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上海集優
SHANGHAI PRIME

上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Revenue for 1H2017 was RMB4,289 million, representing an increase of 12% over 1H2016.

Profit attributable to owners of the Company for 1H2017 was RMB159 million, representing an increase of 41% over 1H2016.

Basic earnings per share for 1H2017 was RMB11.26 cents, representing an increase of 41% over 1H2016.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the "**Board**") of Shanghai Prime Machinery Company Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2017 ("**1H2017**"), together with the comparative figures for the six months ended 30 June 2016 ("**1H2016**"). The Group's unaudited interim results have been reviewed by the audit committee of the Company and Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	5	**4,289,168**	3,846,117
Cost of sales		**(3,424,510)**	(3,045,588)
Gross profit		**864,658**	800,529
Other income and other gains and losses	5	**39,363**	36,525
Selling and distribution expenses		**(191,685)**	(182,573)
Administrative expenses		**(299,232)**	(306,941)
Research expenditure		**(159,514)**	(143,627)
Other expenses		**(385)**	(319)
Finance costs		**(60,677)**	(61,583)
Share of profits of associates		**22,017**	16,155
Share of loss of a joint venture		**(462)**	(74)
PROFIT BEFORE TAX	6	**214,083**	158,092
Income tax expense	7	**(54,783)**	(44,332)
PROFIT FOR THE PERIOD		**159,300**	113,760
Profit for the period attributable to owners of the Company		**158,831**	112,828
Profit for the period attributable to non-controlling interests		**469**	932
		159,300	113,760

	Notes	For the six months ended 30 June 2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
Other comprehensive income (expense)			
Item that will not be subsequently reclassified to profit or loss:			
Re-measurement of defined benefit pension plans		**4,860**	(6,658)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**6,414**	(6,807)
Fair value adjustment on interest rate swap contracts designated as hedging instruments		**1,452**	(1,857)
Income tax relating to components of other comprehensive (expense) income		**(363)**	464
Other comprehensive income (expense) for the period, net of income tax		**12,363**	(14,858)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**171,663**	98,902
Total comprehensive income for the period attributable to:			
Owners of the Company		**171,090**	97,900
Non-controlling interests		**573**	1,002
		171,663	98,902
EARNINGS PER SHARE	9		
Basic (RMB cents)		**11.26**	8.00
Diluted (RMB cents)		**11.23**	7.98

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2017

	Notes	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,302,030**	2,342,764
Prepaid lease payments		**137,642**	139,376
Goodwill	11	**1,503,281**	1,418,815
Intangible assets		**30,395**	31,836
Interest in a joint venture		**911**	1,311
Interests in associates		**196,406**	174,472
Available-for-sale investments		**872**	872
Deferred tax assets		**149,673**	133,278
		4,321,210	4,242,724
CURRENT ASSETS			
Prepaid lease payments		**3,474**	3,474
Inventories		**1,657,951**	1,671,428
Trade receivables	12	**1,415,933**	1,225,995
Bills receivable		**654,952**	584,035
Prepayments, deposits and other receivables		**209,794**	217,710
Restricted deposits		**46,280**	51,543
Bank balances and cash		**1,102,280**	1,123,293
		5,090,664	4,877,478
CURRENT LIABILITIES			
Trade payables	13	**1,457,831**	1,371,103
Bills payable		**288,046**	422,145
Other payables and accruals		**528,825**	416,525
Derivative financial instruments		**75,949**	4,717
Tax liabilities		**64,571**	64,473
Government grants		**13,541**	13,663
Company bonds	15	**499,841**	499,043
Bank borrowings	14	**179,894**	171,322
		3,108,498	2,962,991
NET CURRENT ASSETS		**1,982,166**	1,914,487
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,303,376**	6,157,211

	Notes	**30 June 2017 (Unaudited)** *RMB'000*	31 December 2016 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Shareholders' loan		**1,703,094**	1,681,059
Bank borrowings	14	**676,074**	693,557
Government grants		**249,949**	255,232
Other long-term payables		**23,324**	26,510
Deferred tax liabilities		**48,339**	25,031
Retirement benefit obligations		**133,691**	129,333
		2,834,471	2,810,722
NET ASSETS		**3,468,905**	3,346,489
CAPITAL AND RESERVES			
Share capital	16	**1,438,286**	1,438,286
Reserves		**1,984,323**	1,862,480
Total equity attributable to owners of the Company		**3,422,609**	3,300,766
Non-controlling interests		**46,296**	45,723
TOTAL EQUITY		**3,468,905**	3,346,489

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 ("SEC"), a state-owned enterprise established in the PRC.

The principal activities of the Group are the 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").

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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 HKIPCA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle

The application of the above amendments to HKFRSs in the current interim period has 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 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 mainly engaged in the production and sale of bearings;

(ii) the turbine blade segment is mainly engaged in the production and sale of turbine blades;

(iii) the cutting tool segment is mainly engaged in the production and sale of cutting tools and processing services;

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

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

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.

Inter-segment sales are transacted at prevailing market prices.

Segment revenue and results

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

For the six months ended 30 June 2017

	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	**401,258**	**524,332**	**327,170**	**3,036,408**	**–**	**4,289,168**
Inter-segment sales	**–**	**–**	**1,118**	**–**	**–**	**1,118**
Subtotal	**401,258**	**524,332**	**328,288**	**3,036,408**	**–**	**4,290,286**
Eliminations						**(1,118)**
Group revenue						**4,289,168**
Segment profit	**20,049**	**39,843**	**43,822**	**159,862**	**–**	**263,576**
Interest and dividend income and unallocated gains						**9,461**
Corporate and other unallocated expenses						**(19,832)**
Finance costs						**(60,677)**
Share of profits of associates	**16,481**	**–**	**630**	**–**	**4,906**	**22,017**
Share of loss of a joint venture	**–**	**–**	**–**	**(462)**	**–**	**(462)**
Profit before tax						**214,083**

For the six months ended 30 June 2016

	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						158,092

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 is as follows:

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue		
Sales of goods	**4,255,740**	3,819,221
Rendering of services	**33,428**	26,896
	4,289,168	3,846,117
Other income		
Dividend income from available-for-sale investments	**60**	60
Interest income from bank balances and deposits	**6,059**	6,257
Net rental income	**1,206**	205
Government grants (*note i*)	**15,242**	14,533
Compensation income (*note ii*)	**15,222**	1,525
Technology service income	**541**	2,985
Others	**1,046**	2,506
	39,376	28,071

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other gains and losses		
Sales of spare parts and scrap materials	**47,488**	72,505
Less: costs related to sales of spare parts and scrap materials	**(34,031)**	(56,787)
	13,457	15,718
Net gain (loss) on disposal of property, plant and equipment	**2,963**	(3,550)
Allowance for doubtful debts	**(5,548)**	(12,681)
Loss recognised on changes in fair value of derivative financial liabilities	**(69,505)**	(10,271)
Foreign exchange gain	**72,000**	18,813
Foreign exchange loss	**(13,380)**	–
Others	**–**	425
	(13)	8,454
Total	**39,363**	36,525

Notes:

(i): The government grants represent the amount received from local governments by the PRC entities of the Group. Government grants of approximately (a) RMB6,726,000 (six months ended 30 June 2016: RMB7,193,000) represents incentives received in relation to the government's financial support for the Group's business development in the PRC, the conditions to which have been satisfied and (b) RMB8,516,000 (six months ended 30 June 2016: RMB7,340,000) represents subsidies for the acquisition of machineries amortised to profit or loss for the period.

(ii): Compensation income amounting to RMB15,222,000 mainly includes compensation received from insurance companies for losses incurred on certain items of property, plant and equipment.

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**3,399,342**	3,024,757
Cost of services provided	**25,168**	20,831
Depreciation of property, plant and equipment	**144,342**	136,451
Release of prepaid lease payments	**1,737**	1,737
Amortisation of intangible assets	**5,315**	5,824
Total depreciation and amortisation	**151,394**	144,012
Allowance for inventories (recognised in cost of sales)	**27,289**	20,985
Reversal of allowance for inventories (recognised in cost of sales)	**(10,242)**	(8,999)
Impairment loss on trade receivables	**8,648**	21,411
Reversals of allowance on trade receivables	**(3,100)**	(8,730)
Net gain (loss) on disposal of property, plant and equipment	**2,963**	(3,550)
Gross rental income	**4,171**	2,161
Less: direct operating expenses	**2,965**	1,956
	1,206	205
Total staff costs (including director's remuneration, other staff cost, and other staff's retirement benefit contributions and Incentive Scheme)	**757,024**	733,534

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Income tax expenses comprise:		
PRC Enterprise Income Tax ("EIT")	**15,951**	9,706
Other jurisdictions	**30,854**	30,491
Over-provision in prior years	**(1,562)**	(3,662)
	45,243	36,535
Deferred tax charge	**9,540**	7,797
	54,783	44,332

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

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

No Hong Kong Profits Tax has been provided for 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 an interim dividend (six months ended 30 June 2016: nil) for the current interim period.

For the year ended 31 December 2016, the Board has proposed a final dividend of RMB3.50 cents per ordinary share, or RMB50,340,000 in total, which were approved by the Company's shareholders in the annual general meeting held on 23 June 2017.

9. EARNINGS PER SHARE

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	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the period attributable to owners of the Company)	**158,831**	112,828

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	in '000	*in '000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,411,160**	1,411,160
Effect of dilutive potential ordinary shares in respect of shares awarded under the Incentive Scheme — unvested	**2,589**	2,725
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,413,749**	1,413,885

The weighted average number of ordinary shares of the six months ended 30 June 2017 and the six months ended 30 June 2016 shown above has been arrived at after deducting the 27,126,000 shares held in custody by TC Capital Management Limited, the trustee for the Company's Incentive Scheme.

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 RMB7,083,000 (six months ended 30 June 2016: RMB5,126,000) for cash proceeds of RMB10,046,000 (six months ended 30 June 2016: RMB1,576,000), resulting in a gain on disposal of RMB2,963,000 (six months ended 30 June 2016: loss on disposal of RMB3,550,000).

In addition, during the current interim period, the Group paid approximately RMB61,754,000 (six months ended 30 June 2016: RMB56,208,000) for construction costs and RMB34,025,000 (six months ended 30 June 2016: RMB24,547,000) for the acquisition of property, plant and equipment in order to upgrade its manufacturing capabilities.

No impairment loss (six months ended 30 June 2016: nil) was recognised during the current interim period in respect of obsolete production machinery.

As at 30 June 2017, the Group had not obtained real estate title certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB940,000 (31 December 2016: RMB996,000).

11. GOODWILL

	RMB'000
COST AND CARRYING VALUE	
At 1 January 2016	1,378,452
Exchange adjustments	53,373
At 30 June 2016	1,431,825
Exchange adjustments	(13,010)
At 31 December 2016	1,418,815
Exchange adjustments	84,466
At 30 June 2017	1,503,281

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 2017 (Unaudited) *RMB'000*	31 December 2016 (Audited) *RMB'000*
Within 3 months	**965,230**	916,090
Over 3 months but within 6 months	**263,461**	216,734
Over 6 months but within 1 year	**153,540**	61,083
Over 1 year but within 2 years	**11,421**	11,685
Over 2 years	**22,281**	20,403
	1,415,933	1,225,995

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.

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 2017 (Unaudited) *RMB'000*	31 December 2016 (Audited) *RMB'000*
Within 3 months	**1,162,500**	1,131,852
Over 3 months but within 6 months	**146,197**	107,697
Over 6 months but within 1 year	**69,608**	40,487
Over 1 year but within 2 years	**71,487**	82,834
Over 2 years	**8,039**	8,233
	1,457,831	1,371,103

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

14. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB62,317,000 (six months ended 30 June 2016: RMB102,560,000) and repaid RMB121,958,000 (six months ended 30 June 2016: RMB145,354,000).

As at 30 June 2017, RMB787,177,000 (31 December 2016: RMB797,945,000) of the bank borrowings carry interest at variable rates, ranging from 3 months EURIBOR plus 1.75% to 2%, the prevailing base interest rate released by China Construction Bank minus 10% and interest rate released by the People's Bank of China minus 0.05 percentage point (31 December 2016: 3 months EURIBOR plus 1.60% to 2.25%, the prevailing base interest rate released by China Construction Bank minus 10%, LPR minus 0.1675 percentage point and interest rate released by the People's Bank of China minus 0.05 percentage point) per annum, while RMB68,791,000 (31 December 2016: RMB66,934,000) carry interest at fixed rates ranging from 4.13% to 5.44% (31 December 2016: 4.13% to 5.44%). The bank borrowings as at 30 June 2017 and 31 December 2016 are repayable in full within 4 years. 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 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 company 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 bonds are unsecured and guaranteed by SEC.

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 maturity date on 31 August 2017. The company bonds were reclassified as non-current liabilities on 31 August 2015 and further reclassified as current liabilities on 31 August 2016.

In the opinion of the directors, the interest rate of the company bonds is similar to market interest rate and the carrying amount of the company bonds approximates to their fair value.

16. SHARE CAPITAL

	30 June 2017 (Unaudited)		31 December 2016 (Audited)	
	Number of share	**Amount**	Number of share	Amount
	'000	***RMB'000***	*'000*	*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

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 the trustee under the Incentive Scheme.

As at 30 June 2017, 27,126,000 (31 December 2016: 27,126,000) shares of the Company were held in custody by the trustee for the Incentive Scheme, out of which 5,406,000 shares were granted to but have not yet become vested in 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 Capital Management Limited, 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.

On 16 December 2016, a resolution was passed to adjust the form of incentive from cash instalments and awarded shares to cash instalments only.

As at 30 June 2017, there were in total 21,720,000 (31 December 2016: 21,720,000) unawarded shares amounting to HKD30,842,000 (31 December 2016: HKD30,842,000) held by the trustee as at 30 June 2017.

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 2016	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 and at 31 December 2016	5,406
Awarded during the six months ended 30 June 2017	–
Vested during the six months ended 30 June 2017	–
Outstanding at 30 June 2017	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 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 2017 (year ended 31 December 2016: RMB2,186,000).

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%, 30% and 20% of the cash would be paid during the year of grant and 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 RMB253,000 (six months ended 30 June 2016: RMB752,000) was recognised as an expense for the period.

On 16 December 2016, a cash instalment of RMB11,520,000 has been approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 60% of the cash would be paid during the year of grant, while the remaining 20% 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. An amount in respect of the cash instalment under the Incentive Scheme of RMB960,000 (year ended 31 December 2016: RMB8,832,000) was recognised as an expense for the period.

On 30 June 2017, a cash instalment of RMB7,460,000 has been approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme. 60% of the cash would be paid during the year of grant, while the remaining 20% 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. An amount in respect of the cash instalment under the Incentive Scheme of RMB2,860,000 was recognised as an expense for the period.

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).

	Fair value as at			
Financial liabilities	**30 June 2017** ***RMB'000***	31 December 2016 *RMB'000*	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Interest rate swaps	**Liability –3,799**	Liability –4,717	Level 2	Discounted cash flow. Future cash flows are estimated based on applicable yield curves derived from observable interest rates, discounted at a rate that reflects the credit risk of various counterparties.
Foreign currencies forward contracts	**Liability –72,150**	n/a	Level 2	Black-Scholes-Model The fair values were determined by the Black-Scholes-Model using inputs including expected volatility, risk-free rate of Europe, risk-free rate of America, spot rate of USD to EUR, time to maturity, upper strike rate and lower strike rate of USD to EUR.

Note 1: An increase in the expected volatility used in isolation would result in a decrease in the fair value measurement of the foreign currencies forward contracts 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 2017 and 31 December 2016 are recorded at amortised cost in the (condensed) consolidated financial statements approximate their fair values.

19. PLEDGE OF ASSETS

As at 30 June 2017, except for restricted deposit, trade receivables of RMB20 million (31 December 2016: RMB32 million) and bills receivable of RMB142 million (31 December 2016: RMB177 million) of the Group and the equity interests held by the Company in certain of its subsidiaries have been pledged as security for bank borrowings and other banking facilities granted to the Group.

20. CAPITAL COMMITMENTS

	30 June 2017 (Unaudited) *RMB'000*	31 December 2016 (Audited) *RMB'000*
Authorized, but not contracted in respect of:		
—Acquisition of equity interest of an entity	**41,073**	–
Contracted, but not provided in respect of:		
— Plant and machinery	**34,556**	36,943
— Land and buildings	**13,266**	5,224
	88,895	42,167

21. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of SEC, 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 2017 (Unaudited) *RMB'000*	2016 (Unaudited) *RMB'000*
SEC	Rendering of Comprehensive Service (*Note i*)	**–**	18,868
	Rental expenses *(Note ii)*	**8,547**	11,840
SEC group companies*	Charges for comprehensive services purchased *(Note i)*	**51**	107
	Purchase of materials *(Note i)*	**–**	43
	Sales of goods *(Note i)*	**176,302**	218,515
	Rental expenses *(Note ii)*	**2,348**	2,256
	Interest expense *(Note iii)*	**23,070**	22,062

Notes:

(i) The sales and purchases of goods and services were conducted in accordance with mutually agreed terms with reference to market conditions.

(ii) The rental expenses were 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 SEC 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	
	2017	*2016*
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Fees	**318**	247
Short term employee benefits	**1,356**	979
Post-employment benefits	**112**	115
	1,786	1,341

22. 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 on 18 August 2017.

BUSINESS REVIEW

During 1H2017, the Group generated revenue of RMB4,289 million (1H2016: RMB3,846 million), which grew 12% as compared with 1H2016 and was driven by growth in all of the Group's business segments, particularly the fastener business and the cutting tool business. Profit attributable to owners of the Company for 1H2017 increased by 41% as compared with 1H2016 to RMB159 million (1H2016: RMB113 million), underpinned by higher revenue and a relatively lower increase in the Group's operating expenses mainly because of improved efficiency.

Overview of Principal Business

Set out below are the revenue, gross profit and gross profit margin of respective business segments of the Group:

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	
	2017	2016	**2017**	2016	**2017**	2016
	RMB in million		*RMB in million*			
Fastener	**3,037**	2,727	**569**	522	**18.7%**	19.2%
Percentage of total	**71%**	71%	**66%**	65%		
Turbine Blade	**524**	480	**115**	110	**22.0%**	23.0%
Percentage of total	**12%**	12%	**13%**	14%		
Bearing	**401**	398	**92**	94	**22.9%**	23.6%
Percentage of total	**9%**	10%	**11%**	12%		
Cutting Tool	**327**	241	**89**	74	**27.1%**	30.6%
Percentage of total	**8%**	6%	**10%**	9%		

Fastener Business

The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the energy industry, the aerospace industry and for general industrial applications. In addition to this, the Group also offers customers premium and one-stop services, ranging from testing, logistics and warehousing to ERP and electronic procurement via a proprietary B2B online platform. The Group is a leading global fastener partner for world-renowned automobile manufacturers and our diversified customer portfolio includes Volkswagen, BMW, Renault, Audi, Daimler, General Motors and SAIC Motor.

Revenue of fastener business amounted to RMB3,037 million (1H2016: RMB2,727 million), representing an increase of 11% as compared with 1H2016. Of this, revenue generated from automotive products, representing 83% of the segment's total revenue, increased by 8% as compared with 1H2016 to RMB2,512 million (1H2016: RMB2,335 million), underpinned by the continued growth of passenger and commercial car production in the European Union and the appreciation of Euro. Revenue generated from products for general industrial applications and testing services grew 35% as compared with 1H2016 to RMB522 million (1H2016: RMB386 million), mainly attributable to re-stocking demand from customers in view of rising raw material prices as well as significant increase in export sales. The segment's average gross profit margin remained relatively stable at 18.7% (1H2016: 19.2%).

Turbine Blade Business

By virtue of its advanced process technologies and professional management, the Group is a world-renowned supplier of power components for the energy industry and the aviation industry, and has a leading position in the relevant markets in China. The Group primarily supplies gas turbine blades, steamed turbine blades and forged products for the energy industry, and turbine blades and forged products for the aviation industry. In particular, the Group is a leading supplier of large-scale thermal power steam turbine blade in China, enjoying a significant share in the relevant market therein. The Group's customer portfolio includes well-known energy equipment companies such as Shanghai Electric, Dongfang Electric, Alstom, General Electric and Siemens. It also includes well-known aeronautical engine manufacturers such as Aviation Industry Corporation of China, GE Aviation as well as Rolls-Royce.

Revenue of the turbine blade business amounted to RMB524 million for 1H2017 (1H2016: RMB480 million), representing an increase of 9% as compared with 1H2016. Of which, revenue generated from energy products increased by 9% as compared with 1H2016 to RMB453 million (1H2016: RMB417 million), primarily because of continued increase in demand due to facility upgrades in China. Revenue generated from aviation products grew by 13% as compared with 1H2016 to RMB71 million (1H2016: RMB63 million), mainly due to scaled production and sale of aviation products for some overseas customers, as well as the sale of forged products for C919 aircraft engine. In 1H2017, the segment's average gross profit margin declined slightly to 22.0% (1H2016: 23.0%) mainly due to change of product mix.

Bearing Business

The Group supplies a diversified portfolio of bearing products ranging from precision micro bearings to standard bearings and specialized large-scale bearings for various industries such as aerospace, automobile, cargo railway, energy as well as for general industrial applications. In addition to this, the Group also provides repair and maintenance services relating to bearings used in the cargo railway industry. The Group has a diversified customer portfolio for this segment and enjoys significant shares in relevant markets such as aerospace and cargo railway in China.

Revenue of the bearing business upped slightly as compared with 1H2016 to RMB401 million for 1H2017 (1H2016: RMB398 million). Of which, revenue generated from cargo railway products and services amounted to RMB153 million (1H2016: RMB125 million), representing an increase of 22% as compared with 1H2016, mainly due to an increase in customer demand as well as higher market share. Revenue generated from automotive products increased by 9% as compared with 1H2016 to RMB149 million (1H2016: RMB137 million), mainly as a result of increase in export thanks to higher shares of some of the Group's customers in overseas markets. Revenue generated from aerospace products was stable at RMB44 million (1H2016: RMB43 million). Revenue generated from products for general industrial applications and wind power energy, however, dropped to RMB44 million (1H2016: RMB50 million) and RMB11 million (1H2016: 49 million), respectively, mainly attributable to intense market competition. The segment's average gross profit margin remained relatively stable at 22.9% (1H2016: 23.6%).

Cutting Tool Business

The Group is one of the leading suppliers of cutting tools with a sizeable production capacity and a comprehensive product portfolio in China. The Group principally supplies a variety of cutting tool products for general industrial applications.

Revenue of cutting tool business increased by 36% as compared with 1H2016 to RMB327 million (1H2016: RMB241 million), mainly driven by re-stocking demand from customers in view of rising raw material prices which has led to upward adjustment to product selling prices initiated by major cutting tool manufacturers in China during 1H2017. Meanwhile, the Group's market share further increased amid the aforementioned price adjustment trend. The segment's average gross profit margin was reduced to 27.1% (1H2016: 30.6%), mainly due to higher sales discount and promotional cost for the purpose of capturing more market share in China.

Selling and Distribution Expenses

The Group's selling and distribution expenses are mainly comprised of staff costs, transportation expenses, advertising and promotion expenses, travel expenses and depreciation. Selling and distribution expenses for 1H2017 increased by 5% as compared with 1H2016 to RMB192 million (1H2016: RMB183 million), mainly due to higher staff costs and transportation expenses, partially offset by the reduction of certain other expenses.

Administrative Expenses

The Group's administrative expenses are mainly comprised of staff costs, professional fees, travel expenses, office expenses and depreciation. Administrative expenses for 1H2017 decreased by 3% as compared with 1H2016 to RMB299 million (1H2016: RMB307million), mainly due to lower other expenses, partially offset by higher depreciation and higher staff costs.

Research Expenditure

The Group's research expenditure for 1H2017 increased by 11% as compared with 1H2016 to RMB160 million (1H2016: RMB144 million), mainly due to the increase in investments arising from more research projects.

Finance Costs

The Group's finance costs for 1H2017 amounted to RMB61 million (1H2016: RMB62 million), which remained flat from 1H2016. The interest costs were lower as a result of partial repayment of certain bank loans, which was partially offset by the effect of appreciation of Euro.

Share of Profits and Losses of Associates

In 1H2017, share of profits of associates of the Group was RMB22 million (1H2016: share of profits of associates of RMB16 million).

Profit Attributable to Owners of the Company

In 1H2017, profit attributable to owners of the Company was RMB159 million (1H2016: RMB113 million). Basic earnings per share was RMB11.26 cents (1H2016: RMB8.00 cents).

Cash Flow

As at 30 June 2017, the balance of cash and bank deposits of the Group was RMB1,149 million (31 December 2016: RMB1,175 million), of which RMB46 million was restricted deposits (31 December 2016: RMB52 million). During 1H2017, the Group had a net cash inflow from operating activities of RMB155 million (1H2016: net cash inflow of RMB192 million), a net cash outflow from investing activities of RMB39 million (1H2016: net cash outflow of RMB90 million), and a net cash outflow from financing activities of RMB101 million (1H2016: net cash outflow of RMB90 million).

Assets and Liabilities

As at 30 June 2017, the Group had total assets of RMB9,412 million (31 December 2016: RMB9,120 million), representing an increase of RMB292 million as compared with the beginning of the year. Total current assets were RMB5,091 million (31 December 2016: RMB4,877 million), accounting for 54% of the total assets and representing an increase of RMB214 million as compared with the beginning of the year. Total non-current assets were RMB4,321 million (31 December 2016: RMB4,243 million), accounting for 46% of the total assets and representing an increase of RMB78 million as compared with the beginning of the year.

As at 30 June 2017, the Group had total liabilities of RMB5,943 million (31 December 2016: RMB5,774 million), representing an increase of RMB169 million as compared with the beginning of the year. Total current liabilities were RMB3,109 million (31 December 2016: RMB2,963 million), accounting for 52% of the total liabilities and representing an increase of RMB146 million as compared with the beginning of the year. Total non-current liabilities were RMB2,834 million (31 December 2016: RMB2,811 million), accounting for 48% of the total liabilities and representing an increase of RMB23 million as compared with the beginning of the year.

As at 30 June 2017, the net current assets of the Group were RMB1,982 million (31 December 2016: RMB1,914 million), representing an increase of RMB68 million as compared with the beginning of the year.

Sources of Funding and Indebtedness

As at 30 June 2017, the Group had company bonds, interest-bearing bank and other borrowings with an aggregate amount of RMB3,059 million (31 December 2016: RMB3,045 million), representing an increase of RMB14 million as compared with the beginning of the year. The Group had borrowings repayable within one year of RMB680 million (31 December 2016: RMB670 million) and the Group had borrowings repayable after one year of RMB2,379 million (31 December 2016: RMB2,375 million).

Gearing Ratio

As at 30 June 2017, 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 89% (31 December 2016: 92%).

Restricted Deposits

As at 30 June 2017, among the bank deposits of the Group, RMB46 million (31 December 2016: RMB52 million) was restricted deposits.

Pledges of Assets

As at 30 June 2017, except for restricted deposit, trade receivables of RMB20 million (31 December 2016: RMB32 million) and bills receivable of RMB142 million (31 December 2016: RMB177 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 2017, the Group has no contingent liabilities (31 December 2016: nil).

Capital Expenditure

The total capital expenditure of the Group during 1H2017 was approximately RMB96 million (1H2016: RMB81 million).

Risk of Exchange Rate 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.

SIGNIFICANT EVENTS

The principal place of business of the Company in Hong Kong is changed to Room 901-903, Tower 2, Lippo Centre, No. 89, Queensway, Hong Kong with effect from 18 February 2017.

On 17 March 2017, the Company published an inside information announcement containing information published by Shanghai Electric Group Company Limited ("Shanghai Electric Company") related to the Company as contained in the Report on the Issuance of Shares for the Acquisition of Assets, Complementary Private Placement and Connected Transaction (Draft) (Revised) (《發行股份購買資產並募集配套資金暨關聯交易報告書(草案)(修訂稿)》) prepared by its independent financial advisor on the website of the Shanghai Stock Exchange, website of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and its own website. For details, please refer to the Company's inside information announcement dated 17 March 2017 in relation to the progress of material matters in contemplation.

On 5 May 2017, the Company published an inside information announcement containing information published by Shanghai Electric Company related to the Company as contained in the Announcement in Response to "the Inquiry Letter in Relation to the Disclosure in the Report on the Issuance of Shares to Shanghai Electric Group Company Limited for the Acquisition of Assets, Complementary Private Placement and Connected Transaction (Draft)" from the Shanghai Stock Exchange (《關於上海證券交易所<關於對上海電氣集團股份有限公司發行股份購買資產並募集配套資金暨關聯交易報告書（草案）信息披露的問詢函>的回覆公告》) on the website of the Shanghai Stock Exchange, website of the Hong Kong Stock Exchange and its own website. For details, please refer to the Company's inside information announcement dated 5 May 2017 in relation to the progress of material matters in contemplation.

On 11 June 2017, the Company published an inside information announcement containing information published by Shanghai Electric Company related to the Company as contained in the Response from Shanghai Electric Group Company Limited in Relation to "the Notice of the First Feedback on Administrative Permit Review by China Securities Regulatory Commission" (No. 170861) (《上海電氣集團股份有限公司關於<中國證監會行政許可項目審查一次反饋意見通知書>（170861號）之回覆》) on the website of the Shanghai Stock Exchange, website of the Hong Kong Stock Exchange and its own website. For details, please refer to the Company's inside information announcement dated 11 June 2017 in relation to the progress of material matters in contemplation.

On 23 June 2017, the Company published an inside information announcement that the Board had approved the resolutions regarding the potential investment of EUR5.3 million into CP Tech GmbH ("CP Tech") by Nedscheroef Altena GmbH, an indirect wholly-owned subsidiary of the Company and involving the acquisition of 90% equity interest in CP Tech and the provision of shareholder's loan to CP Tech (the "Proposed Investment"). For details, please refer to the Company's inside information announcement dated 23 June 2017 in relation to the potential investment.

On 23 June 2017, (i) Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie and Mr. Chen Hui were re-elected and appointed as the executive directors of the Company; (ii) Mr. Dong Yeshun was re-elected and appointed as the non-executive director of the Company; and (iii) Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang were re-elected and appointed as the independent non-executive directors of the Company, all of who are the members of the fifth session of the Board at the 2016 annual general meeting ("AGM") held by the Company. Their terms of office will be three years effective starting from 23 June 2017.

On 23 June 2017, Ms. Wei Li, a member of the fourth session of the Supervisory Committee of the Company, did not offer herself for re-election and resigned herself as supervisor at the AGM. (i) Mr. Xu Jianguo (non-employee representative supervisor), Mr. Si Wenpei (non-employee representative supervisor) and Mr. Yu Yun (employee representative supervisor), who are the members of the fifth session of the Supervisory Committee of the Company, were appointed at the AGM as the supervisors of the Company; and (iii) Mr. Xu Jianguo of the Company was also appointed as the chairman of the supervisory committee. The terms of office of the chairman and members of the fifth session of the supervisory committee will be three years effective starting from 23 June 2017.

On 23 June 2017, Mr. Zhou Zhiyan was elected as the chairman of the Company and continued to be appointed as the president of the Company by the Board.

On 23 June 2017, the Board of the Company announced that (i) Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Dong Yeshun were appointed as members of the fifth session of the audit committee; (ii) Mr. Chan Oi Fat was appointed as the chairman of the fifth session of the audit committee; (iii) Mr. Ng Kwong, Alexander was appointed as the secretary of the fifth session of the audit committee; (iv) Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang were appointed as the members of the fifth session of the nomination committee; (v) Mr. Zhou Zhiyan was appointed as the chairman of the fifth session of the nomination committee; (vi) Mr. Ng Kwong, Alexander was appointed as the secretary of the fifth session of the nomination committee; (vii) Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Dong Yeshun was appointed as the members of the fifth session of the remuneration committee; (viii) Mr. Ling Hong was appointed as the chairman of the fifth session of the remuneration committee; (ix) Mr. Ng Kwong, Alexander was appointed as the secretary of the fifth session of the remuneration committee; (x) Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Zhang Jie, Mr. Chen Hui, Mr. Dong Yeshun and Mr. Sun Zechang were appointed as the members of the fifth session of the strategy committee; (xi) Mr. Zhou Zhiyan was appointed as the chairman of the fifth session of the strategy committee; (xii) Mr. Ng Kwong, Alexander was appointed as the secretary of the fifth session of the strategy committee; (xiii) Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Zhang Jie, Mr. Ling Hong and Mr. Chan Oi Fat were appointed as the members of the fifth session of the risk management committee; (xiv) Mr. Zhou Zhiyan was appointed as the chairman of the fifth session of the risk management committee; and (xv) Mr. Ng Kwong, Alexander was appointed as the secretary of the fifth session of the risk management committee. Their terms of office will take effect starting from 23 June 2017 and will end upon the expiration of the fifth session of the Board.

EMPLOYEES

As of 30 June 2017, the Group had approximately 4,397 (31 December 2016: 4,455) 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

As of 30 June 2017, in accordance with the incentive scheme approved by the resolution passed on 17 January 2014 and adjusted by the resolution passed on 16 December 2016, the Company made a distribution to eligible participants based on the amounts of profits distributable and actually available for distribution from the operating results of the Group for the year ended 31 December 2016.

STRATEGIC MEASURES

Good Performance in Major Operational Indicators and First-Time Overtaking by Domestic Business Growth Against Overseas Counterparts

Since the acquisition of Nedfast Investment B.V. (together with its subsidiaries, "Nedschroef") in 2014, the annual growth rates in revenue of our domestic business have been lower than that of Nedschroef. In the first half of 2017, the European automobile market experienced a slight growth, by which Nedschroef improved its performance by leveraging its leading position in the automobile fastener market in Europe. Meanwhile, the Group captured the market opportunity for its operations in the PRC by catching up the pace, so that the growth rates on revenue and net profit overtook that of Nedschroef in the same period. Business of the Group in China performed well in the beginning, which was mainly due to the benefits gained by capturing the opportunity in the market recovery. Operating results has improved because of the Group's high efficiency on decision making and its performance capability, by which our strong operating ability and aggressiveness are revealed. For instance, in view of the pressure regarding turbine blades segment due to increase of demand for turbine blades of gas turbine compressor and its price, the Group has been implementing a project-based management system, in order to lower the costs continuously while improving the quality. The Group has recently won the "Best Quality Award for Suppliers (供應商最佳質量獎)" from Aviation Industry Corporation of China. For its cutting tools sector, with an expected increase in market price, distributors massively restock their inventory, which has substantially increased the operating incomes and lowered the share of trade receivables and inventory on sales incomes. For the fasteners sector, following the market trend of "relieving oversupply" and taking advantage of its own economies of scale and electronic business, the Group has expanded its market share by increasing sales with lower prices, and thus achieved its own business growth.

Simultaneous Growth of Standard Products and High-End Products Achieved and Continuing Optimization on Product Structure and Customer Structure

For the past few years, sales of the Group's standard products have decreased due to the weakened market. However, the Group captured the opportunity of improvement in market demand this year, and has achieved substantial growth. For instance, the sales revenue of standard fasteners (both domestic sales and export sales), thermal power steam turbine blade, cargo railway bearing, bore-machining tools and screw-threading cutting tools have all increased substantially as compared with the corresponding period of last year. Meanwhile, the sales of high-end products, such as aviation turbine blade and forged products for overseas market, hard alloy and numerically controlled cutting tool miniature bearing for aviation uses, have all grew significantly as compared with the corresponding period of last year.

Acquisition of CP Tech marks a Significant Step Towards Achieving the Target of Becoming a High-End Engineering Company in Automobile Development Projects

Today's automotive industry is rapidly changing in adapting to global trends and customers' needs. This requires new vehicle concepts and incorporation of innovative product functionality at an early stage into the designing and manufacturing process. Nedschroef as a leading fasteners partner for future mobility, Nedschroef focuses on the growing demand for special fasteners and other complex engineering parts used in cars powered by traditional fuel and electricity. CP Tech has a proven track record from over 20 years of experience in the design, development, and manufacturing of ultra-strong components and solutions for automotive and motorsport industries globally. The acquisition of a 90% equity interest in CP Tech will enable Nedschroef to take a significant step in developing itself from a specialist manufacturer of automotive fasteners to a high-end engineering company capable of engaging in the development of early-stage automotive projects working jointly with its customers.

FUTURE PROSPECTS

Devotion to its operation work in the second half year to maintain the positive momentum in development over the first half year

Although there is a good performance in major operational indicators in the first half of 2017, the ultimate market demand has not yet fully recovered, and the business environment remained tense. Therefore, we have to keep an eye on it and never give up by capturing the main points for strengthening our advantage and addressing our weaknesses, so as to complete the work with efficiency and move on with the momentum derived from the positive development in the first half of 2017.

Extensive customer base establishment for facilitating the synergy of the businesses of its subsidiaries

The Group will source its customers via three main platforms which are railway transportation, automobile and large size aircrafts in terms of headquarters level, in order to achieve the sharing of customer base among its subsidiaries, strive for a breakthrough in business agreement and order acquisition.

Procurement of the cross-selling between the Chinese markets and the European markets

The Group has established a sales office in Europe and assigned specific employees to explore the market, by proactively facilitating the cross-selling between the Chinese market and the European markets so as to strengthen the synergy, and thus bring about the growth in results.

Further implementation of reforms for enterprise revitalization

The Group will continuously carry out the reform spirit of state-owned assets and enterprises by timely renovating the mechanism among various business segments, realizing integration synergy, strengthening internal management and exploring as well as developing a mix-ownership system. Through reforms, upgrading and restructuring of industries will be speed up and the requirements for market development could be better achieved.

Exploration for acquisition and merger opportunity to drive the continuous upgrading and restructuring of enterprise

One of strategies of the Group is the "dual-way operation" of product operations and capital investment, by which product operations is driven. In the future, the Company will continuously exploring opportunities for acquisition and merger, by virtue of its focus on synergy, aiming at driving the continuous upgrading and restructuring via those opportunities.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code. Having made specific enquiry of all directors and supervisors of the Company, the directors and supervisors of the Company have strictly complied with the required standards set out in the Model Code during 1H2017.

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 2017 to the date of this announcement, but there have been deviations from code provision A.2.1.

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During 1H2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for 1H2017.

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 results).

THE BOARD AND SUPERVISORY COMMITTEE

As at the date of this announcement, the Board comprises Executive Directors, namely Zhou Zhiyan, Mao Yizhong, Xiao Yuman, Zhang Jie, and Chen Hui; Non-executive Director, namely Dong Yeshun; and Independent Non-executive Directors, namely Ling Hong, Chan Oi Fat and Sun Zechang.

As at the date of this announcement, the supervisory committee of the Company comprises Xu Jianguo, Si Wenpei and Yu Yun.

By order of the Board
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman

Shanghai, the PRC
18 August 2017

As at the date of this announcement, the Board consists of Executive Directors, namely Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie and Mr. Chen Hui; Non-executive Director, namely, Mr. Dong Yeshun; and Independent Non-executive Directors, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.