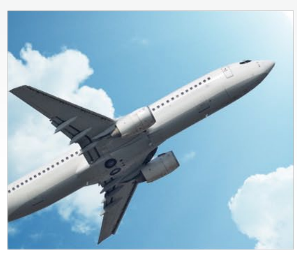
上海集优
SHANGHAI PRIME

SHANGHAI PRIME MACHINERY COMPANY LIMITED

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







INTERIM REPORT 2017

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

Room 901-903
Tower Two, Lippo Centre,
89 Queensway, Hong Kong

Corporate Headquarters

2747 Songhuajiang Road,
Hongkou District, Shanghai
The People's Republic of China
Postal Code : 200437

Legal Representative

Zhou Zhiyan

Authorised Representatives

Zhou Zhiyan
Xiao Yuman

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
Email: pmcservice@pmcsh.com
Telephone: +86 (21) 6472 9900
Fax: +86 (21) 6472 9889

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 2017 ("1H2017") which have been reviewed by Deloitte Touche Tohmatsu.

Business Review

During 1H2017, benefitted from the relieving of oversupply and the demand for restocking in the second half of 2016, China's economy rebounded, the trend of the overall market fluctuation prevailed and the manufacturing and sales of industrial products boosted. Meanwhile, economies in Europe are gradually recovering with a slight growth in the automobile market. Our group captured the opportunity of the market need for improvement and gained a steady increase of operating incomes. Concurrently, by increasing the efficiency on production and operation, the increase of operating cost has been effectively controlled and therefore our net profits have significantly increased.

During 1H2017, the Group recorded a revenue of RMB4,289 million (during the six months ended 30 June 2016 ("1H2016"): RMB3,846 million), representing an increase of 12% as compared with the corresponding period of last year. Profit attributable to owners of the Company was RMB159 million (1H2016: RMB113 million), representing an increase of 41% as compared with the corresponding period of last year. Total assets of the Group amounted to RMB9,412 million (31 December 2016: RMB9,120 million), representing an increase of 3% as compared with the beginning of this year.

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.

CHAIRMAN'S STATEMENT

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 GmbH ("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. 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.

CHAIRMAN'S STATEMENT

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 aircraft 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 speeded up and the requirements for market development could be better achieved.

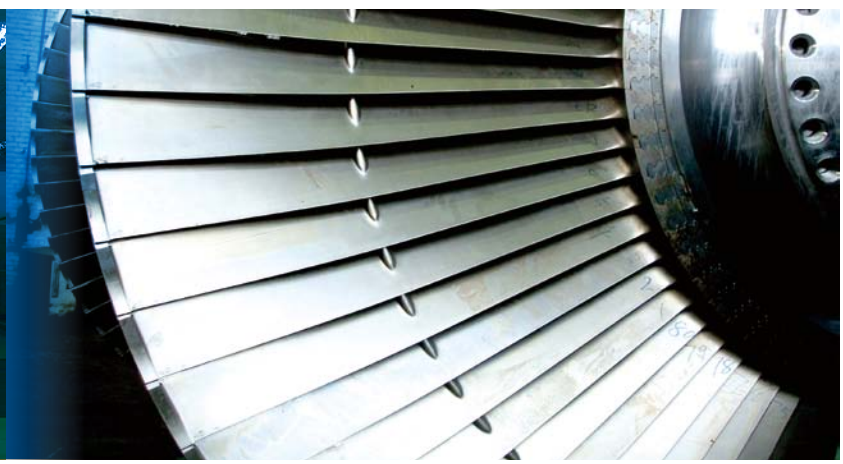
Exploration for acquisition and merger opportunity to drive the continuous upgrading and restructuring of enterprise

One of the 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 explore opportunities for acquisition and merger, by virtue of its focus on synergy, aiming at driving the continuous upgrading and restructuring via those opportunities.

Year 2017 is the "reform year" of the Group. Through continuous market development, speeding up the synergy, restructuring and upgrading, we are striving to gain a steady growth by means of cooperation and drive innovation for development, with an aim of ultimately achieving a comprehensive and sustainable development of the Group. Hereby, I would like to extend my sincere gratitude to all shareholders for their consistent trust and long-term support to the Company, and to the Board, the supervisory committee, senior management and all the employees of the Company for their hard work. We firmly believe that we will create excellent results through continuous effort.

Zhou Zhiyan
Chairman
Shanghai Prime Machinery Company Limited
Shanghai, the PRC

18 August 2017



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

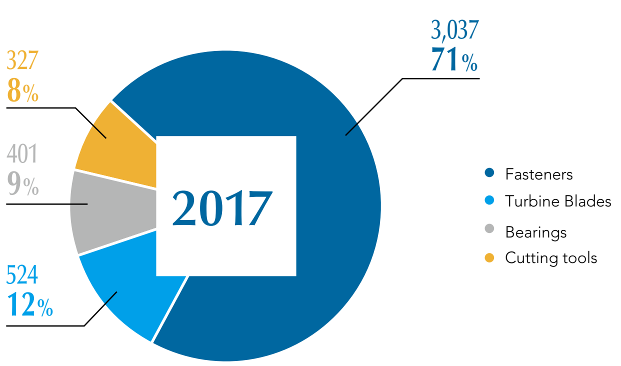
During 1H2017, the Group generated revenue of RMB4,289 million (1H2016: RMB3,846 million), which grew 12% as compared with 1H2016 and was driven by growth in all of the Group's business segments, particularly the fastener business and the cutting tool business. Profit attributable to owners of the Company 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

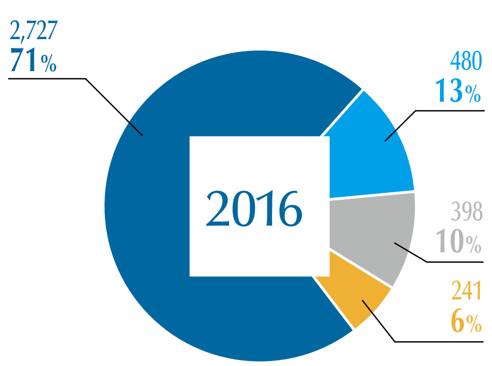
Set out below are the revenue, gross profit and gross profit margin of respective business segments of the Group:

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	**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%**	13%	**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%		

Revenue for 1H2017 (RMB million)



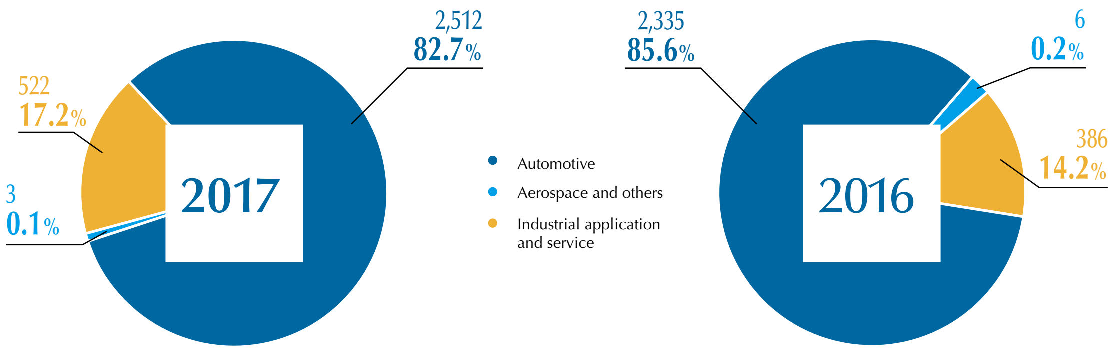
Revenue for 1H2016 (RMB million)



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%).

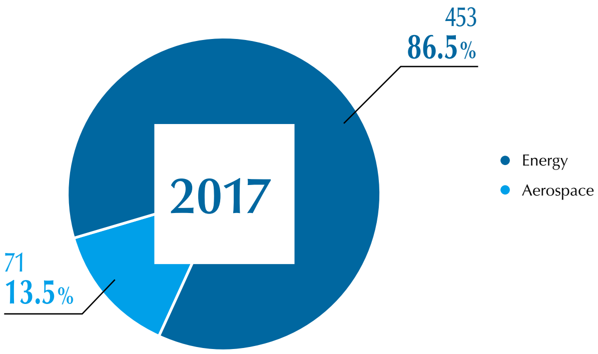


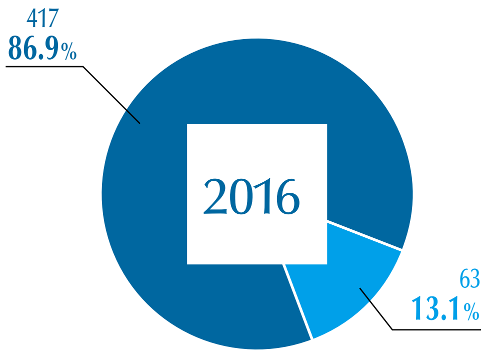
MANAGEMENT DISCUSSION AND ANALYSIS

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.

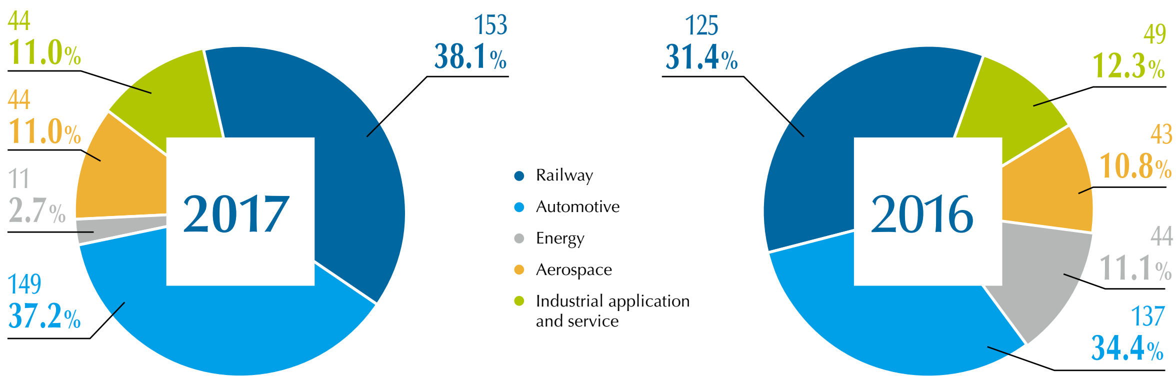




Bearing Business

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: RMB49 million) and RMB11 million (1H2016: 44 million), respectively, mainly attributable to intense market competition. The segment's average gross profit margin remained relatively stable at 22.9% (1H2016: 23.6%).



MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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).

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 deposits, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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, (i) 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 as she wished to devote more energy to develop her own business; (ii) 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.

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	54	Chairman and president
Mao Yizhong	55	Executive director
Xiao Yuman	45	Executive director
Zhang Jie	40	Executive director
Chen Hui	49	Executive director and vice president
Dong Yeshun	56	Non-executive director
Ling Hong	56	Independent non-executive director
Chan Oi Fat	38	Independent non-executive director
Sun Zechang	64	Independent non-executive director
Xu Jianguo	52	Chairman of the supervisory committee
Si Wenpei (appointed on 23 June 2017)	53	Supervisor
Yu Yun	48	Supervisor
Wei Li (resigned on 23 June 2017)	45	Supervisor
Zhu Jun	48	Vice president
Ng Kwong, Alexander	39	Chief financial officer and company secretary

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is the chairman and president of the Company. Having joined the Company in 2005, he served as the chairman and an executive director of the Company from 2005 to 2007. Since 2013, he has served as the vice chairman, executive director and president of the Company. Mr. Zhou joined SEG in August 1983 where he has served as the chief financial officer for the business department, the deputy chief accountant, and he has also been the president of Shanghai Electric Industrial Corporation, the head of investment management department, the investment director and chief financial officer of Shanghai Electric Assets Management Company Limited, as well as the executive deputy head of overseas business department and the 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 an MBA degree from Shanghai Jiao Tong University in 1992. He is a senior accountant.

Mr. Mao Yizhong

Mr. Mao Yizhong is an executive director of the Company as well as the head of industry investment department of Shanghai Electric Group Company Limited and the director of Shanghai Highly (Group) Co., Ltd. (上海海立(集團)股份有限公司) which is listed on the Shanghai Stock Exchange with a stock code of 600619, 900910 (B share). Mr. Mao has over thirty years of experience in the electric industry. Having joined SEG in 1984, Mr. Mao served as a designer and the deputy head of design division of Shanghai Electric Motor Factory (上海電機廠), the head of commerce department of Shanghai Turbine Generator Co., Ltd. (上海汽輪發電機有限公司), the deputy manager of power station business department and the head of technical procurement department of Shanghai Electric (Group) Corporation, the president of Shanghai Electric Power Generation Equipment Co., Ltd. (上海電氣電站設備有限公司), the general manager of procurement department of Shanghai Electric Power Generation Group (上海電氣電站集團), the head of 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), the vice president of Shanghai Electric Power Generation Group (上海電氣電站集團), 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. Xiao Yuman

Mr. Xiao Yuman is an executive director, the secretary of Party Committee, the secretary of Disciplinary Committee and the leader of Trade Union of the Company. Mr. Xiao joined Shanghai Electric (Group) Corporation in 1995 and served as the deputy director of its General Office and deputy director, executive deputy director, and director of its Research Office. He has also worked in positions such as the office manager of Shanghai Electric Group Company Limited. Mr. Xiao obtained a Master's degree in Business Administration from Antai College of Economics & Management, Shanghai Jiao Tong University in 2007. He is also a senior economist.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang Jie

Mr. Zhang Jie is an executive director of the Company, the vice president of financial group of Shanghai Electric Group Company Limited, an executive director and general manager of Shanghai Electric Hongkong Company Limited and an executive director of Shanghai Electric Group Finance Company Limited. Mr. Zhang joined Shanghai Electric (Group) Corporation in 2011 and served as the deputy general manager of its finance and budgeting department. Mr. Zhang obtained a Bachelor's degree in Economics and a Master's degree in Western Economics from Peking University in 1999 and 2002 respectively and a Ph.D. degree in Finance from the School of Business at the University of Wisconsin-Madison in 2007.

Mr. Chen Hui

Mr. Chen Hui is an executive director and the vice president of the Company. Having joined the Company since 2005, he served as the vice president, secretary to the Board and executive director of the Company. He joined SEG in July 1987 and served as manager of Shanghai Zhenhua Bearing Factory (上海振華軸承總廠) and was also the president of Shanghai Electric Bearings Company Limited. Mr. Chen graduated from Shanghai University with a degree in mechanical automation in 1996 and obtained an MBA degree from Shanghai Jiao Tong University in 2014. He is an engineer, a senior economist 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. He currently acts as 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), an independent director of Shanghai Xintonglian Packing Co., Ltd. (上海新通聯包裝股份有限公司) which is listed on Shanghai Stock Exchange with a stock code of 603022 and the co-founder of Shanghai Volcanic Stone Investment Management Co., Ltd. (上海火山石投資管理有限公司). He served as a partner of IDG Capital, 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) and 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.

Mr. Ling Hong

Mr. Ling Hong is an independent non-executive director of the Company as well as the head, professor and a tutor of doctoral students of information management and information system department of the management faculty in Fudan University, an 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 management faculty in Fudan University in Shanghai 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.

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 of Ta Yang Group Holdings Limited (Stock code: 1991) listed on the Main Board of the Stock Exchange in Hong Kong. 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. Mr. Chan graduated from The City University of Hong Kong with a Bachelor's degree in accounting. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan has extensive experience in professional accounting, auditing and corporate financial services.

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 in Tongji University, the doctoral tutor for the automotive engineering in Tongji University, the chair professor for automotive electronics and the chair professor for new energy automobile of the Sino Germany School in Tongji University, the vice chairman of the Automotive Electronics Committee and the vice chairman of the Electromobile Committee of the Society of Automotive Engineering in China. Mr. Sun has over twenty years of experience in the automobile engineering industry and has served as the 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 in 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) which is listed on the Shanghai Stock Exchange with a stock code of 600619, 900910 (B share), the director of Haitong Securities Co., Ltd. which is listed on the Shanghai Stock Exchange and the Stock Exchange in Hong Kong with its stock codes of 600837 and 6837HK respectively and the director of Orient Securities Co., Ltd. which is listed on the Shanghai Stock Exchange and the Stock Exchange in Hong Kong with its stock codes of 600958 and 3958HK. He joined SEG in 1984 and has served as the deputy head of financial budget department of Shanghai Electric (Group) Corporation, the director of the Company, the deputy head of assets and finance department of Shanghai Electric Assets Management Company Limited, the assistant of 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 has worked for the Shanghai Cable Works and the assets and finance department of Shanghai Electric Assets Management Company Limited. After graduated from the Correspondence Institute of the Party School of C.C. in 2004, he obtained his EMPACC degree from The Chinese University of Hong Kong in 2013. He is a senior accountant.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Si Wenpei

Mr. Si Wenpei is a supervisor of the Company and has been the deputy general manager of asset and finance department of Shanghai Electric Group Company Limited since August 2016. Since July 1986, Mr. Si had served at Shanghai Electric (Group) Corporation and/or its subsidiaries in various positions, including the secretary of the Board and chief accountant of Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) from May 2005 to May 2012, and the secretary of the Board and the finance director of the subsidiary from May 2012 to August 2016. Mr. Si graduated from the Communist Party of China Party School Correspondence College (中共中央黨校函授學院) in December 1997 with a Bachelor's degree in economics and management by correspondence. Mr. Si subsequently obtained an executive master's degree in business administration from the China Europe International Business School in April 2006. He is an accountant.

Mr. Yu Yun

Mr. Yu Yun is a supervisor of the Company as well as the deputy secretary of the Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union in 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 the deputy head of training division, deputy secretary of the Youth League and the vice chairman of the labour union in Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as the director of GM office, the vice chairman of labour union and the manager of human resources department of Shanghai Huatong Switch Co., Ltd. He has been the deputy secretary of the Communist Party, the secretary of disciplinary committee of the Party and the chairman of labour union in 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.

Senior Management

Mr. Zhu Jun

Mr. Zhu Jun is the vice president of the Company, the general manager of its fastener department, and the general manager and deputy secretary of party committee of Shanghai Biaowu High Tensile Fasteners Company Limited (上海標五高強度緊固件有限公司). Mr. Zhu joined the Company in 2006 and has served as the assistant of the general manager and deputy general manager of its export department and the executive deputy general manager of fastener department of the Company and as well as the executive deputy general manager of Shanghai Biaowu High Tensile Fasteners Company Limited (上海標五高強度緊固件有限公司). Mr. Zhu graduated from the Shanghai University of Engineering Science with a Bachelor's degree in engineering and obtained an EMBA degree from the Shanghai National Accounting Institute and Arizona State University in the United States in July 2014.

Mr. Ng Kwong, Alexander

Mr. Ng Kwong, Alexander is the chief financial officer and company secretary 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 master's degree of Science in Financial Analysis and from The Chinese University of Hong Kong with a bachelor's degree 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 2017, 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	(2)	Beneficial owner	Long position	8.41	4.44

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 2017 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 2017, 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
Chen Hui	H	219,500	(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 2017, 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 1H2017.

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 2017 to the date of this report, 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.

OTHER INFORMATION

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 report).

BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

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

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 26 to 50, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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 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

18 August 2017

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	
	Notes	**2017 (Unaudited) RMB'000**	2016 (Unaudited) 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

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

For the six months ended 30 June 2017

	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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2017

	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

The condensed consolidated financial statements on pages 26 to 50 were approved and authorised for issue by the board of directors on 18 August 2017 and are signed on its behalf by:

Zhou Zhiyan
DIRECTOR

Xiao Yuman
DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	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	Shares 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 2017 (audited) As previously reported	1,438,286	702,945	50,469	3,279	314,851	(2,898)	4,492	1,084,560	50,340	(315,133)	(30,425)	3,300,766	45,723	3,346,489
Profit for the period	–	–	–	–	–	–	–	158,831	–	–	–	158,831	469	159,300
Other comprehensive income for the period	–	–	–	–	–	1,089	4,860	–	–	6,310	–	12,259	104	12,363
Total comprehensive income for the period	–	–	–	–	–	1,089	4,860	158,831	–	6,310	–	171,090	573	171,663
Final 2016 dividends declared	–	–	–	–	–	–	–	–	(50,340)	–	–	(50,340)	–	(50,340)
Recognition of equity-settled share-based payments	–	–	–	1,093	–	–	–	–	–	–	–	1,093	–	1,093
Balance at 30 June 2017 (Unaudited)	1,438,286	702,945	50,469	4,372	314,851	(1,809)	9,352	1,243,391	–	(308,823)	(30,425)	3,422,609	46,296	3,468,905

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

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	Shares 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 owns 57% of the paid-in capital of SPTCB, representing 57% equity interest in SPTCB. The remaining 43% equity interest is accounted for as non-controlling interests.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**154,563**	191,864
INVESTING ACTIVITIES		
Interest received	**6,059**	6,322
Dividend received from available-for-sale investments	**60**	60
Purchases of property, plant and equipment	**(95,779)**	(80,755)
Proceeds from disposal of property, plant and equipment	**10,046**	1,576
Purchases of intangible assets	**(3,009)**	(94)
Withdrawal of non-restricted deposits with original maturity of over three months	**100,500**	10,500
Placement of non-restricted deposits with original maturity of over three months	**(62,000)**	(30,500)
Withdrawal of restricted bank deposits	**77,657**	92,885
Placement of restricted bank deposits	**(72,394)**	(90,070)
NET CASH USED IN INVESTING ACTIVITIES	**(38,860)**	(90,076)
FINANCING ACTIVITIES		
Bank borrowings obtained	**62,317**	102,560
Repayment of bank borrowings	**(121,958)**	(145,354)
Dividends paid	**–**	(2,438)
Interest paid	**(40,871)**	(47,522)
Capital injection from non-controlling shareholders upon incorporation of a subsidiary	**–**	2,792
NET CASH USED IN FINANCING ACTIVITIES	**(100,512)**	(89,962)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**15,191**	11,826
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,079,793**	888,462
Effect of foreign exchange rate changes	**2,296**	(2,005)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,097,280**	898,283
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**1,102,280**	938,783
Less: non-restricted time deposits with original maturity of over three months	**5,000**	40,500
Cash and cash equivalents as stated in the statement of cash flows	**1,097,280**	898,283

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 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 HKICPA 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.

4. SEGMENT INFORMATION (continued)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 30 June 2017

4. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

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

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

	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): 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 machinery 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 for 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 rates 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 '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

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 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.

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 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 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 deposits, 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 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	For the six months ended 30 June 2016 (Unaudited) RMB'000
SEC	Rendering of comprehensive services (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

21. 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 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 key management personnel of the Group

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) 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.