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)**

2019
Interim Report

This report is printed on environmentally friendly paper

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhou Zhiyan
(Chairman)
Xiao Yuman
Gou Jianhui
(appointed on 14 June 2019)
Zhang Mingjie
Si Wenpei (appointed on 14 June 2019)
Zhang Jie (resigned on 14 June 2019)
Chen Hui (resigned on 14 June 2019)

NON-EXECUTIVE DIRECTOR

Dong Yeshun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ling Hong
Chan Oi Fat
Sun Zechang

SUPERVISORS

Zhang Yan (Chairman,
appointed on 14 June 2019)
Lu Haixing (appointed
on 14 June 2019)
Yu Yun
Xu Jianguo (Chairman,
resigned on 14 June 2019)
Si Wenpei (resigned on 14 June 2019)

COMPANY SECRETARY

Ng Kwong, Alexander (CPA)

AUDIT COMMITTEE

Chan Oi Fat (Chairman)
Ling Hong
Sun Zechang
(appointed on 14 June 2019)
Dong Yeshun (resigned on
14 June 2019)

REMUNERATION COMMITTEE

Ling Hong (Chairman)
Chan Oi Fat
Dong Yeshun

STRATEGY COMMITTEE

Zhou Zhiyan (Chairman)
Gou Jianhui
(appointed on 14 June 2019)
Zhang Mingjie
Dong Yeshun
Sun Zechang
Zhang Jie (resigned on 14 June 2019)
Chen Hui (resigned on 14 June 2019)

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

Zhou Zhiyan (Chairman)
Xiao Yuman
Gou Jianhui (appointed on
14 June 2019)
Si Wenpei (appointed on 14 June 2019)
Ling Hong
Chan Oi Fat
Zhang Jie (resigned on 14 June 2019)

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 LLP

H-SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, 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
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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 2019 ("1H2019") which have been reviewed by Deloitte Touche Tohmatsu.

BUSINESS REVIEW

During 1H2019, the Group recorded a revenue of RMB4,485 million (during the six months ended 30 June 2018 ("1H2018"): RMB4,714 million), representing a decrease of 4.9% as compared with 1H2018. Profit attributable to owners of the Company was RMB115 million (1H2018: RMB186 million), representing a decrease of 38.4% as compared with 1H2018. Total assets of the Group amounted to RMB10,008 million (31 December 2018: RMB9,658 million), representing an increase of RMB350 million as compared with the beginning of the year.

Actively addressing market change, maintaining a growing momentum in domestic business

During 1H2019, United States-China trade relations uncertainty directly affected the export business of the Group, in particular the bearing business and industrial fastener business. Facing the weaker market demand in domestic business, the Group actively expanded market, developed new products and attracted new customers on the one hand, and strove to reduce operating costs on the other hand. The effort of the Group resulted in a steady growth: (i) bearing business recorded significant growth in products for various industries, including aerospace product, medical machinery, robot and tensioner of automobile engine; (ii) in industrial fastener business, the Group actively promoted structural adjustment for products. The newly developed high-tensile strength fastener with corrosion resistance coating has begun to achieve growth in sales in wind power plant market; (iii) the increased export share of fastener products (grade 10.9 or above) contributed to the satisfactory result; (iv) accelerating transformation of turbine blade business led to a considerable growth in sales income of finished blades (forged products) provided to high-end customers such as General Electric Company and Rolls-Royce; and (v) taking the opportunity coming from price adjustment, cutting tool business achieved a target beating earnings.

CHAIRMAN'S STATEMENT

Problem of weak demand in automotive market becoming obvious, development of automotive fastener business facing challenge

During 1H2019, the Group's business in Europe was influenced by continuously weak demand in automotive market and delayed delivery of certain products due to Europe's Worldwide Harmonised Light Vehicle Test Procedure, which affected the fastener business in automotive industry to a greater extent. Therefore, the Group's overall result for 1H2019 was affected. In response to the weakening demand in automotive market, we made gradual improvement in various aspects through upgrading the fastener products for automobile, innovating new marketing campaign, strengthening the establishment of research and development system, boosting the sales share of new products and raising the production and operation efficiency.

FUTURE PROSPECTS

Actively promoting mergers and acquisitions for long-run development

Taking into account three aspects, namely benefiting the Group to upgrade business towards high-end, gradually emerging synergy in business and continuously improving profitability, the Group has been actively seeking new opportunities for merger and acquisition in domestic and international markets in order to make a breakthrough.

Strengthening management and improving business result in European region

During 1H2019, net profits of the Group dropped significantly as compared with 1H2018. One of the major reasons was the sluggish demand in automotive market in Nedschroef resulting in a year-on-year decline in operating income and net profits. Starting from the second half of 2019, the Group will endeavour to do better in European region, coupled with strengthening the Group's refined management, in order to turnaround the sliding result as practicable as possible.

Concentrating resources to better and expand the market share of highly-efficient products with promising market prospect

During 1H2019, the Group's products with better growing momentum included finished blades and forged products for aircraft under turbine blade segment, miniature bearings for aircraft and robotics bearings under bearing segment, high-tensile strength fastener with new coating, namely Greenkote, under fasteners segment and cemented carbide knife blade products specifically for large aircraft under cutting tool segment. In future, we will concentrate on improving and expanding the market share of these highly-efficient products with promising market prospect in order to enhance the Group's overall result.

Reinforcing research and development capabilities and creating new business model

The key for sustainable development of the Group is to reinforce research and development capabilities and create new business model. To reinforce research and development capabilities, we shall select and assign suitable leaders for the research and development team. Through a highly-efficient management and assessment process, we motivate the potential of members of research and development team, which in turn improve the standard and competitiveness of our product research and development. To achieve sustainable development of the Group, the new business model will allow us to review existing issues and the "bottleneck" under the prevailing business model and to create new solutions so as to allow the Group to adapt and evolve as the market conditions and changes.

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

16 August 2019

BUSINESS REVIEW

The first half of 2019 has seen weaker demand in car markets in Europe and China; further reduction in demand for coal-fired power equipment in China; United States-China trade relations uncertainty; and general slow-down in industrial production. Against this backdrop, the Group's revenue for 1H2019 declined by 4.9% as compared with 1H2018 to RMB4,485 million (1H2018: RMB4,714 million), primarily due to the decrease in revenue of the fastener business. The Group's overall gross profit margin was relatively stable at 19.3% for 1H2019 compared to 19.6% for 1H2018. Total operating expenses amounted to RMB711 million (1H2018: RMB714 million), of which selling and distribution expenses decreased by 10.8% and administrative expenses increased by 8.0% as compared with 1H2018. During 1H2019, the Group has incurred one-off professional expenses totalled RMB15.0 million in relation to a potential acquisition and has written off unamortized capitalized upfront fee amounting to RMB9.2 million due to early repayment of a Euro syndicated loan. The Group's share of profits of associate for 1H2019 reduced significantly as the Group disposed of its entire 40% equity interest in an associate in the fourth quarter of 2018.

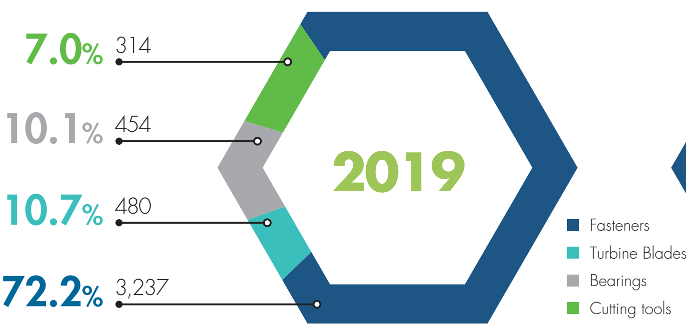
EBITDA (Earnings before interest income, finance costs, net exchange differences, hedging results, income tax expense, depreciation, amortization and share of results of equity-accounted entities) for 1H2019 amounted to RMB318 million (1H2018: RMB378 million) and EBITDA to revenue margin was 7.1% (1H2018: 8.0%). Profit attributable to owners of the Company for 1H2019 decreased by 38.4% as compared with 1H2018 to RMB115 million (1H2018: RMB186 million).

OVERVIEW OF PRINCIPAL BUSINESS

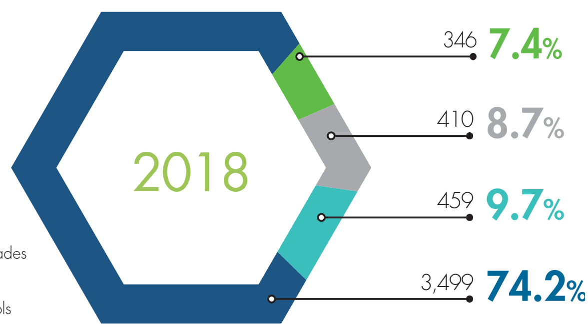
Set out below are the revenue, gross profit and gross profit margin of respective business segments of the Group:

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	
	2019	2018	**2019**	2018	**2019**	2018
	RMB in million	RMB in million	**RMB in million**	RMB in million		
Fastener	**3,237**	3,499	**539**	616	**16.7%**	17.6%
Percentage of total	**72.2%**	74.2%	**62.2%**	66.9%		
Turbine Blade	**480**	459	**94.6**	91.5	**19.7%**	19.9%
Percentage of total	**10.7%**	9.7%	**10.9%**	9.9%		
Bearing	**454**	410	**126**	114	**27.8%**	27.9%
Percentage of total	**10.1%**	8.7%	**14.6%**	12.4%		
Cutting Tool	**314**	346	**106**	100	**33.7%**	28.9%
Percentage of total	**7.0%**	7.4%	**12.3%**	10.8%		

Revenue for 1H2019 (RMB million)



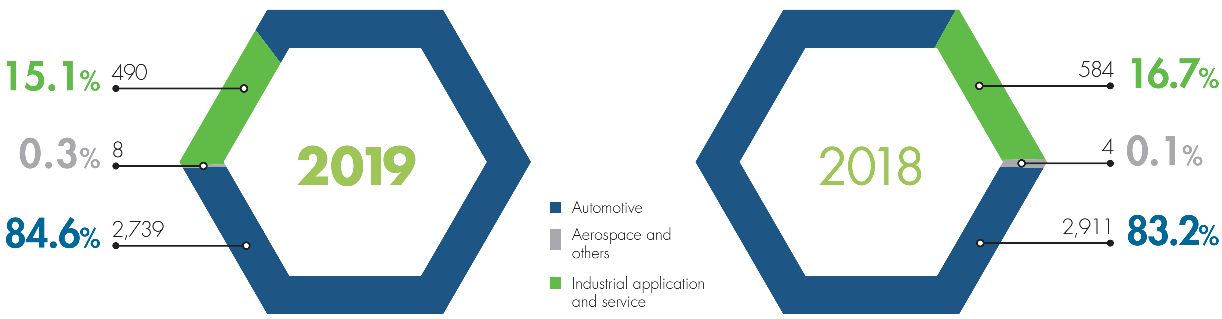
Revenue for 1H2018 (RMB million)



Fastener Business

The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the aerospace industry and for general industrial applications. In addition, 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, Paccar, Volvo and SAIC Motor. The Group also supplies highly-engineered parts and components for high-performance and motorsport cars and provides related design and engineering services. To evolve into a high-tech engineering company for the automotive and motorsport industry, the Group strives 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. In June 2019, Nedschroef, a key member of the Group, celebrated its 125th anniversary as a trusted and innovative partner to its automotive customers.

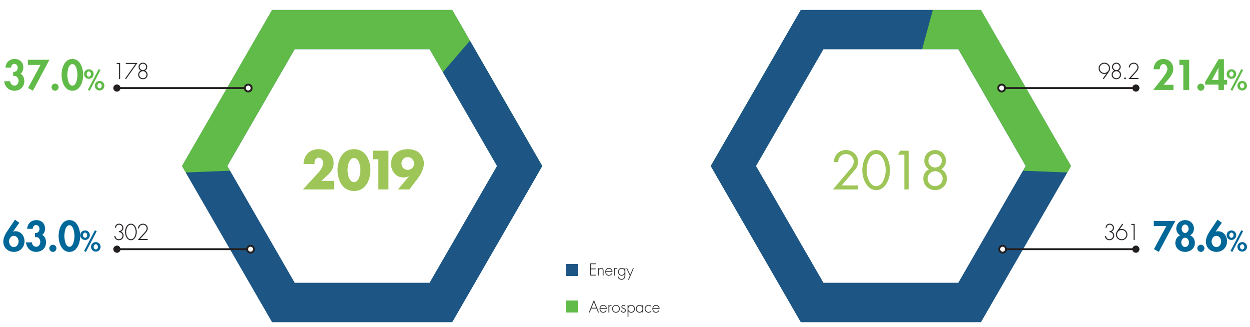
Revenue of fastener business amounted to RMB3,237 million (1H2018: RMB3,499 million), representing a decrease of 7.5% as compared with 1H2018. Revenue generated from automotive products decreased by 5.9% as compared with 1H2018 to RMB2,739 million (1H2018: RMB2,911 million), primarily due to weaker customer demand in automotive markets in Europe and China as well as early phase-out of certain products for some customers. Revenue generated from products for general industrial applications and testing services declined 16.1% as compared with 1H2018 to RMB490 million (1H2018: RMB584 million), mainly due to lower export sales to the United States, Europe, South Africa and Turkey. In addition, sales of high-tensile strength fasteners grew by 11.0% as compared with 1H2018 as the Group increased sales to wind energy and urban metro customers. Included in this segment was revenue of RMB101 million (1H2018: RMB95.5 million) generated from sale of high-performance automotive components and provision of related engineering services. The segment's average gross profit margin reduced to 16.7% (1H2018: 17.6%) mainly because of higher outsourcing spending as well as an under-absorption of fixed costs due to lower production.



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.

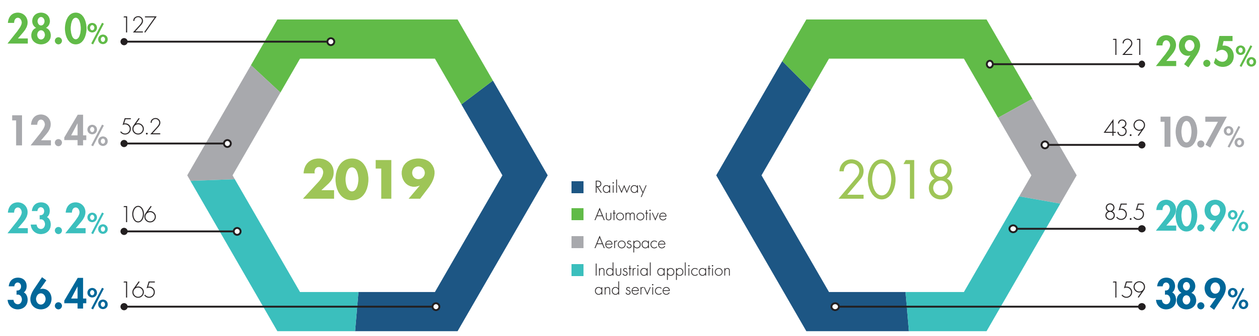
Revenue of the turbine blade business amounted to RMB480 million for 1H2019 (1H2018: RMB459 million), up 4.5% as compared with 1H2018. Revenue generated from energy products decreased by 16.3% as compared with 1H2018 to RMB302 million (1H2018: RMB361 million), mainly due to lower domestic sales as a consequence of further reduction in demand for coal-fired power equipment in China despite growth in overseas sales underpinned by increase in share of certain customers' purchases. Revenue generated from aviation products jumped 80.9% as compared with 1H2018 to RMB178 million (1H2018: RMB98.2 million), primarily driven by higher demand from both domestic and overseas customers. The Group continued to gain positive recognition from its key aviation and energy customers for the quality and reliability of our products and services. In 1H2019, the segment's average gross profit margin was relatively stable at 19.7% (1H2018: 19.9%), with gross profit margin of aviation products rose significantly offsetting the decline in gross profit margin of energy products.



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 expanded 10.9% to RMB454 million (1H2018: RMB410 million). Revenue generated from cargo railway products and services was RMB165 million (1H2018: RMB159 million), up 3.8% as compared with 1H2018 mainly due to benign growth in demand for cargo railway bearings amid intense price competition, offset by decrease in provision of bearing repair services. Revenue generated from automotive products increased by 5.2% as compared with 1H2018 to RMB127 million (1H2018: RMB121 million) underpinned by the success in securing orders from certain automotive OEMs amid a difficult automotive market in China. Revenue generated from aerospace products grew 28.1% as compared with 1H2018 to RMB56.2 million (1H2018: RMB43.9 million) primarily due to higher market demand. Revenue generated from products for general industrial applications increased 23.5% as compared with 1H2018 to RMB106 million (1H2018: RMB85.5 million) mainly driven by growth in export sales as certain customer stocked up amid United States-China trade relations uncertainty. The segment's average gross profit margin was stable at 27.8% (1H2018: 27.9%) given relatively stable sales mix coupled with moderate growth in production volume.



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 the cutting tool business decreased by 9.1% to RMB314 million (1H2018: RMB346 million) as demand was negatively impacted by the general slow-down in industrial production during 1H2019. The segment's average gross profit margin, however, expanded to 33.7% (1H2018: 28.9%) primarily because of increase in product prices during 1H2019.

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 1H2019 decreased by 10.8% as compared with 1H2018 to RMB198 million (1H2018: RMB222 million), mainly due to reduction in transportation expenses.

ADMINISTRATIVE EXPENSES

The Group has incurred one-off professional fees amounting to RMB15.0 million during 1H2019 in relation to a potential acquisition project. Excluding this, administrative expenses for 1H2019 increased by 3.3%, mainly because of higher depreciation and office expenses offset by certain other expenses.

RESEARCH EXPENDITURE

The Group's research expenditure for 1H2019 decreased by 3.0% as compared with 1H2018 to RMB165 million (1H2018: RMB170 million), mainly due to the decrease in investment in research projects undertaken by the Group.

FINANCE COSTS

The Group's finance costs for 1H2019 decreased by 14.8% as compared with 1H2018 to RMB40.8 million (1H2018: RMB47.8 million) mainly due to lower interest rates as a result of the Group's refinancing efforts made during 1H2019.

SHARE OF PROFITS AND LOSSES OF ASSOCIATES

In 1H2019, share of profits of associates of the Group amounted to RMB6.1 million (1H2018: RMB22.8 million). The decrease in share of profits of associates was mainly due to the disposal of the Company's entire 40% equity interest in Shanghai General Bearing Company Limited, one of the Group's associates, in the fourth quarter of 2018.

EBITDA AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

EBITDA for 1H2019 amounted to RMB318 million (1H2018: RMB378 million) and EBITDA to revenue margin was 7.1% (1H2018: 8.0%). The decrease in EBITDA has been mitigated by the positive impact of the first-time application of HKFRS 16 "Leases" in 1H2019.

In 1H2019, profit attributable to owners of the Company was RMB115 million (1H2018: RMB186 million). Basic earnings per share was RMB6.74 cents (1H2018: RMB13.39 cents).

CASH FLOW

As at 30 June 2019, the balance of cash and bank deposits of the Group was RMB1,504 million (31 December 2018: RMB1,320 million), of which RMB214 million was restricted deposits (31 December 2018: RMB170 million). During 1H2019, the Group had a net cash inflow from operating activities of RMB285 million (1H2018: net cash inflow of RMB123 million), a net cash outflow from investing activities of RMB121 million (1H2018: net cash outflow of RMB48.1 million), and a net cash outflow from financing activities of RMB25.8 million (1H2018: net cash outflow of RMB29.5 million).

ASSETS AND LIABILITIES

As at 30 June 2019, the Group had total assets of RMB10,008 million (31 December 2018: RMB9,658 million), representing an increase of RMB350 million as compared with the beginning of the year. Total current assets were RMB5,597 million (31 December 2018: RMB5,460 million), accounting for 55.9% of the total assets and representing an increase of RMB137 million as compared with the beginning of the year. Total non-current assets were RMB4,411 million (31 December 2018: RMB4,198 million), accounting for 44.1% of the total assets and representing an increase of RMB213 million as compared with the beginning of the year.

As at 30 June 2019, the Group had total liabilities of RMB5,824 million (31 December 2018: RMB5,501 million), representing an increase of RMB323 million as compared with the beginning of the year. Total current liabilities were RMB3,687 million (31 December 2018: RMB3,616 million), accounting for 63.3% of the total liabilities and representing an increase of RMB71.4 million as compared with the beginning of the year. Total non-current liabilities were RMB2,137 million (31 December 2018: RMB1,885 million), accounting for 36.7% of the total liabilities and representing an increase of RMB252 million as compared with the beginning of the year.

As at 30 June 2019, the net current assets of the Group were RMB1,910 million (31 December 2018: RMB1,844 million), representing an increase of RMB65.8 million as compared with the beginning of the year.

SOURCES OF FUNDING AND INDEBTEDNESS

As at 30 June 2019, the Group had interest-bearing bank and other borrowings with an aggregate amount of RMB2,641 million (31 December 2018: RMB2,568 million), which remained stable during 1H2019. The Group had borrowings repayable within one year of RMB1,098 million (31 December 2018: RMB1,147 million) and the Group had borrowings repayable after one year of RMB1,543 million (31 December 2018: RMB1,421 million).

GEARING RATIO

As at 30 June 2019, 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 63.9% (31 December 2018: 62.5%).

RESTRICTED DEPOSITS

As at 30 June 2019, among the bank deposits of the Group, RMB214 million (31 December 2018: RMB170 million) was restricted deposits.

PLEDGES OF ASSETS

As at 30 June 2019, except for restricted deposits, the Group had other pledged assets of RMB333 million (31 December 2018: RMB299 million).

As at 30 June 2019, no equity interests held by the Company (31 December 2018: 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.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group has no contingent liabilities (31 December 2018: nil).

CAPITAL EXPENDITURE

The total capital expenditure of the Group during 1H2019 was approximately RMB181 million (1H2018: RMB151 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 15 March 2019, Mr. Zhang Jie, a member of the fifth session of the Board, resigned as an executive director of the Company and ceased to be a member of the Strategy Committee and the Risk Management Committee of the Board due to change of work arrangement; Mr. Chen Hui resigned as an executive director of the Company and ceased to be a member of the Strategy Committee of the Board due to change of work arrangement. The Nomination Committee of the Board nominated Dr.-Ing. Gou Jianhui and Mr. Si Wenpei for election as executive directors of the Company at the annual general meeting for the year of the Company.

Mr. Xu Jianguo, a member of the fifth session of the Supervisory Committee, resigned as a supervisor and the chairman of the Supervisory Committee of the Company due to change of work arrangement. Mr. Si Wenpei resigned as a supervisor of the Supervisory Committee of the Company due to change of work arrangement. The Supervisory Committee nominated Ms. Zhang Yan and Ms. Lu Haixing for election as Supervisors at the annual general meeting for the year of the Company. For details, please refer to the announcement of the Company dated 15 March 2019.

On 15 March 2019, to protect the legitimate rights and interests of the Company, shareholders and creditors of the Company, and regulate the organization and behaviour of the Company, the Board proposed to amend the Articles of Association after considering the actual conditions of the Company. For details, please refer to the announcement of the Company dated 15 March 2019.

On 14 June 2019, the Company held 2018 annual general meeting. Dr.-Ing. Gou Jianhui and Mr. Si Wenpei were appointed as executive directors for a term until the end of the terms of the current session of the Board of the Company with immediate effect; Ms. Zhang Yan and Ms. Lu Haixing were appointed as supervisors for a term until the end of the terms of the current session of the Supervisory Committee of the Company with immediate effect; and the amendments to the Articles of Association were approved. For details, please refer to the announcement of the Company dated 14 June 2019.

On 14 June 2019, the Board announced that Dr.-Ing. Gou Jianhui was appointed as a member of the Strategy Committee and Risk Management Committee; and Mr. Si Wenpei was appointed as a member of the Risk Management Committee for a term until the end of the terms of the current session of the Board with immediate effect. Ms. Zhang Yan was appointed as the chairman of the Supervisory Committee for a term until the end of the terms of the current session of the Supervisory Committee of the Company with immediate effect. For details, please refer to the announcement of the Company dated 14 June 2019.

EMPLOYEES

As of 30 June 2019, the Group had approximately 4,521 (31 December 2018: 4,539) 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 2019, 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 2018.

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	56	Chairman and Executive Director
Xiao Yuman	47	Executive Director
Gou Jianhui	57	Executive Director and Chief Executive Officer
Zhang Mingjie	56	Executive Director
Si Wenpei	55	Executive Director
Dong Yeshun	58	Non-executive Director
Ling Hong	58	Independent Non-executive Director
Chan Oi Fat	40	Independent Non-executive Director
Sun Zechang	66	Independent Non-executive Director
Zhang Yan	44	Chairman of Supervisory Committee
Lu Haixing	52	Supervisor
Yu Yun	50	Supervisor
Chen Hui	51	Vice president
Zhu Jun	50	Vice president
Ng Kwong, Alexander	41	Chief Financial Officer and Company Secretary

DIRECTORS

Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is the chairman and an executive director of the Company. Mr. Zhou joined the Company in 2005. From 2005 to 2007, he served as the chairman and executive director of the Company. He has served as the vice chairman, executive director and president of the Company since 2013 as well as the chairman, executive director and president of the Company since 2015. Mr. Zhou joined Shanghai Electric (Group) Corporation in August 1983. He served as chief financial officer for the business department of Shanghai Electric (Group) Corporation, deputy chief accountant of Shanghai Electric (Group) Corporation, president of Shanghai Electric Industrial Corporation, head of investment management department, investment director and chief financial officer of Shanghai Electric Assets Management Company Limited, executive deputy head of overseas business department and head of financial budget department of Shanghai Electric (Group) Corporation. Mr. Zhou graduated from the School of Accounting of Shanghai Industry and Commerce Institute in 1988 majoring in finance and accounting and obtained a MBA degree from Shanghai Jiao Tong University in 1992. He is a senior accountant.

Mr. Xiao Yuman

Mr. Xiao Yuman is an executive director, the secretary of Party Committee, the secretary of Disciplinary Committee and the leader of Trade Union of the Company. Mr. Xiao joined Shanghai Electric (Group) Corporation in 1995, and 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 the General Office and deputy director, executive deputy director, director of the Research Office of Shanghai Electric (Group) Corporation and 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.

Dr. -Ing. Gou Jianhui

Dr. -Ing. Gou Jianhui is an executive director and Chief Executive Officer (總經理) of the Company. He has extensive experience in managing and growing multi-national industrial enterprises that are leading suppliers of important parts and components for industries such as automotive, railway and energy. Prior to joining the Company, Dr. -Ing. Gou Jianhui served as the managing director of Knorr-Bremse in China from July 2017 to September 2018. He was appointed as an executive director of China High Speed Transmission Equipment Group Co., Ltd. (listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"), stock code: 00658) in 2015 and held senior positions within that group from 2013. During 2004 to 2013, Dr. -Ing. Gou Jianhui was the managing director and president of Schaeffler Greater China. Dr. -Ing. Gou Jianhui started his career with FAG Schweinfurt in Germany in 1997 and was an academic at his alma mater, the Harbin Institute of Technology. Dr. -Ing. Gou Jianhui obtained a bachelor's and a master's degree in mechanical engineering from the Harbin Institute of Technology in China in 1982 and 1986, respectively. He also obtained a doctoral degree in engineering from the Technische Universität Braunschweig in Germany in 1997.

Mr. Zhang Mingjie

Mr. Zhang Mingjie is an executive director of the Company, director of department of industry development of Shanghai Electric Group Company Limited, the vice-chairman of Shanghai Highly (Group) Co., Ltd. (listed on the Shanghai Stock Exchange with a stock code of 600619, 900910 (B share)) 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 secretary 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. Si Wenpei

Mr. Si Wenpei, is an executive director of the Company, and has been the head of the assets and finance department of Shanghai Electric Group Company Limited since November 2017. Since July 1986, Mr. Si has served at the Shanghai Electric (Group) Corporation and/or its subsidiaries in various positions, including the secretary to the board, financial director and chief accountant of Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司) from August 2003 to August 2016 and the deputy head of the assets and finance department of Shanghai Electric Group Company Limited from August 2016 to November 2017. He served as a supervisor of the Company from June 2017 to June 2019. Mr. Si has served as a supervisor in the Shanghai Mechanical & Electrical Industry Co., Ltd. since April 2017 and the chairman of the board of the director in Suzhou Thvow Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002564) since February 2019. 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 an undergraduate 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. Dong Yeshun

Mr. Dong Yeshun is a non-executive director of the Company. Mr. Dong 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) (listed on Shanghai Stock Exchange, stock code: 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). Mr. Dong 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 an independent director of Goldcard Smart Group Company Limited (listed on Shenzhen Stock Exchange, stock code:300349) since December 2018, the head, professor and tutor of doctoral students of information management and information system department of the faculty of management in Fudan University, 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 is currently a tutor at the faculty of management in Fudan University since 1984. From August 2001 to December 2001, he was a visiting scholar at the MIT Sloan School of Management in the United States. From August 1998 to February 1999, he was an associate researcher of information systems at the City University of Hong Kong. Mr. Ling graduated from the faculty of computer science and engineering of Tsinghua University in Beijing and obtained a bachelor's degree in Computer Applications in 1984 and graduated from the faculty of management science and engineering from Fudan University and obtained a doctoral degree in Management in 2000.

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 (listed on Hong Kong Stock Exchange, stock code: 01586) 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. He graduated from the City University of Hong Kong with a bachelor in accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has extensive experience in professional accounting, auditing and corporate financial services.

Mr. Sun Zechang

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

SUPERVISOR

Ms. Zhang Yan

Ms. Zhang Yan is the chairman of the supervisory committee of the Company and the chief of the risk management department, the chief of audit department and the officer of the office of supervisory committee of Shanghai Electric Group Company Limited. Ms. Zhang joined Shanghai Electric (Group) Corporation in July 1997, and has served at Shanghai Electric (Group) Corporation and/or its subsidiaries, including Shanghai Mechanical & Electrical Industry Company Limited (上海機電股份有限公司) (formerly known as Shangling Electric Appliances (上海上菱電器股份有限公司), Shanghai Electric Development Company Limited (上海電氣企業發展有限公司) and Shanghai Electric Enterprise Service Company Limited (上海電氣資產管理有限公司). From June 2008 to November 2009, she served as the deputy chief of financial budget department of Shanghai Electric (Group) Corporation. From December 2009 to May 2018, she served as the deputy chief of secretariat office of the Shanghai Electric Group Company Limited. She has been a non-executive director of Shanghai Mechanical & Electrical Industry Company Limited since June 2014; from December 2018 to now, she serves as the chief of the risk management department of Shanghai Electric Group Company Limited; from February 2019 to now, she serves as the chairman of the supervisory committee of Suzhou Thvow Technology. Co., Ltd; (listed on Shenzhen Stock Exchange, stock code: 002564) and from May 2019 to now, she serves as employee representative supervisors of Shanghai Electric Group Company Limited (listed on Shanghai Stock Exchange, stock code: 601727; and Hong Kong Stock Exchange, stock code: 02727). She graduated from the Law Department of East China University of Political Science and Law in June 1997, majoring in law. In June 2012, she graduated from Shanghai National Accounting Institute and Arizona State University in the United States with EMBA degrees.

Ms. Lu Haixing

Ms. Lu Haixing is a supervisor of the Company and the secretary of CPC Party Committee of Shanghai High Strength Bolts Factory Company Limited (上海高強度螺栓廠). Ms. Lu joined Shanghai Electric (Group) Corporation in October 1985, and has served at Shanghai No.3 Standard Parts Plant Company Limited (上海標準件三廠), Shanghai High Strength Bolts Factory Company Limited (上海高強度螺栓廠) and Shanghai Electric Hydraulics and Pneumatics Company Limited (上海液壓氣動總公司). From December 2015 to March 2018, she served as the general manager and secretary of CPC Party Committee of Shanghai High Strength Bolts Plant Co., Ltd. (上海高強度螺栓廠), and served as the director and general manager of Shanghai Prime Tension Control Bolts Co., Ltd. (上海集優張力控制螺栓有限公司) from February 2016 to September 2016. She graduated from the College of Continuing Education of Fudan University in June 2005, majoring in accounting. She is a senior political affair officer (高級政工師).

Mr. Yu Yun

Mr. Yu Yun is a supervisor of the Company as well as the deputy secretary of Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union of Shanghai Tian An Bearing Company Limited. He has been appointed as a supervisor of the Company since 2012. From 1986 to 2001, he worked as deputy head of the training division, deputy secretary of the Youth League and vice chairman of the labour union of Shanghai Huatong Switch Factory. From 2003 to 2005, he worked as director of the GM office, vice chairman of the labour union and manager of the human resources department of Shanghai Huatong Switch Co., Ltd. He has been deputy secretary of Communist Party, secretary of the disciplinary committee of the Party and chairman of the labour union of Shanghai Tian An Bearing Company Limited since 2005. Mr. Yu obtained a master degree in Business Administration from Asia International Open University (Macau) in 2007. He is a political affair officer.

SENIOR MANAGEMENT

Mr. Chen Hui

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

Mr. Zhu Jun

Mr. Zhu Jun is the vice president of the Company, the general manager of the fastener department of the Company, and the general manager and deputy secretary of the 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 served as the assistant to the general manager and deputy general manager of the export department, and executive deputy general manager of the fastener department of the Company, and 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 Shanghai University of Engineering Science with a bachelor's degree in engineering. He 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 vicepresident 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	814,291,420	47.18
H Shares	911,652,000	52.82
Total	1,725,943,420	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 2019, 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	814,291,420	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	212,747,462	(1)(2)(3)	Interest of controlled corporation	Long position	23.33	12.33
Shanghai Electric (Group) Corporation	Domestic	814,291,420	(1)	Interest of controlled corporation	Long position	100.00	47.18
	H	212,747,462	(1)(2)(3)	Interest of controlled corporation	Long position	23.33	12.33
Shanghai Electric Group Company Limited	Domestic	814,291,420	(1)	Beneficial owner	Long position	100.00	47.18
	H	136,089,062	(2)	Interest of controlled corporation	Long position	14.93	7.88

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 (%)
Shanghai Electric Hongkong Company Limited	H	136,089,062	(2)	Beneficial owner	Long position	14.93	7.88
Shanghai Electric Group Hongkong Company Limited	H	76,658,400	(3)	Beneficial owner	Long position	8.41	4.44
Citigroup Inc.	H	54,403,954	(4)	Approved lending agent	Long Position	5.96	3.15
		54,403,954	(4)	Approved lending agent	Lending Pool	5.96	3.15

Notes:

(1) State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and Shanghai Electric (Group) Corporation ("SEG") were deemed to be interested in (Domestic shares and H Shares) by virtue of SFO because:

— Shanghai Electric Group Company Limited is 59.18% owned by SEG ; and

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

As disclosed under the announcement dated 7 December 2018 in relation to the Results of the H Share Rights Issue of the Company, Shanghai Electric Group Company Limited held interest in 814,291,420 domestic shares of the Company.

(2) Shanghai Electric Group Company Limited held interest in H shares through its wholly-owned subsidiary (Shanghai Electric Hongkong Co. Limited).

(3) SEG held interest in H shares of the Company through its wholly-owned subsidiary (Shanghai Electric Group Hongkong Company Limited).

As disclosed under the announcement dated 7 December 2018 in relation to the Results of the H Share Rights Issue of the Company, Shanghai Electric Group Hongkong Company Limited held interest in 76,658,400 H Shares of the Company.

(4) 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 2019 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 2019, 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 have been 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 pursuant to Section 352 of the SFO, recorded in the register required to be kept by the Company; or (iii) which were 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

Name of director	Class of shares	No. of shares	Notes	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
Zhou Zhiyan	H	156,800	(1)	Beneficial owner	Long position	0.02	0.00
Chen Hui	H	87,800	(1)	Beneficial owner	Long position	0.01	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 2019, 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.

USE OF PROCEEDS

On 7 December 2018, the Company completed a rights issue (the "Rights Issue") comprising of 151,942,000 H shares of the Company ("H Rights Shares") at HKD1.30 per H Rights Share and 135,715,236 domestic shares of the Company ("Domestic Rights Shares") at RMB1.07 per Domestic Rights Share. The net proceeds raised from the Rights Issue (after deducting all incidental expenses) were approximately HKD355 million (Note 1). The utilization of net proceeds from the Rights Issue is set out below:

Intended Use of Net Proceeds	Allocation of net proceeds (Note 1)	Net Proceeds intended to be applied up to 30 June 2019	Amount of Net Proceeds utilized up to 30 June 2019	Balance of Net Proceeds Unutilized as at 30 June 2019
		(HKD in millions)		
(i) Partial repayment of the shareholder's loan	178	–	–	178 (Note 2)
(ii) Investments	142	73	73	69
— capital expenditure	56	56	56	–
— potential investments	86	17	17	69
(iii) General working capital	35	35	35	–

All unutilized net proceeds were placed in deposits with banks. The Company will apply the remaining balance of net proceeds in the manner as set out in the prospectus of the Company dated 16 November 2018 (the "Prospectus"). It is currently estimated that the remaining balance of net proceeds of HKD69 million intended to be used for potential investments will be fully utilized by the end of 2020.

Notes:

1 The net proceeds from the Rights Issue comprises: (i) approximately HKD197.52 million raised from the rights issue of H Rights Shares; and (ii) approximately RMB145.22 million (equivalent to approximately HKD165.15 million adopting the exchange rate as of 7 December 2018, being the date of completion of the Rights Issue ("Completion")) raised from the rights issue of Domestic Rights Shares, and the net proceeds of the Rights Issue and its use were adjusted and expressed in HKD based on the exchange rate on the date of Completion.

2 In July 2019, the entire balance of net proceeds of HKD178 million has been applied for the repayment of the shareholder's loan in accordance with the Prospectus.

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 1H2019.

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 2019 up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During 1H2019, 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 1H2019.

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, Gou Jianhui, Zhang Mingjie, Si Wenpei, 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 Zhang Yan, Lu Haixing 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 54, 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 26 to 62, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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

16 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	**RMB'000**	RMB'000
Revenue			
Contracts with customers	4A	**4,484,717**	4,713,769
Cost of sales		**(3,619,256)**	(3,791,343)
Gross profit		**865,461**	922,426
Other income	5	**33,636**	28,908
Other gains and losses	6	**18,624**	44,225
Impairment losses under expected credit loss model, net of reversal	16	**(24,060)**	(12,845)
Selling and distribution expenses		**(198,065)**	(222,009)
Administrative expenses		**(348,052)**	(322,398)
Research expenditure		**(164,832)**	(169,852)
Other expenses		**(432)**	(227)
Share of profits of associates		**6,085**	22,810
Share of loss of a joint venture		**(28)**	(124)
Finance costs		**(40,760)**	(47,813)
PROFIT BEFORE TAX	8	**147,577**	243,101
Income tax expense	9	**(29,728)**	(54,975)
PROFIT FOR THE PERIOD		**117,849**	188,126
Profit for the period attributable to owners of the Company		**114,736**	186,250
Profit for the period attributable to non-controlling interests		**3,113**	1,876
		117,849	188,126

For the six months ended 30 June 2019

	Note	For the six months ended 30 June	
		2019	2018
		(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		**(14,833)**	1,814
Income tax relating to items that will not be reclassified to profit or loss		**4,450**	(537)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(3,836)**	(9,160)
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
Income tax relating to items that may be reclassified to profit or loss		**–**	(592)
Other comprehensive (expense) income for the period, net of income tax		**(14,219)**	7,715
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**103,630**	195,841
Total comprehensive income for the period attributable to:			
Owners of the Company		**100,324**	194,624
Non-controlling interests		**3,306**	1,217
		103,630	195,841
EARNINGS PER SHARE	11		
Basic (RMB cents)		**6.74**	13.39
Diluted (RMB cents)		**6.74**	13.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	2,252,413	2,302,620
Right-of-use assets	12	354,647	–
Prepaid lease payments		–	132,461
Investment properties	12	18,796	–
Goodwill	13	1,516,138	1,521,918
Intangible assets		57,094	33,556
Interests in associates		69,999	78,378
Interest in a joint venture		345	373
Financial assets at fair value through profit or loss ("FVTPL")		3,885	3,551
Deferred tax assets		137,456	125,181
		4,410,773	4,198,038
CURRENT ASSETS			
Prepaid lease payments		–	3,463
Inventories	14	1,787,363	1,863,522
Trade receivables	15	1,366,182	1,210,677
Debt instruments at fair value through other comprehensive income ("FVTOCI")		654,833	719,278
Prepayments, deposits and other receivables		241,353	300,333
Contract costs		35,697	42,612
Restricted deposits		214,480	169,715
Bank balances and cash		1,289,177	1,150,582
		5,589,085	5,460,182
Assets classified as held for sale	17	8,344	–
		5,597,429	5,460,182
CURRENT LIABILITIES			
Trade payables	18	1,418,461	1,424,870
Bills payable		410,637	408,124
Other payables and accruals		537,602	464,860
Tax liabilities		62,041	72,864
Government grants		17,309	16,498
Contract liabilities		63,141	75,800
Lease liabilities/Obligations under finance leases		81,000	6,368
Shareholder's Loan		947,095	944,311
Bank borrowings	19	150,325	202,484
		3,687,611	3,616,179
NET CURRENT ASSETS		1,909,818	1,844,003
TOTAL ASSETS LESS CURRENT LIABILITIES		6,320,591	6,042,041

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Shareholders' loan		30,000	814,730
Bank borrowings	19	1,513,291	606,128
Government grants		220,567	227,876
Lease liabilities/Obligations under finance leases		143,324	19,393
Other long-term payables		51,530	52,426
Deferred tax liabilities		13,234	12,773
Refund liabilities		20,306	21,520
Retirement benefit obligations		144,519	130,315
		2,136,771	1,885,161
NET ASSETS		4,183,820	4,156,880
CAPITAL AND RESERVES			
Share capital	20	1,725,943	1,725,943
Reserves		2,409,087	2,385,453
Total equity attributable to owners of the Company		4,135,030	4,111,396
Non-controlling interests		48,790	45,484
TOTAL EQUITY		4,183,820	4,156,880

The condensed consolidated financial statements on pages 26 to 62 were approved and authorised for issue by the board of directors on 16 August 2019 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 2019

	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	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 21) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2019 (audited)	1,725,943	729,594	54,884	1,997	380,248	7,915	1,471,737	70,764	(304,645)	(27,041)	4,111,396	45,484	4,156,880
Adjustments (note 3)	–	–	–	–	–	–	(7,010)	–	–	–	(7,010)	–	(7,010)
Balance at 1 January 2019 (restated)	1,725,943	729,594	54,884	1,997	380,248	7,915	1,464,727	70,764	(304,645)	(27,041)	4,104,386	45,484	4,149,870
Profit for the period	–	–	–	–	–	–	114,736	–	–	–	114,736	3,113	117,849
Other comprehensive (expense) income for the period	–	–	–	–	–	(10,383)	–	–	(4,029)	–	(14,412)	193	(14,219)
Total comprehensive (expense) income for the period	–	–	–	–	–	(10,383)	114,736	–	(4,029)	–	100,324	3,306	103,630
Dividend recognised as distribution	–	–	–	–	–	–	–	(70,764)	–	–	(70,764)	–	(70,764)
Recognition of equity-settled share-based payments	–	–	–	1,084	–	–	–	–	–	–	1,084	–	1,084
Awarded shares vested	–	859	–	(3,081)	–	–	–	–	–	2,222	–	–	–
Balance at 30 June 2019 (unaudited)	1,725,943	730,453	54,884	–	380,248	(2,468)	1,579,463	–	(308,674)	(24,819)	4,135,030	48,790	4,183,820

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 21) 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	–	–	–	–	–	–	–	(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 CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**284,820**	122,703
INVESTING ACTIVITIES		
Interest received	**8,542**	3,087
Dividend received from available-for-sale investments	**313**	–
Purchases of property, plant and equipment	**(152,582)**	(148,603)
Proceeds from disposal of property, plant and equipment	**7,791**	6,737
Purchases of intangible assets	**(28,207)**	(2,429)
Withdrawal of non-restricted deposits with original maturity of over three months	**2,000**	5,000
Withdrawal of restricted bank deposits	**253,940**	76,039
Placement of restricted bank deposits	**(298,705)**	(84,289)
Dividends received from an associate	**24,746**	37,167
Proceeds on disposal of a subsidiary (note 7)	**–**	58,847
Proceeds from disposal of financial assets at FVTPL	**–**	368
Proceeds from disposal of derivative financial instruments	**60,896**	–
NET CASH USED IN INVESTING ACTIVITIES	**(121,266)**	(48,076)
FINANCING ACTIVITIES		
Bank borrowings obtained	**1,525,257**	89,093
Repayment of bank borrowings	**(686,079)**	(70,344)
Shareholders' loans obtained	**1,600**	–
Repayment of shareholders' loans	**(767,720)**	–
Repayments of leases liabilities/obligations under finance leases	**(47,502)**	–
Interest paid	**(51,377)**	(48,254)
NET CASH USED IN FINANCING ACTIVITIES	**(25,821)**	(29,505)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	**137,733**	45,122
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**1,148,582**	799,956
Effect of foreign exchange rate changes	**2,862**	1,269
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,289,177**	846,347
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**1,289,177**	846,347

1. GENERAL

Shanghai Prime Machinery Company Limited (the "Company", and 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 (Group) 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. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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").

3. PRINCIPAL ACCOUNTING POLICIES

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

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 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

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 periods beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases*

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of leasehold land and buildings, machinery and equipment, motor vehicles and office and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets (continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

<u>Applying HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately</u>

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessor (continued)

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by- lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ending within 12 months of the date of initial application; and

ii. used hindsight based on facts and circumstances as at the date of initial application in determining the lease term for the Group's leases with extension and termination options.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of RMB260,570,000 and right-of-use assets of RMB385,795,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 2.66%.

		Note	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018			239,484
Lease liabilities discounted at relevant incremental borrowing rates			220,640
Add:	Lease liabilities resulting from lease modifications of existing leases		34,020
Less:	Recognition exemption – short-term leases		(19,334)
	Recognition exemption – low value assets		(517)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16			234,809
Add:	Obligations under finance leases recognised at 31 December 2018	(b)	25,761
Lease liabilities as at 1 January 2019			260,570
Analysed as			
Current			86,764
Non-current			173,806

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

Definition of a lease (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		227,799
Reclassified from prepaid lease payments	(a)	135,924
Amounts included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	(b)	22,072
		385,795
By class:		
Leasehold land		135,924
Leasehold land and buildings		100,473
Machinery and equipment		106,356
Motor vehicles		10,376
Office and other equipment		32,666
		385,795

(a) Upfront payments for leasehold land in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portions of prepaid lease payments amounting to RMB3,463,000 and RMB132,461,000 respectively were reclassified to right-of-use assets.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB22,072,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB6,368,000 and RMB19,393,000 to lease liabilities as current and non-current liabilities respectively at 1 January 2019.

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

Definition of a lease (continued)

As a lessee (continued)

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets and the directors of the Company conclude that the discounting effect of rental deposits have no material impact at transition.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(d) Before the application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and the directors of the Company conclude that the discounting effect of rental deposits have no material impact at transition.

The following table summaries the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019 RMB'000
Retained profits	
Impact of transition to HKFRS 16 at 1 January 2019	(7,010)

3. PRINCIPAL ACCOUNTING POLICIES (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 *Leases* (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000
Non-current Assets				
Prepaid lease payments	(a)	132,461	(132,461)	–
Property, plant and equipment		2,302,620	(22,072)	2,280,548
Right-of-use assets		–	385,795	385,795
Current Assets				
Prepaid lease payments	(a)	3,463	(3,463)	–
Capital and Reserves				
Reserves		2,385,453	(7,010)	2,378,443
Current Liabilities				
Lease liabilities	(b)	–	86,764	86,764
Obligations under finance leases	(b)	6,368	(6,368)	–
Non-current liabilities				
Lease liabilities	(b)	–	173,806	173,806
Obligations under finance leases	(b)	19,393	(19,393)	–

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

There is no impact of applying HKFRS 16 as a lessor on the Group's condensed consolidated statement of financial position as at 30 June 2019 and its condensed consolidated statements of profit or loss and other comprehensive income and cash flows for the current interim period.

4A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

Disaggregation of revenue	For the six months ended 30 June 2019 (unaudited)				
	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Total RMB'000
Types of goods or service					
Sales of goods and services	454,314	479,797	314,410	3,236,196	4,484,717
Total	454,314	479,797	314,410	3,236,196	4,484,717
Timing of revenue recognition					
A point in time	454,314	479,797	314,410	3,092,348	4,340,869
Over time	–	–	–	143,848	143,848
Total	454,314	479,797	314,410	3,236,196	4,484,717

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

4B. 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 related equipment 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.

4B. 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 2019 (Unaudited)

	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	454,314	479,797	314,410	3,236,196	–	4,484,717
Inter-segment sales	–	–	91	–	–	91
Subtotal	454,314	479,797	314,501	3,236,196	–	4,484,808
Eliminations						(91)
Group revenue						4,484,717
Segment profit	47,808	22,181	52,809	96,560	–	219,358
Interest and dividend income and unallocated gains						7,539
Corporate and other unallocated expenses						(40,914)
Finance costs						(40,760)
Share of profits of associates	–	–	–	–	6,085	6,085
Share of loss of a joint venture	–	–	–	(28)	–	(28)
Impairment loss recognised on asset classified as held-for-sale	–	–	(3,703)	–	–	(3,703)
Profit before tax						147,577

4B. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the six months ended 30 June 2018 (Unaudited)

	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

5. OTHER INCOME

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other income		
Dividend income from financial assets at FVTPL	**313**	–
Interest income from bank balances and deposits	**8,727**	2,976
Net rental income	**890**	204
Government grants (note)	**16,902**	15,295
Compensation income	**2,891**	3,054
Technology service income	**2,058**	3,441
Others	**1,855**	3,938
Total	**33,636**	28,908

Note:

Government grants represent the amounts received from local government by certain PRC entities of the Group. Government grants of approximately (a) RMB9,014,000 (six months ended 30 June 2018: RMB8,558,000) represent 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) RMB7,888,000 (six months ended 30 June 2018: RMB6,737,000) represent subsidies for the acquisition of machinery amortised to profit or loss for the period.

6. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other gains and losses		
Sales of spare parts and scrap materials	**92,882**	89,298
Less costs related to sales of spare parts and scrap materials	**(66,766)**	(55,135)
	26,116	34,163
Gain (loss) on disposal of property, plant and equipment	**(255)**	2,550
Gain (loss) on settlement of derivative financial instruments	**6,113**	(960)
Gain arising on financial assets at FVTPL	**–**	29,065
Fair value gain on financial assets at FVTPL	**337**	–
Impairment loss recognised on assets classified as held-for-sale	**(3,703)**	–
Net exchange loss	**(9,984)**	(24,341)
Gain on write-back of long-aged payables	**–**	3,748
	18,624	44,225

7. DISPOSAL OF A SUBSIDIARY

During 30 June 2018, 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.

8. PROFIT BEFORE TAX

Profit before tax has been arrived after charging (crediting):

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Cost of inventories recognised as expenses	**3,615,735**	3,787,156
Cost of services provided	**3,521**	4,187
Depreciation of property, plant and equipment	**135,314**	138,892
Release of prepaid lease payments	**–**	1,733
Amortisation of intangible assets	**5,373**	4,759
Depreciation of right-of-use assets	**41,385**	–
Total depreciation and amortisation	**182,072**	145,384
Capitalised in inventories	**(41,660)**	(28,374)
	140,412	117,010
Depreciation of investment properties	**337**	–
Allowance for inventories	**15,302**	20,017
Reversal of allowance for inventories (recognised in cost of sales)	**(10,742)**	(9,864)
Total staff costs (including director's remuneration, other staff cost, and other staff's retirement benefit contributions and Incentive Scheme)	**780,533**	784,837
Capitalised in inventories	**(141,431)**	(122,880)
	639,102	661,957

9. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Income tax expenses comprise:		
PRC Enterprise Income Tax ("EIT")	**22,515**	23,568
Other jurisdictions	**16,957**	24,276
Over-provision in prior years	**(1,977)**	(2,477)
	37,495	45,367
Deferred tax	**(7,767)**	9,608
	29,728	54,975

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%.

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.

10. DIVIDENDS

The Board of Directors of the Company (the "Board") does not recommend the payment of an interim dividend for the current interim period (six months ended 30 June 2018: nil). For the year ended 31 December 2018, the Board has proposed a final dividend of RMB4.10 cents per share, which were approved by the Company's shareholders at the annual general meeting held on 14 June 2019.

11. 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	
	2019	2018
	(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)	**114,736**	186,250

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
		(restated)
	in'000	in'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,701,765**	1,391,475
Effect of dilutive potential ordinary shares in respect of shares awarded under the Incentive Scheme — unvested	**–**	1,935
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,701,765**	1,393,410

During the year ended 31 December 2018, the Company issued 151,942,000 H shares of the Company ("H Shares") on the basis of one new H Share ("H Rights Share") for every five existing H Shares held on 15 November 2018 at RMB1.07 (equivalent to HKD1.30) per H Rights Share and 135,715,236 domestic shares of the Company ("Domestic Shares") on the basis of one new Domestic Share ("Domestic Rights Share") for every five existing Domestic Shares held on 15 November 2018 at RMB1.07 per Domestic Rights Share (the "Rights Issue"). The transaction was completed on 7 December 2018.

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the Rights Issue.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB8,046,000 (six months ended 30 June 2018: RMB4,187,000) for cash proceeds of RMB7,791,000 (six months ended 30 June 2018: RMB6,737,000), resulting in a loss on disposal of RMB255,000 (six months ended 30 June 2018: gain on disposal of RMB2,550,000).

In addition, during the current interim period, the Group paid approximately RMB104,828,000 (six months ended 30 June 2018: RMB104,474,000) for the construction in progress and RMB47,754,000 (six months ended 30 June 2018: RMB44,129,000) for the acquisition of property, plant and equipment in order to upgrade its manufacturing capabilities.

During the current interim period, the Group has entered into a lease agreement to lease out certain buildings and has transferred them from property, plant and equipment to investment properties accounted for under the cost model, with a net book value of RMB18,796,000 as at 30 June 2019.

As at 30 June 2019, the Group had not obtained real estate title certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB716,000 (31 December 2018: RMB772,000).

During the current interim period, the Group had not entered into any new significant lease agreement.

13. GOODWILL

	RMB'000
COST AND CARRYING VALUE	
At 31 December 2018 (audited)	1,521,918
Exchange adjustments	(5,780)
At 30 June 2019 (unaudited)	1,516,138

14. INVENTORIES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Raw materials and consumables	**611,440**	645,498
Work in progress	**473,121**	406,682
Finished goods	**702,802**	811,342
	1,787,363	1,863,522

15. 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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 3 months	942,882	894,956
Over 3 months but within 6 months	246,399	181,658
Over 6 months but within 1 year	107,650	106,928
Over 1 year but within 2 years	69,251	27,135
	1,366,182	1,210,677

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.

As at 30 June 2019, total bills received amounting to RMB654,833,000 (31 December 2018: RMB719,278,000) are held by the Group for settlement of trade receivables, of which certain bills were further endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

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

	Six months ended	
	30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
Impairment loss recognised/(reversed) in respect of		
trade receivables	**24,221**	12,658
other receivables	**(161)**	187
	24,060	12,845

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, which are assessed collectively based on provision matrix as at 30 June 2019 and 31 December 2018. Trade receivables with significant outstanding balances or credit-impaired with gross carrying amounts of RMB371,384,000 (31 December 2018: RMB260,143,000) and RMB78,833,000 (31 December 2018: RMB48,074,000) respectively as at 30 June 2019 were assessed individually.

	30 June 2019		31 December 2018	
	Average loss rate	**Gross carrying amount RMB'000**	Average loss rate	Gross carrying amount RMB'000
Current (not past due)	**–**	**385,809**	–	314,615
Within 90 days past due	**0.34%**	**380,956**	0.56%	397,866
91 to 180 days past due	**1.85%**	**153,307**	2.05%	151,886
181 days to 365 days past due	**5.11%**	**94,350**	5.91%	93,150
1 to 2 years past due	**79.02%**	**51,991**	78.97%	71,240
		1,066,413		1,028,757

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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

During the current interim period, the Group provided RMB6,607,000 impairment allowance based on the provision matrix. In addition, impairment allowance of RMB13,110,000 and RMB18,356,000 were made on individual debtors with significant balances or credit-impaired for the current interim period.

During the current interim period, the Group reversed RMB10,216,000 impairment loss allowance based on the provision matrix. In addition, specific reversals of RMB3,425,000 and RMB211,000 have been made to individual debtors with significant balances or credit-impaired for the current interim period.

During the current interim period, the Group transferred RMB13,369,000 impairment allowance from the provision matrix to individual debtors with credit-impaired due to changes of credit risks of these debtors.

17. ASSETS CLASSIFIED AS HELD FOR SALE

During the current interim period, the directors of the Company resolved to dispose of one of the Group's associate and obtained a purchase commitment from the controlling shareholder of the associate. The investment expected to be sold within twelve months from the end of current interim period has been classified as an asset held-for-sale and are separately presented in the condensed consolidated statement of financial position. The operations are included in the Group's cutting tool segment for segment reporting purpose (see note 4B).

The sale proceeds are expected to be lower than the net carrying amount of the investment accordingly, an impairment loss amounting to RMB3,703,000 has been recognised and set out in note 6.

18. 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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 3 months	**1,143,639**	1,205,902
Over 3 months but within 6 months	**215,234**	162,237
Over 6 months but within 1 year	**49,720**	33,605
Over 1 year but within 2 years	**5,611**	19,904
Over 2 years	**4,257**	3,222
	1,418,461	1,424,870

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

19. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB1,525,257,000 (six months ended 30 June 2018: RMB89,093,000) and repaid RMB686,079,000 (six months ended 30 June 2018: RMB70,344,000).

As at 30 June 2019, RMB1,606,668,000 (31 December 2018: RMB756,020,000) of the bank borrowings carried interest at variable rates, ranging from 3-month EURIBOR plus 1.15% to 1.5% to interest rate released by the People's Bank of China minus 5 basis points (31 December 2018: 3-month EURIBOR plus 1.6% to 2.25% and interest rate released by the People's Bank of China minus 5 basis points) per annum, while RMB56,948,000 (31 December 2018: RMB52,292,000) carried interest at fixed rates from 2.70% to 5.44% (31 December 2018: 2.70%) per annum. Bank borrowings repayable by the Group within one year were RMB150,325,000 (31 December 2018: RMB202,484,000), whereas borrowings repayable after one year were RMB1,513,291,000 (31 December 2018: RMB606,128,000). The proceeds raised during the current interim period were used for general working capital purpose.

20. SHARE CAPITAL

As at 30 June 2019, 22,244,000 (31 December 2018: 24,179,000) shares of the Company were held in custody by the trustee for the Incentive Scheme. During the current interim period, 1,935,000 shares had become vested. Further details are set out in note 21.

21. INCENTIVE SCHEME

As at 30 June 2019, there were in total 22,244,000 (31 December 2018: 22,244,000) unawarded shares amounting to HKD31,586,000 (31 December 2018: HKD31,586,000) 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 in'000
At 31 December 2018 (Audited)	1,935
Vested during the six months ended 30 June 2019 (Unaudited)	1,935
Outstanding at 30 June 2019 (Unaudited)	–

On 30 June 2015, a total of 5,406,000 shares of the Company were 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 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 equivalent to RMB8,612,000, which was determined by reference to the closing share price on that date. Total staff cost in respect of award shares under Incentive Scheme of RMB1,084,000 was recognised as an expense for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB879,000).

21. 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 2017, a total of cash instalment of RMB7,460,000 was 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 payable during the year of grant, while the remaining 20% and 20% of the cash instalments would be payable after the first and second anniversary of the date of grant if they remain in office as employees of the Group at that date. An amount in respect of the cash instalment under the Incentive Scheme of RMB249,000 (six months period ended 30 June 2018: RMB622,000) was recognised as an expense for the six months ended 30 June 2019.

On 16 March 2018, a total of cash instalments of RMB15,120,000 was 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 payable during the year of grant, while the remaining 20% and 20% of the cash instalments 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 RMB1,260,000 (six months period ended 30 June 2018: RMB4,836,000) was recognised as an expense for the six months ended 30 June 2019.

On 15 March 2019, a total of cash instalments of RMB17,510,000 was 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 payable during the year of grant, while the remaining 20% and 20% of the cash instalments 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 RMB6,712,000 (six months period ended 30 June 2018: nil) was recognised as an expense for the six months ended 30 June 2019.

22. 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 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 are 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 2019 RMB'000	**31 December 2018 RMB'000**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
Financial assets				
Debts instruments at FVTOCI	**654,833**	719,278	Level 2	Discounted cash flow. Future cash flows are discounted at a rate that reflects the credit risk of various counterparties
Financial assets at FVTPL for unlisted equity investments	**3,885**	3,551	Level 3	Market approach
Assets classified as held for sale	**8,344**	n/a	Level 2	Market approach

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

Except for those set out above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 30 June 2019 and 31 December 2018 recorded at amortised cost in the (condensed) consolidated financial statements approximate their fair values.

23. PLEDGE OF ASSETS

As at 30 June 2019, debt instruments at FVTOCI of RMB284,230,000 (31 December 2018: RMB249,399,000) and property, plant and equipment of RMB48,944,000 (31 December 2018: RMB49,150,000) have been pledged as security for bank borrowings and other banking facilities granted to the Group.

As at 30 June 2019, restricted deposits of RMB214,480,000 (31 December 2018: RMB169,715,000) have been pledged as security for the Group's issuance of letters of credit, short-term bills payables and letters of guarantee for bidding.

As at 30 June 2019, no equity interests (31 December 2018: 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.

24. CAPITAL COMMITMENTS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Contracted, but not provided in respect of:		
— Plant and machinery	**99,359**	83,370
— Land and buildings	**–**	228
— Intangible assets	**58,056**	–
	157,415	83,598

25. 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**	
		2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
SEG and its associate including SEC and its subsidiaries ("SEG Group")	Sales of goods (Note i)	**92,839**	189,847
	Rendering of comprehensive services	**54**	–
	Comprehensive services charges incurred	**359**	9
	Rental expenses (Note ii)	**11,630**	12,055
	Interest expense (Note iii)	**15,667**	26,049

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.

25. RELATED PARTY TRANSACTIONS (continued)

(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 SEG Group, in the normal course of business at terms comparable to those with other non-state-owned entities.

(c) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Fees	**304**	292
Short term employee benefits	**2,555**	917
Post-employment benefits	**106**	98
	2,965	1,307

26. 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 16 August 2019.