352	100,882	–	(113,003)	–	(26,013)	350	(25,663)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	(2,000)	(2,000)
Final 2014 dividends declared	–	–	–	–	–	–	–	–	(20,136)	–	–	(20,136)	–	(20,136)
Acquisition of Shanghai Tianhong Miniature Bearing Co., Ltd ("Shanghai Tianhong")	–	–	–	–	–	–	–	–	–	–	–	–	2,283	2,283
Disposal of Shanghai Cyeco Technology Co., Ltd ("Cyeco Environmental")	–	–	35,752	–	–	–	–	–	–	–	–	35,752	(64,376)	(28,624)
Disposal of Shanghai Dalong Machinery Factory Company Limited ("Dalong Machinery")	–	–	(318)	–	–	–	–	–	–	–	–	(318)	–	(318)
Purchase of shares for Incentive Scheme (defined in note 17)	–	–	–	–	–	–	–	–	–	–	(26,716)	(26,716)	–	(26,716)
Balance at 30 June 2015 (Unaudited)	1,438,286	702,945	51,842	–	273,117	(22,673)	17,529	934,108	–	(263,735)	(26,716)	3,104,703	42,373	3,147,076

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June 2016 (Unaudited) RMB'000	For the six months ended 30 June 2015 (Unaudited) RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES		**191,864**	47,545
INVESTING ACTIVITIES			
Interest received		**6,322**	5,517
Dividend received from available-for-sale investments		**60**	–
Purchases of property, plant and equipment		**(80,755)**	(117,408)
Proceeds from disposal of property, plant and equipment		**1,576**	7,334
Purchases of intangible assets		**(94)**	(58)
Acquisition of subsidiaries	22	**–**	(13,455)
Increase in investments in a joint venture		**–**	(1,661)
Proceeds from disposal of financial product investments		**–**	31,000
Disposal of subsidiaries	19	**–**	59,594
Withdrawal of non-restricted deposits with original maturity of over three months		**10,500**	140,419
Placement of non-restricted deposits with original maturity of over three months		**(30,500)**	–
Withdrawal of restricted bank deposits		**92,885**	86,730
Placement of restricted bank deposits		**(90,070)**	(50,189)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(90,076)**	147,823
FINANCING ACTIVITIES			
Repurchase of shares for Incentive Scheme		**–**	(26,716)
Bank borrowings obtained		**102,560**	127,268
Repayment of bank borrowings		**(145,354)**	(167,825)
Dividends paid		**(2,438)**	(3,171)
Interest paid		**(47,522)**	(76,304)
Capital injection from non-controlling shareholders upon incorporation of a subsidiary		**2,792**	–
NET CASH USED IN FINANCING ACTIVITIES		**(89,962)**	(146,748)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**11,826**	48,620
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**888,462**	750,811
Effect of foreign exchange rate changes	**(2,005)**	5,025
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**898,283**	804,456
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**938,783**	948,561
Less: non-restricted time deposits with original maturity of over three months	**40,500**	144,105
Cash and cash equivalents as stated in the statement of cash flows	**898,283**	804,456

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL

The Company (together with its subsidiaries, collectively referred to as the "Group") is a joint stock limited liability company incorporated in the PRC on 30 September 2005. Its parent and ultimate holding parent is Shanghai Electric Corporation, a state-owned enterprise established in the PRC.

The principal activities of the Group are design, manufacture and sale of turbine blades, precision bearings, highly durable fasteners, numerical control machine cutting tools and others, the provision of related technical services, the provision of manpower services, industrial investment, domestic trade and entrepot trade of goods and technical services.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

On 30 June 2015, the Group completed its disposal of the entire 65% equity interest in a subsidiary and entire 20% equity interest in an associate which were engaged in the production and sale of general machinery (the "General Machinery Operations" or "discontinued operations") to its ultimate holding company. Since then, the Group has discontinued the General Machinery Operations and is principally engaged in the design, production and sale of turbine blade, bearing, fastener and cutting tool and related services. The accompanying condensed consolidated financial statements and the comparative figures have been prepared to reflect the results of the discontinued business separately. Details of the discontinued operations were set forth in note 21.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION

For the management purpose, the Group is organised into business units based on their products and services and has five reportable operating segments under HKFRS 8 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 and processing services;

(iv) the fastener segment is engaged in the production and sale of fasteners and testing services;

(v) "Others" refers to the Group's investment in one of the associates, which engages in the production and sale of carbolic products.

However, in the prior year, the Group also has its reportable and operating segment in the General Machinery Operations, which was discontinued along with Group's disposal of its 65% owned subsidiary and a 20% owned associate during the last interim period. The segment information does not include any amounts for these discontinued operations, which are described in more detail in note 21.

For the purposes of monitoring segment performance and allocating resources between segments:

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 are transacted at prevailing market prices.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

4. SEGMENT INFORMATION (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segments.

For the six months ended 30 June 2016

Continuing operations	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	398,285	479,703	240,704	2,727,425	–	3,846,117
Inter-segment sales	–	–	1,390	–	–	1,390
Subtotal	398,285	479,703	242,094	2,727,425	–	3,847,507
Eliminations						(1,390)
Group revenue						3,846,117
Segment profit	18,899	24,746	37,447	141,624	–	222,716
Interest and dividend income and unallocated gains						9,547
Corporate and other unallocated expenses						(28,669)
Finance costs						(61,583)
Share of profits (losses) of associates	9,733	–	474	–	5,948	16,155
Share of loss of a joint venture	–	–	–	(74)	–	(74)
Profit before tax from continuing operations						158,092

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

4. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the six months ended 30 June 2015

Continuing operations	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	433,382	463,734	274,105	2,438,642	–	3,609,863
Inter-segment sales	592	–	127	–	–	719
Subtotal	433,974	463,734	274,232	2,438,642	–	3,610,582
Eliminations						(719)
Group revenue						3,609,863
Segment profit	29,577	23,913	44,151	147,405	–	245,046
Interest and dividend income and unallocated gains						5,047
Corporate and other unallocated expenses						(21,678)
Finance costs						(79,825)
Share of profits of associates	4,804	–	214	–	4,783	9,801
Share of loss of a joint venture	–	–	–	(733)	–	(733)
Profit before tax from continuing operations						157,658

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES

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 period, net of sales taxes and surcharges.

An analysis of the Group's revenue, other income and other gains and losses for the period from continuing operation is as follows:

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Revenue		
Sales of goods	**3,819,221**	3,582,775
Rendering of services	**26,896**	27,088
	3,846,117	3,609,863
Other income		
Dividend income from available-for-sale investments	**60**	–
Interest income from bank balances and deposits	**6,257**	5,047
Net rental income	**205**	447
Government grants (note i)	**14,533**	15,805
Compensation income (note ii)	**1,525**	6,118
Technology service income	**2,985**	2,921
Others	**2,506**	1,517
	28,071	31,855

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

5. REVENUE, OTHER INCOME AND OTHER GAINS AND LOSSES (continued)

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Other gains and losses		
Sales of spare parts and scrap materials	**72,505**	50,742
Less: costs related to sales of spare parts and scrap materials	**(56,787)**	(30,712)
	15,718	20,030
Net (loss) gain on disposal of property, plant and equipment	**(3,550)**	1,394
Allowance for doubtful debts	**(12,681)**	(3,662)
Impairment of property, plant and equipment recognised	**–**	(1,109)
Hedge ineffectiveness in net investment hedges	**–**	4,595
Loss recognised on change in fair value of derivative financial liabilities	**(10,271)**	–
Foreign exchange gain	**18,813**	2,946
Foreign exchange loss	**–**	(2,264)
Others	**425**	991
	8,454	22,921
Total	**36,525**	54,776

Notes:

(i): The government grants from continuing operation represent the amount received from the local governments by the PRC entities of the Group. Government grants of approximately (a) RMB7,193,000 (six months ended 30 June 2015: RMB8,221,000) represents incentive received in relation to the government's financial support for the Group's business development in the PRC with the conditions which have been satisfied and (b) RMB7,340,000 (six months ended 30 June 2015: RMB7,584,000) represents subsidy on acquisition of machineries amortised to profit or loss for the period.

(ii): Compensation income amounted RMB1,296,000 mainly included compensation received from Shanghai Yi Dong Corporation, an independent third party, for loss incurred.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

6. PROFIT BEFORE TAX

Profit for the period from continuing operation has been arrived after charging (crediting):

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Cost of inventories recognised as expenses	**3,024,757**	2,825,704
Cost of services provided	**20,831**	23,295
Depreciation of property, plant and equipment	**136,451**	130,930
Release of prepaid lease payments	**1,737**	1,737
Amortisation of intangible assets	**5,824**	5,914
Total depreciation and amortisation	**144,012**	138,581
Allowance for inventories (recognised in cost of sales)	**20,985**	16,601
Reversal of allowance for inventories (recognised in cost of sales)	**(8,999)**	(7,952)
Impairment loss on trade receivables	**21,411**	11,533
Reversals of allowance on trade receivables	**(8,730)**	(7,871)
Impairment loss recognised in respect of property, plant and equipment (recognised in other gains and losses)	**–**	(1,109)
Net (loss) gain on disposal of property, plant and equipment	**(3,550)**	1,394
Gross rental income	**3,890**	3,286
Less: direct operating expenses	**(3,685)**	(2,839)
	205	447
Total staff cost (including director's remuneration, other staff cost, and other staff's retirement benefit contribution and Incentive Scheme)	**733,534**	622,621

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Income tax expenses comprise:		
PRC Enterprise Income Tax ("EIT")	**9,706**	13,899
Other jurisdictions	**30,491**	43,194
Over provision in prior years	**(3,662)**	(2,334)
	36,535	54,759
Deferred tax charge (credit)	**7,797**	(2,812)
	44,332	51,947

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the statutory tax rate of the PRC subsidiaries is 25% for both periods. Certain subsidiaries of the Group obtained "High Technology Enterprise" status for 3 years that entitles them a concessionary tax rate of 15%, which will be subject to renewal for another 3 years after the year ended 31 December 2016 and 31 December 2017 according to EIT Law.

Certain subsidiaries are located in Germany, France, United Kingdom, Netherlands, Spain, Belgium and other regions, of which corporate tax are calculated at the rates prevailing in the relevant jurisdictions.

No Hong Kong Profits Tax has been provided as the Group's income neither arises in, nor is derived from Hong Kong for both periods.

8. DIVIDENDS

The board of directors of the Company (the "Board") does not recommend the payment of interim dividend (six months ended 30 June 2015: nil) for the current interim period.

During the year ended 31 December 2015, the Company had proposed final dividends of RMB3.20 cents per ordinary share totaling RMB46,025,000, which had been approved by the Company's shareholders in the annual general meeting held on 29 May 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

9. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 June	
	2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**112,828**	100,882

	For the six months ended 30 June	
	2016 (Unaudited) in'000	2015 (Unaudited) in'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,414,529**	1,416,588
Effect of dilutive potential ordinary shares on shares awarded under the Incentive Scheme — unvested	**2,725**	30
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,417,254**	1,416,618

The weighted average number of ordinary shares shown above has been arrived at after deducting the effect on 27,126,000 shares (30 June 2015: 23,230,000) held by TC Capital Management Limited, a trustee company for the Company's Incentive Scheme.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

9. EARNINGS PER SHARE (continued)

From continuing operations

The calculation of basic and diluted earnings per share from continuing operations attributable to owners of the Company is based on the following data:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Earnings figures are calculated as follows:		
Profit for the period attributable to owners of the Company	**112,828**	100,882
Less: loss for the period from discontinued operations	**–**	2,912
Earnings for the purpose of calculation basic earnings per share from continuing operations	**112,828**	103,794

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

For the six months ended 30 June 2015

Basic loss per share from discontinued operations for the six months ended 30 June 2015 was RMB0.21 cents per share and diluted earnings per share from the discontinued operations for the six months ended 30 June 2015 was RMB0.21 cents per share, based on the loss for the period from discontinued operations for the six months ended 30 June 2015 amounting to RMB2,912,000 and the denominators detailed above for both basic and diluted earnings per share.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB5,126,000 (six months ended 30 June 2015: RMB5,940,000) for cash proceeds of RMB1,576,000 (six months ended 30 June 2015: RMB7,334,000), resulting in a loss on disposal of RMB3,550,000 (six months ended 30 June 2015: gain on disposal of RMB1,394,000).

In addition, during the current interim period, the Group paid approximately RMB56,208,000 (six months ended 30 June 2015: RMB59,596,000) for construction costs and RMB24,547,000 (six months ended 30 June 2015: RMB57,812,000) for acquisition of plant and machinery in order to upgrade its manufacturing capabilities.

No impairment loss (six months ended 30 June 2015: RMB1,109,000) was recognised during the current interim period in respect of obsolete production machinery.

As at 30 June 2016, the Group had not obtained real estate title certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB1,051,000 (31 December 2015: RMB1,163,000).

11. GOODWILL

	RMB'000
COST AND CARRYING VALUE	
At 1 January 2015	1,473,545
Arising on acquisitions of a subsidiary (Note 22)	16,193
Eliminated on disposal of a subsidiary (Note 19)	(41,966)
Exchange adjustments	(111,769)
At 30 June 2015	1,336,003
Exchange adjustments	42,449
At 31 December 2015	1,378,452
Exchange adjustments	53,373
At 30 June 2016	1,431,825

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

12. TRADE RECEIVABLES

An aged 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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 3 months	934,737	913,210
Over 3 months but within 6 months	248,976	204,322
Over 6 months but within 1 year	137,834	142,835
Over 1 year but within 2 years	42,659	23,075
Over 2 years	154	13,550
	1,364,360	1,296,992

The Group's trading terms with its 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 one to six months. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing and unsecured.

13. TRADE PAYABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 3 months	1,072,218	1,095,156
Over 3 months but within 6 months	151,495	185,780
Over 6 months but within 1 year	69,049	31,077
Over 1 year but within 2 years	6,699	12,815
Over 2 years	4,927	7,419
	1,304,388	1,332,247

The credit period on purchases of goods is 60 to 90 days and certain suppliers allow longer credit period on a case-by-case basis.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

14. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB102,560,000 (six months ended 30 June 2015: RMB127,268,000) and repaid RMB145,354,000 (six months ended 30 June 2015: RMB167,825,000).

As at 30 June 2016, RMB804,108,000 (31 December 2015: RMB870,210,000) of the bank borrowings carry interest at the variable market rates, with effective interest rates ranging from 3 months EURIBOR plus 2.00% to 2.50% (31 December 2015: 3 months EURIBOR plus 3.00% to 3.50%) per annum, while RMB117,429,000 (31 December 2015: RMB60,172,000) carry interest at fixed market rates ranging from 2.50% to 5.44% (31 December 2015: 3.70% to 5.44%). The bank borrowings as at 30 June 2016 and 31 December 2015 are repayable in full within 5 year. The proceeds raised during the current interim period were used for general working capital purpose.

15. COMPANY BONDS

On 31 August 2012, the Company issued a five-year company bond (the "Bond") in the principal amount of RMB500,000,000, with an option granted to the bondholders to redeem wholly or partly at 100% of the principal amount exercisable for one time on the third anniversary since the date of issue. The bonds carry interest at a fixed rate of 5.08% per annum for the first three years, with an option granted to the Company to increase the interest rate for one time on the third anniversary since the date of issue. Interest is payable annually on 31 August. The company bond is unsecured and guaranteed by Shanghai Electric Corporation.

No bondholders exercised the redemption option, which therefore lapsed on 31 August 2015. The Company also announced that the interest rate will be fixed at 5.08% per annum till the end of the maturity date on 31 August 2017. The company bonds was reclassified to non-current liabilities on 31 August 2015 accordingly.

The fair value of the company bonds is categorized within the fair value hierarchy level 3, which is measured by discounted cash flow based on the valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. In the opinion of directors, the interest rate of the company bonds is similar to the market interest rate. The carrying amount of the company bonds approximates to its fair value.

16. SHARE CAPITAL

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	Number of share '000	**Amount RMB'000**	Number of share '000	Amount RMB'000
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed State-owned ordinary shares	**678,576**	**678,576**	678,576	678,576
H ordinary 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

16. SHARE CAPITAL (continued)

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 except for those held by trustee under the Incentive Scheme.

As at 30 June 2016, there was 27,126,000 (31 December 2015: 27,126,000) shares of the Company under the custody by the trustee for the Incentive Scheme, out of which 5,406,000 shares was granted but not yet vested to the participants. Further details are set out in note 17.

17. INCENTIVE SCHEME

On 17 January 2014, an incentive scheme (the "Incentive Scheme") was adopted by the Company. The Incentive Scheme shall be valid and effective for a period of 5 years commencing from the adoption date.

Pursuant to the Incentive Scheme, incentives will be awarded to the eligible participants in the form of (i) cash instalments; and (ii) the awarded shares. The Board shall entrust qualified agent(s) to act as trustee(s) under the Incentive Scheme, pursuant to which the shares will be purchased by the trustee(s) from the market out of cash contributed by the Group and to be held in the Trust for eligible participants.

The Incentive Scheme shall be subject to the administration of the Board or its delegated authorities, and the trustee, TC Management Co., Ltd, an independent third party in accordance with the rules governing the operation of the Incentive Scheme and the trust deed. The Board may make cash contributions to the trust as it may determine from time to time.

The total number of all shares to be purchased under the Incentive Scheme must not exceed 10% of the issued shares as at the adoption date unless the Board otherwise decides. The maximum number of shares which may be awarded to the eligible participants under the incentive scheme shall not exceed 10% of the issued shares as at the adoption date.

The scope of eligible participants for the Incentive Scheme shall include directors (including without limitation any executive and non-executive directors), senior management and other key employees of the Group who, in the opinion of the Board, contribute directly to the overall business performance and sustainable development of the Group.

The list of eligible participants and the number of Shares to be granted shall be determined by the Board. All eligible participants must be employees of the Group, who have entered into labor contracts with the Company or its holding subsidiaries and branches, during the appraisal period of the Incentive Scheme.

During the period, the Group did not purchase any shares (six months ended 30 June 2015: the Group purchased 23,230,000 shares at weighted average price of HKD1.456) of the Company for the Incentive Scheme. Under the Incentive Scheme, there were total unawarded shares of 21,720,000 (30 June 2015: 17,824,000) amounting to HKD30,842,000 (30 June 2015: HKD25,951,000) held by the trustee as at 30 June 2016.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

17. INCENTIVE SCHEME (continued)

Details of the movements of shares of the Company awarded to directors of the Company and employees of the Group during the period are as follows:

	Number of shares '000
Outstanding at 1 January 2015	–
Awarded during the six months ended 30 June 2015	5,406
Vested during the six months ended 30 June 2015	–
Outstanding at 30 June 2015 and at 31 December 2015	5,406
Awarded during the six months ended 30 June 2016	–
Vested during the six months ended 30 June 2016	–
Outstanding at 30 June 2016	5,406

On 30 June 2015, a total of 5,406,000 shares of the Company had been awarded to the directors of the Company and employees of the Group at nil consideration. 30%, 30% and 40% of the awarded shares would be vested after the third, fourth and fifth anniversary of the date of grant if they all remain in office as employees of the Group at that date. The total fair value of the awarded shares determined at the date of grant was HKD10,921,000 (equivalents to RMB8,612,000), which was determined by reference to the closing share price on that date. Total staff cost in respect of award shares under Incentive Scheme of RMB1,093,000 was recognised as an expense for the period ended 30 June 2016 (year ended 31 December 2015: RMB1,093,000).

Any dividends declared in respect of the awarded shares held by the trustee during the vesting period belongs to the participants and will be given to them after the vesting period. However, the participants do not have any voting right in respect of the awarded shares during the vesting period.

On 30 June 2015, a total of cash instalments of RMB8,326,000 has been approved to grant to the directors of the Company and employees of the Group under the Incentive Scheme. 50% of the cash would be payable during the year of grant, while the remaining 30% and 20% of the cash would be payable after the first and second anniversary of the date of grant if they all remain in office as employees of the Group at that date. Total staff cost in respect of cash instalments under the Incentive Scheme of RMB1,665,000 (six months ended 30 June 2015: RMB5,200,000) was recognised as an expense for the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at 30 June 2016 RMB'000	Fair value as at 31 December 2015 RMB'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable input
Interest rate swaps	**Liability — 6,799**	Liability — 4,725	Level 2	Discounted cash flow. Future cash flows are estimated based on applicable yield curves derived from quoted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	
Foreign currency exchange option	**Liability — 10,438**	n/a	Level 3	Black Scholes Expected volatility: 9.80% (2015: n/a) Risk-free rate of Europe: (0.39)% (2015: n/a) Risk-free rate of America: (0.37)% (2015: n/a) Spot rate of USD to EUR: 1.1086 (2015: n/a) Time to maturity: 0.51 (2015: n/a) Upper Strike Rate of USD to EUR: 1.1000 (2015: n/a) Lower Strike Rate of USD to EUR: 1.0930 (2015: n/a)	Expected volatility of 9.80% (2015: n/a) taking into account. (Note 1)

Note 1: An increase in the expected volatility used in isolation would result in a decrease in the fair value measurement of the foreign currency exchange option and vice versa.

Except for set out above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 30 June 2016 and 31 December 2015 are recorded at amortised cost in the (condensed) consolidated financial statements approximate their fair values.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

19. DISPOSAL OF A SUBSIDIARY

For the six months ended 30 June 2015

On 15 May 2015, the Company entered into a share transfer agreement with Shanghai Electric Industrial Company Limited ("SEI"), pursuant to which the Company agreed to sell 65% equity interests in Cyeco Environmental to SEI for a final cash consideration of RMB200,305,000, after accounting for certain price adjustment as mutually agreed.

Analysis of assets and liabilities of Cyeco Environmental as at the date control was lost were as follows:

	RMB'000
Property, plant and equipment	2,978
Goodwill	41,966
Intangible assets	171,811
Inventories	7,157
Bills receivable	4,423
Trade receivables	9,250
Prepayments, deposits and other receivables	4,640
Cash and cash equivalents	39,406
Trade payables	(1,490)
Other payables and accruals	(326)
Tax liabilities	(167)
Dividends payable	(8,337)
Deferred tax liabilities	(42,382)
Net assets disposed of	228,929
Gain on disposal of a subsidiary	
Consideration received and receivable	200,305
Non-controlling interest	64,376
Net assets disposed of	(228,929)
Gain on disposal of a subsidiary accounted for as deemed capital contribution and recognised in contributed surplus	35,752
Consideration received and receivable:	
Cash	99,000
Consideration receivable (receivable within 1 year and included in prepayments, deposits and other receivables)	101,305
	200,305

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

19. DISPOSAL OF A SUBSIDIARY (continued)

For the six months ended 30 June 2015 (continued)

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	99,000
Cash and cash equivalents disposed of	(39,406)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	59,594

The Group did not incur any significant transaction cost for this disposal transaction.

20. DISPOSAL OF AN ASSOCIATE

For the six months ended 30 June 2015

On 15 May 2015, the Group disposed of its entire 20% equity interest in Dalong Machinery to SEI, for the final cash consideration of RMB21,922,000 after accounting for certain price adjustment as mutually agreed. The disposal is completed on 30 June 2015.

	RMB'000
Other receivable proceeds	21,922
Less: carrying amount of the 20% investment on the date of loss of significant influence of Dalong Machinery	(22,240)
Loss on disposal of an associate accounted for as deemed distribution and recognised in contributed surplus	(318)

21. DISCONTINUED OPERATIONS

For the six months ended 30 June 2015

As set out in notes 19 and 20, the Company disposed of its 65% equity interest in Cyeco Environmental and 20% equity interest in Dalong Machinery to SEI and Shanghai Electric Corporation during the six months ended 30 June 2015, both of them carried out all the Group's General Machinery Operations. The purpose of the disposal is to generate cash for the expansion of the Group's other businesses. The Group's General Machinery Operations is treated as Discontinued Operations. The disposal of Cyeco Environmental was completed on 30 June 2015, on which date control of Cyeco Environmental passed to the acquirer.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

21. DISCONTINUED OPERATIONS (continued)

For the six months ended 30 June 2015

Dalong Machinery was previously a 100% owned subsidiary of the Company while 80% equity interest of which was disposed to an independent third party on 31 October 2014, which then became an associate of the Company.

The loss for the preceding interim period from the Discontinued Operations is set out below.

	(Unaudited) RMB'000
Loss of General Machinery Operations for the period	(4,479)
Net gain on disposal of General Machinery Operations accounted for as deemed capital contribution in contributed surplus (Note)	35,434

Note: In the opinion of the directors, the gain on disposal of Cyeco Environmental to SEI, a subsidiary of the Company's ultimate parent, and the loss on disposal of Dalong Machinery to Shanghai Electric Corporation, the Company's ultimate parent, shall be accounted for as shareholder transactions to better reflect economic substance of the transactions.

The results of the General Machinery Operations for the preceding interim period were as follows:

	(Unaudited) RMB'000
Revenue	10,610
Cost of sales	(5,668)
Other income and other gains and losses	664
Selling and distribution costs	(1,001)
Administrative expenses	(10,196)
Share of loss of an associate	(367)
Loss before tax	(5,958)
Income tax credit	1,479
Loss for the period	(4,479)

The amounts above represented the results of the Group's Discontinued Operations arising from Cyeco Environmental and Dalong Machinery. Dalong Machinery was a 20% owned associate for the six months ended 30 June 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

22. ACQUISITION OF A SUBSIDIARY

For the six months ended 30 June 2015

On 6 March 2015, the Company entered into a share transfer agreement with the certain individual shareholders of Shanghai Tianhong, independent third parties, pursuant to which these certain individual shareholders transferred collectively 70% equity interest in Shanghai Tianhong to the Company for a total cash considerations of RMB21,520,000. The acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB16,193,000. Shanghai Tianhong and its subsidiary are principally engaged in the production and design of high-precision bearings. The acquisition was completed on 31 March 2015.

Consideration transferred

	RMB'000
Consideration satisfied by cash	20,370
Consideration payable (payable within 1 year and included in other payables)	1,150
Total consideration	21,520

Acquisition-related costs amounting to RMB460,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in 'other expense' line item in the condensed consolidated statement of profit or loss and other comprehensive income for the six months period ended 30 June 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

22. ACQUISITION OF A SUBSIDIARY (continued)

For the six months ended 30 June 2015 (continued)

Assets and liabilities recognised at the date of acquisition are as follows:

	Shanghai Tianhong RMB'000
Current assets	
Inventories	6,435
Bills receivable	2,902
Trade receivables	13,216
Prepayments, deposits and other receivables	599
Bank balances and cash	6,945
Non-current assets	
Property, plant and equipment	5,445
Current liabilities	
Trade payables	(585)
Other payables and accruals	(26,539)
Tax liabilities	(808)
	7,610

The trade receivables acquired (which principally comprised trade receivables) with a fair value of RMB13,216,000 at the date of acquisition had gross contractual amounts of RMB13,516,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB300,000.

Goodwill arising on acquisition:

	Shanghai Tianhong RMB'000
Consideration transferred	21,520
Plus: non-controlling interests (30% in Shanghai Tianhong)	2,283
Less: net assets acquired	(7,610)
Goodwill arising on acquisition	16,193

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

22. ACQUISITION OF A SUBSIDIARY (continued)

For the six months ended 30 June 2015 (continued)

Goodwill arising on acquisition: (continued)

The non-controlling interest 30% in Shanghai Tianhong recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Shanghai Tianhong and amounted to RMB2,283,000.

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	20,370
Less: cash and cash equivalent balances acquired	(6,945)
Transaction costs of the acquisition	30
	13,455

Impact of acquisition on the results of the Group

Included in the profit for the six months ended 30 June 2015 is RMB2,342,000 attributed to Shanghai Tianhong. Revenue for the six months ended 30 June 2015 included RMB8,473,000 is attributed to Shanghai Tianhong.

Had the acquisition of Shanghai Tianhong been effected at the beginning of the period, the total amount revenue of the Group from continuing operations for the six months ended 30 June 2015 would have been RMB3,615,468,000 and the amount of the profit for the period from continuing operations would have been RMB107,354,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operating of the Group that actually would have been achieved had the acquisition been completed at the beginning of the period, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Group had Shanghai Tianhong been acquired at the beginning of the period, the directors calculated depreciation on plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

23. CAPITAL COMMITMENTS

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Contracted, but not provided for:		
— Plant and machinery	37,083	37,229
— Land and buildings	27,509	24,022
	64,592	61,251

24. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Shanghai Electric Corporation, which is a state-owned enterprise established 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:

Related party	Nature of transaction	For the six months ended 30 June	
		2016 (Unaudited) RMB'000	2015 (Unaudited) RMB'000
Shanghai Electric Corporation	Rendering of Comprehensive Services (Note i)	18,868	–
	Rental expenses (Note ii)	11,840	8,356
SEC group companies	Comprehensive services charges incurred (Note i)	107	65
	Purchase of materials (Note i)	43	3,469
	Sales of goods (Note i)	218,515	219,488
	Rental expenses (Note ii)	2,256	1,183
	Interest expense (Note iii)	22,062	28,401

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2016

24. 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 interest expense 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) 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 with state-owned entities, other than the SEC group companies, in the normal course of business at terms comparable to those with other non-state-owned entities.

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Fees	**247**	213
Short term employee benefits	**979**	797
Post-employment benefits	**115**	99
	1,341	1,109

25. 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 19 August 2016.