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 2018

This report is printed on environmentally friendly paper

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhou Zhiyan
(Chairman and President)
Xiao Yuman
Zhang Mingjie
(appointed on 8 June 2018)
Zhang Jie
Chen Hui

NON-EXECUTIVE DIRECTOR

Dong Yeshun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ling Hong
Chan Oi Fat
Sun Zechang

SUPERVISORS

Xu Jianguo (Chairman)
Si Wenpei
Yu Yun

COMPANY SECRETARY

Ng Kwong, Alexander (CPA)

AUDIT COMMITTEE

Chan Oi Fat (Chairman)
Ling Hong
Dong Yeshun

REMUNERATION COMMITTEE

Ling Hong (Chairman)
Chan Oi Fat
Dong Yeshun

STRATEGY COMMITTEE

Zhou Zhiyan (Chairman)
Zhang Mingjie
(appointed on 8 June 2018)
Zhang Jie
Chen Hui
Dong Yeshun
Sun Zechang

NOMINATION COMMITTEE

Zhou Zhiyan (Chairman)
Xiao Yuman
Ling Hong
Chan Oi Fat
Sun Zechang

RISK MANAGEMENT COMMITTEE

Zhou Zhiyan (Chairman)
Xiao Yuman
Zhang Jie
Ling Hong
Chan Oi Fat

AUTHORISED REPRESENTATIVES

Zhou Zhiyan
Xiao Yuman

ALTERNATIVE AUTHORISED REPRESENTATIVES

Chan Oi Fat
Ng Kwong, Alexander

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISERS

As to Hong Kong, New York
U.S. Federal Law
Clifford Chance LLP
As to PRC Law
Jun He Law Offices

H-SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

INVESTOR AND MEDIA RELATIONS CONSULTANT

iPR Ogilvy Ltd.

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

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 2018 ("1H2018") which have been reviewed by Deloitte Touche Tohmatsu.

BUSINESS REVIEW

During 1H2018, thanks to the steady rise in domestic economy and the gradual recovery of the European economy, the Group's revenue has been growing steadily. Meanwhile, by improving its management efficiency, reducing costs and increasing efficiency, the Group's net profit showed steady improvement.

During 1H2018, the Group recorded a revenue of RMB4,714 million (during the six months ended 30 June 2017 ("1H2017"): RMB4,289 million), representing an increase of 10% as compared with 1H2017. Profit attributable to owners of the Company was RMB186 million (1H2017: RMB159 million), representing an increase of 17% as compared with 1H2017. Total assets of the Group amounted to RMB9,497 million (31 December 2017: RMB9,263 million), representing an increase of 3% as compared with the beginning of this year.

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 GmbH ("CP Tech"), a high-tech engineering company for the automotive and motosport industry 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.

CHAIRMAN'S STATEMENT

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.

Hereby, I would like to extend my sincere gratitude to all shareholders for their consistent trust and long-term support to the Group, and to the Board, the supervisory committee, senior management and all the employees of the Company for their hard work. Through continuous market expansion, improving management efficiency and focusing on innovation and development, the Group will eventually achieve comprehensive sustainable development in 2018.

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

17 August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

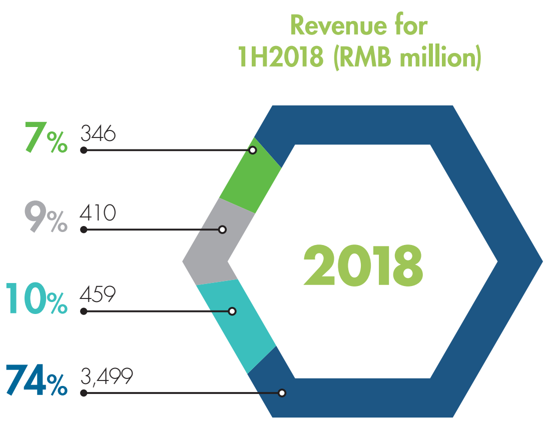
BUSINESS REVIEW

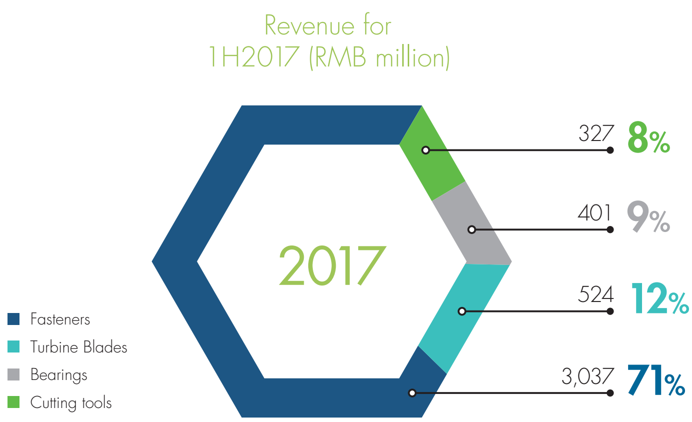
During 1H2018, the Group generated revenue of RMB4,714 million (1H2017: RMB4,289 million), upped 10% comparing with 1H2017. The increase in revenue was primarily driven by growth in the fastener business and the acquisition of CP Tech completed in August 2017. The Group's overall gross profit margin 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 recognition of net foreign exchange gains.

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	**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%		





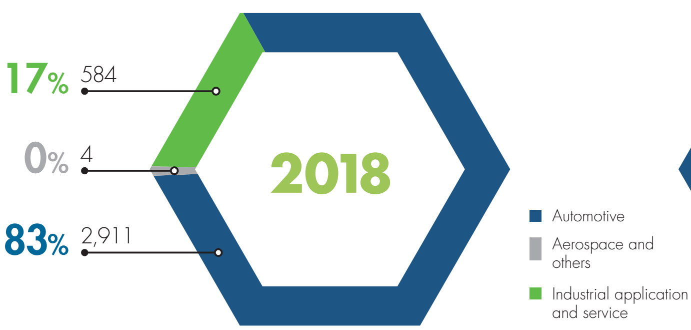
MANAGEMENT DISCUSSION AND ANALYSIS

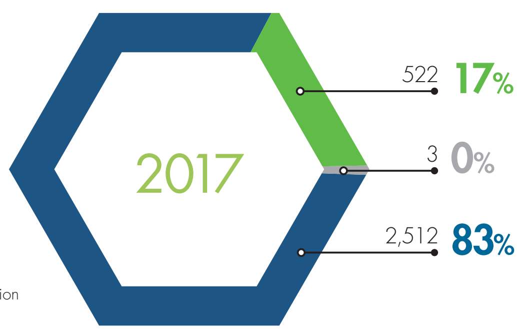
Fastener Business

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.

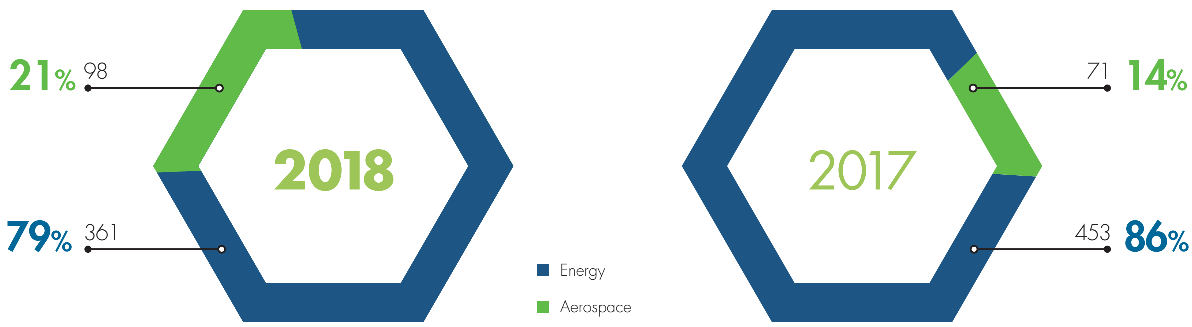




Turbine Blade Business

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.

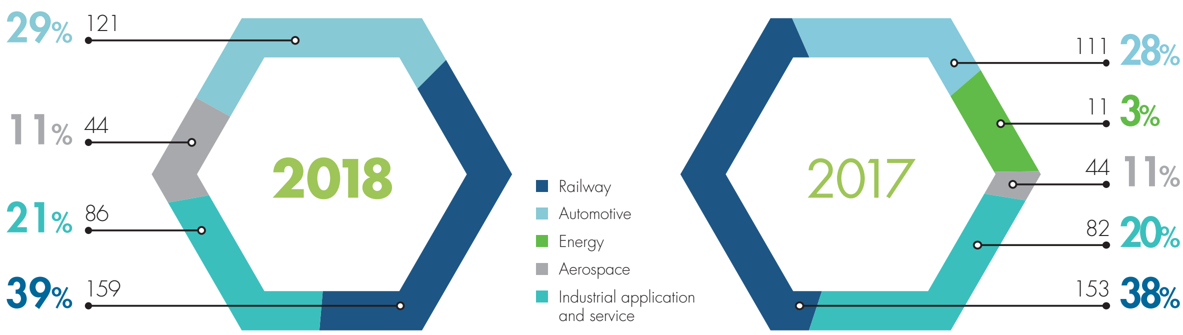


MANAGEMENT DISCUSSION AND ANALYSIS

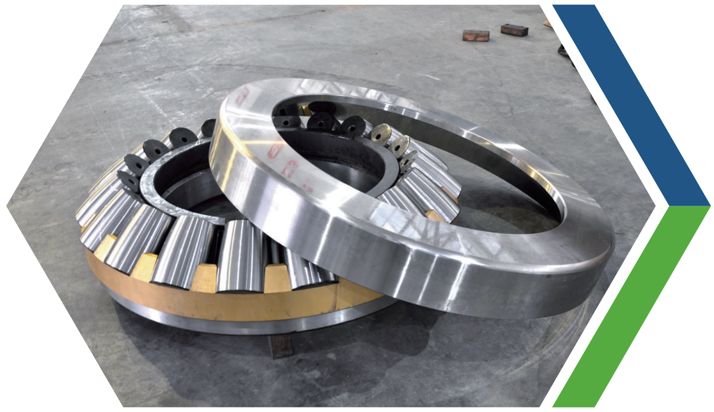
Bearing Business

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.

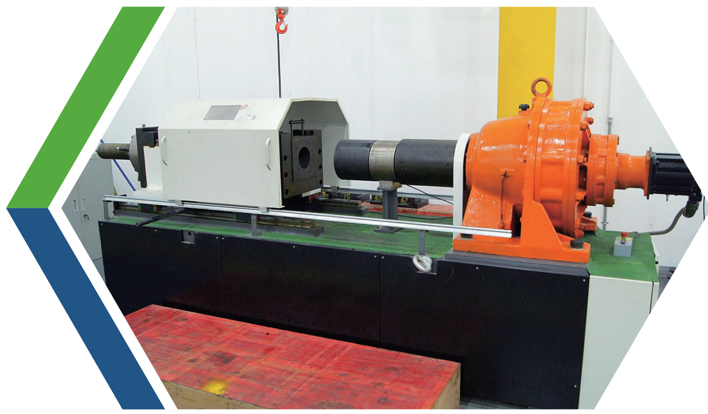
Revenue of the bearing business upped slightly to RMB410 million for 1H2018 (1H2017: RMB401 million). Of which, revenue generated from cargo railway products and services amounted to RMB159 million (1H2017: RMB153 million), representing an increase of 4% as compared with 1H2017, mainly due to the increase 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.



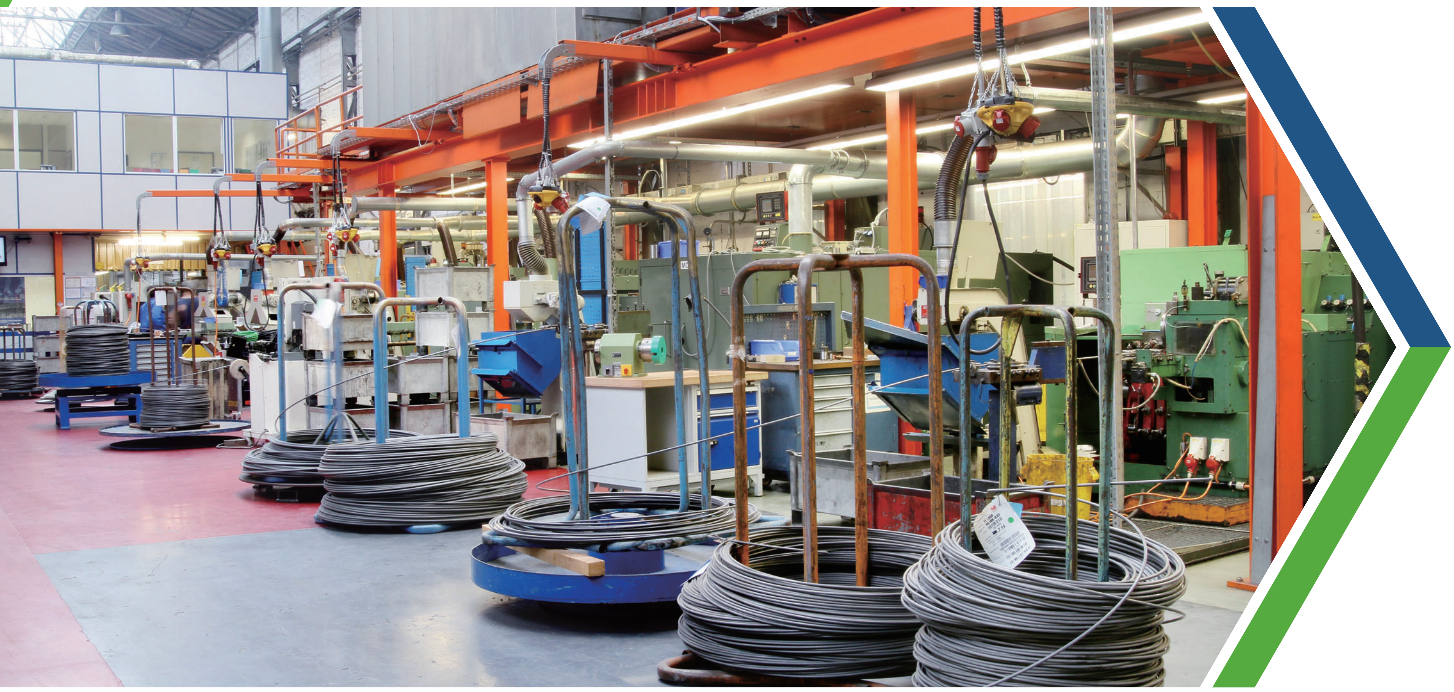
Cutting Tool Business



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 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 RMB4,246million (31 December 2017: RMB4,297 million), accounting for 45% of the total assets and representing a 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 a 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 a 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 a decrease of RMB29 million as compared with the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

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	55	Chairman and president
Xiao Yuman	46	Executive director
Zhang Mingjie	56	Executive director
Zhang Jie	41	Executive director
Chen Hui	50	Executive director and vice president
Dong Yeshun	57	Non-executive director
Ling Hong	57	Independent non-executive director
Chan Oi Fat	39	Independent non-executive director
Sun Zechang	65	Independent non-executive director
Xu Jianguo	53	Chairman of the supervisory committee
Si Wenpei	54	Supervisor
Yu Yun	49	Supervisor
Zhu Jun	49	Vice president
Ng Kwong, Alexander	40	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. Zhang Mingjie

Mr. Zhang Mingjie is an executive director of the Company, director of department of industry development of and dean of central research institute of Shanghai Electric Group Company Limited and party secretory. Mr. Zhang joined Shanghai Electric in September 1985, and worked at Shanghai Transformer Factory (上海變壓器廠), Shanghai Voltage Regulator Factory (上海電壓調整器廠), Shanghai Electric Co., Ltd. (上海電器股份有限公司), Shanghai Huatong Switch Factory (上海華通開關廠), Shanghai Power Transmission and Distribution Co., Ltd. (上海輸配電股份有限公司), Shanghai Electric Group Company Limited, Shanghai Electric (Group) Corporation, Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) and the central research institute of Shanghai Electric Group Company Limited respectively. He used to be party secretory and deputy general manager of Shanghai Power Transmission and Distribution Co., Ltd. from June 2007 to July 2008, director of wind power department of Shanghai Electric (Group) Corporation from December 2008 to March 2014 and director of Shanghai Mechanical & Electrical Industry Co., Ltd. from October 2010 to March 2012. Mr. Zhang graduated from Shanghai Jiao Tong University in July 1985 with a bachelor degree of high voltage technology, and obtained MBA from Shanghai Jiao Tong University in July 2002. He was awarded the title of senior engineer with professorship in December 2008.

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 SEG in 1995, and worked at Shanghai No. 1 Nut Factory (上海螺帽一廠), Shanghai Shang Biao (Group) Co., Ltd., Shanghai Electric (Group) Corporation and Shanghai Electric Group Company Limited. He 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 an engineer and a senior economist.

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, the company secretary of China Leon Inspection Holding Limited (Stock code: 1586) listed on the Main Board of the Stock Exchange in Hong Kong and the chief financial officer of an international enterprise. 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.

Mr. Si Wenpei

Mr. Si Wenpei is a supervisor of the Company and has been the general manager of asset and finance department of Shanghai Electric Group Company Limited since October 2017. 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 Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) from May 2012 to August 2016, and the deputy head of the assets and finance department of Shanghai Electric Group Company Limited from August 2016 to October 2017. 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 2018, 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)	Interest of controlled corporation	Long position	100.00	47.18
	H	63,882,000	(2)	Interest of controlled corporation	Long position	8.41	4.44
Shanghai Electric Group Company Limited	Domestic	678,567,184	(1)	Beneficial owner	Long position	100.00	47.18
Shanghai Electric Group Hongkong Company Limited	H	63,882,000	(2)	Beneficial owner	Long position	8.41	4.44
Citigroup Inc.	H	49,410,542	(3)	Approved lending agent	Long position	6.50	3.44
		49,410,542	(3)	Approved lending agent	Shares available for lending	6.50	3.44

Notes:

(1) As disclosed under the announcements dated 14 November 2016 and 29 August 2017 in relation to the change in shareholding of the Company, Shanghai Electric Group Company Limited ("Shanghai Electric Company") held interest in the 678,576,184 domestic shares in which Shanghai Electric (Group) Corporation ("SEG") and State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government were deemed to be interested in by virtue of SFO because:

— Shanghai Electric Company is 60.89% owned by SEG; and

— SEG is 100% owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(2) Shanghai Electric Group Hongkong Company Limited ("Shanghai Electric HK") held interest in the 63,882,000 H shares in which SEC and State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government were deemed to be interested in by virtue of SFO because:

— Shanghai Electric HK is 100% owned by SEG; and

— SEG is 100% owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(3) Citigroup Inc. held interest in the Company through its wholly-owned subsidiary/indirectly wholly-owned subsidiary (Citicorp LLC and Citibank N.A.).

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 2018 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

As at 30 June 2018, 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	Note	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 2018, 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 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 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 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 report).

BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

As at the date of this report, 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 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 BOARD OF DIRECTORS 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 25 to 66, which comprise the condensed consolidated statement of financial position as of 30 June 2018 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

17 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Revenue			
Goods and services	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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	For the six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Other comprehensive income (expense)			
Item that will not be 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 receivable		**–**	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
Contract 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**	478,672
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

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 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

The condensed consolidated financial statements on pages 25 to 66 were approved and authorised for issue by the board of directors on 17 August 2018 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 2018

	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	FVTOCI reserve RMB'000	Foreign currency translation difference RMB'000	Shares held for Incentive Scheme (defined in note 19) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2018 (audited)	1,438,286	702,945	50,469	5,465	339,517	(1,297)	8,535	1,313,318	–	(309,054)	(30,425)	3,517,759	45,266	3,563,025
Adjustments (see note 2)	–	–	–	–	–	–	–	(10,524)	60,045	–	–	49,521	–	49,521
Balance at 1 January 2018 (restated)	1,438,286	702,945	50,469	5,465	339,517	(1,297)	8,535	1,302,794	60,045	(309,054)	(30,425)	3,567,280	45,266	3,612,546
Profit for the period	–	–	–	–	–	–	–	186,250	–	–	–	186,250	1,876	188,126
Other comprehensive (expense) income for the period	–	–	–	–	–	1,774	1,277	–	13,824	(8,501)	–	8,374	(659)	7,715
Total comprehensive (expense) income for the period	–	–	–	–	–	1,774	1,277	186,250	13,824	(8,501)	–	194,624	1,217	195,841
Recognition of equity-settled share-based payments	–	–	–	879	–	–	–	–	–	–	–	879	–	879
Disposal of Shanghai Electric Bearing Company Limited ("Shanghai Electric Bearing")	–	–	4,415	–	–	–	–	–	–	–	–	4,415	–	4,415
Awarded shares vested	–	1,311	–	(4,695)	–	–	–	–	–	–	3,384	–	–	–
Awarded shares forfeited	–	530	–	(530)	–	–	–	–	–	–	–	–	–	–
Balance at 30 June 2018 (unaudited)	1,438,286	704,786	54,884	1,119	339,517	477	9,812	1,489,044	73,869	(317,555)	(27,041)	3,767,198	46,483	3,813,681

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 19) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017 (audited)	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 CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**122,703**	154,563
INVESTING ACTIVITIES		
Interest received	**3,087**	6,059
Dividend received from available-for-sale investments	**–**	60
Purchases of property, plant and equipment	**(148,603)**	(95,779)
Proceeds from disposal of property, plant and equipment	**6,737**	10,046
Purchases of intangible assets	**(2,429)**	(3,009)
Withdrawal of non-restricted deposits with original maturity of over three months	**5,000**	100,500
Placement of non-restricted deposits with original maturity of over three months	**–**	(62,000)
Withdrawal of restricted bank deposits	**76,039**	77,657
Placement of restricted bank deposits	**(84,289)**	(72,394)
Dividends received from associates	**37,167**	–
Proceeds on disposal of a subsidiary (note 5)	**58,847**	–
Proceeds from disposal of financial assets at FVTPL	**368**	–
NET CASH USED IN INVESTING ACTIVITIES	**(48,076)**	(38,860)
FINANCING ACTIVITIES		
Bank borrowings obtained	**89,093**	62,317
Repayment of bank borrowings	**(70,344)**	(121,958)
Interest paid	**(48,254)**	(40,871)
NET CASH USED IN FINANCING ACTIVITIES	**(29,505)**	(100,512)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**45,122**	15,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**799,956**	1,079,793
Effect of foreign exchange rate changes	**1,269**	2,296
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**846,347**	1,097,280
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**846,347**	1,102,280
Less: non-restricted time deposits with original maturity of over three months	**–**	5,000
Cash and cash equivalents as stated in the statement of cash flows	**846,347**	1,097,280

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 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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

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.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Sale of goods

The Group recognizes revenue at a point in time when there is persuasive evidence that the control of the goods has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that affect customer's acceptance of products.

Product sales represent the sales value of goods, less estimated discounts.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Sale of goods (continued)

The provision for deduction of estimated income is recorded in the same period in which the relevant sales are recorded and based on sales terms, historical experience and trend analysis. Providing a discount to cutting tool distributors is in accordance with the practice of the industry. The Group records discount provision for sales at the time of sale based on the agreed rate and actual collections of accounts receivables from distributors.

The Group regularly reviews the estimates and accordingly adjusts provisions.

Service fee

The Group provides testing services.

The Group's contractual obligation is to deliver the testing results and reports after the completion of a service contract. The Group recognizes revenue when the testing results and reports are delivered to the customer, which means that the control of the results is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Service fee (continued)

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15

There was no material impact of transition to HKFRS 15 on retained profits at 1 January 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018*
		RMB'000	RMB'000	RMB'000
Current Assets				
Contract costs (a)		–	59,956	59,956
Amounts due from customers for contract work (a)		59,956	(59,956)	–
Current Liabilities				
Refund liabilities (b)		–	10,198	10,198
Contract liabilities (b)		–	47,781	47,781
Other payables and accruals (b)		478,672	(57,979)	420,693

* The amounts in this column are before the adjustments from the application of HKFRS 9.

(a) In relation to contracts previously accounted under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. RMB59,956,000 of amounts due from customers for contract work were reclassified to contract costs.

(b) As at 1 January 2018, advances from customers of RMB47,781,000 in respect of contracts and quality assurance of RMB10,198,000 previously included in other payables and accruals were reclassified to contract liabilities and refund liabilities for RMB47,781,000 and RMB10,198,000, respectively.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (continued)

2.1.2 Summary of effects arising from initial application of HKFRS 15 (continued)

The following table summarises the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	Note	**As reported** RMB'000	**Adjustments** RMB'000	**Amounts without application of HKFRS 15** RMB'000
Current Assets				
Contract costs		69,235	(69,235)	–
Amounts due from customers for contract work		–	69,235	69,235
Current Liabilities				
Refund liabilities		7,435	(7,435)	–
Contract liabilities		56,661	(56,661)	–
Other payables and accruals		429,102	64,096	493,198

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/ initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, debt instruments at FVTOCI, deposits and other receivables, restricted deposits, bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and debt instruments at FVTOCI. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Significant increase in credit risk (continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

Measurement and recognition of ECL (continued)

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

Hedge accounting

The Group has elected to adopt the new general hedge accounting in HKFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Debts instruments at FVTOCI RMB'000	Financial instruments at FVPTL RMB'000	FVTOCI reserve RMB'000	Retained profits RMB'000
Closing balance at 31 December 2017 — HKAS 39		2,043	2,963,122	–	–	–	1,313,318
Effect arising from initial application of HKFRS 9:							
Reclassification							
From available-for-sale	(a)	(2,043)	–	–	2,043	–	–
From loans and receivables	(b)	–	(1,378,486)	1,426,152	–	47,666	–
Remeasurement							
Impairment under ECL model		–	–	–	–	12,379	(12,379)
From cost less impairment to fair value		–	–	–	1,855	–	1,855
Opening balance at 1 January 2018		–	1,584,636	1,426,152	3,898	60,045	1,302,794

(a) Available-for-sale investments

From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB2,043,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value gain of RMB1,855,000 relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained profits as at 1 January 2018.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(b) Loans and receivables

As part of the Group's cash flow management, the Group has the practice of endorsing some of the bills receivables to the suppliers before the bills are due for payment and derecognises bills endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bills receivables and part of the trade receivables of RMB1,426,152,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. There was no fair value gain or loss needed to be adjusted to debts instruments at FVTOCI and equity as at 1 January 2018.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and debt instruments at FVTOCI. To measure the ECL, trade receivables and debt instruments at FVTOCI have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of restricted deposits, bank balances and cash, deposits and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss of RMB12,379,000 has been recognised against retained profits. The additional loss allowance is charged against the FVTOCI reserve.

All loss allowances for financial assets including trade receivables and debt instruments at FVTOCI as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 as follows:

	Trade receivables	Debt instruments at FVTOCI
	RMB'000	RMB'000
At 31 December 2017 — HKAS 39	65,468	–
Reclassification	(47,666)	47,666
Amounts remeasured through opening retained profits/FVTOCI reserves	–	12,379
At 1 January 2018	17,802	60,045

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments (continued)

2.2.2 Summary of effects arising from initial application of HKFRS 9 (continued)

(d) Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate the full change in the fair value of a derivative contract as the hedging instrument for all of its hedging relationships involving forward contracts. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

(e) Interests in associates/joint ventures

The net effects arising from the initial application of HKFRS 9 resulted in no change in the carrying amounts of interests in associates/joint ventures.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Application of amendments to HKFRSs (continued)

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

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**	**Turbine blade**	**Cutting tool**	**Fastener**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	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.

3B. 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 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

3B. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) 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 before tax 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
Capitalised in inventories	**(28,374)**	(34,358)
	117,010	117,036
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
Capitalised in inventories	**(122,880)**	(140,953)
	661,957	616,071

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)
	RMB'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 for 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
COST AND CARRYING VALUE	
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 or 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.

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

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 with 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).

19. INCENTIVE SCHEME (continued)

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.

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

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 (Unaudited) RMB'000	2017 (Unaudited) 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.

23. RELATED PARTY TRANSACTIONS (continued)

(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

24. 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 17 August 2018.