上海集優機械股份有限公司
Shanghai Prime Machinery Company Limited
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02345)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

- Revenue for 1H2020 decreased by 25.9% to RMB3,324 million; segment revenues decreased across the board with the fastener business being the hardest hit.
- Gross profit for 1H2020 decreased by 32.8% to RMB581 million, with gross profit margin reduced to 17.5% comparing with 19.3% for 1H2019.
- EBITDA for 1H2020 was RMB156 million, down 56.4%. EBITDA to revenue margin was 4.7%.
- The Group incurred a consolidated net loss of RMB22.0 million for 1H2020 comparing with a consolidated net profit of RMB115 million for 1H2019.
- During 1H2020, the Group has incurred non-recurrent restructuring costs and professional expenses totaled RMB14.5 million relating to a potential acquisition and the close-down of a manufacturing plant in Berlin, Germany (previously announced in November 2019).
- In response to the uncertainties and disruptions brought by COVID-19, which has evolved into a pandemic, the Group has strived to preserve cash by limiting unnecessary capital expenditure, project spending and certain business activities.
- The Group has also taken advantage of certain government assistance and subsidies to enhance liquidity and recover costs during 1H2020 and beyond. Further cost-saving initiatives are also being contemplated and may be implemented as and when appropriate.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board of Directors (the "**Board**") of Shanghai Prime Machinery Company Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2020 ("**1H2020**"), together with the comparative figures for the six months ended 30 June 2019 ("**1H2019**"). The Group's unaudited interim results have been reviewed by the audit committee of the Company and Deloitte Touche Tohmatsu.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		For the six months ended 30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue			
Contracts with customers	5	**3,324,390**	4,484,717
Cost of sales		**(2,743,103)**	(3,619,256)
Gross profit		**581,287**	865,461
Other income	6	**52,290**	33,636
Other gains and losses	7	**21,998**	18,624
Impairment losses under expected credit loss model, net of reversal	16	**(23,870)**	(24,060)
Selling and distribution expenses		**(168,185)**	(198,065)
Administrative expenses		**(323,654)**	(348,052)
Research expenditure		**(148,604)**	(164,832)
Other expenses		**(608)**	(432)
Share of profit of an associate		**4,002**	6,085
Share of profit (loss) of a joint venture		**3**	(28)
Finance costs		**(30,495)**	(40,760)
(LOSS) PROFIT BEFORE TAX	8	**(35,836)**	147,577
Income tax credit (expense)	9	**21,748**	(29,728)
(LOSS) PROFIT FOR THE PERIOD		**(14,088)**	117,849
(Loss) profit for the period attributable to owners of the Company		**(22,023)**	114,736
Profit for the period attributable to non-controlling interests		**7,935**	3,113
		(14,088)	117,849

	Notes	For the six months ended 30 June **2020** **(Unaudited)** ***RMB'000***	2019 (Unaudited) *RMB'000*
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
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
Items that may be reclassified subsequently to profit or loss:			
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			
Basic (RMB cents)	*11*	**(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*
NON-CURRENT ASSETS			
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		**193,801**	148,329
		4,461,359	4,412,475
CURRENT ASSETS			
Inventories	*14*	**1,758,169**	1,775,498
Trade receivables	*15*	**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
		5,167,011	5,231,809
CURRENT LIABILITIES			
Trade payables	*17*	**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	*18*	**392,982**	294,303
Shareholder's loans	*19*	**–**	781,550
Lease liabilities		**83,868**	90,923
		2,595,787	3,426,728
NET CURRENT ASSETS		**2,571,224**	1,805,081
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,032,583**	6,217,556

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

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.

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.

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 16.

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: RMB195,152,000).

5A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue

	For the six months ended 30 June 2020 (unaudited)				
Disaggregation of revenue	**Bearing**	**Turbine blade**	**Cutting tool**	**Fastener**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Types of goods or service					
Sales of goods	**352,641**	**421,078**	**263,830**	**2,279,176**	**3,316,725**
Sales of services	**–**	**–**	**1,275**	**6,390**	**7,665**
Total	**352,641**	**421,078**	**265,105**	**2,285,566**	**3,324,390**
Geographical markets					
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**
Total	**352,641**	**421,078**	**265,105**	**2,285,566**	**3,324,390**
Timing of revenue recognition					
A point in time	**352,641**	**421,078**	**265,105**	**2,192,709**	**3,231,533**
Over time	**–**	**–**	**–**	**92,857**	**92,857**
Total	**352,641**	**421,078**	**265,105**	**2,285,566**	**3,324,390**

	For the six months ended 30 June 2019 (unaudited)				
Disaggregation of revenue	Bearing	Turbine blade	Cutting tool	Fastener	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Types of goods or service					
Sales of goods	454,314	479,797	312,450	3,230,983	4,477,544
Sales of services	–	–	1,960	5,213	7,173
Total	454,314	479,797	314,410	3,236,196	4,484,717
Geographical markets					
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
Total	454,314	479,797	314,410	3,236,196	4,484,717
Timing of revenue recognition					
A point in time	454,314	479,797	314,410	3,092,348	4,340,869
Over time	–	–	–	143,848	143,848
Total	454,314	479,797	314,410	3,236,196	4,484,717

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.

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*
Segment revenue:						
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**
Segment profit (loss)	**51,109**	**14,870**	**55,638**	**(114,863)**	**–**	**6,754**
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.

For the six months ended 30 June 2019 (Unaudited)

	Bearing *RMB'000*	Turbine blade *RMB'000*	Cutting tool *RMB'000*	Fastener *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:						
Sales to external customers	454,314	479,797	314,410	3,236,196	–	4,484,717
Inter-segment sales *(note)*	–	–	91	–	–	91
Subtotal	454,314	479,797	314,501	3,236,196	–	4,484,808
Eliminations						(91)
Group revenue						4,484,717
Segment profit	47,808	22,181	52,809	96,560	–	219,358
Interest and dividend income and unallocated gains						7,539
Corporate and other unallocated expenses						(40,914)
Finance costs						(40,760)
Share of 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.

6. OTHER INCOME

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other income		
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
Total	**52,290**	33,636

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)) represents incentives received in relation to the government's financial support for the Group's business development in the PRC, the conditions to which have been satisfied and (b) RMB9,917,000 (unaudited) (six months ended 30 June 2019: RMB7,888,000 (unaudited)) represents subsidies received for the acquisition of machinery amortised to profit or loss for the period.

7. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Other gains and losses		
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)
	14,517	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)
	21,998	18,624

8. (LOSS) PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*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
	184,467	182,409
Capitalised in inventories	**(58,727)**	(37,265)
Total depreciation and amortisation charged to profit or loss	**125,740**	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
	125,740	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
	2,542	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
	785,082	777,568
Total staff costs	**787,624**	780,533
Capitalised in inventories	**(177,634)**	(141,665)
Total staff costs charged to profit or loss	**609,990**	638,868

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
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)

9. INCOME TAX (CREDIT) EXPENSE

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	*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)
	19,535	37,495
Deferred tax credit	**(41,283)**	(7,767)
	(21,748)	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.

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	2019
	(Unaudited)	(Unaudited)
	RMB'000	*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)	**(22,023)**	114,736

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

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
COST AND CARRYING VALUE	
At 31 December 2019 (audited)	1,515,852
Exchange adjustments	27,755
At 30 June 2020 (unaudited)	1,543,607

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:

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

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)

14. 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
	1,758,169	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.

15. TRADE RECEIVABLES

An aged analysis of trade receivables as at the end of the reporting period, based on the invoice date, and net of provisions, is as follows:

	30 June 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
	1,254,565	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.

16. 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)
	23,870	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.

17. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

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

18. 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.

19. SHAREHOLDERS' LOANS

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

20. 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.

21. 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.

22. CAPITAL COMMITMENTS

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

23. 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**	
		2020 (Unaudited) ***RMB'000***	2019 (Unaudited) *RMB'000*
SEG and its associate including SEC and its subsidiaries ("SEG Group")	Sales of goods earned *(Note i)*	**83,280**	92,839
	Rendering of comprehensive services earned	**74**	54
	Comprehensive services charges incurred	**29**	359
	Interest expense on lease liabilities	**596**	889
	Lease liabilities	**7,486**	36,556
	Interest expense on shareholders' loans	**6,257**	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.

(b) Related party balances

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

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

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

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 by 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.

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%		

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.

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.

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 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 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.

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.

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.

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.

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 (IH2019: RMB181 million).

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 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.

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

Use of the net proceeds		Original allocation of the net proceeds	Amount of net proceeds utilised as of the date of this announcement	Unutilised balance of the net proceeds as at the date of this announcement 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.

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期 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.

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.

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.

FUTURE PROSPECTS

Strengthening risk management and control

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.

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.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (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, the roles of chairman and chief executive should be separate 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 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.

AUDIT COMMITTEE

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

THE BOARD AND SUPERVISORY COMMITTEE

As at the date of this announcement, the Board comprises Executive Directors namely Zhou Zhiyan, 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 announcement, the supervisory committee of the Company consists of Zhang Yan, Lu Haixing and Yu Yun.

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

Shanghai, the PRC
14 August 2020

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