上海电气
SHANGHAI ELECTRIC

Shanghai Electric Group Company Limited
上海電氣集團股份有限公司

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

Interim Report 2005

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Corporate Information

Legal name in Chinese:	上海電氣集團股份有限公司
Legal name in English:	Shanghai Electric Group Company Limited
Registered office:	30th Floor, Maxdo Center, 8 Xingyi Road, Shanghai The People's Republic of China
Zip code:	200336
Principal place of business in Hong Kong:	50/F., Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong
Legal representative:	Wang Chengming
Joint company secretaries:	Yao Wenjun, Seng Sze Ka Mee Natalia (FCIS, FCS, FHKIoD)
Authorized representatives:	Wang Chengming, Han Guozhang
Alternate authorized representatives:	Cheung Wai Bun, Seng Sze Ka Mee Natalia
Qualified accountant:	Li Chung Kwong, Andrew (FCCA, CPA)
Stock Exchange on which H Shares are listed:	The Stock Exchange of Hong Kong Limited
Abbreviation of H Shares:	SH Electric
Stock code of H Shares:	2727
H Share registrar and transfer office:	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong
Auditors:	Ernst & Young (International auditors) Ernst & Young Da Hua (PRC auditors)
Legal advisers:	Freshfields Bruckhaus Deringer (Hong Kong law and US law) Anderson Mori & Tomotsune (Japanese Law) Jun He Law Offices (PRC Law)
Compliance adviser:	Goldbond Capital (Asia) Limited
Website:	http://www.shanghai-electric.com
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Summary

- Turnover for the first half of 2005 was RMB16,360 million, representing an increase of 41.3% over the corresponding period last year.

- Profit attributable to equity holders of the Company for the first half of 2005 was RMB826 million, representing an increase of 63.6% over the corresponding period last year.

- Basic earnings per share for the first half of 2005 was RMB8.16 cents.

- Successfully secured two large scale equipment and construction contracts:

  (1) a supply contract with a value of US$170 million for the provision of two sets of 300 MW power station boiler-turbine units to Yamuna, India; and

  (2) a contract of RMB3,490 million for the provision of two sets of 600 MW coal-fired power generation equipment to Shanxi Liulin.

- Successfully secured a contract of RMB880 million in respect of certain key components of the nuclear island for two sets of 600 MW power equipment of Phase Two of Qinshan Nuclear Power Station.

Chairman's Statement

Dear shareholders,

The Board of Directors of Shanghai Electric Group Company Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "Period"). The Group's interim results have not been audited but have been reviewed by Ernst & Young.

Review of Operations

Turnover for the first half of 2005 was RMB16,360 million (2004: RMB11,581 million), representing an increase of 41.3% over the corresponding period last year. Profit attributable to equity holders of the Company was RMB826 million (2004: RMB505 million), representing an increase of 63.6% over the corresponding period last year. Basic earnings per share was RMB8.16 cents (2004: RMB5.49 cents).

As at 30 June 2005, total assets of the Group were RMB55,012 million (2004: RMB47,110 million) while total liabilities amounted to RMB35,170 million (2004: RMB32,778 million). Total shareholders' equity was RMB19,842 million (2004: RMB14,332 million), of which RMB14,033 million (2004: RMB8,505 million) was attributable to the equity holders of the Company. Net asset value (attributable to equity holders of the Company) per share was RMB1.18, representing an increase of RMB0.25 per share from the beginning of the year.

Prospects

Power Equipment Division

During the first half of 2005, the Group received new orders for the provision of power generation equipment with total capacity of over 10,000 MW. As at 30 June 2005, the total outstanding orders for power generation equipment remained at a total capacity of over 70,000 MW, representing sales value of approximately RMB66 billion. In light of this, sales and operating profits of the Power Equipment Division are likely to continue to grow in the second half of 2005 and the following years.

Electromechanical Equipment Division

Accompanied by the rapid economic growth in the People's Republic of China (the "PRC"), we anticipate that market demand for electromechanical equipment will remain at a high level. It is expected that this division will continue to make substantial contribution to the operating profits of the Group.

Transportation Equipment Division

Our diesel engine business will continue to be affected by macro-economic control measures in the near future. On the other hand, given the business opportunities that will come from the construction of rail traffic systems in Shanghai and even the whole PRC, our rail traffic equipment business is expected to become one of our major businesses in three to five years' time.

Environmental Systems Division

In the first half of 2005, the PRC government adopted new environmental policies concerning thermal power plants. Pursuant to these new policies, all newly-established thermal power plants must be equipped with desulphurization and denitration systems while existing power plants must be installed with such systems within certain years. It is expected that the Group will benefit from these new policies, and that the Environmental Systems Division will grow rapidly in the coming years.

Wang Chengming
Chairman

26 August 2005
Shanghai, China

Management Discussion and Analysis

The Group achieved desirable results in the interim period. The increase in profits was mainly attributable to the growth of our Power Equipment Division, which accounted for 69.5% of the profits from operating activities of the Group for the interim period. During the interim period, market demand in certain sectors experienced a decline as the PRC government continued to implement macro-economic control measures. As a consequence, sales of various products, such as diesel engines, decreased, resulting in a drop in sales and profit from operating activities of our Transportation Equipment Division.

Business Review of Major Divisions

Set out below are turnover and operating profit for each individual business division:

	Turnover Six months ended 30 June		Operating profit Six months ended 30 June	
(in RMB million)	**2005**	**2004**	**2005**	**2004**
Power Equipment	8,913	4,864	1,210	490
Percentage of total	*54.5%*	*42.0%*	*69.5%*	*42.9%*
Electromechanical Equipment	5,323	4,179	408	434
Percentage of total	*32.5%*	*36.1%*	*23.4%*	*38.0%*
Transportation Equipment	1,854	2,407	43	250
Percentage of total	*11.3%*	*20.8%*	*2.5%*	*21.9%*
Environmental Systems	357	222	1	(3)
Percentage of total	*2.2%*	*1.9%*	*0.1%*	*(0.3%)*
Other businesses	144	127	581*	62*
Percentage of total	*0.9%*	*1.1%*	*33.4%*	*5.5%*
Consolidation adjustment and elimination	(231)	(218)	(503)*	(91)*
Percentage of total	*(1.4%)*	*(1.9%)*	*(28.9%)*	*(8.0%)*
Total	16,360	11,581	1,740	1,142

* *Included in operating profit of other business was dividend income of RMB383 million (2004: RMB49 million) from the Company's subsidiaries, which has been eliminated by consolidation adjustment and elimination.*

Power Equipment Division

During the first half of 2005, market demand for power equipment surged as electricity supply in PRC continued to be insufficient. To cope with customers' demand for early delivery of orders placed, the Group enhanced its production efficiency by fine-tuning its production process to alleviate the bottleneck points in the production lines of key components and parts. During the period under review, we have completed orders for power generation equipment with a total capacity of over 9,000 MW. Total turnover of the Power Equipment Division amounted to RMB8,913 million (2004: RMB4,864 million), representing a rise of 83.2% over the corresponding period last year. Operating profit was RMB1,210 million (2004: RMB490 million), representing an increase of 147.0% over the corresponding period last year, which was mainly due to the increase in sales and effective control of operating expenses by the Group.

Electromechanical Equipment Division

During the first half of 2005, turnover of our Electromechanical Equipment Division increased by 27.4% as compared to that for the first half of 2004, primarily due to the increase in sales of heavy machinery and printing & packaging equipment. Operating profits dropped by 5.9% as compared to the corresponding period last year, mainly due to the fall in gross profit ratio and rise in selling and distribution expenses.

Transportation Equipment Division

During the first half of 2005, turnover and operating profit of the Transportation Equipment Division decreased by 22.9% and 83.0% respectively as compared to the same period last year. This was mainly attributable to the decrease in the sales of vehicle diesel engines. As such, the Group has adopted appropriate business strategies correspondingly by increasing the promotion of new products and reinforcing the sales of popular products.

Environmental Systems Division

During the first half of 2005, turnover of the Environmental Systems Division increased by 60.9% as compared to the corresponding period last year, mainly due to expansion of the environmental desulphurization business.

Other Businesses

Operating profit of other businesses for the interim period showed a marked increase from the corresponding period in 2004. This is primarily attributable to the Group's further increase in shareholding in Shanghai Electric Group Finance Company Ltd., which became a subsidiary of the Group in July 2004. The operating results of such company were consolidated into the Group's financial statements for the first half of 2005, while it was accounted for by equity accounting method and was thus included in share of profits and losses of associates in the corresponding period last year.

Share of Profits and Losses of Associates

Share of profits of associates for the Period under review remained at a similar level to the last corresponding period at RMB129 million (2004: RMB132 million).

Profit Attributable to Equity Holders of the Company

As a result of the foregoing, profit attributable to equity holders of the Company for the first half of 2005 increased by 63.6% from the last corresponding period to RMB826 million (2004: RMB505 million). Earnings per share for the Period was RMB8.16 cents (2004: RMB5.49 cents).

Cash Flow

As at 30 June 2005, the Group had cash and bank balances of RMB15,117 million (of which RMB1,791 million were pledged deposits) (2004: RMB13,163 million), representing an increase of RMB1,954 million from the beginning of the period. During the period, the Group had net cash outflow from operating activities of RMB1,184 million (2004: RMB3,208 million of net cash inflow), net cash outflow from investing activities of RMB2,083 million (2004: RMB3,249 million), and net cash inflow from financing activities of RMB4,360 million (2004: RMB2,132 million).

Cash inflow from financing activities represents primarily the proceeds from the listing of our H shares in Hong Kong on 28 April 2005. The net proceeds amounted to RMB4,674 million after deducting certain expenses and payments in respect of the listing.

Assets and Liabilities

As at 30 June 2005, the Group has total assets of RMB55,012 million (2004: RMB47,110 million), an increase of RMB7,902 million, or 16.8%, compared with the beginning of the year. Total current assets increased by RMB7,234 million from the beginning of the year to RMB44,384 million (2004: RMB37,150 million), accounting for 80.7% of the total assets. Total non-current assets were RMB10,628 million (2004: RMB9,960 million), representing an increase of RMB668 million from the beginning of the year and accounting for 19.3% of the total assets.

As at 30 June 2005, total liabilities of the Group were RMB35,170 million (2004: RMB32,778 million), which represented an increase of 7.3% compared with the beginning of the year. Total current liabilities increased by 7.5% from the beginning of the year to RMB34,488 million (2004: RMB32,080 million), whereas total non-current liabilities decreased by 2.3% to RMB682 million (2004: RMB698 million).

As at 30 June 2005, total net current assets of the Group was RMB9,896 million (2004: RMB5,070 million), representing an increase of RMB4,826 million from the beginning of the year.

Source of Funding and Indebtedness

As at 30 June 2005, the Group had aggregate bank and other borrowings of RMB424 million (2004: RMB805 million), a decrease of RMB381 million from the beginning of the year. Borrowings repayable within one year and after one year were RMB278 million and RMB146 million respectively, which represented a decrease of RMB372 million and RMB9 million compared with the beginning of the year, respectively.

As of 30 June 2005, all bank and other borrowings of the Group were interest-bearing at fixed rates and denominated in RMB.

Pledge of Assets

As at 30 June 2005, bank deposits of RMB1.79 billion (2004: RMB1.73 billion) of the Group have been pledged to banks. In addition, certain of the Group's bank loans are secured by mortgages over certain of the Group's land use rights, buildings and machinery, which had an aggregate net book value of approximately RMB137 million as at 30 June 2005 (2004: RMB132 million). Save as the above, the Group has made no further pledge of assets in the first half of 2005.

Finance Costs

Finance costs for the first half of 2005 were RMB43 million (2004: RMB54 million), representing a decrease of 20.4% from the corresponding period last year. The decrease of finance costs was primarily due to repayment of bank borrowings.

Gearing Ratio

As at 30 June 2005, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings to "total shareholders' equity plus interest-bearing bank and other borrowings", was 2.1%, a reduction from 5.3% in the beginning of the year.

Contingent Liabilities

As at 30 June 2005, the Group had total contingent liabilities of RMB435 million (2004: RMB609 million). During the period, the Group had no material additional contingent liabilities.

Capital Expenditure

Total capital expenditure of the Group for the period were approximately RMB601 million (2004: RMB360 million), principally applied for upgrading of technologies, equipment and production capacity.

Risk of Foreign Exchange Fluctuations

During the report period, the Group exported certain products for sales as well as imported equipment, spare parts and materials. The exports and imports substantially hedged the risks of transactions in foreign currencies. As at 30 June 2005, bank deposits of the Group included HK$4,289 million, US$33 million and other foreign currencies equivalent to RMB98 million in total. Apart from this, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Significant Events

During the report period, the Group entered into a turnkey contract valued at RMB3,490 million in respect of two sets of coal-fired power generation equipment with a unit capacity of 600 MW for Shanxi Liulin, a contract valued at RMB880 million in respect of certain key components of the nuclear island for two sets of 600 MW generation units for Phase Two of Qinshan Nuclear Power Station, and a supply contract valued at US$170 million in respect of two 300 MW power station boiler-turbine units for Yamuna, India. These projects reflected the enhanced capabilities of the Group in undertaking domestic and overseas coal-fired power generation equipment projects and construction of nuclear power generation units.

Apart from the above, the Group did not have any other discloseable significant event.

Employees

As at 30 June 2005, the Group had approximately 32,000 employees (2004: 34,000). The Company has short term and long term incentive programs to encourage employee performance and a range of training programs for the development of its staff.

Other Information

Share Capital Structure

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	8,918,736,000	75.00%
H Shares	2,972,912,000	25.00%
Total	11,891,648,000	100.00%

Disclosure of Interests

Interests and Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares of the Company

As at 30 June, 2005, the following persons (other than the directors and supervisors of the Company) had interests 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 ("SFO"):

1. Interests and short positions of substantial shareholders who were entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	*Notes*	No. of Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
Shanghai Electric (Group) Corporation	D	Beneficial owner	*1*	6,134,387,334	long position	68.78	51.59
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	D	Interest of controlled corporations	*1*	6,624,279,456	long position	74.27	55.71

2. Interests and short positions of other substantial shareholders

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	*Notes*	No. of Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
Deutsche Bank Aktiengesellschaft	H	Investment Manager	*2*	488,360,000	long position	16.43	4.11
Government of Singapore Investment Corporation Pte Ltd	H	Investment Manager		370,522,000	long position	12.46	3.12
UBS AG	H	Beneficial owner		49,072,500	long position	1.65	0.41
		Interest of controlled corporations	*3*	169,824,200	long position	5.71	1.43
				218,896,700		7.36	1.84
Siemens International Holding B.V.	H	Beneficial owner	*4*	148,646,000	long position	5.00	1.25
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporations	*4*	148,646,000	long position	5.00	1.25
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporations	*4*	148,646,000	long position	5.00	1.25
Siemens Aktiengesellschaft	H	Interest of controlled corporations	*4*	148,646,000	long position	5.00	1.25
Fuxi Investment Holding Co., Ltd	D	Beneficial owner	*5*	968,768,703	long position	10.86	8.15
Shanghai Feidian Investment Development Co., Ltd	D	Interest of controlled corporations	*5*	968,768,703	long position	10.86	8.15

Name of Substantial Shareholder	H/Domestic ("D") shares	Capacity	*Notes*	No. of Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total shares in issue (%)
Zhang Ying	D	Interest of controlled corporations	*5*	968,768,703	long position	10.86	8.15
Zhou Weiming	D	Interest of controlled corporations	*5*	968,768,703	long position	10.86	8.15
Guangdong Zhujiang Investment Co., Ltd	D	Beneficial owner	*6*	917,778,942	long position	10.29	7.72
Guangdong Hanjiang Building and Installation Co., Ltd	D	Interest of controlled corporations	*6*	917,778,942	long position	10.29	7.72
廣州華城置業有限公司	D	Interest of controlled corporations	*6*	917,778,942	long position	10.29	7.72
廣東珠光實業有限公司	D	Interest of controlled corporations	*6*	917,778,942	long position	10.29	7.72
Zhu Qingyi	D	Interest of controlled corporations	*6*	917,778,942	long position	10.29	7.72
Zhu Baoli	D	Interest of controlled corporations	*6*	917,778,942	long position	10.29	7.72
Shenergy Group	D	Beneficial owner	*1*	489,892,122	long position	5.49	4.12

Notes:

(1) Shanghai Electric (Group) Corporation and Shenergy Group were wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and their interests in 6,134,387,334 shares and 489,892,122 shares of the Company, were deemed to be the interests of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(2) Deutsche Bank Aktiengesellschaft was interested in 488,360,000 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:–

Name of controlled Corporation	Percentage of ownership in controlled corporation	No. of shares
Deutsche Asset Mananagement Investmentgesellschaft	94	5,740,000
Deutsche Asset Management Limited	100	47,962,000
Deutsche Vermogensbildungsgesellschaft mit beschrankter	100	7,190,000
DWS Investment GmbH	94	278,560,000
DWS Investment S.A., Luxemburg	94	53,178,000
DWS Investments Italy SGR S.p.A.	94	32,550,000
Deutsche Investment Americas Inc.	100	46,306,000
Deutsche Asset Management Inc.	100	2,214,000
Deutsche Bank Trust Company Americas	100	14,660,000

(3) UBS AG was interested in 169,824,200 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:–

Name of controlled Corporation	Percentage of ownership in controlled corporation	No. of shares
UBS Fund Services (Luxembourg) SA	100	5,518,700
UBS Global Asset Management (Americas) Inc	100	28,440,800
UBS Global Asset Management (Hong Kong) Limited	100	146,200
UBS Global Asset Management (Japan) Ltd	100	12,088,300
UBS Global Asset Management (Singapore) Ltd	100	67,668,900
UBS Global Asset Management (UK) Limited	100	53,742,200
UBS Global Asset Management (Canada) Co.	100	2,219,100

(4) Siemens International Holdings B.V., holding 148,646,000 shares of the Company, was wholly owned by Siemens Beteiligungsverwaltung GmbH & Co. OHG, which in turn was owned as to 99.99% and 0.01% by Siemens Aktiengesellschaft and Siemens Beteiligungen Management GmbH. The interest in 148,646,000 shares relates to the same block of shares in the Company.

(5) Fuxi Investment Holding Co., Ltd, holding 968,768,703 shares of the Company, was owned as to 45% by Shanghai Feidian Investment Development Co., Ltd, which in turn was owned as to 50% and 35% by Zhang Ying & Zhou Weiming. The interest in 968,768,703 shares relates to the same block of shares in the Company.

(6) Guangdong Zhujiang Investment Co., Ltd, holding 917,778,942 shares of the Company, was owned as to 50% and 35% by Guangdong Hanjiang Building and Installation Co., Ltd and 廣州華城置業有限公司. Guangdong Hanjiang Building and Installation Co., Ltd, also holding 60% interest in 廣東珠光實業有限公司, was owned as to 90% by Zhu Qingyi. 廣州華城置業有限公司 was owned as to 60% and 40% by 廣東珠光實業有限公司 and Zhu Baoli. The interest in 917,778,942 shares relates to the same block of shares in the Company.

Save as disclosed above, as at 30 June 2005, there was no other person (excluding the Directors or chief executives of the Company) who was recorded in the register of the Company as having an interest or short position in the shares or underlying shares of the Company.

Directors' and Supervisors' Interests and Short Positions in Securities

As at 30 June 2005, none of the directors, supervisors or chief executives of the Company and their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO.

During the six months period ended 30 June 2005, none of the directors, supervisors or chief executives of the Company or their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associate corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the 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 Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"), nor have they been granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Listing Rules. Further to the Company's enquiry, all Directors confirmed that they had complied with the Model Code in the interim period.

Corporate Governance

For the first half of 2005, the Board of the Directors are of the view that the Company had complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code") except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer.

Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. At present, Mr. Wang Chengming is the Chief Executive Officer, the Chairman of the Board and an Executive Director. However, Mr. Huang Dinan, an Executive Director and the President, is fully responsible for the day-to-day operations of the Company and execution of instructions from the Board of Directors. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the senior management has been well maintained and there exists no problem of over-centralization of management power on one person.

Audit Committee

Our audit committee, comprising Mr. Cheung Wai Bun, Mr. Yao Fusheng, Mr. Lei Huai Chin and Mr. Wang Minwen, has reviewed the accounting policies adopted by the Group with the management and the Company's external auditors, and discussed on matters concerning internal control and financial report, including review and approval of the unaudited interim financial statements of the period.

Pursuant to C.3 of the Code, the Board of Directors adopted the terms of reference of the audit committee on 29 June 2005. Pursuant to the Articles of Association of the Company, the terms of reference of the Audit Committee are subject to approval by the general meeting of shareholders.

Remuneration Committee

Pursuant to code provision B.1.1 of the Code, the Board of Directors established a Remuneration Committee on 29 June 2005 and adopted its terms of reference. The Remuneration Committee comprises Mr. Wang Qiang, Mr. Yao Fusheng and Mr. Lei Huai Chin. Pursuant to the Articles of Association of the Company, the terms of reference of the Remuneration Committee are subject to approval by the general meeting of shareholders.

Purchase, Sale or Redemption of the Company's Listed Securities

During the interim period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Directors do not recommend the payment of interim dividend for the Period.

Disclosure of Information of the Stock Exchange's Website

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange (http://www.hkex.com.hk) in due course.

Directors and Supervisors

As at the date of this report, the Board of Directors consists of executive directors, namely Mr. Wang Chengming, Mr. Chen Longxing, Mr. Huang Dinan, Mr. Han Guozhang, Mr. Wang Qiang, Ms. Li Manping, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhang Rongkun, Mr. Zhu Kelin, Mr. Yao Qun, Mr. Cheng Xinhua, Mr. Wang Minwen and Mr. Li Songjian, as well as independent non-executive directors, namely Mr. Yao Fusheng, Mr. Cheung Wai Bun and Mr. Lei Huai Chin.

As at the date of this report, the Supervisors of the Company are Mr. Chen Zhenhao, Mr. Xie Tonglun, Ms. Ling Feifei, Mr. Zheng Weijian, Mr. Zhang Jun and Ms. Miu Xiufeng.

By order of the Board
Wang Chengming
Chairman

26 August 2005
Shanghai, China

Independent Auditors' Review Report

To the Board of Directors of

Shanghai Electric Group Company Limited (the "Company")

(Established in the People's Republic of China as a joint stock company with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 17 to 40.

Directors' Responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with HKAS 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review Work Performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Ernst & Young
Certified Public Accountants
Hong Kong

26 August 2005

Condensed Consolidated Income Statement

For the six months ended 30 June 2005

	Notes	For the six months ended 30 June 2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
TURNOVER	3	16,360,222	11,581,335
Cost of sales		(13,111,986)	(9,050,445)
GROSS PROFIT		3,248,236	2,530,890
Other revenue and gains	3	358,700	269,742
Selling and distribution costs		(443,261)	(395,392)
Administrative expenses		(1,264,690)	(1,078,877)
Other operating expenses		(159,058)	(184,539)
Finance costs		(42,957)	(53,854)
Share of profits and losses of associates		128,967	132,392
Impairment/amortisation of goodwill arising on acquisition of associates		(72,013)	(11,712)
PROFIT BEFORE TAX	4	1,753,924	1,208,650
Tax	5	(499,901)	(259,369)
PROFIT FOR THE PERIOD		1,254,023	949,281
ATTRIBUTABLE TO:			
Equity holders of the Company		826,350	504,859
Minority interests		427,673	444,422
		1,254,023	949,281
EARNINGS PER SHARE – Basic	6	8.16 cents	5.49 cents
DIVIDEND PER SHARE	7	Nil	Nil

The accompanying notes form an integral part of the condensed consolidated financial statements.

Condensed Consolidated Balance Sheet

30 June 2005

	Notes	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited and restated) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	5,417,287	5,097,148
Prepaid land premiums/land lease payments	8	1,052,741	1,035,640
Intangible assets		284,184	298,724
Goodwill:			
Goodwill		130,736	135,637
Negative goodwill		–	(11,004)
Interests in associates		2,118,501	2,118,685
Loans receivable		–	42,650
Other financial assets/long term investments		1,245,754	919,475
Other long term assets		84,277	73,056
Deferred tax assets		294,628	250,078
		10,628,108	9,960,089
CURRENT ASSETS			
Inventories		10,591,034	8,869,509
Trade receivables	9	6,018,166	4,054,559
Loans receivable		79,097	846,906
Discounted bills receivable		166,836	145,360
Bills receivable		713,516	1,061,916
Prepayments, deposits and other receivables		5,154,270	3,780,123
Other financial assets/short term investments		6,544,390	5,228,742
Pledged deposits		1,790,979	1,730,053
Cash and cash equivalents	10	13,325,794	11,433,019
		44,384,082	37,150,187
CURRENT LIABILITIES			
Trade payables	11	4,818,261	3,814,601
Bills payable		342,464	333,737
Tax payable		588,712	332,773
Other payables and accruals		25,191,774	24,441,021
Customer deposits		141,728	749,436
Interest-bearing bank and other borrowings		278,058	649,853
Provisions		454,718	255,237
Repurchase agreements		2,672,600	1,503,800
		34,488,315	32,080,458

	Notes	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited and restated) RMB'000
NET CURRENT ASSETS		9,895,767	5,069,729
TOTAL ASSETS LESS CURRENT LIABILITIES		20,523,875	15,029,818
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		146,285	155,341
Other long term payables		225,326	245,409
Deferred tax liabilities		309,996	297,131
		681,607	697,881
		19,842,268	14,331,937
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Share capital	12	11,891,648	9,189,000
Reserves		2,141,159	(684,376)
		14,032,807	8,504,624
Minority interests		5,809,461	5,827,313
		19,842,268	14,331,937

Mr. Wang Chengming
Director

Mr. Yu Yingui
Director

The accompanying notes form an integral part of the condensed consolidated financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005 (Unaudited) *RMB'000*	2004 (Unaudited) *RMB'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(1,184,084)	3,208,410
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(2,082,764)	(3,249,375)
NET CASH INFLOW FROM FINANCING ACTIVITIES	4,360,425	2,131,854
INCREASE IN CASH AND CASH EQUIVALENTS	1,093,577	2,090,889
Cash and cash equivalents at beginning of period	8,513,903	8,312,204
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,607,480	10,403,093
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	8,050,032	8,800,422
Non-pledged time deposits with original maturity of less than three months when acquired	1,557,448	1,602,671
	9,607,480	10,403,093

The accompanying notes form an integral part of the condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

	Paid-up capital *RMB'000*	Capital reserve *RMB'000*	Contributed surplus *RMB'000*	Statutory surplus reserve *RMB'000*	Accumulated losses *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
As at 1 January 2004	3,279,816	2,216,561	(159,916)	737,909	(1,115,582)	4,952,785	9,911,573
On capitalisation from capital reserve	84,304	(84,304)	–	–	–	–	–
Reversal of paid-up capital of the 17 companies upon establishment of the Company	(2,893,800)	–	2,893,800	–	–	–	–
Capital contribution to the Company upon its establishment	9,010,950	–	(6,257,765)	–	–	–	2,753,185
Adjustments on investment cost of the 17 companies	–	–	36,245	–	–	–	36,245
Arising from capital reduction of a subsidiary	(470,320)	461,292	–	–	–	–	(9,028)
Increase of equity shares in subsidiaries	–	–	–	–	–	(7,892)	(7,892)
Transfer to capital reserve	–	6,228	–	–	(6,228)	–	–
Transfer to statutory surplus reserve	–	–	–	482	(482)	–	–
Profit for the period	–	–	–	–	504,859	444,422	949,281
Dividend to minority shareholders	–	–	–	–	–	(283,380)	(283,380)
Others	–	(1,005)	–	(12,342)	–	–	(13,347)
As at 30 June 2004 (Unaudited)	9,010,950	2,598,772	(3,487,636)	726,049	(617,433)	5,105,935	13,336,637

	Share capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Statutory surplus reserve RMB'000	Retained earnings / (accumulated losses) RMB'000	Minority interests RMB'000	Total RMB'000
As at 1 January 2005							
As previously reported	9,189,000	1,971,418	(3,487,636)	955,008	(123,166)	5,827,313	14,331,937
Adoption of new accounting policy	–	–	–	–	27,940	3,504	31,444
As restated	9,189,000	1,971,418	(3,487,636)	955,008	(95,226)	5,830,817	14,363,381
Capital contribution	2,702,648	1,971,245	–	–	–	–	4,673,893
Capital injection in a subsidiary by a minority shareholder	–	–	–	–	–	8,000	8,000
Reduction of equity shares in a subsidiary	–	–	–	–	–	6,827	6,827
Transfer to accumulated losses	–	(100,000)	–	(6,525)	106,525	–	–
Transfer to capital reserve	–	215	–	–	(215)	–	–
Transfer to statutory surplus reserve	–	–	–	27,876	(27,876)	–	–
Profit for the period	–	–	–	–	826,350	427,673	1,254,023
Dividend to minority shareholders	–	–	–	–	–	(463,856)	(463,856)
As at 30 June 2005 (Unaudited)	11,891,648	3,842,878	(3,487,636)	976,359	809,558	5,809,461	19,842,268

The accompanying notes form an integral part of the condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

30 June 2005

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases
HKAS-Int 15	Operating Leases – Incentives

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 28, 32, 33, 37, 38, 39, 40, HKFRS 2, HK(SIC)-Int 21, HK-Int 4 and HKAS-Int 15 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(b) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained earnings.

The effects of the above changes are reflected in the condensed consolidated statement of changes in equity. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(c) *HKAS 31 – Interests in Joint Ventures*

Upon the adoption of HKAS 31, the Group is allowed to adopt the proportionate consolidation method for investments in jointly-controlled entities. The Group has determined to change the accounting policy for investments in jointly-controlled entities from the equity method to proportionate consolidation. Such change in accounting policy was accounted for retrospectively and involved recognising a proportionate share of the jointly-controlled entities' assets, liabilities, income and expenses into similar items in the condensed consolidated interim financial statement on a line-by-line basis. However, such treatment had no impact on the Group's net profit for the six months ended 30 June 2005 (the "Period") and the net assets as of 30 June 2005.

2. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in the PRC, and over 90% of the Group's assets are located in the PRC.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The following tables present revenue and profit/(loss) on the Group's business segments for the Period:

Six months ended 30 June 2005

	Power equipment (Unaudited) *RMB'000*	Electro-mechanical equipment (Unaudited) *RMB'000*	Transpor-tation equipment (Unaudited) *RMB'000*	Environ-mental systems (Unaudited) *RMB'000*	Others (Unaudited) *RMB'000*	Elimination (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Segment revenue:							
Sales to external customers	8,756,638	5,277,929	1,854,648	328,631	142,376	–	16,360,222
Inter-segment sales	155,992	44,797	–	29,357	854	(231,000)	–
Other revenue	28,560	42,025	15,717	3	105,105	(49)	191,361
Total	8,941,190	5,364,751	1,870,365	357,991	248,335	(231,049)	16,551,583
Segment results	1,078,038	378,746	35,811	857	96,642	(17,506)	1,572,588
Interest and dividend income							167,339
Finance costs							(42,957)
Share of profits and losses of associates	72,647	53,031	3,289	–	–	–	128,967
Impairment of goodwill arising on acquisition of associates	(1,438)	(66,672)	(3,903)	–	–	–	(72,013)
Profit before tax							1,753,924
Tax							(499,901)
Profit for the period							1,254,023
Attributable to:							
Equity holders of the Company							826,350
Minority interests							427,673
							1,254,023

Six months ended 30 June 2004

	Power equipment (Unaudited) *RMB'000*	Electro-mechanical equipment (Unaudited) *RMB'000*	Transpor-tation equipment (Unaudited) *RMB'000*	Environ-mental systems (Unaudited) *RMB'000*	Others (Unaudited) *RMB'000*	Elimination (Unaudited) *RMB'000*	Total (Unaudited) *RMB'000*
Segment revenue:							
Sales to external customers	4,715,381	4,159,198	2,406,846	176,138	123,772	–	11,581,335
Inter-segment sales	148,925	19,658	–	46,307	3,587	(218,477)	–
Other revenue	78,663	44,897	28,959	–	3,633	–	156,152
Total	4,942,969	4,223,753	2,435,805	222,445	130,992	(218,477)	11,737,487
Segment results	417,419	404,924	242,836	(3,437)	(4,886)	(28,622)	1,028,234
Interest and dividend income							113,590
Finance costs							(53,854)
Share of profits and losses of associates	63,216	51,937	(1,643)	–	18,882	–	132,392
Amortisation of goodwill arising on acquisition of associates	–	(11,605)	(107)	–	–	–	(11,712)
Profit before tax							1,208,650
Tax							(259,369)
Profit for the period							949,281
Attributable to:							
Equity holders of the Company							504,859
Minority interests							444,422
							949,281

3. Turnover, Other Revenue and Gains

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered during the Period, net of sale taxes and surcharges.

There is no major seasonality for the Group's turnover. An analysis of the Group's turnover, other revenue and gains is as follows:

	For the six months ended 30 June	
	2005 (Unaudited) *RMB'000*	2004 (Unaudited) *RMB'000*
Turnover		
Sales of goods	15,825,289	11,154,851
Rendering of services	534,933	426,484
	16,360,222	11,581,335
Other revenue		
Dividend income from investments	3,528	1,026
Interest income	163,811	112,564
Gross rental income	25,109	29,116
Gains on sales of raw materials, spare parts and semi-finished goods	–	23,781
Subsidy income	8,735	2,321
Forfeiture of purchase deposits from customers	1,820	–
Compensation income	21,079	16,595
Gain from debt restructuring	–	2,936
Others	56,257	64,452
	280,339	252,791
Gains		
Gain on disposal of property, plant and equipment	9,228	8,859
Gain on disposal of current portion of other financial assets/short term investments	55,805	7,974
Gain on disposal of non-current portion of other financial assets/long term investments	5,159	118
Exchange gains, net	8,169	–
	78,361	16,951
Total	358,700	269,742

4. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2005 (Unaudited) *RMB'000*	2004 (Unaudited) *RMB'000*
Cost of inventories sold	12,708,855	8,726,243
Cost of services provided	403,131	324,202
Depreciation	309,459	250,729
Amortisation of patents and licences	11,725	10,692
Amortisation of other intangible assets	266	720
Provision for inventories	28,167	28,783
Research and development costs:		
Amortisation of technology know-how	12,699	11,168
Current period expenditure	62,639	37,578
	75,338	48,746
Goodwill:		
Amortisation for the period	–	17,047
Write-off/impairment arising during the period	76,916	–
	76,916	17,047
Minimum lease payments under operating leases in respect of land and buildings	45,372	31,036
Auditors' remuneration	15,126	4,183
Staff costs	1,265,160	990,076
Losses on sales of raw materials, spare parts and semi-finished goods	15,428	–
Exchange losses, net	–	3,741
Provision for bad and doubtful receivables	29,404	59,937
Product warranty provisions:		
Additional provisions	56,645	35,598
Amounts utilised	(34,333)	(14,828)
Provision for impairment of property, plant and equipment	825	15,530
Onerous contract provisions:		
Additional provisions	172,579	–
Amounts utilised	–	–
Net rental income	(17,721)	(25,586)

5. Tax

Except for the following companies, the Group is subject to the statutory corporate income tax rate at 33% for the Period under the income tax rules and regulations of the PRC:

- Shanghai Mechanical and Electrical Industry Co., Ltd., Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd., Shanghai Electric Group Printing and Packaging Machinery Co., Ltd. and Shanghai Pudong "EV" Fuel Injection Co., Ltd. are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai.

- Shanghai Diesel Engine Co., Ltd., Shanghai Power Equipment Co., Ltd. and Shanghai Alstom Transport Co., Ltd. are subject to a corporate income tax rate of 27% as they are located in the coastal economic and technology development area and special economic region with foreign investment in production business in the old city area.

- Shanghai Mitsubishi Elevator Co., Ltd. is subject to a corporate income tax rate of 15% as it is registered in the Shanghai Minhang Economic and Technological Development Zone with foreign investment in production business.

- Shanghai Electrical Automation D&R Institute Co., Ltd. was entitled to full exemption of corporate income tax in the Period as it was established as a local research institute.

In addition, foreign investment manufacturing enterprises are exempt from PRC State corporate income tax for two years starting from the first year they make assessable profits, after deducting the tax losses carried forward, and are granted a 50% reduction in tax for three years thereafter. Enterprises assessed as "Hi-tech company" are entitled to an extended period of tax deduction. During the Period, certain of the Group companies were entitled to such tax concessions.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the Period.

Major components of tax expense for the Period are as follows:

	For the six months ended 30 June	
	2005 (Unaudited) *RMB'000*	2004 (Unaudited) *RMB'000*
Group:		
Current – PRC		
Charge for the Period	525,323	252,457
Deferred	(25,422)	6,912
Tax charge for the Period	499,901	259,369

Share of tax attributable to associates amounting to RMB40,787,000 (six months ended 30 June 2004: RMB32,279,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entities are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	For the six months ended 30 June	
	2005 (Unaudited) *RMB'000*	2004 (Unaudited) *RMB'000*
Profit before tax	1,753,924	1,208,650
Tax at the statutory tax rate of 33%	578,795	398,855
Lower tax rate for specific provinces/districts or concessions	(111,866)	(146,098)
Income not subject to tax	(24,021)	(37,738)
Expenses not deductible for tax	80,470	50,542
Tax incentives on eligible expenditures	(18,530)	(917)
Tax losses utilised	(4,947)	(5,275)
The Group's effective income tax rate of 28.5% for the Period (six months ended 30 June 2004: 21.5%)	499,901	259,369

6. Earnings Per Share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company for the Period of RMB826,350,000 (six months ended 30 June 2004: RMB504,859,000) and the weighted average number of shares of 10,129,701,000 (number of shares of 9,189,000,000, representing the number of shares of the Company outstanding immediately before the Global offering, is adopted for the six months ended 30 June 2004 on the assumption that it had been in issue throughout that period) in issue during the Period.

No diluted earnings per share is presented as no diluting events occurred.

7. Dividend

The directors do not recommend the payment of an interim dividend (six months ended 30 June 2004: Nil).

8. Property, Plant and Equipment and Prepaid Land Premiums/Land Lease Payments

As at 30 June 2005, the Group has not obtained land use certificates or real estate certificate for 9 parcels of land with a total gross area of approximately 0.3 million square metres and net book value of RMB15,067,000 (31 December 2004: 9 parcels of land with a total gross area of approximately 0.3 million square metres and net book value of RMB15,215,000) and building ownership certificates for 156 buildings with a total gross area of approximately 0.1 million square metres and net book value of RMB104,619,000 (31 December 2004: 209 buildings with a total gross area of approximately 0.2 million square metres and net book value of RMB141,700,000).

Besides, the Group is in the process of applying for the land use certificates or real estate certificate for 2 parcels of new land with a total gross area of approximately 0.1 million square metres and net book value of RMB1,563,000 and building ownership certificates for 8 new buildings with a total gross area of approximately 0.1 million square metres and net book value of RMB101,523,000 as at 30 June 2005.

9. Trade Receivables

An ageing analysis of the trade receivables based on invoice date, and net of provision for bad and doubtful debts, is as follows:

	30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited and restated) *RMB'000*
Within 3 months	2,773,413	1,259,995
Over 3 months but within 6 months	945,729	1,017,200
Over 6 months but within 1 year	1,091,507	874,804
Over 1 year but within 2 years	934,753	655,985
Over 2 years but within 3 years	233,392	214,679
Over 3 years	39,372	31,896
	6,018,166	4,054,559

For sales of large-scale products, deposits and progress payments are required from customers. Retention money is calculated mainly at 5% to 10% of total sales value and with retention periods of one to two years.

For other sales, the Group's trading terms with 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 three months and may extend to six months for key customers.

10. Cash and Cash Equivalents

As at 30 June 2005, the Group's cash and cash equivalents included cash at bank of HKD4,288,688,000 equivalent to RMB4,567,024,000; USD32,662,000 equivalent to RMB270,323,000; and other foreign currencies equivalent to RMB97,877,000.

11. Trade Payables

An ageing analysis of trade payables, based on invoice dates, is as follows:

	30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited and restated) *RMB'000*
Within 3 months	4,189,281	3,179,044
Over 3 months but within 6 months	296,124	306,315
Over 6 months but within 1 year	159,366	158,243
Over 1 year but within 2 years	67,575	76,209
Over 2 years but within 3 years	31,642	14,039
Over 3 years	74,273	80,751
	4,818,261	3,814,601

12. Share Capital

	30 June 2005 (Unaudited)		31 December 2004 (Audited)	
	Number of shares *'000*	Amount *RMB'000*	Number of shares *'000*	Amount *RMB'000*
Registered, issued and fully paid:				
Domestic Shares of RMB1.00 each, currently not listed				
– State-owned Shares	6,624,279	6,624,279	6,894,543	6,894,543
– Other Legal Person Shares	2,294,457	2,294,457	2,294,457	2,294,457
H Shares of RMB1.00 each	2,972,912	2,972,912	–	–
	11,891,648	11,891,648	9,189,000	9,189,000

The Domestic Shares are currently not listed on any stock exchange.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

The Company's H Shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 April 2005.

Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares in Raising the Social Security Fund", 270,264,000 State-owned Shares of the Company were converted into 270,264,000 Sale H Shares and the sales proceeds therefore are payable to the National Social Security Fund (the "NSSF").

2,972,912,000 H Shares of the Company, representing 2,702,648,000 New H Shares and 270,264,000 Sale H Shares, were listed on the Stock Exchange on 28 April 2005. These H Shares with a nominal value of RMB1.00 each were issued to the public by way of Global Offering at a price of HKD1.70 per share. After deducting net proceeds from the sale of the 270,264,000 Sale H Shares, which are payable to NSSF as explained above, and the share issue expenses totalling approximately RMB705,516,000, the Company raised net proceeds of approximately RMB4,673,893,000, of which issued capital amounted to RMB2,702,648,000 and capital reserve amounted to RMB1,971,245,000.

13. Ultimate Holding Company

In the opinion of the directors, the ultimate holding company of the Company is Shanghai Electric (Group) Corporation ("SEC"), a state-owned enterprise established in the PRC.

14. Operating Lease Commitments

(a) As Lessor

As at 30 June 2005, the Group had total future minimum rental receivable in respect of buildings, plant and machinery under non-cancellable operating leases falling due as follows:

	30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited) *RMB'000*
Within one year	24,669	21,949
In the second to fifth years, inclusive	64,433	66,674
After five years	107,228	110,027
	196,330	198,650

(b) As Lessee

As at 30 June 2005, the Group had total future minimum rental payable in respect of buildings, plant and machinery under non-cancellable operating leases as follows:

	30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited) *RMB'000*
Within one year	23,612	31,241
In the second to fifth years, inclusive	29,126	44,236
After five years	40,649	47,286
	93,387	122,763

15. Commitments and Contingent Liabilities

In addition to the operating lease commitments detailed above, the Group had the following commitments and contingent liabilities as at 30 June 2005:

(a) *Capital Commitments*

	30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited) *RMB'000*
Contracted, but not provided for:		
In respect of the acquisition of:		
– land and buildings	220,285	137,055
– plant and machinery	645,434	230,513
– intangible assets	–	23,312
In respect of capital contribution to:		
– jointly-controlled entities	–	10,180
– an associate	103,956	101,545
Others	–	990
	969,675	503,595
Authorised, but not contracted for:		
In respect of the acquisition of:		
– land and buildings	9,000	105,533
– plant and machinery	1,125,114	683,143
– intangible assets	15,192	–
	1,149,306	788,676
	2,118,981	1,292,271

(b) Contingent Liabilities

		30 June 2005 (Unaudited) *RMB'000*	31 December 2004 (Audited) *RMB'000*
(i)	Bills discounted with recourse	45,982	52,410
	Guarantees given to banks in connection with banking facilities granted to and utilised by:		
	– ultimate holding company	28,139	28,139
	– jointly-controlled entities	98,500	78,500
	– associates	73,960	129,952
	– SEC group companies *	214,026	351,680
		414,625	588,271

* SEC group companies are defined as the Group's related companies over which SEC is able to exert control or significant influence.

(ii) As of 30 June 2005, in respect of the claim filed by a customer (the "Plaintiff") of a subsidiary of the Group for damages and related litigation costs totalling USD2.5 million arising from the allegedly defective products and/or negligence in repairs, which has been disclosed in the Company's financial statements for the year ended 31 December 2004, the Plaintiff has not yet taken any further action against the Company's subsidiary.

16. Related Party Transactions

The Group had the following material transactions with related parties during the Period:

(a) *Recurring*

	Notes	For the six months ended 30 June 2005 (Unaudited) *RMB'000*	2004 (Unaudited) *RMB'000*
Purchase of materials from:	*(i)*		
Associates		245,231	148,154
SEC group companies		396,812	167,812
Other related companies		74,633	2,557
		716,676	318,523
Sales of goods to:	*(i)*		
Ultimate holding company		37,110	229,631
Associates		80,432	177,314
SEC group companies		113,091	218,067
Other related companies		12,282	15,701
		242,915	640,713
Interest expense:	*(ii)*		
Jointly-controlled entities		112	–
Associates		300	–
Other related companies		255	–
		667	–
Purchase of manpower services:	*(i)*		
Associates		25,709	14,810
Other related companies		15,079	4,167
		40,788	18,977
Rental income:	*(iii)*		
Associates		6,905	3,229
Other related companies		160	–
		7,065	3,229
Rental fee:	*(iii)*		
Ultimate holding company		19,884	–
SEC group companies		1,894	1,575
		21,778	1,575

	Notes	For the six months ended 30 June 2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Interest income:	*(ii)*		
Jointly-controlled entities		3,280	–
Associates		236	–
Other related companies		6,255	–
		9,771	–
Sales of scraps and spare parts:	*(i)*		
Associates		6,238	5,309
SEC group companies		808	666
		7,046	5,975
Provision of manpower services:	*(i)*		
Ultimate holding company		9,815	6,915
Associates		25,458	15,731
Other related companies		356	158
		35,629	22,804

Notes:

(i) Sales and purchases were conducted in accordance with mutually agreed terms and, in the opinion of the directors, were conducted in the ordinary course of business.

(ii) Interest income and interest expenses were based on mutually agreed terms with reference to the market rate.

(iii) Rental income and rental fee were based on mutually agreed terms with reference to the market rate.

(b) Non-recurring

During the Period, the Group effected the following transactions:

(i) entered into an agreement for purchase of a property from 上海印刷包裝機械總公司 for a cash consideration of RMB33,896,000. Up to the date of this report, the legal procedures in relation to this transaction are still in progress.

(ii) purchased a production line from an associate for a cash consideration of RMB26,830,000.

(c) Guarantees Provided to Related Companies of the Group

As at 30 June 2005, the Group has provided corporate guarantees totalling RMB414,625,000 (31 December 2004: RMB588,271,000) to related companies.

(d) *Interest Income and Expenses from/to Shanghai Electric Group Finance Co., Ltd. (the "Finance Company")*

On 30 June 2004, the Group increased its equity interest in the Finance Company from 39.32% to 77.25% through further capital injection (the "Capital Injection") in the Finance Company, which became a subsidiary of the Group since 1 July 2004.

Before the Capital Injection, the Finance Company was an associate of the Group. The Group's interest expense in connection with the loans from this associate were RMB9,741,000 for the six months ended 30 June 2004. The Group's interest income in connection with the deposits placed with the Finance Company were RMB51,282,000 for the six months ended 30 June 2004.

After the Capital Injection, the Finance Company became a subsidiary of the Group. The Group's interest expense in connection with the deposits placed by the ultimate holding company and SEC group companies with the Finance Company was RMB2,286,000 for the Period. The Group's interest income in connection with the loans by the Finance Company to the ultimate holding company and SEC group companies was RMB12,930,000 for the Period.

After the Company's listing on the Stock Exchange, the Finance Company no longer has interest income and expenses transactions with SEC and the SEC group companies.

(e) *Compensation of Key Management Personnel of the Group*

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Short term employee benefits	32	14
Post-employment benefits	17	7
	49	21

(f) *Post-employment Benefit Plan*

During the Period, the Group made the payment for the post-employment benefit plan with amount of RMB132,713,000 (Six months ended 30 June 2004: RMB120,229,000).

17. Post Balance Sheet Events

On 3 August 2005, the board of directors of a subsidiary of the Group approved the application for the issuance of short-term debentures with amount not exceeding 40% of the subsidiary's net assets as at 31 December 2004. To date, the application is still in progress.

Subsequent to the balance sheet date, the Group incorporated a wholly own subsidiary with a registered capital of RMB300,000,000. The principal activities of this subsidiary are the manufacture and design of heavy machinery equipment and the provision of relative technical, leasing and consulting services.

18. Comparative Amounts

As explained in note 1 to the condensed consolidated financial statements, due to the adoption of new and revised HKFRSs during the Period, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

19. Approval of the Interim Financial Report

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 26 August 2005.