上 海 集 優 機 械 股 份 有 限 公 司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

SUMMARY

Revenue for 1H2018 was RMB4,714 million, representing an increase of 10% as compared with 1H2017.

Profit attributable to owners of the Company for 1H2018 was RMB186 million, representing an increase of 17% as compared with 1H2017.

Basic earnings per share for 1H2018 was RMB13.20 cents, representing an increase of 17% as compared with 1H2017.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the "**Board**") of Shanghai Prime Machinery Company Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2018 ("**1H2018**"), together with the comparative figures for the six months ended 30 June 2017 ("**1H2017**"). The Group's unaudited interim results have been reviewed by the audit committee of the Company and Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	3A	**4,713,769**	4,289,168
Cost of sales		**(3,791,343)**	(3,424,510)
Gross profit		**922,426**	864,658
Other income and other gains and losses	4	**60,288**	39,363
Selling and distribution expenses		**(222,009)**	(191,685)
Administrative expenses		**(322,398)**	(299,232)
Research expenditure		**(169,852)**	(159,514)
Other expenses		**(227)**	(385)
Share of profits of associates		**22,810**	22,017
Share of loss of a joint venture		**(124)**	(462)
Finance costs		**(47,813)**	(60,677)
PROFIT BEFORE TAX	6	**243,101**	214,083
Income tax expense	7	**(54,975)**	(54,783)
PROFIT FOR THE PERIOD		**188,126**	159,300
Profit for the period attributable to owners of the Company		**186,250**	158,831
Profit for the period attributable to non-controlling interests		**1,876**	469
		188,126	159,300

	Note	For the six months ended 30 June **2018** **(Unaudited)** ***RMB'000***	2017 (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		**1,277**	4,860
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(9,160)**	6,414
Fair value gain on debt instruments measured at fair value through other comprehensive income		**13,824**	–
Fair value gain on interest rate swap contracts designated as derivative financial instruments		**2,366**	1,452
Income tax relating to components of other comprehensive income		**(592)**	(363)
Other comprehensive (expense) income for the period, net of income tax		**7,715**	12,363
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**195,841**	171,663
Total comprehensive income for the period attributable to:			
Owners of the Company		**194,624**	171,090
Non-controlling interests		**1,217**	573
		195,841	171,663
EARNINGS PER SHARE	9		
Basic (RMB cents)		**13.20**	11.26
Diluted (RMB cents)		**13.18**	11.23

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,283,093**	2,343,766
Prepaid lease payments		**134,189**	135,924
Goodwill	11	**1,484,568**	1,513,334
Intangible assets		**29,778**	32,400
Interest in a joint venture		**444**	568
Interests in associates		**167,159**	144,349
Financial assets at fair value through profit or loss ("FVTPL")		**4,815**	–
Available-for-sale investments		**–**	2,043
Deferred tax assets		**142,376**	124,717
		4,246,422	4,297,101
CURRENT ASSETS			
Prepaid lease payments		**3,463**	3,463
Inventories	12	**1,641,173**	1,742,302
Amounts due from customers for contract work		**–**	59,956
Bill receivables		**–**	716,854
Trade receivables	13	**656,939**	1,264,452
Debt instruments at fair value through other comprehensive income ("FVTOCI")	14	**1,702,948**	–
Prepayments, deposits and other receivables		**217,179**	298,050
Contracts costs		**69,235**	–
Financial assets at FVTPL		**29,065**	–
Restricted deposits		**84,289**	76,039
Bank balances and cash		**846,347**	804,956
		5,250,638	4,966,072
CURRENT LIABILITIES			
Trade payables	16	**1,512,111**	1,569,335
Bills payable		**364,034**	363,961
Other payables and accruals		**429,102**	478,692
Derivative financial instruments		**802**	2,583
Tax liabilities		**67,847**	66,707
Government grants		**27,142**	16,751
Contract liabilities		**56,661**	–
Refund liabilities		**7,435**	–
Obligations under finance leases		**5,876**	6,854
Shareholder's loan		**205,500**	203,900
Bank borrowings	17	**157,528**	171,383
		2,834,038	2,880,146
NET CURRENT ASSETS		**2,416,600**	2,085,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,663,022**	6,383,027

	Notes	**30 June 2018 (Unaudited)** ***RMB'000***	31 December 2017 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Shareholders' loan		**1,701,624**	1,675,446
Bank borrowings	17	**667,894**	679,417
Government grants		**228,609**	245,900
Obligations under finance leases		**23,088**	25,883
Other long-term payables		**56,650**	45,257
Deferred tax liabilities		**48,020**	20,753
Retirement benefit obligations		**123,456**	127,346
		2,849,341	2,820,002
NET ASSETS		**3,813,681**	3,563,025
CAPITAL AND RESERVES			
Share capital	18	**1,438,286**	1,438,286
Reserves		**2,328,912**	2,079,473
Total equity attributable to owners of the Company		**3,767,198**	3,517,759
Non-controlling interests		**46,483**	45,266
TOTAL EQUITY		**3,813,681**	3,563,025

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL

Shanghai Prime Machinery Company Limited (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. The parent of the Company is Shanghai Electric Group Company Limited ("SEC") and the ultimate holding parent is Shanghai Electric Corporation ("SEG").

The principal activities of the Group are the design, manufacture and sale of turbine blades, bearings, fasteners, cutting tools and others, the provision of related technical services and investment holding.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *RMB'000*	**HKFRS 15** *RMB'000*	**HKFRS 9** *RMB'000*	**1 January 2018 (Restated)** *RMB'000*
Non-current Assets				
Available-for-sale investments	2,043	–	(2,043)	–
Financial assets at FVTPL	–	–	3,898	3,898
Current Assets				
Contract costs	–	59,956	–	59,956
Amounts due from customers for contract work	59,956	(59,956)	–	–
Bills receivable	716,854	–	(716,854)	–
Debt instruments at FVTOCI	–	–	1,426,152	1,426,152
Trade receivables	1,264,452	–	(661,632)	602,820
Current Liabilities				
Refund liabilities	–	10,198	–	10,198
Contract liabilities	–	47,781	–	47,781
Other payables and accruals	478,672	(57,979)	–	420,693
Capital and reserves				
Reserves	2,079,473	–	49,521	2,128,994

3A. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	For the six months ended 30 June 2018				
Segments	**Bearing** *RMB'000*	**Turbine blade** *RMB'000*	**Cutting tool** *RMB'000*	**Fastener** *RMB'000*	**Total** *RMB'000*
Types of goods or service					
Sales of goods and services	409,555	459,264	345,903	3,499,047	4,713,769
Total	409,555	459,264	345,903	3,499,047	4,713,769
Timing of revenue recognition					
A point in time	409,555	459,264	345,903	3,302,802	4,517,524
Over time	–	–	–	196,245	196,245
Total	409,555	459,264	345,903	3,499,047	4,713,769

3B. SEGMENT INFORMATION

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

(i) the bearing segment is mainly engaged in the production and sale of bearings;

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

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

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

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

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

Segment assets exclude corporate and other unallocated head office assets as these assets are managed on a group basis.

Segment liabilities exclude corporate and other unallocated head office liabilities as these liabilities are managed on a group basis.

Inter-segment sales are transacted at prevailing market prices.

Segment revenue and results

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

For the six months ended 30 June 2018

	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	409,555	459,264	345,903	3,499,047	–	4,713,769
Inter-segment sales	–	–	211	–	–	211
Subtotal	409,555	459,264	346,114	3,499,047	–	4,713,980
Eliminations						(211)
Group revenue						4,713,769
Segment profit	36,957	26,799	49,834	163,783	–	277,373
Interest and dividend income and unallocated gains						8,784
Corporate and other unallocated expenses						(17,929)
Finance costs						(47,813)
Share of profits of associates	17,200	–	(110)	–	5,720	22,810
Share of loss of a joint venture	–	–	–	(124)	–	(124)
Profit before tax						243,101

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 (losses) of associates	16,481	–	630	–	4,906	22,017
Share of loss of a joint venture	–	–	–	(462)	–	(462)
Profit before tax						214,083

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other income		
Dividend income from available-for-sale investments	**–**	60
Interest income from bank balances and deposits	**2,976**	6,059
Net rental income	**204**	1,206
Government grants *(note)*	**15,295**	15,242
Compensation income	**3,054**	15,222
Technology service income	**3,441**	541
Others	**3,938**	1,046
	28,908	39,376
Other gains and losses		
Sales of spare parts and scrap materials	**89,298**	47,488
Less costs related to sales of spare parts and scrap materials	**(55,135)**	(34,031)
	34,163	13,457
Gain on disposal of property, plant and equipment	**2,550**	2,963
Impairment loss in respect of trade receivables	**(12,658)**	(5,548)
Impairment loss in respect of other receivables	**(187)**	–
Loss on settlement of derivative financial instruments	**(960)**	–
Loss arising on financial liabilities at FVTPL	**–**	(69,505)
Gain arising on financial assets at FVTPL	**29,065**	–
Net exchange gain (loss)	**(24,341)**	58,620
Gain on write-back of long-aged payables	**3,748**	–
	31,380	(13)
Total	**60,288**	39,363

Notes: Government grants represent the amount received from local governments. Government grants of approximately (a) RMB8,558,000 (six months ended 30 June 2017: RMB6,726,000) 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) RMB6,737,000 (six months ended 30 June 2017: RMB8,516,000) represents subsidies for the acquisition of machinery amortised to profit or loss for the period.

5. DISPOSAL OF A SUBSIDIARY

During the current interim period, the Group entered into a sale agreement to dispose of its 100% equity interest in Shanghai Electric Bearing to SEG. The disposal was completed on 29 May 2018, on which date the Group lost control of Shanghai Electric Bearing.

Consideration received

	RMB'000
Cash consideration received	58,849

Analysis of assets and liabilities of Shanghai Electric Bearing as at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	51,443
Inventories	40,846
Prepayments, deposits and other receivables	17,772
Bank balances and cash	2
Trade payables	(48,496)
Other payables and accruals	(7,133)
Net assets disposed of	54,434
Gain on disposal of a subsidiary:	
Consideration received	58,849
Net assets disposed of	(54,434)
Gain on disposal of a subsidiary accounted for as deemed capital contribution and recognized in contributed surplus	4,415

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

	RMB'000
Cash consideration	58,849
Cash and cash equivalents disposed of	(2)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	58,847

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

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses	**3,787,156**	3,399,342
Cost of services provided	**4,187**	25,168
Depreciation of property, plant and equipment	**138,892**	144,342
Release of prepaid lease payments	**1,733**	1,737
Amortisation of intangible assets	**4,759**	5,315
Total depreciation and amortisation	**145,384**	151,394
Allowance for inventories	**20,017**	27,289
Reversal of allowance for inventories (recognised in cost of sales)	**(9,864)**	(10,242)
Total staff costs (including director's remuneration, other staff cost, and other staff's retirement benefit contributions and Incentive Scheme)	**784,837**	757,024

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Income tax expenses comprise:		
PRC Enterprise Income Tax ("EIT")	**23,568**	15,951
Other jurisdictions	**24,276**	30,854
Over-provision in prior years	**(2,477)**	(1,562)
	45,367	45,243
Deferred tax charge	**9,608**	9,540
	54,975	54,783

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 2017: nil) for the current interim period.

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	
	2018	2017
	(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)	**186,250**	158,831

	For the six months ended 30 June	
	2018	2017
	(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	**1,935**	2,589
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,413,095**	1,413,749

The weighted average number of ordinary shares of the six months ended 30 June 2018 and the six months ended 30 June 2017 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 RMB4,187,000 (six months ended 30 June 2017: RMB7,083,000) for cash proceeds of RMB6,737,000 (six months ended 30 June 2017: RMB10,046,000), resulting in a gain on disposal of RMB2,550,000 (six months ended 30 June 2017: loss on disposal of RMB2,963,000).

In addition, during the current interim period, the Group paid approximately RMB104,474,000 (six months ended 30 June 2017: RMB61,754,000) for construction costs and RMB44,129,000 (six months ended 30 June 2017: RMB34,025,000) for the acquisition of property, plant and equipment in order to upgrade its manufacturing capabilities.

As at 30 June 2018, the Group had not obtained real estate title certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB828,000 (31 December 2017: RMB884,000).

11. GOODWILL

	RMB'000
At 31 December 2017 (audited)	1,513,334
Exchange adjustments	(28,766)
At 30 June 2018 (unaudited)	1,484,568

12. INVENTORIES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Raw materials and consumables	**576,017**	654,149
Work in progress	**430,264**	388,904
Finished goods	**634,892**	699,249
	1,641,173	1,742,302

13. 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 2018 (Unaudited) *RMB'000*	31 December 2017 (Audited) *RMB'000*
Within 3 months	**575,071**	831,061
Over 3 months but within 6 months	**41,310**	269,732
Over 6 months but within 1 year	**34,987**	119,126
Over 1 year but within 2 years	**5,571**	26,382
Over 2 years	**–**	18,151
	656,939	1,264,452

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.

14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

	30 June 2018 (Unaudited) *RMB'000*	31 December 2017 (Audited) *RMB'000*
Trade receivables	**880,310**	–
Trade receivables supported by bills	**822,638**	–
	1,702,948	–

15. IMPAIRMENT ASSESSMENT OF FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODEL

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables (including the trade receivables included in debt instruments at FVTOCI) and which are assessed collectively based on provision matrix as at 30 June 2018.

	Average loss rate	**Gross carrying amount** *RMB'000*	**Impairment loss allowance** *RMB'000*
Current (not past due)	–	474,332	–
Within 90 days past due	0.92%	607,758	5,610
91 to 180 days past due	2.19%	184,987	4,044
181 days to 1 year past due	3.53%	185,351	6,536
1 to 2 years past due	72.20%	55,192	39,850
Over 2 years past due	100.00%	22,190	22,190
		1,529,810	78,230

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost of effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided RMB78,230,000 impairment allowance based on the provision matrix. In addition, debtors with significant balances amounting to RMB24,075,000 as at 30 June 2018 were assessed individually and impairment allowance of RMB12,275,000 were made on these debtors for the current interim period.

The movements in allowance for impairment with trade receivables (including the trade receivables included in debt instruments at FVTOCI) are as below.

	For the six months ended 30 June 2018 *RMB'000*
Balance at 1 January 2018*	77,847
Net remeasurement of loss allowance	12,658
Balance at 30 June 2018	90,505

* The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

16. 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 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Within 3 months	**1,297,764**	1,381,590
Over 3 months but within 6 months	**127,643**	126,202
Over 6 months but within 1 year	**66,180**	37,914
Over 1 year but within 2 years	**13,499**	20,279
Over 2 years	**7,025**	3,350
	1,512,111	1,569,335

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.

17. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB89,093,000 (six months ended 30 June 2017: RMB62,317,000) and repaid RMB70,344,000 (six months ended 30 June 2017: RMB121,938,000).

As at 30 June 2018, RMB744,456,000 (31 December 2017: RMB773,397,000) of the bank borrowings carry interest at variable rates, ranging from 3 months EURIBOR plus 1.35% to 2%, interest rate released by the People's Bank of China minus 0.05 percentage point (31 December 2017: 3 months EURIBOR plus 1.35% to 2%, interest rate released by the People's Bank of China minus 0.05 percentage point) per annum, while RMB80,966,000 (31 December 2017: RMB77,403,000) carry interest at fixed rates ranging from 2.7% to 5.44% (31 December 2017: 2.7% to 5.44%) per annum. Bank borrowings repayable by the Group within one year were RMB157,528,000 (31 December 2017: RMB171,383,000), whereas borrowings repayable after one year were RMB667,894,000 (31 December 2017: RMB679,417,000). The proceeds raised during the current interim period were used for general working capital purpose.

18. SHARE CAPITAL

As at 30 June 2018, 27,126,000 (31 December 2017: 27,126,000) shares of the Company were held in custody by the trustee for the Incentive Scheme, out of which 4,882,000 shares were granted to the participants. At 30 June 2018, 2,947,000 shares had become vested. Further details are set out in note 19.

19. INCENTIVE SCHEME

As at 30 June 2018, there were in total 22,244,000 (31 December 2017: 21,720,000) unawarded shares amounting to HKD31,586,000 (31 December 2017: HKD30,842,000) held by the trustee.

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*
At 31 December 2017	5,406
Vested during the six months ended 30 June 2018	2,947
Forfeited during the six months ended 30 June 2018	524
Outstanding at 30 June 2018	1,935

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 since 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 RMB878,656 was recognised as an expense for the period ended 30 June 2018 (six months ended 30 June 2017: RMB1,093,000).

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

On 30 June 2015, a total of cash instalments of RMB8,326,000 has been approved to grant to the directors of the Company and employees of the Group under the Incentive Scheme. 50%, 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 RMB0 (six months ended 30 June 2017: RMB253,000) 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 RMB384,000 (six months period ended 30 June 2017: RMB960,000) 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 RMB622,000 (six months period ended 30 June 2017: RMB2,860,000) was recognised as an expense for the period.

On 16 March 2018, a cash instalments of RMB15,120,000 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 RMB4,836,000 (six months period ended 30 June 2017: nil) was recognised as an expense for the period.

20. 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			
	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Financial liabilities				
Interest rate swaps	**Liability 802**	Liability 2,583	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.
Financial assets				
Foreign currencies forward contracts	**Asset 29,065**	Liability –	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.
Debts instruments at FVTOCI	**Asset 1,702,948**	Asset –	Level 2	Discounted cash flow at a discount rate that reflects the issuer's current discount rate at the end of the repay period
Financial assets at FVTPL for unlisted equity investments	**Asset 4,815**	Asset –	Level 2	Market approach P/E ratio compared with those listed entities

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.

There were no transfer: between level 1 and 2 during both periods.

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 2018 and 31 December 2017 recorded at amortised cost in the (condensed) consolidated financial statements approximate their fair values.

21. PLEDGE OF ASSETS

As at 30 June 2018, except for restricted deposits and debt instruments at FVTOCI of RMB257,000,000 (31 December 2017: RMB222,000,000) and property, plant and equipment of RMB47,000,000 (31 December 2017: RMB51,000,000) 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.

22. CAPITAL COMMITMENTS

	30 June 2018 (Unaudited) ***RMB'000***	31 December 2017 (Audited) *RMB'000*
Contracted, but not provided in respect of:		
— Plant and machinery	**47,780**	39,912

23. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of SEC, which is a H-share and A-share listed entity. The ultimate holding parent is SEG, 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**	
		2018	2017
		(Unaudited)	(Unaudited)
		RMB'000	*RMB'000*
SEG Group and its associate excluding SEC and its subsidiaries	Sales of goods *(Note i)*	**1,979**	1,499
	Rental expense *(Note ii)*	**2,207**	8,547
	Interest expense *(Note iii)*	**22,221**	23,070
SEC and its Subsidiaries	Sales of goods *(Note i)*	**187,868**	174,803
	Comprehensive services charges incurred	**9**	51
	Rental expenses *(Note ii)*	**9,848**	2,348
	Interest expense *(Note iii)*	**3,828**	–

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.

(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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Fees	**292**	318
Short term employee benefits	**917**	1,356
Post-employment benefits	**98**	112
	1,307	1,786

BUSINESS REVIEW

During 1H2018, the Group generated revenue of RMB4,714 million (1H2017: RMB4,289 million), upped 10% as compard with 1H2017. The increase in revenue was primarily driven by growth in the fastener business and the acquisition of CP Tech GmbH ("**CP Tech**") completed in August 2017. The Group's overall gross profit margin was under pressure and dropped slightly to 19.6% (1H2017: 20.2%) mainly due to higher raw material costs, increased outsourcing spending and unfavorable foreign currency fluctuations during 1H2018. Total operating expenses grew 10% to RMB714 million (1H2017: RMB650 million) mainly due to increased sales and distribution expenses. Profit attributable to owners of the Company for 1H2018 increased by 17% as compared with 1H2017 to RMB186 million (1H2017: RMB159 million), helped by the reduction in finance costs and foreign exchange gain.

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	
	2018	2017	**2018**	2017	**2018**	2017
	RMB in million		*RMB in million*			
Fastener	**3,499**	3,037	**616**	569	**17.6%**	18.7%
Percentage of total	**74%**	71%	**67%**	66%		
Turbine Blade	**459**	524	**92**	115	**19.9%**	22.0%
Percentage of total	**10%**	12%	**10%**	13%		
Bearing	**410**	401	**114**	92	**27.9%**	22.9%
Percentage of total	**9%**	9%	**12%**	11%		
Cutting Tool	**346**	327	**100**	89	**28.9%**	27.1%
Percentage of total	**7%**	8%	**11%**	10%		

Fastener Business

The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for 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. In August 2017, the Group completed the acquisition of CP Tech, a high-tech engineering company for the automotive and motorsport industry, enabling the Group to develop functionality knowledge and technical know-how relating to future vehicle concepts including electric and driverless vehicles, and to strengthen the Group's business relationship with its automotive customers.

Revenue of fastener business amounted to RMB3,499 million (1H2017: RMB3,037 million), representing an increase of 15% as compared with 1H2017. Of this, revenue generated from automotive products, representing 83% of the segment's total revenue, increased by 16% as compared with 1H2017 to RMB2,911 million (1H2017: RMB2,512 million), underpinned by the continued growth of passenger and commercial car production in the European Union countries and the appreciation of Euro. Revenue generated from products for general industrial applications and testing services grew 12% as compared with 1H2017 to RMB584 million (1H2017: RMB522 million), mainly attributable to increased average product selling prices. Included in this segment was CP Tech's contribution of RMB96 million revenue to the Group in 1H2018 (1H2017: nil), representing mainly sales of high-performance automotive components. The segment's average gross profit margin was reduced to 17.6% (1H2017: 18.7%) mainly because of rising raw material costs, increased outsourcing spending as well as the depreciation of USD that adversely affected the margin of the Group's export sales of fasteners.

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 RMB459 million for 1H2018 (1H2017: RMB524 million), representing a decrease of 12% as compared with 1H2017. Of which, revenue generated from energy products decreased by 20% as compared with 1H2017 to RMB361 million (1H2017: RMB453 million), primarily due to reduction in market demand in both the domestic and overseas markets. Revenue generated from aviation products grew by 38% as compared with 1H2017 to RMB98 million (1H2017: RMB71 million), mainly due to scaled production and sale of certain aviation products to certain Chinese and overseas customers. In 1H2018, the segment's average gross profit margin declined to 19.9% (1H2017: 22.0%) 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 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 to RMB410 million for 1H2018 (1H2017: RMB401 million). Of which, revenue generated from cargo railway products and services amounted to RMB159 million (1H2017: RMB153 million), representing an increase of 4% as compared with 1H2017, mainly due to the increase in the provision of higher-margin repair services for cargo railway bearings. Revenue generated from automotive products increased by 9% to RMB121 million (1H2017: RMB111 million), mainly as a result of higher market demand. Revenue generated from aerospace products was stable at RMB44 million (1H2017: RMB44 million) and revenue generated from products for general industrial applications increased to RMB86 million (1H2017: RMB82 million). There is no sales of products for wind power energy for the current period (1H2017: RMB11 million) since the Group has strategically withdrawn from this business and has completed disposal of its entire equity interest in Shanghai Electric Bearing Company Limited in 1H2018. The segment's average gross profit margin jumped to 27.9% (1H2017: 22.9%) primarily due to change of product mix.

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 6% as compared with 1H2017 to RMB346 million (1H2017: RMB327 million), mainly driven by increased demand from customers in view of rising raw material prices which has led to the upward adjustment of product selling prices during 1H2018. Meanwhile, the Group's market share further increased amid the aforementioned price adjustment trend. The segment's average gross profit margin increased to 28.9% (1H2017: 27.1%), as the segment benefited from improved economies of scale.

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 packaging expenses. Selling and distribution expenses for 1H2018 increased by 16% as compared with 1H2017 to RMB222 million (1H2017: RMB192 million), mainly due to higher staff costs and transportation 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 1H2018 increased by 8% as compared with 1H2017 to RMB322 million (1H2017: RMB299 million), mainly due to higher staff costs and professional fees, partially offset by the reduction of certain other expenses.

RESEARCH EXPENDITURE

The Group's research expenditure for 1H2018 increased by 6% as compared with 1H2017 to RMB170 million (1H2017: RMB160 million), mainly due to the increase in investments arising from more research projects undertaken by the Group.

FINANCE COSTS

The Group's finance costs for 1H2018 decreased by 21% as compared with 1H2017 to RMB48 million (1H2017: RMB61 million), mainly due to the decrease in the Group's bank and other borrowings following the redemption of the RMB500 million company bonds on 31 August 2017.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

In 1H2018, share of profits of associates of the Group remained stable at RMB23 million (1H2017: RMB22 million).

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

In 1H2018, profit attributable to owners of the Company was RMB186 million (1H2017: RMB159 million). Basic earnings per share was RMB13.20 cents (1H2017: RMB11.26 cents).

Cash Flow

As at 30 June 2018, the balance of cash and bank deposits of the Group was RMB931 million (31 December 2017: RMB881 million), of which RMB84 million was restricted deposits (31 December 2017: RMB76 million). During 1H2018, the Group had a net cash inflow from operating activities of RMB123 million (1H2017: net cash inflow of RMB155 million), a net cash outflow from investing activities of RMB48 million (1H2017: net cash outflow of RMB39 million), and a net cash outflow from financing activities of RMB30 million (1H2017: net cash outflow of RMB101 million).

Assets and Liabilities

As at 30 June 2018, the Group had total assets of RMB9,497 million (31 December 2017: RMB9,263 million), representing an increase of RMB234 million as compared with the beginning of the year. Total current assets were RMB5,251 million (31 December 2017: RMB4,966 million), accounting for 55% of the total assets and representing an increase of RMB285 million as compared with the beginning of the year. Total non-current assets were RMB4,246 million (31 December 2017: RMB4,297 million), accounting for 45% of the total assets and representing an decrease of RMB51 million as compared with the beginning of the year.

As at 30 June 2018, the Group had total liabilities of RMB5,683 million (31 December 2017: RMB5,700 million), representing an decrease of RMB17 million as compared with the beginning of the year. Total current liabilities were RMB2,834 million (31 December 2017: RMB2,880 million), accounting for 50% of the total liabilities and representing an decrease of RMB46 million as compared with the beginning of the year. Total non-current liabilities were RMB2,849 million (31 December 2017: RMB2,820 million), accounting for 50% of the total liabilities and representing an decrease of RMB29 million as compared with the beginning of the year.

As at 30 June 2018, the net current assets of the Group were RMB2,417 million (31 December 2017: RMB2,086 million), representing an increase of RMB331 million as compared with the beginning of the year.

Sources of Funding and Indebtedness

As at 30 June 2018, the Group had interest-bearing bank and other borrowings with an aggregate amount of RMB2,733 million (31 December 2017: RMB2,730 million), which remained stable during 1H2018. The Group had borrowings repayable within one year of RMB363 million (31 December 2017: RMB375 million) and the Group had borrowings repayable after one year of RMB2,370 million (31 December 2017: RMB2,355 million).

Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to equity attributable to owners of the Company, was 73% (31 December 2017: 78%).

Restricted Deposits

As at 30 June 2018, among the bank deposits of the Group, RMB84 million (31 December 2017: RMB76 million) was restricted deposits.

Pledges of Assets

As at 30 June 2018, except for restricted deposits, the Group had other pledged assets of RMB304 million (31 December 2017: RMB273 million). Moreover, the equities held by certain subsidiaries of the Group were pledged assets.

Contingent Liabilities

As at 30 June 2018, the Group has no contingent liabilities (31 December 2017: nil).

Capital Expenditure

The total capital expenditure of the Group during 1H2018 was approximately RMB151 million (1H2017: RMB96 million).

Risk of Exchange Rate Fluctuation

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

SIGNIFICANT EVENTS

On 27 February 2018, the Board announced that it has considered and approved a proposal to enter into the Equity Transfer Agreement with SEG for the disposal of 100% equity interests in Shanghai Electric Bearing Co., Ltd. to SEG for a total consideration of RMB58,848,620.03. For details, please refer to the Company's connected transaction announcement dated 27 February 2018.

On 17 April 2018, Mr. Mao Yizhong, a member of the fifth session of the Board, resigned as an executive director of the Company due to the job re-arrangement and ceased to be a member of the strategy committee of the Board. The Board nominated Mr. Zhang Mingjie for election as an executive director of the Company at the next annual general meeting of the Company. For details, please refer to the Company's announcement dated 17 April 2018.

On 17 April 2018, to better fulfill the responsibilities of a state-owned enterprise and to improve its corporate governance, the Board proposed to amend the articles of association. For details, please refer to the Company's announcement dated 17 April 2018.

On 10 May 2018, the Company issued an inside information announcement and announced that the Board has approved the proposed guarantee to be provided by the Company in favour of Shanghai Prime (HK) Investment Management Company Limited in the maximum amount of EUR125 million. For details, please refer to the Company's inside information announcement dated 10 May 2018.

On 8 June 2018, the 2017 annual general meeting of the Company was held and Mr. Zhang Mingjie has been appointed as an executive director. His term of office will take effect immediately, and his tenure as the executive director will end upon the expiration of term of the current session of the Board.

On 8 June 2018, the Board announced that Mr. Zhang Mingjie has been appointed as a member of the strategy committee.

On 21 June 2018, the Board announced the proposed H share rights issue of 151,942,000 H shares, on the basis of one H Rights Share for every five existing H Shares at HK$1.30 per H Rights Share payable in full on acceptance; and the proposed domestic share rights issue of 135,715,236 Domestic Shares, on the basis of one Domestic Rights Share for every five existing Domestic Shares at RMB1.07 per Domestic Rights Share payable in full on acceptance. For details, please refer to the Company's announcement dated 21 June 2018.

EMPLOYEES

As of 30 June 2018, the Group had approximately 4,501 (31 December 2017: 4,575) 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 2018, 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 2017.

STRATEGIC MEASURES

Buoyant Growth in European Business

In 1H2018, Nedschroef recorded an increase in revenue of 16% as compared with 1H2017. Its fastener products and fastener machineries posted a significant growth. The strong market demand for automotive fasteners and the increase in new orders have resulted in a significant growth in its machinery business. Capitalizing on its leading position in European automotive fastener market, Nedschroef achieved growth in performance brought by market development. CP Tech, a company engaged in the design, development and manufacture of high-performance automotive components acquired in August 2017, contributed certain sales revenue for the Group. Its European business provided strong support to the growth in the Group's results.

Outstanding Advantages of "Platform-based" Business Model

In 1H2018, the steel price in China remained at a high level. By adapting to adverse impacts arising from the price hike in raw materials such as steel, and at the same time by continuously optimizing product structure, leveraging on the brands and channels under the platform-based business model, the Group managed to achieve satisfactory operating results. The sales of branded products and e-commerce have also recorded a year-on-year increase.

Well-prepared High-end Products

In 1H2018, the sales of high-end products in four business segments, namely fastener, turbine blade, bearing and cutting tool segments, increased. In particular, the sales revenue from the forged products and finished blades produced for the domestic aviation industry under the turbine blade segment, new coated bolts of Shanghai High Strength Bolt Factory Company Limited, the high-performance screw-threading cutting tools under the cutting tool segment and the high-end TG rollers under the bearing segment recorded a remarkable increase as compared with the corresponding period of last year.

FUTURE PROSPECTS

Focusing on Market Expansion and Securing Orders to Maintain the Positive Momentum in Development

While the company achieves good performance in the major operational indicators in 1H2018, the rising raw material prices and labour costs, coupled with the demand growth in large turbine blades and business closure due to the transformation and upgrading of domestic thermal power units, have led to a decline in market demand. In particular, the Company expects the operating environment will remain challenging given that the overseas generator market remained sluggish and the installed capacity in the international market continued to decrease. As such, the Group will focus on market expansion and securing customer orders. The Group will also continue to build three main customer platforms at the Group's headquarters level, and capitalize on the strengths of the Group's headquarters so as to achieve the sharing of customer base among its subsidiaries.

Highlighting Advantages and Bypassing Shortcomings to Improve its Management Efficiency

Improving management efficiency remains invariably the focus of the Group. The Group will continue to accelerate its business development and create new value-added effects through effective management and performance assessment, highlighting its advantages and overcoming its shortcomings, optimizing product structure, increasing the proportion of products with high gross profit margins and improving manufacturing efficiency.

Carrying Out Refinancing to Support its Business Development

The Group will carry out refinancing by way of a rights issue to raise approximately HKD374 million. Driven by such refinancing activity, the Group will actively implement its development strategies, carry out corporate investment and supplement its working capital, improve the financial position of the Group and optimize its capital structure, promote high-end manufacturing industry upgrades and overseas business development, so as to reward its shareholders with better results.

Seeking Opportunities and Actively Promoting Mergers and Acquisitions

It is one of the Group's strategies to rely on both product management and capital operation as its driving forces and push its product management forward by capital operation. The Group will also continue to seek opportunities for mergers and acquisitions to further accelerate internationalization and business development and achieve corporate transformation and upgrading in the future.

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

The Company has adopted the Model Code. Having made specific enquiry of all directors and supervisors of the Company, the directors and supervisors of the Company have strictly complied with the required standards set out in the Model Code during 1H2018.

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 2018 to the date of this announcement, but there have been deviations from code provision A.2.1.

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During 1H2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for 1H2018.

AUDIT COMMITTEE

The audit committee of the Company has reviewed, with the management of the Company, the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters (including the review of this interim results).

THE BOARD AND SUPERVISORY COMMITTEE

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

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

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

Shanghai, the PRC
17 August 2018

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