



SHANGHAI PRIME

# SHANGHAI PRIME MACHINERY COMPANY LIMITED

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

Interim Report  
**2020**



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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

Zhou Zhiyan (Chairman and President, appointed as the President on 1 April 2020)

Zhang Mingjie

Si Wenpei

Xiao Yuman

Xia Sicheng (appointed on 19 June 2020)

Gou Jianhui (resigned on 1 April 2020)

## NON-EXECUTIVE DIRECTOR

Dong Yeshun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Ling Hong

Chan Oi Fat

Sun Zechang

## SUPERVISORS

Zhang Yan (Chairman)

Lu Haixing

Yu Yun

## COMPANY SECRETARY

Ng Kwong, Alexander (CPA)

## AUDIT COMMITTEE

Chan Oi Fat (Chairman)

Ling Hong

Sun Zechang

## REMUNERATION COMMITTEE

Ling Hong (Chairman)

Chan Oi Fat

Dong Yeshun

## STRATEGY COMMITTEE

Zhou Zhiyan (Chairman)

Zhang Mingjie

Xia Sicheng (appointed on 19 June 2020)

Dong Yeshun

Sun Zechang

Gou Jianhui (resigned on 1 April 2019)

## NOMINATION COMMITTEE

Zhou Zhiyan (Chairman)

Xiao Yuman

Ling Hong

Chan Oi Fat

Sun Zechang

## RISK MANAGEMENT COMMITTEE

Zhou Zhiyan (Chairman)

Si Wenpei

Xiao Yuman

Xia Sicheng (appointed on 19 June 2020)

Ling Hong

Chan Oi Fat

Gou Jianhui (resigned on 1 April 2020)

## AUTHORISED REPRESENTATIVES

Zhou Zhiyan

Xiao Yuman

## ALTERNATIVE AUTHORISED REPRESENTATIVES

Chan Oi Fat

Ng Kwong, Alexander

## INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

(Registered Public Interest Entity Auditor)

## 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

Website: [www.pmcsh.com](http://www.pmcsh.com)

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# 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 2020 ("1H2020") which have been reviewed by the audit committee of the Company and Deloitte Touche Tohmatsu.

### BUSINESS REVIEW

In 1H2020, the Group achieved a turnover of RMB 3,324 million (for the six months ended June 30, 2019 ("1H2019"): RMB 4,485 million), representing a decrease of 25.9% as compared with 1H2019. The Group incurred a consolidated net loss of RMB 22.0 million as compared with a consolidated net profit of RMB 115 million for 1H2019. The Group had total assets of RMB 9,628 million (31 December 2019: RMB 9,644 million), representing a decrease of RMB 16 million as compared with the beginning of the year.

### STRATEGIC REVIEW

#### Business in China is recovering gradually while business in Europe is facing challenges

The COVID-19 epidemic continues to affect the development of economic operations. The overall operation of the industry continues to decline, and the demand in automotive markets in Europe and China continues to slow down. Affected by this, the Group's operating income and profit have dropped significantly in

1H2020. As work and production have begun to resume orderly in China, the Group's domestic business is recovering gradually, while the trend of economic recovery in Europe is still difficult to predict, the Group's business in Europe continues to face significant challenges.

#### Consolidating basic management and actively developing new markets

The global economy is still full of significant challenges and uncertainties. The Group responds actively by consolidating basic management and strengthening information-based management to further enhance business competitiveness.

The Group is actively expanding into new markets such as rail transit and robotics, and actively expanding into new areas to form new growth points based on traditional areas, opening up space for the gradual recovery of future performance.

# CHAIRMAN'S STATEMENT

## FUTURE PROSPECTS

### Strengthening risk management and control

With the continuous and recurring spread of the COVID-19 pandemic as well as the intensifying Sino-US trade friction, global economic uncertainty has been rising. As an international enterprise, the Group will face difficulties such as a downturn in the global market and shrinking trade volume in the longer term. In view of this, the Group will carry out full assessments and strengthen risk management and control.

### Promoting transformation and upgrading

In the long run, the Group will shift its positioning from products to solutions, improve the establishment of technological innovation systems and promote intelligent manufacturing. At the current stage, the Group is committed to cultivating a batch of new products with market prospects in high-end areas; expanding and strengthening a batch of products with market and competitive advantages; developing a batch of major domestic customers with potentials in order.

### Initiating business collaboration

Each business segment of the Group has a large number of shared domestic and overseas customer resources. It is expected that after the global epidemic is under control, the sharing of customers and channel resources between domestic and overseas companies and different business segments will be promoted, and management of significant channels and business collaboration solutions will be strengthened to expand the market and stimulate the development of existing businesses.

### Capturing innovation in mechanism

Under the impact of the epidemic, competitions among companies have become more intense than ever. By adopting mixed ownership reform, the Group will continue to promote mechanism innovation, actively introduce highly matched strategic investors with deep sense of identity and high synergy to form a new mechanism for risk sharing and benefit sharing, and to unleash the value of developing the Company by talent management in order to stimulate the competitiveness of the enterprise.

**Zhou Zhiyan**

*Chairman*

**Shanghai Prime Machinery Company Limited**

Shanghai, the PRC

14 August 2020



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The first half of 2020 was a very challenging period for humanity as the world has experienced a global health crisis coupled with deep economic recession. Various measures were enforced by governments around the world to curb the spread and impact of COVID-19, which has evolved into a pandemic unseen in decades. These measures including mandatory social distancing and lockdown have caused most of the Group's automotive customers to temporarily close down their production facilities particularly in China and Europe for various periods during March to May 2020; and disruptions to many other business sectors around the world.

Under this circumstance, the Group was inevitably affected and our revenue for 1H2020 declined by 25.9% as compared with 1H2019 to RMB3,324 million (1H2019: RMB4,485 million). Segment revenues decreased across the board with the fastener business being the hardest hit. The Group's overall gross profit margin reduced considerably by 1.8 percentage point to 17.5% for 1H2020 (1H2019: 19.3%), which was mainly attributable to under-absorption of fixed costs and overhead resulting from lower production rate of the fastener business. Total operating expenses amounted to RMB640 million (1H2019: RMB711 million), of which selling and distribution expenses decreased by 15.1% and administrative expenses decreased by 7.0% as compared with 1H2019.

During 1H2020, the Group has incurred (a) one-off professional expenses totaled circa RMB2.4 million relating to a potential acquisition and (b) non-recurrent restructuring costs of circa RMB12.1 million, of which RMB8.8 million (incurred for 1H2020) was related to the close-down of a manufacturing plant in Berlin, Germany, which was announced in November 2019 and expected to complete in the third quarter of 2020.

EBITDA for 1H2020 amounted to RMB156 million (1H2019: RMB360 million (restated)) and EBITDA to revenue margin was 4.7% (1H2019: 8.0% (restated)). The Group incurred a consolidated net loss of RMB22.0 million for 1H2020 as compared with a consolidated net profit of RMB115 million for 1H2019.

In response to the uncertainties and disruptions brought by the on-going pandemic, the Group has strived to preserve cash by limiting unnecessary capital expenditure, project spending and certain business activities; and has also taken advantage of certain government assistance and subsidies to enhance liquidity and recover costs during 1H2020 and beyond. Further cost-saving initiatives including restructuring are also being contemplated and implemented as and when appropriate.

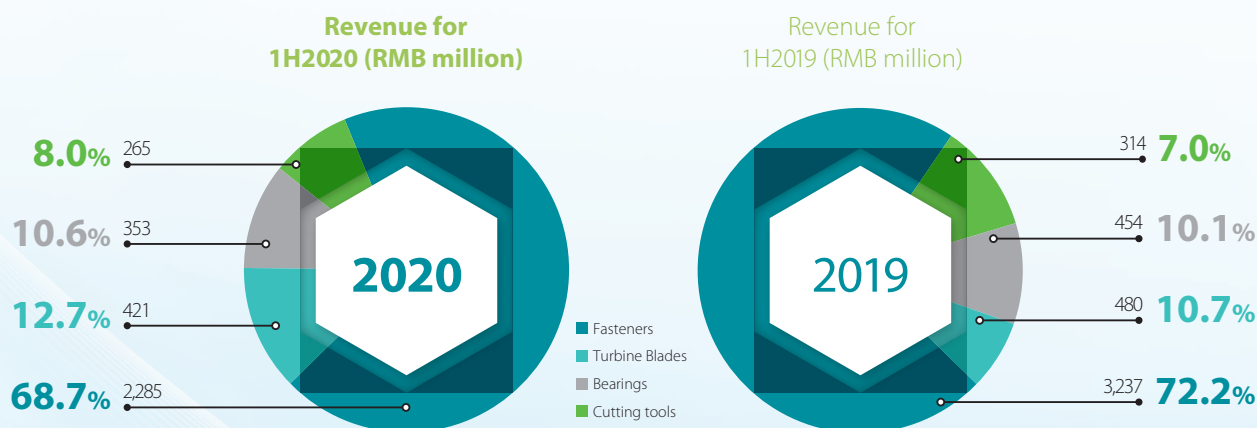
Note: EBITDA is defined as earnings before interest income, finance costs, net exchange differences, hedging results, income tax expenses, depreciation, amortization, and share of results and/or results of disposal of interests in equity-accounted entities, if any.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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	
	2020	2019	2020	2019	2020	2019
	RMB in million	RMB in million	RMB in million	RMB in million		
Fastener	2,285	3,237	290	539	12.7%	16.7%
Percentage of total	68.7%	72.2%	49.9%	62.2%		
Turbine Blade	421	480	91.9	94.6	21.8%	19.7%
Percentage of total	12.7%	10.7%	15.8%	10.9%		
Bearing	353	454	108	126	30.6%	27.8%
Percentage of total	10.6%	10.1%	18.6%	14.6%		
Cutting Tool	265	314	91.5	106	34.5%	33.7%
Percentage of total	8.0%	7.0%	15.7%	12.3%		



# MANAGEMENT DISCUSSION AND ANALYSIS

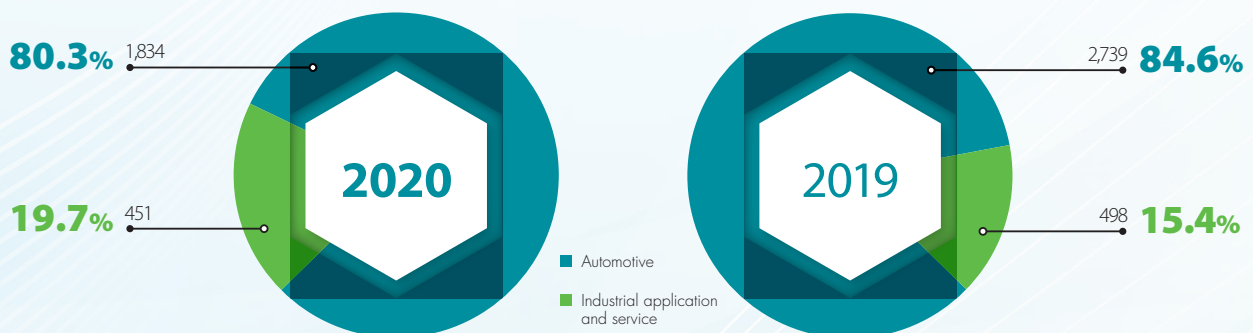
## Fastener Business

The Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the aerospace industry and for general industrial applications. In addition, 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, ZF Group, Adient 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 response to the demanding business environment, the Group has continued to invest in upgrading IT and ERP systems of Nedschroef, a key member of the Group in Europe, and to centralize certain back-office supporting functions in order to further streamline operations and enhance efficiency. Such efforts, although slowed down in 1H2020 due to the outbreak of

COVID-19, are expected to continue going forward. In November 2019, the Group announced a restructuring plan to close down a Nedschroef production plant located in a rented premises in Berlin, Germany. In connection with this, the Group incurred a further restructuring cost of RMB8.8 million (EUR1.1 million) during 1H2020 in addition to RMB33.2 million (EUR4.3 million) that has been incurred during 2019. The aforementioned restructuring is expected to complete in the third quarter of 2020. The Group has also selectively reduced staff force and operational scale of certain other Nedschroef plants in Europe.

Revenue of fastener business amounted to RMB2,285 million (1H2019: RMB3,237 million), representing a decrease of 29.4% as compared with 1H2019. Revenue generated from automotive products decreased by 33.1% as compared with 1H2019 to RMB1,834 million (1H2019: RMB2,739 million) as most of the Group's automotive customers have temporarily closed down their production facilities in China and Europe for various periods during March to May 2020. Revenue generated from products for general industrial applications and testing services declined by 9.1% as compared with 1H2019 to RMB451 million (1H2019: RMB498 million), mainly due to lower export sales from China to overseas markets, partly offset by higher domestic sales due to increase in demand from wind energy customers. The segment's average gross profit margin declined to 12.7% (1H2019: 16.7%) mainly because of under-absorption of fixed costs and overhead resulting from lower production.



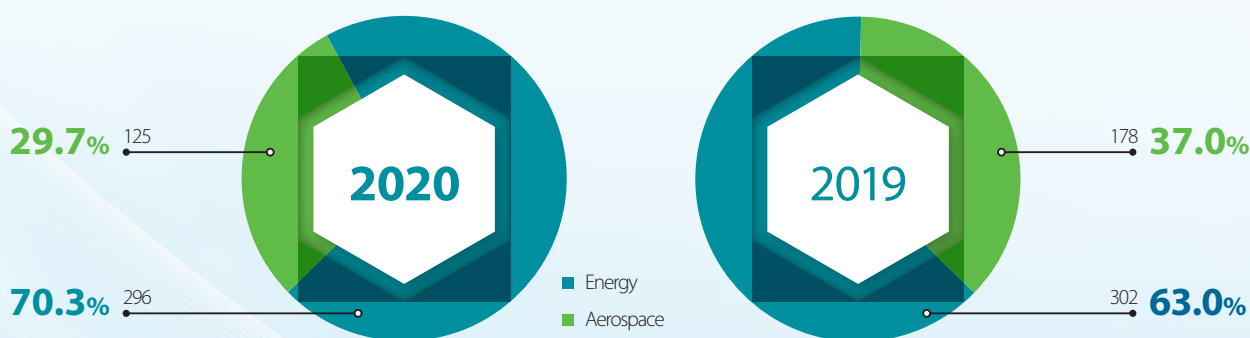


# MANAGEMENT DISCUSSION AND ANALYSIS

## Turbine Blade Business

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

Revenue of the turbine blade business decreased by 12.2% as compared with 1H2019 to RMB421 million for 1H2020 (1H2019: RMB480 million). Revenue generated from energy products dropped 2.1% as compared with 1H2019 to RMB296 million (1H2019: RMB302 million), mainly due to lower domestic sales as a consequence of further reduction in demand for coal-fired power equipment in China, largely offset by growth in overseas sales underpinned by increase in share of certain customers' purchases. Revenue generated from aviation products declined by 29.4% as compared with 1H2019 to RMB125 million (1H2019: RMB178 million) as customers demanded delay in deliveries and orders owing to COVID-19 that has caused major disruptions in commercial air traffic. In 1H2020, the segment's average gross profit margin has improved to 21.8% (1H2019: 19.7%), mainly due to cost saving initiatives such as in-sourcing.



# MANAGEMENT DISCUSSION AND ANALYSIS

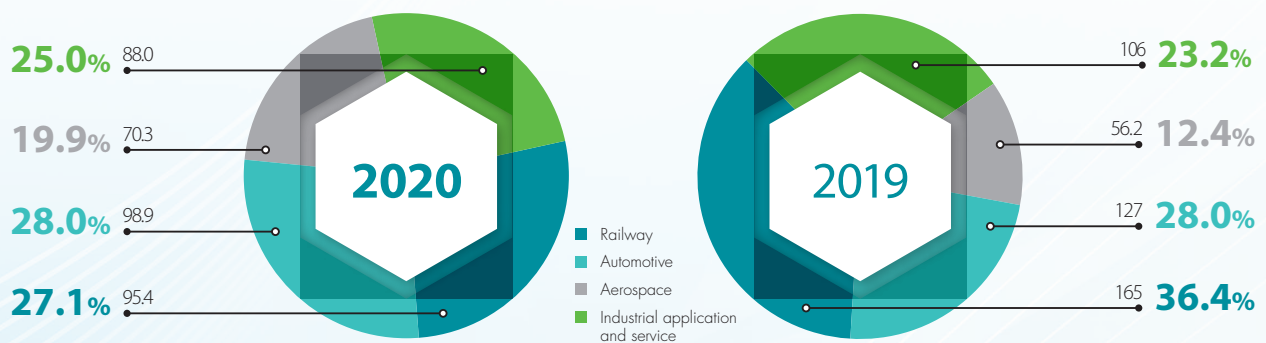
## Bearing Business

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

In September 2019, the Group has restructured the bearing business that is now headed by Shanghai United Bearing Company Limited ("United Bearing"), which wholly-owns Shanghai Tian An Bearing Company Limited and Shanghai Zhenhua Bearing Works Company Limited. The main purpose of the aforementioned restructuring is to facilitate ownership by key management and employees in order to strengthen incentives with an aim to unlock potential of the bearing business. As of to-date, United Bearing, which acts as a holding company for the Group's bearing business, is owned as to 5.9% by certain key management and employees,

10.0% by an existing strategic investor and 84.1% by the Group. As a final step of the restructuring, the Group may transfer its equity interest in Shanghai Tianhong Micro Bearing Company Limited. to United Bearing as and when appropriate.

Revenue of the bearing business dropped 22.4% to RMB353 million (1H2019: RMB454 million). Revenue generated from cargo railway products and services was RMB95.4 million (1H2019: RMB165 million), down 42.3% as compared with 1H2019 primarily due to reduction in customer orders as a consequence of intense price competition. Revenue generated from automotive products decreased by 22.3% as compared with 1H2019 to RMB98.9 million (1H2019: RMB127 million) mainly due to the general slow-down in automotive industry in China and overseas markets resulting from COVID-19. Revenue generated from aerospace products grew 25.1% as compared with 1H2019 to RMB70.3 million (1H2019: RMB56.2 million) primarily due to higher demand from certain customers. Revenue generated from products for general industrial applications decreased by 16.6% as compared with 1H2019 to RMB88.0 million (1H2019: RMB106 million) mainly due to COVID-19 that caused disruptions in certain industries. The segment's average gross profit margin improved to 30.6% (1H2019: 27.8%) underpinned by a favorable sales mix with a higher share of the aerospace products that have superior margins.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Cutting Tool Business

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

Revenue of the cutting tool business decreased by 15.7% to RMB265 million (1H2019: RMB314 million) as demand was negatively impacted by the general slow-down in industrial production during 1H2020 in China as a consequence of COVID-19 and the absence of increase in product pricing which took place in 1H2019. The segment's average gross profit margin expanded to 34.5% (1H2019: 33.7%) mainly because of reduction in staff costs during 1H2020.

## 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 1H2020 decreased by 15.1% as compared with 1H2019 to RMB168 million (1H2019: RMB198 million), mainly due to the reduction in staff costs, travel expenses and transportation expenses.

## ADMINISTRATIVE EXPENSES

The Group's administrative expenses are mainly comprised of staff costs, professional fees, travel expenses, office expenses, and depreciation and amortisation. Administrative expenses for 1H2020 decreased by 7.0% as compared with 1H2019 to RMB324 million (1H2019: RMB348 million), mainly due to the reduction in staff costs, professional fees, travel expenses and depreciation and amortisation.



# MANAGEMENT DISCUSSION AND ANALYSIS

## RESEARCH EXPENDITURE

The Group's research expenditure for 1H2020 decreased by 9.8% as compared with 1H2019 to RMB149 million (1H2019: RMB165 million), mainly due to the decrease in investment in research projects undertaken by the Group mainly as a consequence of COVID-19.

## FINANCE COSTS

The Group's finance costs for 1H2020 decreased by 25.2% as compared with 1H2019 to RMB30.5 million (1H2019: RMB40.8 million) mainly due to lower borrowing rates as a result of the Group's refinancing efforts made during 2019 and 1H2020.

## SHARE OF PROFIT OF AN ASSOCIATE

In 1H2020, share of profit of an associate of the Group amounted to RMB4.0 million (1H2019: RMB6.1 million). The decrease in share of profit of an associate was mainly due to the drop in profits of an associate of the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS

## EBITDA AND PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

EBITDA for 1H2020 amounted to RMB156 million (1H2019: RMB360 million (restated)) and EBITDA to revenue margin was 4.7% (1H2019: 8.0% (restated)).

In 1H2020, loss attributable to owners of the Company was RMB22.0 million (1H2019: profit of RMB115 million). Basic loss per share was RMB1.29 cents (1H2019: earnings of RMB6.74 cents).

## CASH FLOW

As at 30 June 2020, the balance of cash and bank deposits of the Group was RMB1,367 million (31 December 2019: RMB1,464 million), of which RMB209 million was restricted deposits (31 December 2019: RMB187 million). During 1H2020, the Group had a net cash outflow from operating activities of RMB74.2 million (1H2019: net cash inflow of RMB285 million), a net cash outflow from investing activities of RMB101 million (1H2019: net cash outflow of RMB121 million), and a net cash inflow from financing activities of RMB51.9 million (1H2019: net cash outflow of RMB25.8 million).

## ASSETS AND LIABILITIES

As at 30 June 2020, the Group had total assets of RMB9,628 million (31 December 2019: RMB9,644 million), representing a decrease of RMB16 million as compared with the beginning of the year. Total current assets were RMB5,167 million (31 December 2019: RMB5,232 million), accounting for 53.7% of the total assets and representing a decrease of RMB65 million as compared with the beginning of the year. Total non-current assets were RMB4,461 million (31 December 2019: RMB4,412 million), accounting for 46.3% of the total assets and representing an increase of RMB49 million as compared with the beginning of the year.

As at 30 June 2020, the Group had total liabilities of RMB5,448 million (31 December 2019: RMB5,460 million), representing a decrease of RMB12 million as compared with the beginning of the year. Total current liabilities were RMB2,596 million (31 December 2019: RMB3,427 million), accounting for 47.7% of the total liabilities and representing a decrease of RMB831 million as compared with the beginning of the year. Total non-current liabilities were RMB2,852 million (31 December 2019: RMB2,033 million), accounting for 52.3% of the total liabilities and representing an increase of RMB819 million as compared with the beginning of the year.

As at 30 June 2020, the net current assets of the Group were RMB2,571 million (31 December 2019: RMB1,805 million), representing an increase of RMB766 million as compared with the beginning of the year.



# MANAGEMENT DISCUSSION AND ANALYSIS

## SOURCES OF FUNDING AND INDEBTEDNESS

As at 30 June 2020, the Group had interest-bearing bank and other borrowings with an aggregate amount of RMB2,726 million (31 December 2019: RMB2,583 million), which remained stable during 1H2020. The Group had borrowings repayable within one year of RMB393 million (31 December 2019: RMB1,076 million) and the Group had borrowings repayable after one year of RMB2,333 million (31 December 2019: RMB1,507 million).

## GEARING RATIO

As at 30 June 2020, 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 67.0% (31 December 2019: 62.3%).

## RESTRICTED DEPOSITS

As at 30 June 2020, among the bank deposits of the Group, RMB209 million (31 December 2019: RMB187 million) was restricted deposits.

## PLEDGES OF ASSETS

As at 30 June 2020, except for restricted deposits, the Group had other pledged assets of RMB207 million (31 December 2019: RMB219 million).

## CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: nil).

## CAPITAL EXPENDITURE

The total capital expenditure of the Group during 1H2020 was approximately RMB117 million (1H2019: RMB181 million).



# MANAGEMENT DISCUSSION AND ANALYSIS

## 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).

As disclosed in the prospectus of the Company dated 16 November 2018 (the “Prospectus”), the net proceeds would be

The revised allocation of the net proceeds is set out as follows:

applied to (i) partial repayment of the shareholder’s loan, (ii) capital expenditure and potential investments, and (iii) general working capital.

As set out in the announcement of the Company dated 14 August 2020 regarding the change in use of proceeds, the Board has resolved to change the use of the net proceeds as follows: approximately 18.6% of the net proceeds amounting to HKD66 million, which were originally allocated for potential investments, will be reallocated for the use of general working capital.

Use of the net proceeds		Original allocation of the net proceeds	Amount of net proceeds utilised as of the date of this report	Unutilised balance of the net proceeds as at the date of this report before the reallocation	Revised allocation of the unutilised balance of the net proceeds
(HKD million)					
(i)	Partial repayment of the shareholders’ loan	178	178	–	N/A
(ii)	Investments	142	76	66	–
	— capital expenditure	56	56	–	N/A
	— potential investment	86	20	66	–
(iii)	General working capital	35	35	–	66
Total		355	289	66	66

Note:

- 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.

## 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.

## SOCIAL RISKS

With the continuous spread of the COVID-19 pandemic as well as the intensifying Sino-US trade friction, global economic uncertainty has been rising. As an international enterprise, the Group will face difficulties such as a downturn in the global market and shrinking trade volume in the longer term. In response to this, the Group will carry out full assessments and strengthen risk management and control.

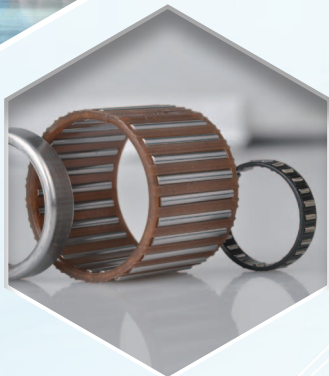
# MANAGEMENT DISCUSSION AND ANALYSIS

## SIGNIFICANT EVENTS

Dr.-Ing. Gou Jianhui resigned of his own accord as the Chief Executive Officer (總經理) and an Executive Director and a member of the strategy committee and risk management committee of the Company with effect from 1 April 2020 as he pursues new career development and other business opportunities. Mr. Zhou Zhiyan, the Chairman and an Executive Director of the Company, has been appointed as the President (總經理) of the Company with effect from 1 April 2020. For details, please refer to the announcement of the Company dated 27 March 2020.

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 in accordance with the Company Law of the People's Republic of China (revised in 2018), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas, the Approval and Reply of the State Council on the Adjustment of the Notice Period of the Shareholders' General Meeting and Other Matters Applicable to Overseas Listed Companies (Guohan [2019] No. 97) (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019]97號)) and other relevant requirements after taking into consideration of the actual situation and business need of the Company. For details, please refer to the announcement of the Company dated 27 March 2020.

On 19 June 2020, the Company convened the 2019 annual general meeting, where (i) Mr. Xia Sicheng has been appointed as an Executive Director for a term of three years with effect from 19 June 2020; (ii) Mr. Zhou Zhiyan, Mr. Zhang Mingjie, Mr. Si Wenpei and Mr. Xiao Yuman have been re-elected and appointed as Executive Directors for a term of three years with effect from 19 June 2020; (iii) Mr. Dong Yeshun has been re-elected and appointed as a Non-executive Director for a term of three years with effect from 19 June 2020; (iv) Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang have been re-elected and appointed as Independent Non-executive Directors for a term of three years with effect from 19 June 2020. On the same day, the Board was pleased to announce that Mr. Zhou Zhiyan has been appointed as the chairman of the sixth session of the of the Board. His term of office will take effect from 19 June 2020, and his tenure as the chairman of the Board will end upon the expiration of term of the sixth session of the Board. For details, please refer to the announcement of the Company dated 19 June 2020.





## MANAGEMENT DISCUSSION AND ANALYSIS

On 19 June 2020, the Board announced that (i) Mr. Chan Oi Fat, Mr. Ling Hong and Mr. Sun Zechang have been appointed as members of the sixth session of the audit committee; (ii) Mr. Chan Oi Fat has been appointed as the chairman of the sixth session of the audit committee; (iii) Mr. Ng Kwong, Alexander has been appointed as the secretary of the sixth session of the audit committee; (iv) Mr. Ling Hong, Mr. Dong Yeshun and Mr. Chan Oi Fat have been appointed as members of the sixth session of the remuneration committee; (v) Mr. Ling Hong has been appointed as the chairman of the sixth session of the remuneration committee; (vi) Mr. Ng Kwong, Alexander has been appointed as the secretary of the sixth session of the remuneration committee; (vii) Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang have been appointed as members of the sixth session of the nomination committee; (viii) Mr. Zhou Zhiyan has been appointed as the chairman of the sixth session of the nomination committee; (ix) Mr. Ng Kwong, Alexander has been appointed as the secretary of the sixth session of the nomination committee; (x) Mr. Zhou Zhiyan, Mr. Zhang Mingjie, Mr. Xia Sicheng, Mr. Dong Yeshun and Mr. Sun Zechang have been appointed as members of the sixth session of the strategy committee; (xi) Mr. Zhou Zhiyan has been appointed as the chairman of the sixth session of the strategy committee; (xii) Mr. Ng Kwong, Alexander has been appointed as the secretary of the sixth session of the strategy committee; (xiii) Mr. Zhou Zhiyan, Mr. Si Wenpei, Mr. Xiao Yuman, Mr. Xia Sicheng, Mr. Ling Hong and Mr. Chan Oi Fat have been appointed as members of the sixth session of the risk management committee; (xiv) Mr. Zhou Zhiyan has been appointed as the chairman of the sixth session of the risk management committee; and (xv) Mr. Ng Kwong, Alexander has been appointed as the secretary of the sixth session of the risk management committee. Their terms of office will take effect from 19 June 2020 and will end upon the expiration of term of the sixth session of the Board. For details, please refer to the announcement of the Company dated 19 June 2020.

On 19 June 2020, the Company convened the 2019 annual general meeting, where (i) Ms. Zhang Yan (non-employee representative Supervisor), Ms. Lu Haixing (non-employee representative Supervisor) and Mr. Yu Yun (employee representative Supervisor) has been appointed as the supervisors the sixth session of the Supervisory Committee of the Company; and (ii) Ms. Zhang Yan has also been appointed as the chairman of the Supervisory Committee. The terms of office of the chairman and members of the sixth session of the Supervisory Committee will take effect from 19 June 2020 for a term of three years. For details, please refer to the announcement of the Company dated 19 June 2020.

### EMPLOYEES

As of 30 June 2020, the Group had approximately 4,397 (31 December 2019: 4,488) employees. The Group has implemented all statutory pension schemes required by local governments and incentive programs to motivate staff as well as a series of training programs to facilitate the self-development of staff.

# 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	57	Chairman, Executive Director and President
Zhang Mingjie	57	Executive Director
Si Wenpei	56	Executive Director
Xiao Yuman	48	Executive Director
Xia Sicheng	57	Executive Director
Dong Yeshun	59	Non-executive Director
Ling Hong	59	Independent Non-executive Director
Chan Oi Fat	41	Independent Non-executive Director
Sun Zechang	67	Independent Non-executive Director
Zhang Yan	45	Chairman of Supervisory Committee
Lu Haixing	53	Supervisor
Yu Yun	51	Supervisor
Chen Hui	52	Vice President
Zhu Jun	51	Vice President
Bao Ye	38	Vice President
Ng Kwong, Alexander	42	Chief Financial Officer and Company Secretary

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## DIRECTORS

### Mr. Zhou Zhiyan

Mr. Zhou Zhiyan is the chairman and an executive director of the Company, and acts as the president of the Company since 1 April 2020. 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, as well as the chairman and an executive director of the Company from September 2018 to March 2020. 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. Zhang Mingjie

Mr. Zhang Mingjie is an executive director of the Company, director of department of industry development of Shanghai Electric Group Company Limited (listed on Shanghai Stock Exchange, stock code: 601727; and the Stock Exchange of Hong Kong Limited, stock code: 02727), 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 secretary. 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) (listed on Shanghai Stock Exchange, stock code: 600853) 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### **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 (listed on Shanghai Stock Exchange, stock code: 601727; and the Stock Exchange of Hong Kong Limited, stock code: 02727) 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) (listed on Shanghai Stock Exchange, stock code: 600853) 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. 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 (listed on Shanghai Stock Exchange, stock code: 601727; and the Stock Exchange of Hong Kong Limited, stock code: 02727). 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.

### **Mr. Xia Sicheng**

Mr. Xia Sicheng currently serves as an executive director of the Company and a Party Committee Member of the Company, and the executive director of Wuxi Turbine Blade Company Limited. Mr. Xia joined Shanghai Electric (Group) Corporation in 1982. He served as the executive director of Shanghai Tool Works Company Limited from 2003 to 2010, an Executive Director of the Company from 2005 to 2007, a Vice President of the Company from 2005 to 2010, the president and deputy secretary of the C.P.C. branch of Pacific Mechatronic (Group) Co., Ltd. as well as the chairman of Shanghai Erfangji Co., Ltd. from 2010 to 2012, the deputy director of the strategic planning department of Shanghai Electric (Group) Corporation from 2012 to 2014 and a Vice President of the Company in 2014. From 2014 to 2019, he successively served as an executive director, secretary of C.P.C. branch and the general manager of Wuxi Turbine Blade Company Limited. Mr. Xia graduated from the Central Party School of the C.P.C. in 2002 with a bachelor's degree in economic management.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### **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.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## **Mr. Chan Oi Fat**

Mr. Chan Oi Fat is an independent non-executive director of the Company, the company secretary of China Leon Inspection Holding Limited (listed on Hong Kong Stock Exchange, stock code: 01586), an independent non-executive director of China Saftower International Holding Group Limited (listed on the Stock Exchange of Hong Kong Limited, stock code: 08623) 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. 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, the chair professor for automotive electronics of the Sino-German School of Tongji University, the chair professor for new energy automobile of the Sino-Germany School of Tongji University and the vice officer of the Automotive Electronics Committee of Society of Automotive Engineering of China. 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 supervisor and chairman of the supervisory committee of the Company and the chief of the risk management department, the chief of audit department and the director of the office of supervisory committee of Shanghai Electric Group Company Limited (listed on Shanghai Stock Exchange, stock code: 601727; and the Stock Exchange of Hong Kong Limited, stock code: 02727), the chairman of the supervisory committee of Shanghai Electric Transmission and Distribution Group Co., Ltd. and Shanghai Electric Group Finance Co., Ltd., the chairman of the supervisory committee of Shanghai Electric Wind Power Group Co., Ltd., the chairman of the supervisory committee of Tianjin Steel Pipe Manufacturing Co., Ltd.\* (天津鋼管製造有限公司) and a supervisor of Shanghai Haiya Industry Co., Ltd. (上海亥雅實業有限公司). 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), listed on Shanghai Stock Exchange, stock code: 600853), 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 June 2019 to now, she serves as the chief of audit department and the director of the office of supervisory committee 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. 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.

# BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## **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.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### **Ms. Bao Ye**

Ms. Bao Ye is the vice president of the Company. From July 2004 to July 2008, she worked as a commissioner of the chief executive department and a senior commissioner of the strategy department of Shanghai Electric Power Generation Group (上海電氣電站集團). From August 2008 to May 2016, she served as a senior supervisor and a manager of the strategic planning department of Shanghai Electric (Group) Corporation (上海電氣(集團)總公司). In May 2016, she worked as manager and senior manager of the industry investment department of Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), as well as an assistant to the general manager (on secondment) of the Company in March 2019. Ms. Bao Ye graduated from Shanghai International Studies University with a bachelor's degree of Arts in July 2004, and then obtained a master's degree of Management from Shanghai University of Finance and Economics in January 2010.

### **Mr. Ng Kwong, Alexander**

Mr. Ng Kwong, Alexander is the chief financial officer and company secretary of the Company. Prior to joining the Company in 2016, Mr. Ng was the senior vice-president of both the finance and the corporate finance departments of Genting Hong Kong Limited (Stock Code: 00678), and held various positions in different financial institutions in Hong Kong including Lazard and Nomura. Mr. Ng began his career as a staff accountant of Ernst & Young (EY) and has extensive experience in accounting, investment, corporate finance, financial management and corporate governances. 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 (HKICPA); as well as a Chartered Accountant and member of the Institute of Chartered Accountants in England and Wales (ICAEW).



# 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 2020, 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
Shanghai Electric Hongkong Co. 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

## OTHER INFORMATION

Notes:

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

- Shanghai Electric Group Company Limited is 59.24% owned by Shanghai Electric (Group) Corporation ; and
- Shanghai Electric (Group) Corporation 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 of the Company through its wholly-owned subsidiary (Shanghai Electric Hongkong Co. Limited).

(3) Shanghai Electric (Group) Corporation 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.

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 2020 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 2020, the interests or short positions of directors, supervisors or chief executives of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) which were required, pursuant to Section 352 of the SFO, to be registered in the register required to be kept by the Company; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Listing Rules were as follows:

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

Note:

(1) Shares were awarded pursuant to the incentive scheme of the Company as adopted on 17 January 2014.

## OTHER INFORMATION

Save as disclosed above, as at 30 June 2020, none of the directors, supervisors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

### COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code. Having made specific enquiry of all directors and supervisors of the Company, the directors and supervisors of the Company have strictly complied with the required standards set out in the Model Code during 1H2020.

### 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 in 1H2020, except for the deviations from code provision A.2.1.

Pursuant to the provision A.2.1 of the Corporate Governance code, roles of the chairman and the president should be segregated and should not be performed by the same individual. The chairman of the Board is responsible for ensuring that the directors perform their duties and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The chairman is also responsible for initiating a culture of open and active forum and facilitating directors (especially non-executive directors) to make contribution to the Board. Due to personnel adjustment, from 1 April 2020, Mr. Zhou Zhiyan serves as the Chairman and the President of the Company simultaneously. The Board believes that the functions of the chairman and the president undertaken by the same person, which can facilitate the Company to execute plans and business strategies in an efficient and effective manner. The Board considers that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive directors.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During 1H2020, 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 1H2020.

## OTHER INFORMATION

### 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 of the Company comprises Executive Directors namely Zhou Zhiyan, Zhang Mingjie, Si Wenpei, Xiao Yuman and Xia Sicheng, 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.

### DISCLOSURE OF INFORMATION

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, 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 29 to 62, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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

14 August 2020

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue			
Contracts with customers	5A	<b>3,324,390</b>	4,484,717
Cost of sales		<b>(2,743,103)</b>	(3,619,256)
Gross profit		<b>581,287</b>	865,461
Other income	6	<b>52,290</b>	33,636
Other gains and losses	7	<b>21,998</b>	18,624
Impairment losses under expected credit loss model, net of reversal	17	<b>(23,870)</b>	(24,060)
Selling and distribution expenses		<b>(168,185)</b>	(198,065)
Administrative expenses		<b>(323,654)</b>	(348,052)
Research expenditure		<b>(148,604)</b>	(164,832)
Other expenses		<b>(608)</b>	(432)
Share of profit of an associate		<b>4,002</b>	6,085
Share of profit (loss) of a joint venture		<b>3</b>	(28)
Finance costs		<b>(30,495)</b>	(40,760)
(LOSS) PROFIT BEFORE TAX	8	<b>(35,836)</b>	147,577
Income tax credit (expense)	9	<b>21,748</b>	(29,728)
(LOSS) PROFIT FOR THE PERIOD		<b>(14,088)</b>	117,849
(Loss) profit for the period attributable to owners of the Company		<b>(22,023)</b>	114,736
Profit for the period attributable to non-controlling interests		<b>7,935</b>	3,113
		<b>(14,088)</b>	117,849

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	For the six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>Other comprehensive income (expense)</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Re-measurement of defined benefit pension plans		3,160	(14,833)
Income tax relating to items that will not be reclassified to profit or loss		(948)	4,450
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		7,816	(3,836)
Other comprehensive income (expense) for the period, net of income tax		10,028	(14,219)
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		(4,060)	103,630
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(11,896)	100,324
Non-controlling interests		7,836	3,306
		(4,060)	103,630
(LOSS) EARNINGS PER SHARE	11		
Basic (RMB cents)		(1.29)	6.74
Diluted (RMB cents)		(1.29)	6.74

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	2,226,347	2,241,323
Right-of-use assets	12	317,683	330,657
Investment properties	12	17,784	18,290
Goodwill	13	1,543,607	1,515,852
Intangible assets		95,525	88,690
Interest in an associate		63,216	64,839
Interest in a joint venture		603	588
Financial assets at fair value through profit or loss ("FVTPL")		2,793	3,907
Deferred tax assets	14	193,801	148,329
		<b>4,461,359</b>	4,412,475
<b>CURRENT ASSETS</b>			
Inventories	15	1,758,169	1,775,498
Trade receivables	16	1,254,565	1,135,911
Debt instruments at fair value through other comprehensive income ("FVTOCI")		538,922	545,506
Prepayments, deposits and other receivables		185,750	273,217
Contract assets		62,758	38,046
Restricted deposits		209,195	187,290
Bank balances and cash		1,157,652	1,276,341
		<b>5,167,011</b>	5,231,809
<b>CURRENT LIABILITIES</b>			
Trade payables	18	982,288	1,266,783
Bills payable		345,764	357,030
Other payables and accruals		575,755	492,766
Dividend payable		65,586	–
Tax liabilities		44,070	50,418
Deferred income — government grants		18,064	19,060
Contract liabilities		87,410	73,895
Bank borrowings	19	392,982	294,303
Shareholder's loans	20	–	781,550
Lease liabilities		83,868	90,923
		<b>2,595,787</b>	3,426,728
<b>NET CURRENT ASSETS</b>		<b>2,571,224</b>	1,805,081
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>7,032,583</b>	6,217,556



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	19	<b>1,506,698</b>	1,477,005
Shareholders' loans	20	<b>826,100</b>	30,000
Deferred income — government grants		<b>209,678</b>	216,757
Deferred tax liabilities	14	<b>11,789</b>	11,490
Lease liabilities		<b>101,483</b>	108,574
Other long-term payables		<b>24,697</b>	20,222
Refund liabilities		<b>20,684</b>	18,393
Retirement benefit obligations		<b>150,601</b>	150,760
		<b>2,851,730</b>	2,033,201
<b>NET ASSETS</b>			
		<b>4,180,853</b>	4,184,355
<b>CAPITAL AND RESERVES</b>			
Share capital	21	<b>1,725,943</b>	1,725,943
Reserves		<b>2,344,741</b>	2,419,783
Total equity attributable to owners of the Company		<b>4,070,684</b>	4,145,726
Non-controlling interests		<b>110,169</b>	38,629
<b>TOTAL EQUITY</b>			
		<b>4,180,853</b>	4,184,355

The condensed consolidated financial statements on pages 29 to 62 were approved and authorised for issue by the board of directors on 14 August 2020 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 2020

	Attributable to owners of the Company											
	Share capital	Capital reserve	Contributed surplus	Surplus reserves	Actuarial reserves	Retained profits	Proposed final dividend	Foreign currency translation difference	Shares held for Incentive Scheme (defined in note 22)	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020 (audited)	1,725,943	730,453	58,800	422,051	(3,467)	1,484,709	65,586	(313,530)	(24,819)	4,145,726	38,629	4,184,355
Loss (profit) for the period	-	-	-	-	-	(22,023)	-	-	-	(22,023)	7,935	(14,088)
Other comprehensive income (expense) for the period	-	-	-	-	2,212	-	-	7,915	-	10,127	(99)	10,028
Total comprehensive income (expense) for the period	-	-	-	-	2,212	(22,023)	-	7,915	-	(11,896)	7,836	(4,060)
Capital injection of non-controlling shareholders (note)	-	-	2,440	-	-	-	-	-	-	2,440	63,704	66,144
Dividend recognised as distribution	-	-	-	-	-	-	(65,586)	-	-	(65,586)	-	(65,586)
Balance at 30 June 2020 (unaudited)	1,725,943	730,453	61,240	422,051	(1,255)	1,462,686	-	(305,615)	(24,819)	4,070,684	110,169	4,180,853

Note: As at 31 December 2019, the Company and TSB Bearing Group China ("TSB Bearing"), an independent Company, held 90% and 10% equity interests in Shanghai United Bearing Company Limited ("United Bearing"). During the current interim period, Shanghai Jizhou Business Management Consulting LLP\* (上海集軸企業管理諮詢合夥企業(有限合夥)) ("Shanghai Jizhou"), an independent third party, expressed its intention to invest in United Bearing. On 25 May 2020, the Company, TSB Bearing had entered into a non-public capital increase agreement with Shanghai Jizhou, pursuant to which, the Company, TSE Bearing and Shanghai Jizhou agreed to increase capital in cash to United Bearing by RMB233,856,000, RMB30,000,000 and RMB36,144,000, while their equity interests in United Bearing changed to 84.15%, 10% and 5.85%, respectively.

As at 30 June 2020, such capital contribution had been completed. The total capital injection from the two non-controlling shareholders amounting to RMB66,144,000 in aggregate had been received by the Group during the current interim period. The Group's gain on dilution impact of its equity interest in United Bearing from 90% to 84.15% amounting to RMB2,440,000 had been credited to contributed surplus, accordingly.

\* English name is for identification purpose only. The entity's official name is in Chinese.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company											Non-controlling interests	Total equity
	Share capital	Capital reserve	Contributed surplus	Share-based payments reserves	Surplus reserves	Actuarial reserves	Retained profits	Proposed final dividend	Foreign currency translation difference	Shares held for Incentive Scheme (defined in note 22)	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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)	-	-	-	-	-	-	(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

Note: The amount represented the adjustments made by the management of the Company for the initial adoption of HKFRS 16 on 1 January 2019.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<b>(74,247)</b>	284,820
<b>INVESTING ACTIVITIES</b>		
Interest received	<b>7,720</b>	8,542
Dividend received from financial assets at FVTPL	<b>-</b>	313
Purchases of property, plant and equipment	<b>(105,354)</b>	(152,582)
Proceeds from disposal of property, plant and equipment	<b>15,912</b>	7,791
Purchases of intangible assets	<b>(11,605)</b>	(28,207)
Withdrawal of non-restricted deposits with original maturity of over three months	<b>-</b>	2,000
Withdrawal of restricted bank deposits	<b>282,911</b>	253,940
Placement of restricted bank deposits	<b>(304,816)</b>	(298,705)
Dividends received from an associate	<b>5,625</b>	24,746
Receipt of consideration receivable arising from the prior disposal of assets classified as held-for-sale	<b>8,343</b>	-
Proceeds from disposal of derivative financial instruments	<b>-</b>	60,896
NET CASH USED IN INVESTING ACTIVITIES	<b>(101,264)</b>	(121,266)
<b>FINANCING ACTIVITIES</b>		
Bank borrowings obtained	<b>329,651</b>	1,525,257
Repayment of bank borrowings	<b>(238,579)</b>	(686,079)
Shareholders' loans obtained	<b>-</b>	1,600
Repayment of shareholders' loans	<b>-</b>	(767,720)
Repayment of non-controlling shareholders' loan	<b>(25,000)</b>	-
Capital contribution from non-controlling shareholders	<b>66,144</b>	-
Repayment of leases liabilities	<b>(45,381)</b>	(47,502)
Dividend paid to a non-controlling shareholder	<b>(5,652)</b>	-
Interest paid	<b>(29,316)</b>	(51,377)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	<b>51,867</b>	(25,821)

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(123,644)</b>	137,733
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>1,276,341</b>	1,148,582
Effect of foreign exchange rate changes	<b>4,955</b>	2,862
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>1,157,652</b>	1,289,177
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	<b>1,157,652</b>	1,289,177

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 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 People's Republic of China (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.

## 1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of the Coronavirus Disease 2019 ("COVID-19") and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. Sales orders declined in the current interim period. Certain overseas governments have announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue and production during the current interim period, and government grants in respect of COVID-19-related subsidies received as disclosed in note 8.

## 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 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 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

### Application of amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA which are mandatory effective for annual periods beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards 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.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in the Group's annual financial statements for the year ended 31 December 2019 and note 3 above, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the values in use of the cash-generating units or group of cash-generating units to which goodwill has been allocated, which is the higher of the value-in-use or fair value less costs of disposal. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of goodwill as at 30 June 2020 is RMB1,543,607,000 (unaudited) (31 December 2019: RMB1,515,852,000). Details of the recoverable amount calculation are disclosed in note 13.

#### Provision of expected credit loss ("ECL") for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. As at 30 June 2020, the carrying amount of trade receivables was RMB1,254,565,000 (unaudited) (net of allowance for credit losses of RMB161,492,000 (unaudited)) (31 December 2019: RMB1,135,911,000 (net of allowance for credit losses of RMB137,017,000)). The information about the ECL and the Group's trade receivables are disclosed in note 17.

#### Deferred tax assets for tax losses

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing, the applicable tax rates, and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses as at 30 June 2020 is RMB90,460,000 (unaudited) (31 December 2019 is RMB50,259,000). The amount of unrecognised tax losses as at 30 June 2020 is RMB218,284,000 (unaudited) (31 December 2019: 195,152,000). Details are disclosed in note 14.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 5A. REVENUE FROM CONTRACTS WITH CUSTOMERS

### Disaggregation of revenue

Disaggregation of revenue	For the six months ended 30 June 2020 (unaudited)				
	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Total RMB'000
<b>Types of goods or service</b>					
Sales of goods	352,641	421,078	263,830	2,279,176	3,316,725
Sales of services	–	–	1,275	6,390	7,665
<b>Total</b>	<b>352,641</b>	<b>421,078</b>	<b>265,105</b>	<b>2,285,566</b>	<b>3,324,390</b>
<b>Geographical markets</b>					
Mainland China	284,089	219,825	257,170	304,600	1,065,684
European regions	4,581	64,566	52	1,716,184	1,785,383
Other regions	63,971	136,687	7,883	264,782	473,323
<b>Total</b>	<b>352,641</b>	<b>421,078</b>	<b>265,105</b>	<b>2,285,566</b>	<b>3,324,390</b>
<b>Timing of revenue recognition</b>					
A point in time	352,641	421,078	265,105	2,192,709	3,231,533
Over time	–	–	–	92,857	92,857
<b>Total</b>	<b>352,641</b>	<b>421,078</b>	<b>265,105</b>	<b>2,285,566</b>	<b>3,324,390</b>

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
<b>Types of goods or service</b>					
Sales of goods	454,314	479,797	312,450	3,230,983	4,477,544
Sales of services	–	–	1,960	5,213	7,173
<b>Total</b>	<b>454,314</b>	<b>479,797</b>	<b>314,410</b>	<b>3,236,196</b>	<b>4,484,717</b>
<b>Geographical markets</b>					
Mainland China	348,159	270,447	306,586	327,695	1,252,887
European regions	8,940	122,786	168	2,515,187	2,647,081
Other regions	97,215	86,564	7,656	393,314	584,749
<b>Total</b>	<b>454,314</b>	<b>479,797</b>	<b>314,410</b>	<b>3,236,196</b>	<b>4,484,717</b>
<b>Timing of revenue recognition</b>					
A point in time	454,314	479,797	314,410	3,092,348	4,340,869
Over time	–	–	–	143,848	143,848
<b>Total</b>	<b>454,314</b>	<b>479,797</b>	<b>314,410</b>	<b>3,236,196</b>	<b>4,484,717</b>



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 5B. 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 an associate, which is engaged in the production and sale of carbolic products.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 5B. 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 2020 (Unaudited)

	Bearing RMB'000	Turbine blade RMB'000	Cutting tool RMB'000	Fastener RMB'000	Others RMB'000	Total RMB'000
<b>Segment revenue:</b>						
Sales to external customers	352,641	421,078	265,105	2,285,566	-	3,324,390
Inter-segment sales (note)	-	-	76	-	-	76
Subtotal	352,641	421,078	265,181	2,285,566	-	3,324,466
Eliminations						(76)
Group revenue						3,324,390
<b>Segment profit (loss)</b>	<b>51,109</b>	<b>14,870</b>	<b>55,638</b>	<b>(114,863)</b>	<b>-</b>	<b>6,754</b>
Interest and dividend income and unallocated gains						16,341
Corporate and other unallocated expenses						(32,441)
Finance costs						(30,495)
Share of profit of an associate	-	-	-	-	4,002	4,002
Share of profit of a joint venture	-	-	-	3	-	3
Loss before tax						(35,836)

Note: Inter-segment sales are transacted at prevailing market prices.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 5B. SEGMENT INFORMATION (continued)

### Segment revenue and results (continued)

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
<b>Segment revenue:</b>						
Sales to external customers	454,314	479,797	314,410	3,236,196	–	4,484,717
Inter-segment sales (note)	–	–	91	–	–	91
Subtotal	454,314	479,797	314,501	3,236,196	–	4,484,808
Eliminations						(91)
Group revenue						4,484,717
<b>Segment profit</b>	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 profit of an associate	–	–	–	–	6,085	6,085
Share of loss of a joint venture	–	–	–	(28)	–	(28)
Impairment loss recognised on assets classified as held-for-sale	–	–	(3,703)	–	–	(3,703)
Profit before tax						147,577

Note: Inter-segment sales are transacted at prevailing market prices.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 5B. SEGMENT INFORMATION (continued)

### Segment assets and liabilities

As at 30 June 2020 (unaudited)

	30 June 2020 RMB'000	31 December 2019 RMB'000
<b>Segment assets</b>		
Bearing	729,948	796,043
Turbine blade	2,301,335	2,409,293
Cutting tool	503,586	420,210
Fastener	3,470,884	3,685,262
Total segment assets	7,005,753	7,310,808
Other unallocated assets	2,622,617	2,333,476
Consolidated assets	9,628,370	9,644,284
<b>Segment liabilities</b>		
Bearing	305,250	661,992
Turbine blade	717,076	756,975
Cutting tool	111,617	117,479
Fastener	1,456,042	1,340,625
Total segment liabilities	2,589,985	2,877,071
Other unallocated liabilities	2,857,532	2,582,858
Consolidated liabilities	5,447,517	5,459,929

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

- Other than assets of the head office, interests in an associate interest in a joint venture and goodwill, the remaining assets are allocated to reportable and operating segments.
- Other than liabilities of the head office, bank borrowings and shareholders' loans, the remaining liabilities are allocated to reportable and operating segments.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 6. OTHER INCOME

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>Other income</b>		
Interest income from bank balances and deposits	11,733	8,727
Net rental income from investment properties	2,476	890
Government grants (note)	26,873	16,902
Compensation income	2,173	2,891
Technology service income	4,941	2,058
Dividend income from financial assets at FVTPL	–	313
Others	4,094	1,855
<b>Total</b>	<b>52,290</b>	<b>33,636</b>

Note:

Government grants represent the amounts received from local government by certain PRC entities of the Group. Government grants of approximately (a) RMB16,956,000 (unaudited) (six months ended 30 June 2019: RMB9,014,000 (unaudited)) 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) RMB9,917,000 (unaudited) (six months ended 30 June 2019: RMB7,888,000 (unaudited)) represent subsidies received for the acquisition of machinery amortised to profit or loss for the period.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 7. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
<b>Other gains and losses</b>		
Sales of spare parts and scrap materials	57,373	92,882
Less: costs related to sales of spare parts and scrap materials	(42,856)	(66,766)
	<b>14,517</b>	26,116
Gain (loss) on disposal of property, plant and equipment	899	(255)
Gain on disposal of derivative financial instruments	–	6,113
Fair value (loss) gain on financial assets at FVTPL	(1,129)	337
Impairment loss recognised on assets classified as held-for-sale	–	(3,703)
Net exchange gain (loss)	7,711	(9,984)
	<b>21,998</b>	18,624

\* English name is for identification purpose only. The entity's official name is in Chinese.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 8. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived after charging (crediting):

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Depreciation of property, plant and equipment	133,632	135,314
Depreciation of investment properties	506	337
Amortisation of intangible assets	6,143	5,373
Depreciation of right-of-use assets	44,186	41,385
	<b>184,467</b>	182,409
Capitalised in inventories	<b>(58,727)</b>	(37,265)
Total depreciation and amortisation charged to profit or loss	<b>125,740</b>	145,144
Analysed as:		
Charged in administrative expenses	41,660	42,115
Charged in selling and distribution expenses	1,907	1,726
Charged in research expenditure	9,986	9,753
Charged in cost of sales	72,187	91,550
	<b>125,740</b>	145,144
Directors' remuneration		
— Fees	323	304
— Short term employee benefits	2,199	2,498
— Equity-settled share-based payment expense	—	57
— Post-employment benefits	20	106
	<b>2,542</b>	2,965
Other staff costs		
— Salaries and other benefits	770,932	757,708
— Equity-settled share-based payment expense	—	1,027
— Retirement benefit scheme contributions	14,150	18,833
	<b>785,082</b>	777,568
Total staff costs	<b>787,624</b>	780,533

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 8. (LOSS) PROFIT BEFORE TAX (continued)

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Capitalised in inventories	(177,634)	(141,665)
Total staff costs charged to profit or loss	609,990	638,868
Analysed as:		
Charged in administrative expenses	116,012	102,611
Charged in selling and distribution expenses	98,060	103,336
Charged in research expenditure	124,075	139,562
Charged in cost of sales	271,843	293,359
	609,990	638,868
Write-down of inventories, net of reversal	10,321	4,560
Research expenditure		
Staff cost	124,075	139,562
Depreciation and amortisation	9,986	9,753
Materials consumed	8,721	9,967
Others	5,822	5,550
	148,604	164,832
Gross rental income from investment properties	2,982	1,227
Less:		
Direct operating expenses incurred for investment properties that generate rental income during the period	(506)	(337)
	2,476	890
Impairment losses on trade receivables, net of reversal	(24,177)	(24,221)
Reversal of impairment losses on other receivables, net of impairment losses	307	161
	(23,870)	(24,060)

In the current interim period, certain subsidiaries of the Company in the overseas regions had received employment support provided by the relevant local governments with aggregate subsidies amounted to EUR6,900,000 (equivalent to RMB53,724,000). As such government grants were considered as compensation for staff costs already incurred, they had been deducted from the related expenses, accordingly.

In addition, during the current interim period, pursuant to the notice released by the relevant PRC authority, certain domestic subsidiaries of the Company have been fully or partially waived to undertake a number of social securities including endowment insurance, unemployment insurance and employment injury insurance, totaling approximately RMB29,733,000 during the period from February to June 2020.



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 9. INCOME TAX (CREDIT) EXPENSE

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Income tax expense (credit) comprises:		
PRC Enterprise Income Tax ("EIT")	22,858	22,515
Other jurisdictions	762	16,957
Over-provision in prior years	(4,085)	(1,977)
	<b>19,535</b>	37,495
Deferred tax credit	(41,283)	(7,767)
	<b>(21,748)</b>	29,728

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%. Among which, certain entities continued to apply tax rate of 15% during the current interim period as the management of the relevant entities was confident to renew the "High Technology Enterprise" status upon their expiry in 2020.

Certain subsidiaries are located in Germany, France, United Kingdom, Netherlands, Spain and Belgium, for which corporate income tax is approximately 31%, 31%, 19%, 25%, 25% and 29%, respectively, for both periods.

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 2019: nil). For the year ended 31 December 2019, the Board has proposed a final dividend of RMB3.80 cents per share (2018: RMB4.10 cents per share), which were declared and approved by the Company's shareholders at the annual general meeting held on 19 June 2020.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 11. (LOSS) 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	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted earnings per share (loss) profit for the period attributable to owners of the Company	<b>(22,023)</b>	114,736

	For the six months ended 30 June	
	2020 (Unaudited) in '000	2019 (Unaudited) in '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<b>1,703,700</b>	1,701,765

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 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 net carrying amount of RMB15,013,000 (unaudited) (six months ended 30 June 2019: RMB8,046,000 (unaudited)) for cash proceeds of RMB15,912,000 (unaudited) (six months ended 30 June 2019: RMB7,791,000 (unaudited)), resulting in a gain on disposal of RMB899,000 (unaudited) (six months ended 30 June 2019: loss on disposal of RMB255,000 (unaudited)).

In addition, during the current interim period, the Group paid approximately RMB72,118,000 (unaudited) (six months ended 30 June 2019: RMB104,828,000 (unaudited)) for the construction in progress and RMB33,236,000 (unaudited) (six months ended 30 June 2019: RMB47,754,000 (unaudited)) for the acquisition of property, plant and equipment in order to upgrade its manufacturing capabilities.

During the six months period ended 30 June 2020, no transfer between property, plant and equipment and investment properties was made by the Group. During the six months ended 30 June 2019, the Group entered into a five-year lease agreement to lease out certain buildings to an independent third party and, accordingly, the management of the Group classified such buildings from property, plant and equipment to investment properties which was accounted for under the cost model, with a net book value of RMB18,796,000 (unaudited) as at 30 June 2019. Upon mutual agreement, the said lease agreement was early terminated on 30 June 2020. The Group subsequently in August 2020 identified another independent third party to lease such buildings, of which the new lease agreement would commence in the second half of 2020. Accordingly, such buildings were continued to be classified as investment properties as at 30 June 2020, with a carrying amount of RMB17,784,000 (unaudited) (31 December 2019: RMB18,290,000).

As at 30 June 2020, the Group had not obtained real estate title certificates or building ownership certificates for certain buildings with a total net book value of approximately RMB605,000 (unaudited) (31 December 2019: RMB661,000).

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

### Impairment assessment

As a result of the changes in the current economic environment related to the COVID-19 pandemic, certain subsidiaries of the Company are experiencing negative conditions including decreased revenue and declines in orders, and insufficient utilization in production line, that indicate that the relevant property, plant and equipment/right-of-use assets/intangible assets may be impaired. During the current interim period, the Group performed impairment testing on these relevant assets and was of the opinion that no impairment loss was necessary to provide.

## 13. GOODWILL

	RMB'000
<b>COST AND CARRYING VALUE</b>	
At 31 December 2019 (audited)	1,515,852
Exchange adjustments	27,755
<hr/>	
At 30 June 2020 (unaudited)	<hr/> 1,543,607

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 13. GOODWILL (continued)

### Impairment testing on goodwill

Goodwill acquired through business combinations is allocated to the cash-generating units ("CGU") for impairment testing.

The carrying amounts of goodwill allocated to these CGUs are as follows:

	<b>30 June 2020 RMB'000</b>	31 December 2019 RMB'000
Fastener — Nedfast Investment B.V. ("Nedfast") (note)	<b>1,518,596</b>	1,490,841
Bearing — United Bearing	<b>8,818</b>	8,818
Bearing — Shanghai Tianhong Micro Bearing Company Limited* (上海天虹微型轴承有限公司) ("Shanghai Tianhong")	<b>16,193</b>	16,193
	<b>1,543,607</b>	1,515,852

As at 30 June 2020 and 31 December 2019, the directors of the Company determined that there were no impairments of any of its CGUs containing goodwill.

Note: When providing impairment testing for the CGU of Nedfast, the basis of the recoverable amounts and their major underlying assumptions are summarised below:

The recoverable amount of Nedfast is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations include discount rates and growth rates during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 8.8% (unaudited) (2019: 8%) per annum. The cash flows beyond the five-year period are extrapolated using a 1.5% (unaudited) (2019: 1.5%) growth rate per annum. This growth rate does not exceed the average long-term growth rate for the industry.

\* English name is for identification purpose only. The entity's official name is in Chinese.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 13. GOODWILL (continued)

The table below sets forth (i) each key assumption that is used in goodwill to provide impairment testing at 30 June 2020; and (ii) the effect of the reasonably possible change in each of the key assumptions as determined by the directors of the Company (with all other variables remained constant) on the calculation of value in use of the CGUs of Nedfast:

As at 30 June 2020

Key assumption	Base case	Changes in key assumption	Shortfall of recoverable amount of the cash-generating unit over its carrying amount RMB'000
Long-term growth rate	1.5%	Decrease by 0.5 percentage point	(38,364)
		Decrease by 1.0 percentage point	(197,496)
Discount rate	8.8%	Increase by 0.3 percentage point	(2,858)
		Increase by 0.5 percentage point	(93,526)

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 14. DEFERRED TAX ASSETS AND LIABILITIES

The followings are the major deferred tax assets and liabilities recognised and movements thereon during the current and preceding interim periods:

	Losses available for offsetting against future taxable profits	Impairment of assets	ECL provision	Depreciation allowance in excess of related depreciation	Fair value adjustments on assets	Employee benefits	Accrued expenses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 1 January 2019 (audited)</b>	36,352	3,333	24,148	(21,368)	32,525	23,216	4,960	9,242	112,408
Credit (charge) to profit or loss	7,238	1,369	509	(3,289)	1,062	3,721	(2,761)	(82)	7,767
Charge to equity for the period	–	–	–	–	–	4,450	–	–	4,450
Exchange differences	23	(134)	27	(525)	(21)	141	65	21	(403)
<b>As at 30 June 2019 (unaudited)</b>	43,613	4,568	24,684	(25,182)	33,566	31,528	2,264	9,181	124,222
Credit (charge) to profit or loss	6,711	1,982	1,550	(1,490)	1,621	2,752	(1,320)	35	11,841
Charge to equity for the period	–	–	–	–	–	475	–	–	475
Exchange differences	(65)	135	(79)	366	(83)	(381)	358	50	301
<b>As at 31 December 2019 (audited)</b>	50,259	6,685	26,155	(26,306)	35,104	34,374	1,302	9,266	136,839
Credit (charge) to profit or loss	36,583	589	5,050	(3,355)	968	1,110	1,132	(794)	41,283
Credit to equity for the period	–	–	–	–	–	(948)	–	–	(948)
Exchange differences	3,618	64	380	321	110	139	135	71	4,838
<b>As at 30 June 2020 (unaudited)</b>	90,460	7,338	31,585	(29,340)	36,182	34,675	2,569	8,543	182,012

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Deferred tax liabilities	(11,789)	(11,490)
Deferred tax assets	193,801	148,329
	<b>182,012</b>	136,839

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 14. DEFERRED TAX ASSETS AND LIABILITIES (continued)

As at 30 June 2020, the Group has unused tax losses of RMB547,982,000 (unaudited) (31 December 2019: RMB396,172,000) available for offset against future profits. At the end of the current interim period, a deferred tax asset of RMB90,460,000 (unaudited) (31 December 2019: RMB50,259,000) in respect of tax losses of RMB329,698,000 (unaudited) (31 December 2019: RMB201,020,000) has been recognised. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB218,284,000 (unaudited) (31 December 2019: RMB195,152,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB117,632,000 (unaudited) (31 December 2019: RMB88,301,000) that will expire from each of the year 2020 to 2025. Other losses may be carried forward indefinitely.

## 15. INVENTORIES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Raw materials and consumables	522,730	571,586
Work in progress	444,695	441,824
Finished goods	790,744	762,088
	<b>1,758,169</b>	1,775,498

During the current interim period, allowance for inventories amounting to RMB21,534,000 (unaudited) (six months ended 30 June 2019: RMB15,302,000 (unaudited)) was recognised and included in cost of sales.

During the current interim period, a reversal of allowance for inventories of RMB11,213,000 (unaudited) (six months ended 30 June 2019: RMB10,742,000 (unaudited)) was recognised as a result of the increase in the net realisable value of inventories caused by the increase in selling price and was included in cost of sales.

## 16. 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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 3 months	760,758	700,213
Over 3 months but within 6 months	264,995	248,356
Over 6 months but within 1 year	175,706	155,103
Over 1 year but within 2 years	53,106	32,239
	<b>1,254,565</b>	1,135,911

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.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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

	Six months ended	
	30 June 2020 (Unaudited) RMB'000	30 June 2019 (Unaudited) RMB'000
Impairment loss recognised (reversed) in respect of		
trade receivables	24,177	24,221
other receivables	(307)	(161)
	<b>23,870</b>	24,060

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six month ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

### Trade receivables and contract assets arising from contracts with customers

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customer 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.

During the current interim period, the Group had provided ECL allowance of RMB28,728,000 (unaudited) on trade receivables while reversed the ECL allowance of RMB4,551,000 (unaudited) as the relevant receivables had been fully settled in cash. As at 30 June 2020, the cumulative amount of ECL allowance provided for trade receivables is RMB161,492,000 (unaudited) (31 December 2019: RMB137,017,000).

During the period ended 30 June 2020 and 31 December 2019, the Group assessed that the ECL for contract assets were insignificant because the counterparties are reputable customers and thus no loss allowance was recognised.

### Other receivables

During the current interim period, the Group had provided ECL of RMB211,000 (unaudited) on other receivables while reversed the ECL of RMB518,000 (unaudited) as the relevant receivables had been fully settled in cash. As at 30 June 2020, the ECL balance on other receivables is RMB13,005,000 (unaudited) (31 December 2019: RMB13,312,000).

### Debt instruments at FVTOCI

The Group's debt instruments at FVTOCI mainly comprise note receivables, which are issued by reputable banks with high credit ratings assigned by credit agencies or by independent third parties including mainly state-owned enterprises without sentence of default and with good settlement pattern in the past, and therefore are considered to be low credit risk investments. During the period ended 30 June 2020, the Group assessed that the ECL for debt instruments at FVTOCI were insignificant and thus no loss allowance was recognised.



# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 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:

	<b>30 June 2020 (Unaudited) RMB'000</b>	31 December 2019 (Audited) RMB'000
Within 3 months	<b>846,879</b>	1,099,489
Over 3 months but within 6 months	<b>49,608</b>	97,428
Over 6 months but within 1 year	<b>60,408</b>	55,449
Over 1 year but within 2 years	<b>22,092</b>	11,539
Over 2 years	<b>3,301</b>	2,878
	<b>982,288</b>	1,266,783

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 RMB329,651,000 (unaudited) (six months ended 30 June 2019: RMB1,525,257,000 (unaudited)) and repaid RMB238,579,000 (unaudited) (six months ended 30 June 2019: RMB686,079,000 (unaudited)).

As at 30 June 2020, RMB1,848,059,000 (unaudited) (31 December 2019: RMB1,718,811,000) of the bank borrowings carried interest at variable rates, ranging from 3-month Euro Interbank Offered Rate ("EURIBOR") plus 1.75% to 2.0% and 6-month EURIBOR plus 1.5% (unaudited) (31 December 2019: 3-month EURIBOR plus 1.25% to 1.3% and 6-month EURIBOR plus 1.5%) per annum, while RMB51,621,000 (unaudited) (31 December 2019: RMB52,497,000) carried interest at fixed rates of 2.7% (unaudited) (31 December 2019: 2.70% to 5.44%) per annum. Bank borrowings repayable by the Group within one year were RMB392,982,000 (unaudited) (31 December 2019: RMB294,303,000), whereas borrowings repayable after one year were RMB1,506,698,000 (unaudited) (31 December 2019: RMB1,477,005,000). The proceeds raised during the current interim period were mainly used for general working capital purpose.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 20. SHAREHOLDERS' LOANS

Analysed for reporting purpose as:	<b>30 June 2020 (Unaudited) RMB'000</b>	31 December 2019 (Audited) RMB'000
Repayable within one year	–	781,550
In more than two years but not more than five years	<b>826,100</b>	30,000
<b>Total</b>	<b>826,100</b>	811,550

The shareholders' loans are unsecured and unguaranteed. The relevant interests have been settled on time.

As at 31 December 2019, EUR100,000,000 (equivalent to RMB781,550,000) was advanced from the shareholder in prior year for corporate development. It has been fully renewed upon its expiry in the current interim period, carries a variable interest rate of 1.00% per annum and is repayable on 15 May 2023. As at 30 June 2020, such shareholder's loan approximates to RMB796,100,000. The remaining shareholder's loan of RMB30,000,000 carries a fixed interest rate of 0.12% per annum and is repayable on 30 May 2023.

## 21. SHARE CAPITAL

As at 30 June 2020, 22,244,000 (unaudited) (31 December 2019: 22,244,000) shares of the Company were held in custody by the trustee for the Incentive Scheme (as defined in note 22).

## 22. INCENTIVE SCHEME

As at 30 June 2020, there were in total 22,244,000 (unaudited) (31 December 2019: 22,244,000) unawarded shares amounting to HKD31,586,000 (equivalent to RMB24,819,000) (unaudited) (31 December 2019: HKD31,586,000 (equivalent to RMB24,819,000)) held by the trustee.

On 17 January 2014, an incentive scheme (the "Incentive Scheme") was adopted by the Company. The Incentive Scheme shall be valid and effective for a period of 5 years commencing from the adoption date.

Pursuant to the Incentive Scheme, incentives will be awarded to the eligible participants in the form of (i) cash instalments; and (ii) the awarded shares. The Board shall entrust qualified agent(s) to act as trustee(s) under the Incentive Scheme, pursuant to which the shares will be purchased by the trustee(s) from the market out of cash contributed by the Group and to be held on trust for eligible participants.

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. In addition, those shares of the Company being awarded to the directors of the Company and employees of the Group mentioned above had been fully vested as at 31 December 2019.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 22. 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 (unaudited) 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 RMB504,000 (unaudited) was recognised as an expense for the six months ended 30 June 2020 (six months period ended 30 June 2019: RMB1,260,000 (unaudited)).

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 RMB1,459,000 (unaudited) was recognised as an expense for the six months ended 30 June 2020 (six months period ended 30 June 2019: RMB6,712,000 (unaudited)).

During the six months ended 30 June 2020, no cash instalments was approved to be granted to the directors of the Company and employees of the Group under the Incentive Scheme.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 23. 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		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000		
<b>Financial assets</b>				
Debts instruments at FVTOCI	538,922	545,506	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	2,793	3,907	Level 3	Market approach
Retirement benefit assets	12,160	11,571	Level 3	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 2020 and 31 December 2019 recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (continued)

The following table represents the changes in level 3 financial assets during the six months ended 30 June 2020.

	<b>Financial assets at FVTPL for unlisted equity investments</b>	<b>Retirement benefit assets</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
Assets at 31 December 2018 (audited)	3,551	11,033	14,584
Total gain on change in fair value			
— in profit or loss	313	–	313
— in other comprehensive income	–	68	68
Contributions by plan participants	–	16	16
Exchange adjustments	21	(41)	(20)
Assets at 30 June 2019 (unaudited)	3,885	11,076	14,961
Assets at 31 December 2019 (audited)	3,907	11,571	15,478
Total (losses) gain on change in fair value			
— in profit or loss	(1,129)	–	(1,129)
— in other comprehensive income	–	106	106
Contributions by plan participants	–	252	252
Exchange adjustments	15	231	246
Assets at 30 June 2020 (unaudited)	2,793	12,160	14,953

## 24. PLEDGE OF ASSETS

As at 30 June 2020, debt instruments at FVTOCI of RMB153,037,000 (unaudited) (31 December 2019: RMB164,811,000) and property, plant and equipment of RMB54,122,000 (unaudited) (31 December 2019: RMB53,916,000) have been pledged as security for bank borrowings and issuance of bills payables of the Group.

As at 30 June 2020, restricted deposits of RMB209,195,000 (unaudited) (31 December 2019: RMB187,290,000) have been pledged as security for the Group's issuance of letters of credit, short-term bills payables and letters of guarantee for bidding for new sales order.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 25. CAPITAL COMMITMENTS

	<b>30 June 2020 (Unaudited) RMB'000</b>	31 December 2019 (Audited) RMB'000
Contracted, but not provided in respect of:		
— Plant and machinery	<b>19,259</b>	19,048
— Land and buildings	—	15
— Intangible assets	<b>78,182</b>	51,635
	<b>97,441</b>	70,698

## 26. RELATED PARTY DISCLOSURES

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) Related party transactions

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	
		<b>2020 (Unaudited) RMB'000</b>	2019 (Unaudited) RMB'000
SEG and its associate including SEC and its subsidiaries ("SEG Group")	Sales of goods earned (Note i)	<b>83,280</b>	92,839
	Rendering of comprehensive services earned	<b>74</b>	54
	Comprehensive services charges incurred	<b>29</b>	359
	Interest expense on lease liabilities	<b>596</b>	889
	Lease liabilities	<b>7,486</b>	36,556
	Interest expense on shareholders' loans	<b>6,257</b>	14,778

Note:

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

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 26. RELATED PARTY TRANSACTIONS (continued)

### (b) Related party balances

The amounts due from and due to SEG Group can be analysed as follows:

	<b>30 June 2020 (Unaudited) RMB'000</b>	31 December 2019 (Audited) RMB'000
Trade receivables	<b>138,641</b>	96,371
Debt instruments at FVTOCI	<b>98,374</b>	87,434
Trade payables and other payables	<b>1,507</b>	1,909

The Group's balances with related parties are unsecured, interest-free and on similar credit terms to those offered to the major customers of the Group.

### (c) 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.

### (d) Compensation of key management personnel of the Group

	<b>For the six months ended 30 June</b>	
	<b>2020 (Unaudited) RMB'000</b>	2019 (Unaudited) RMB'000
Fees	<b>323</b>	304
Short term employee benefits	<b>2,199</b>	2,498
Share based payment expense	<b>-</b>	57
Post-employment benefits	<b>20</b>	106
	<b>2,542</b>	2,965

## 27. 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 14 August 2020.