



Shanghai Electric Group Company Limited

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

2006 Interim Report

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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

Joint Company Secretaries

Mr. Yao Wenjun

Mr. Li Chung Kwong, Andrew (FCCA, FCPA)

(Appointed with effect from 30 June 2006)

Ms Seng Sze Ka Mee Natalia

(Resigned with effect from 30 June 2006)

Authorized Representatives

Mr. Huang Dinan

(Appointed with effect from 15 March 2006)

Mr. Han Guozhang

(Resigned with effect from 15 March 2006)

Mr. Yu Yingui

(Appointed with effect from 18 August 2006)

Mr. Wang Chengming

(Resigned with effect from 18 August 2006)

Alternative Authorized Representatives

Dr. Cheung Wai Bun

Mrs. Seng Sze Ka Mee Natalia

Qualified Accountant

Mr. Li Chung Kwong, Andrew (FCCA, FCPA)

Auditors

Ernst & Young (International auditor)

Ernst & Young Da Hua (PRC auditor)

Legal Advisers

Freshfields Bruckhaus Deringer

(As to Hong Kong law and U.S. law)

Anderson Mori & Tomotsune

(As to Japanese Law)

Jun He Law Offices

(As to PRC Law)

Compliance Adviser

Goldbond Capital (Asia) Limited

Stock Exchange on which H Shares are listed:

Main Board of 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

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Performance Highlights

- Revenue for the first half of 2006 was RMB 21,195 million, representing an increase of 29.6% over the corresponding period last year
- Profit attributable to equity holders of the parent for the first half of 2006 was RMB 1,173 million, representing an increase of 42.0% over the corresponding period last year
- Basic earnings per share was RMB 9.87 cents
- Successfully secured the following major contracts during the period:
 - (1) 3 large scale domestic contracts with total value of RMB6.58 billion for supply of 1,000 MW coal-fired equipment and for 600 MW EPC projects.
 - (2) an overseas contract of USD193 million for the provision of two sets of 300 MW coal-fired power generation equipment to Jindal, India
 - (3) an overseas power transmission and distribution EPC contract of RMB415 million for supply of 5 substations of 220kV each to Sudan
 - (4) an overseas contract of USD9.32 million for supply of 20 ship-use crankshafts to South Korea
 - (5) a domestic contract for supply of 48 metropolitan railcars

Chairman's Statement

Dear shareholders,

The Board of Directors of Shanghai Electric Group Company Limited (the "Company") is delighted to present the interim results of the Company and its subsidiaries (the "Group") for the six-month period ended 30 June 2006. The interim results of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong. They have not been audited but have been reviewed by Audit Committee of the Company.

Review of Operations

Revenue for the first half of 2006 was RMB 21,195 million (1H05: RMB16,360 million), an increase of 29.6% over the same period last year. Profit attributable to equity holders of the parent was RMB1,173 million (1H05: RMB826 million), an increase of 42.0% over the same period last year. Basic earnings per share was RMB 9.87 cents (1H05: RMB8.16 cents).

As at 30 June 2006, total assets of the Group were RMB 59,002 million (2005: RMB55,165 million) while total liabilities amounted to RMB 37,130 million (2005: RMB33,979 million). Total shareholders' equity was RMB 21,873 million (2005: RMB21,186 million), of which RMB15,564 million (2005: RMB14,880 million) was attributable to the equity holders of the parent. Net asset value (attributable to equity holders of the parent) per share was RMB 1.31, an increase of RMB0.06 per share compared to the beginning of the year.

Prospects

In the first half of the year, the State Council issued the *Several Opinions on Accelerating the Revitalization of Equipment Manufacturing Industry*, which reaffirmed its position outlined in the 11th Five-Year Plan to foster competitive large-scale equipment manufacturing giants through implementation of preferential policies. Taking advantage of Shanghai's strategic location and human resources, the Group will aspire to be a competitive industrial conglomerate and further increase our profitability through unwavering input of innovative technology in equipment manufacturing.

Power Equipment Division

During the first half of 2006, the Group received new orders for the provision of power generation equipment with a total capacity of approximately 10,000 MW (including EPC projects). As at 30 June 2006, the total outstanding orders for power generation equipment remained at a capacity of over 70,000 MW. We will continue expanding both our markets and manufacturing capacities in power generation equipment of 1,000 MW nuclear power, 1,000 MW thermal power as well as for power plant EPC projects, power plant equipment services, and wind power equipment. The purchase of 100% of the equity interests in Shanghai Relay Works Co.,Ltd early this year extends our supply chain in the power transmission and distribution business. Meanwhile, according to its 11th Five-Year Plan, the budget set by the PRC government for the construction of power transmission and distribution network for the period 2006-2010 is RMB1,100 billion, an all-time high figure representing a golden opportunity for growth of our power transmission and distribution business. In this connection, for the second half of 2006 and the next few years, our power equipment division will continue to be the core business division of the Group in terms of contribution in sales and operating profits to the Group.

Electromechanical Equipment Division

With the completion of the acquisition of Shanghai Ship-use Crankshaft Co.,Ltd, Magine Machine Tool Co.,Ltd, SMAC Werkzeugmaschine GmbH and Japan Ikegai Corporation in the first half of 2006, the Group has further strengthened the overall capability of this business division. With respect to different characteristics and developmental trends of a variety of businesses in this division, the Group has set forth the following strategic targets:

- Elevator : maintain our leading position in the domestic market by further expanding our business into high-end products and after-sales services;
- Heavy machinery : become a global supplier of large-scale marine casting and forging items, large-scale marine crankshafts in a golden market where demand continues to outstrip supply;
- Printing equipment : maintain our leading position in the domestic market and increase our global competitiveness; and
- Machine tool : become gradually a major domestic supplier of high-end machine tools through integration of relevant assets and resources within the Group and continuous improvement of R&D capability.

Transportation Equipment Division

Our diesel engine business will strive to become a top-notch domestic player in the areas of product adaptability, reliability, technological advancement, value-for-money, and service quality.

The outlook of our metropolitan rail transportation equipment business remains positive as it continues to benefit from the strong demand resulted from extensive metropolitan rail construction plans in Shanghai and in the PRC.

Environmental Systems Division

The Group will continue our expansion in desulphurization and denitration systems, and gas treatment systems for small and medium power generators; maintain the fast growth trend of photovoltaic cell business; and build up company reputation and expand our business in engineering works for environmental projects based on experiences accumulated from EPC projects in environmental systems.

The Group has full confidence in our future, as we continue to create value for our shareholders with untiring efforts. Together, we share the fruits of solid growth.

Executive Director and President

Huang Dinan

18 August 2006 Shanghai, China

Management Discussion and Analysis

The Group achieved further growth in its operating results in the first half of 2006. The increase in profits was mainly attributable to the growth of our Power Equipment Division, which accounted for 69.8% of the Group's operating profit for this interim period. Meanwhile, our Electromechanical Equipment Division, Environmental Systems Division and Financial Business Division experienced growth in business as compared to same period last year as well. Influenced by the implementation of macro-economic control measures by the PRC government last year, market demand in certain sectors remained relatively weak during the interim period. Sales of certain products, such as diesel engines, decreased consequently, resulting in a drop in sales and operating profit of our Transportation Equipment Division.

Business Review of Major Divisions

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

(in RMB million)	Revenue		Operating profit	
	for the six months ended 30 June		for the six months ended 30 June	
	2006	2005	2006	2005
Power Equipment	13,054	8,913	1,492	1,210
<i>Percentage of total</i>	61.6%	54.5%	69.8%	69.5%
Electromechanical Equipment	6,106	5,323	519	408
<i>Percentage of total</i>	28.8%	32.5%	24.3%	23.4%
Transportation Equipment	1,639	1,854	13	43
<i>Percentage of total</i>	7.7%	11.3%	0.6%	2.5%
Environmental Systems	754	357	25	1
<i>Percentage of total</i>	3.6%	2.2%	1.2%	0.1%
Financial business	-	-	244	208
<i>Percentage of total</i>	-	-	11.4%	12.0%
Other businesses*	151	144	700	373
<i>Percentage of total</i>	0.7%	0.9%	32.8%	21.4%
Consolidation adjustment and elimination	(509)	(231)	(857)	(503)
<i>Percentage of total</i>	(2.4%)	(1.4%)	(40.1%)	(28.9%)
Total	21,195	16,360	2,136	1,740

*Included in operating profit of other business was dividend income of RMB763 million(1H05: RMB383 million) from the Company's subsidiaries, which has been eliminated by consolidation adjustment and elimination.

Power Equipment Division

To cope with the robust market demand for power equipment in PRC during the first half of 2006, the Group has made elaborate efforts to integrate operation and has achieved initial success. During the period under review, we have completed orders for power generation equipment with a total capacity of over 14,520 MW. Total turnover of the Power Equipment Division amounted to RMB13,054 million (1H05: RMB8,913 million), representing a rise of 46.5% over the corresponding period last year. Operating profit was RMB1,492 million (1H05: RMB1,210 million), representing an increase of 23.3% over the corresponding period last year.

The Group will strive to develop new systems to upgrade product capability and quality and by then build up company reputation. We will also upgrade our power plant equipment, improve after-sales service and expand our business areas. To meet the strong market demand for electricity in Southeast Asia, the Group is exploring opportunities in these overseas markets in pursuit of continuous positive growth of our Power Equipment Division.

Electromechanical Equipment Division

During the first half of 2006, turnover and operating profit of our Electromechanical Equipment Division increased by 14.7% and 27.2% respectively as compared to that for the first half of 2005, primarily due to the increase in sales of heavy machinery and machine tools.

Transportation Equipment Division

During the first half of 2006, turnover and operating profit of the Transportation Equipment Division decreased by 11.6% and 69.8% respectively as compared to the same period last year. This was mainly attributable to the decrease in the sales of diesel engines and in gross margin. The Group will endeavour to raise its competitiveness through diesel engine market differential strategy, exploration into high-end product market and broadening of sales channels. Following the scheduled delivery of railcars in the second half of the year, operating profit of this division is expected to increase.

Environmental Systems Division

During the first half of 2006, turnover and operating profit of the Environmental Systems Division increased by 111.2% and 2,400.0% respectively as compared to the corresponding period last year, this is mainly due to expansion of our solar energy business.

Financial Business Division

During the first half of 2006, operating profit of the Financial Business Division increased by 17.3% as compared to the corresponding period last year, primarily due to further centralization of company funds and management consolidation, which brought forth an increase in the return on investment.

Share of Profits and Losses of Associates

During the first half of 2006, share of profits and losses of associates was RMB155 million (1H05: RMB129 million). The increase over the corresponding period last year was mainly due to the advancement in operating results of the associated companies of our Power Equipment Division.

Profit Attributable to Equity Holders of the Parent

As a result of the foregoing, profit attributable to equity holders of the parent for the first half of 2006 increased by 42.0% from the last corresponding period to RMB1,173 million (1H05: RMB826 million). Earnings per share for the period were RMB9.87 cents (1H05: RMB8.16 cents).

Cash Flow

As at 30 June 2006, the Group had cash and bank balances of RMB10,492 million, representing a decrease of RMB2,476 million from the beginning of the period. During the period, the Group had net cash outflow from operating activities of RMB1,070 million, net cash inflow from investing activities of RMB885 million, and net cash outflow from financing activities of RMB837 million.

Assets and Liabilities

As at 30 June 2006, the Group has total assets of RMB59,002 million (2005: RMB55,165 million), an increase of RMB3,837 million, or 7.0%, compared with the beginning of the year. Total current assets increased by RMB2,134 million from the beginning of the year to RMB45,997 million (2005: RMB43,863 million), accounting for 78.0% of the total assets. Total non-current assets were RMB13,005 million (2005: RMB11,302 million), representing an increase of RMB1,703 million from the beginning of the year and accounting for 22.0% of the total assets.

As at 30 June 2006, total liabilities of the Group were RMB37,130 million (2005: RMB33,979 million), which represented an increase of 9.3% compared with the beginning of the year. Total current liabilities increased by RMB3,030 million from the beginning of the year to RMB36,292 million (2005: RMB33,262 million), whereas total non-current liabilities increased by RMB121 million from the beginning of the year to RMB838 million (2005: RMB717 million).

As at 30 June 2006, total net current assets of the Group was RMB9,705 million (2005: RMB10,601 million), representing a decrease of RMB896 million from the beginning of the year.

Source of Funding and Indebtedness

As at 30 June 2006, the Group had aggregate bank and other borrowings of RMB1,084 million (2005: RMB1,001 million), an increase of RMB83 million from the beginning of the year. Borrowings repayable within one year and after one year were RMB980 million and RMB104 million respectively, which represented an increase of RMB48 million and RMB35 million compared with the beginning of the year, respectively.

As of 30 June 2006, all bank and other borrowings of the Group were interest-bearing at fixed rates and denominated in RMB.

Finance Costs

Finance costs for the first half of 2006 were RMB41 million (1H05: RMB43 million), representing a slight decrease over the same period of last year.

Pledge of Assets

As at 30 June 2006, bank deposits of RMB1,750million (2005: RMB1,313 million) 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 RMB198 million as at 30 June 2006 (2005: RMB153 million). Save as the above, the Group has made no further pledge of assets in the first half of 2006.

Gearing Ratio

As at 30 June 2006, the gearing ratio of the Group, which represents the ratio of interest-bearing bank and other borrowings and debentures to total shareholders' equity plus interest-bearing bank and other borrowings and debentures was 4.7%, a slight increase from 4.5% in the beginning of the year.

Contingent Liabilities

For details please refer to Note 16(b) to the Condensed Consolidated Financial Statements.

Capital Commitments

For details please refer to Note 16(a) to the Condensed Consolidated Financial Statements.

Capital Expenditure

Total capital expenditure of the Group for the period was approximately RMB1,388 million(1H05: RMB 601 million), principally applied for upgrading of technologies and production equipment.

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 2006, bank deposits of the Group included HK\$1,411 million, US\$22 million, JP¥1,807 million and other foreign currencies equivalent to RMB47 million in total. Apart from this, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Progress on Acquisition of Parent Company's Businesses

During the report period, the total cash investments made by the Group for significant acquisitions of the parent company's businesses amounted to RMB 497 million. The businesses acquired included 50.88% of the equity interest in Shanghai Ship-use Crankshaft Co., Ltd, 100% of the equity interest in Shanghai Magine Machine Tool Co., Ltd, 100% of the equity interest in Shanghai Relay Works Co., Ltd, 65% of the equity interest in Japan Ikegai Corporation, 100% of the equity interest in SMAC Werkzeugmaschine GmbH and 100% of equity interest in Shanghai Rail Traffic Equipment Engineering Co., Ltd.

An extraordinary general meeting of shareholders was convened on 27 March 2006 and the above acquisitions have been approved and completed.

Other Significant Events

During the report period, the Group won 3 large-scale domestic contracts with total value of RMB6.58 billion for the supply of 1,000 MW coal-fired power generation equipment and for 600 MW EPC Projects. In addition, the Group obtained overseas contracts valued at US\$193 million in respect of two sets of 300MW coal-fired power generation equipment for India, at RMB415 million in respect of an overseas power transmission and distribution EPC contract for the supply of 5 substations of 220kV each in Sudan, and at US\$9.32 million in respect of an order of 20 ship-use crankshafts to South Korea. The Group also obtained a domestic contract for the supply of 48 metropolitan railcars.

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

Employees

As at 30 June 2006, the Group had approximately 30,000 employees (2005: 30,000). 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

Disclosure of Interests

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 30 June 2006, the following persons (other than the directors, supervisors and chief executives 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"):

- 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 H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total number of 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

- Interests and short positions of other substantial shareholders

Name of Substantial Shareholder	H/ Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total number of shares in issue (%)
Fuxi Investment Holding Co.,Ltd	D	Beneficial owner	2	968,768,703	Long position	10.86	8.15
Guangdong Zhujiang Investment Co.,Ltd	D	Beneficial owner	3	917,778,942	Long position	10.29	7.72
Guangdong Hanjiang Building and Installation Co.,Ltd	D	Interest of controlled corporations	3	917,778,942	Long position	10.29	7.72
Zhu Qingyi	D	Interest of controlled corporations	3	917,778,942	Long position	10.29	7.72

Name of Substantial Shareholder	H/ Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue(%)	Percentage of total number of shares in issue(%)
Shenergy Group	D	Beneficial owner	1	489,892,122	Long position	5.49	4.12
Deutsche Bank Aktiengesellschaft	H	Beneficial owner		1,318,195	Long position	0.04	0.01
		Investment manager	4	389,002,193	Long position	13.08	3.27
		Persons having a security interest in shares		5,662,000	Long position	0.19	0.05
		Total long position		395,982,388		13.32	3.33
		Beneficial owner		122,195	Short position	0.004	0.001
		Persons having a security interest in shares		24,000	Short position	0.001	0.000
		Total short position		146,195		0.005	0.001
		UBS AG	H	Beneficial owner		67,412,500	Long position
Persons having a security interest in shares				772,000	Long position	0.03	0.00
Interest of controlled corporations	5			225,664,200	Long position	7.59	1.90
Total long position				293,848,700		9.88	2.47
Beneficial owner				1,550,000	Short position	0.05	0.01
Lloyd George Investment Management (Bermuda) Ltd	H	Investment manager		238,204,000	Long position	8.01	2.00
Government of Singapore Investment Corporation Pte Ltd	H	Investment manager		184,507,099	Long position	6.21	1.55
JPMorgan Chase & Co.	H	Beneficial owner	6	7,088,000	Long position	0.24	0.06
		Investment manager	6	858,000	Long position	0.03	0.01
		Custodian	6	143,982,000	Long position	4.84	1.21
		Total long position		151,928,800		5.11	1.28
Siemens International Holding B.V.	H	Beneficial owner	7	148,646,000	Long position	5.00	1.25
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporations	7	148,646,000	Long position	5.00	1.25

Name of Substantial Shareholder	H/ Domestic ("D") shares	Capacity	Notes	No. of H/D Shares	Nature of interest	Percentage of total number of H/D Shares in issue(%)	Percentage of total number of shares in issue(%)
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporations	7	148,646,000	Long position	5.00	1.25
Siemens Aktiengesellschaft	H	Interest of controlled corporations	7	148,646,000	Long position	5.00	1.25

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) Fuxi Investment Holding Co., Ltd, holding 968,768,703 shares of the Company, is owned as to 60% by Mr. Zhang Rongkun, non-executive director (resigned with effect from 18 August 2006) of the Company.
- (3) Guangdong Zhujiang Investment Co., Ltd, holding 917,778,942 shares of the Company, was owned as to 70% by Guangdong Hanjiang Building and Installation Co.,Ltd., which in turn was owned as to 90% by Zhu Qingyi. The interest in 917,778,942 shares relates to the same block of shares in the Company.
- (4) Deutsche Bank Aktiengesellschaft was interested in 389,002,193 shares of the Company by virtue of the 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 Management Inc.	100	1,309,500
Deutsche Investment Management Americas Inc.	100	37,472,300
Deutsche Bank Trust Company Americas	100	7,106,500
Deutsche Bank International Limited	100	1,025,893
DWS (Austria) Investmentgesellschaft GmbH	100	1,000,000
Deutsche Asset Management Investmentgesellschaft GmbH	100	3,510,000
Deutsche Asset Management Schweiz	100	430,000
DWS Investment GmbH	100	283,508,000
Deutsche Vermögensbildungsgesellschaft mit beschränkter Haftung	100	4,000,000
DWS Investment S.A., Luxemburg	100	43,240,000
DWS Investments Italy SGR S.p.A.	94	6,400,000

- (5) UBS AG held 225,664,200 shares of the Company by virtue of the 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	13,940,700
UBS Global Asset Management (Americas) Inc	100	13,924,800
UBS Global Asset Management (Canada) Co.	100	1,547,100
UBS Global Asset Management (Hong Kong) Limited	100	590,200
UBS Global Asset Management (Japan) Ltd	100	22,532,300
UBS Global Asset Management (Singapore) Ltd	100	68,206,000
UBS Global Asset Management (UK) Limited	100	64,948,200
UBS Global Asset Management (Switzerland) AG	100	39,974,900

- (6) JPMorgan Chase & Co. held a long position in 151,928,800 shares of the Company by virtue of the 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
JP Morgan Chase Bank, N.A.	100	143,982,800
J.P. Morgan Whitefriars Inc.	100	5,088,000
JF Asset Management Limited	100	858,000
J.P. Morgan Securities Ltd.	98.95	2,000,000

The interests of JPMorgan Chase & Co. included a lending pool of 143,982,800 shares.

- (7) Siemens International Holding 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 respectively. The interest in 148,646,000 shares relates to the same block of shares in the Company.

Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2006 as recorded in the register required to be kept by the Company pursuant to Section 366 of the SFO.

Directors' and Supervisors' Interests and Short Positions and underlying shares:

As at 30 June 2006, Mr. Zhang Rongkun, Non-executive director (resigned with effect from 18 August 2006) of the Company, was interested in the Company by virtue of his control over 60% shareholding of Fuxi Investment Holding Co., Ltd., which held a direct interest in 968,768,703 shares in the Company. Save as disclosed above, 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, or otherwise required to be notified by the directors or supervisors or chief executives to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors. During the six months period ended 30 June 2006, none of the directors, supervisors or chief executives of the Company or their respective associates were 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 2006, 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. For the first half of 2006, the duties of the Chief Executive Officer and the Chairman of the Board have been carried out by the same individual person. 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 the Articles of Association of the Company, the extraordinary general meeting of shareholders approved the terms of reference of the Audit Committee on 27 March 2006.

Remuneration Committee

The Board of Directors established a Remuneration Committee which comprises Mr. Wang Qiang, Mr. Yao Fusheng and

Mr. Lei Huai Chin on 29 June 2005. Pursuant to the Articles of Association of the Company, the extraordinary general meeting of shareholders approved the terms of reference of the Remuneration Committee on 27 March 2006.

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 on 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.

Disclosure of Information and Investor Relations

The Company recognizes the importance of good communications with its investors. Requests for meetings and factory visits from investors have been handled with great care by our investor relations team upon receipt. To help investors' further understanding of the Company's various strategies and plans for future development, we attend investor relations conferences and carry out non-deal roadshows at regular intervals. The Company was voted one of the China's Best Investor Relations Companies by FinanceAsia in the first half of 2006. The Company will continue to put great efforts on investor relations and further enhance transparency of the Group.

Events post 30 June 2006

Mr. Wang Chengming, Mr. Han Guozhang and Mr. Zhang Rongkun have resigned as directors of the Company on 18 August 2006.

Board of Directors and Supervisors

As at the date of this report, the Board of Directors consists of executive directors, namely Mr. Chen Longxing, Mr. Huang Dinan, Mr. Wang Qiang, Ms. Li Manping, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhu Kelin, Mr. Yao Qun, Mr. Lin Haitao, 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. Cheng Zuomin, Mr. Xie Tonglun, Ms. Ling Feifei, Mr. Zheng Weijian, Mr. Zhang Jun and Ms. Miu Xiufeng.

By order of the Board

Huang Dinan

Executive Director and President

18 August 2006 Shanghai, China

Interim Condensed Consolidated Financial Statements

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	For the six months ended 30 June	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
REVENUE	3	21,195,406	16,360,222
Cost of sales		(17,420,470)	(13,111,986)
GROSS PROFIT		3,774,936	3,248,236
Other income and gains	3	591,331	358,700
Selling and distribution costs		(495,348)	(443,261)
Administrative expenses		(1,380,688)	(1,264,690)
Other expenses		(354,206)	(159,058)
Finance costs		(40,595)	(42,957)
Share of profits and losses of associates		154,616	128,967
Impairment of investments in associates		(7,910)	(72,013)
PROFIT BEFORE TAX	4	2,242,136	1,753,924
Tax	5	(562,014)	(499,901)
PROFIT FOR THE PERIOD		1,680,122	1,254,023
ATTRIBUTABLE TO:			
Equity holders of the parent		1,173,204	826,350
Minority interests		506,918	427,673
		1,680,122	1,254,023
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
- Basic (RMB cents)	6	9.87	8.16
DIVIDEND PER SHARE	7	-	-

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	7,769,826	6,350,712
Prepaid land premiums/land lease payments	8	1,102,200	1,056,332
Goodwill		187,044	130,736
Other intangible assets		363,156	315,444
Investments in associates		2,355,919	2,234,150
Loans receivable		114,940	12,147
Other financial assets		634,416	721,317
Other long term assets		166,028	191,929
Deferred tax assets		311,543	289,808
Total non-current assets		13,005,072	11,302,575
CURRENT ASSETS			
Inventories		13,451,231	12,053,209
Trade receivables	9	8,503,728	5,986,400
Loans receivable		109,528	83,395
Discounted bills receivable		67,889	68,547
Bills receivable		1,539,176	925,765
Prepayments, deposits and other receivables		5,761,935	5,276,271
Other financial assets		6,071,309	6,500,397
Due from the central bank		608,129	670,945
Restricted deposits	10	1,750,001	1,416,673
Cash and cash equivalents	10	8,134,254	10,881,171
Total current assets		45,997,180	43,862,773
CURRENT LIABILITIES			
Trade payables	11	6,817,495	5,141,664
Bills payable		710,145	357,380
Other payables and accruals		26,024,860	25,580,858
Debentures		692,756	682,898
Customer deposits		173,055	146,909
Interest-bearing bank and other borrowings		286,951	249,238
Tax payable		941,919	885,917

	Notes	30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Provisions		344,527	216,874
Repurchase agreements		300,000	-
Total current liabilities		36,291,708	33,261,738
NET CURRENT ASSETS		9,705,472	10,601,035
TOTAL ASSETS LESS CURRENT LIABILITIES		22,710,544	21,903,610
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		104,575	69,499
Provisions		67,794	80,125
Government grants		142,618	128,191
Other long term payables		104,474	66,503
Deferred tax liabilities		418,340	373,010
Total Non-Current Liabilities		837,801	717,328
NET ASSETS		21,872,743	21,186,282
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	11,891,648	11,891,648
Reserves		3,671,928	2,500,801
Proposed final dividend		-	487,558
		15,563,576	14,880,007
Minority Interests		6,309,167	6,306,275
TOTAL EQUITY		21,872,743	21,186,282

Huang Dinan
Director

Yu Yingui
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the parent										
	Issued capital	Capital reserve	Contributed surplus	Surplus reserves	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits/ (accumulated losses)	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2006	11,891,648	3,901,726	(3,487,636)	1,550,926	3,497	(8,007)	540,295	487,558	14,880,007	6,306,275	21,186,282
Changes in fair value of available-for-sale investments	-	-	-	-	(4,851)	-	-	-	(4,851)	(1,377)	(6,228)
Exchange realignment	-	-	-	-	-	522	-	-	522	(1,704)	(1,182)
Total income and expense for the period recognised directly in equity	-	-	-	-	(4,851)	522	-	-	(4,329)	(3,081)	(7,410)
Net profit for the period	-	-	-	-	-	-	1,173,204	-	1,173,204	506,918	1,680,122
Total income and expense for the period	-	-	-	-	(4,851)	522	1,173,204	-	1,168,875	503,837	1,672,712
Transfer/appropriation to surplus reserves	-	-	-	71,657	-	-	(71,657)	-	-	-	-
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	144,369	144,369
Acquisitions of minority interests	-	-	-	-	-	-	-	-	-	(21,856)	(21,856)
Capital injection in subsidiaries	-	-	-	-	-	-	-	-	-	14,750	14,750
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(633,927)	(633,927)
Final 2005 dividend declared	-	-	-	-	-	-	-	(487,558)	(487,558)	-	(487,558)
Others	-	2,351	-	(99)	-	-	-	-	2,252	(4,281)	(2,029)
As at 30 June 2006 (Unaudited)	11,891,648	3,904,077	(3,487,636)	1,622,484	(1,354)	(7,485)	1,641,842	-	15,563,576	6,309,167	21,872,743
As at 1 January 2005	9,189,000	1,971,418	(3,487,636)	955,008	-	-	(95,226)	-	8,532,564	5,830,817	14,363,381
Net profit for the period	-	-	-	-	-	-	826,350	-	826,350	427,673	1,254,023
Total income and expenses for the period	-	-	-	-	-	-	826,350	-	826,350	427,673	1,254,023
Capital contribution	2,702,648	1,971,245	-	-	-	-	-	-	4,673,893	-	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/appropriation to surplus reserves	-	-	-	27,876	-	-	(27,876)	-	-	-	-
Dividends paid 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	-	14,032,807	5,809,461	19,842,268

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2006*

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(1,069,937)	(1,184,084)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	885,475	(2,082,764)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(836,825)	4,360,425
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,021,287)	1,093,577
Cash and cash equivalents at beginning of period	7,487,075	8,513,903
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,465,788	9,607,480
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents in the condensed consolidated balance sheet	8,134,254	12,127,564
Less: Time deposits with original maturity of three months or more when acquired	(1,668,466)	(2,520,084)
	6,465,788	9,607,480

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

1. Basis of presentation and accounting policies

The interim condensed consolidated 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 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that are adopted for the first time for current period’s financial statements:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosure
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Instruments: Recognition and Measurement and Insurance Contracts - Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) - Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) - Int 6	Liabilities arising from Participating in a Special Market- Waste Electrical and Electronic Equipment

The adoption of these new and revised HKFRSs has had no material impact on the Group’s results of operations or financial position.

2. Segment information

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) of the Group's business segments for the six months ended 30 June 2006 (the "Period"):

Six months ended 30 June 2006 (Unaudited)	Power equipment RMB'000	Electro- mechanical equipment RMB'000	Trans- portation equipment RMB'000	Environ- mental systems RMB'000	Financial business RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	12,689,121	6,012,293	1,638,542	717,151	-	138,299		-	21,195,406
Inter segment sales	365,329	93,782	-	36,796	-	12,959		(508,866)	-
Other revenue	74,539	157,096	34,266	2,714	163,187	3,032		(3,776)	431,058
Total	13,128,989	6,263,171	1,672,808	756,661	163,187	154,290		(512,642)	21,626,464
Segment results	1,390,735	488,149	4,674	24,971	128,829	(2,401)		(14,900)	2,020,057
Interest and dividend income and unallocated gains							171,833	(11,560)	160,273
Corporate and other unallocated expenses							(44,305)		(44,305)
Finance costs							(52,409)	11,814	(40,595)
Share of profits and losses of associates	108,008	39,205	7,403	-	-	-		-	154,616
Impairment of investments in associates	(7,910)	-	-	-	-	-		-	(7,910)
Profit before tax									2,242,136
Tax									(562,014)
Profit for the period									1,680,122

Six months ended 30 June 2005 (Unaudited)	Power equipment RMB'000	Electro- mechanical equipment RMB'000	Trans- portation equipment RMB'000	Environ- mental systems RMB'000	Financial business RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total 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	34,897	44,484	16,326	8	81,673	7,924		(2,120)	183,192
Total	8,947,527	5,367,210	1,870,974	357,996	81,673	151,154		(233,120)	16,543,414
Segment results	1,084,375	381,205	36,420	862	122,912	(8,004)		(19,576)	1,598,194
Interest and dividend income and unallocated gains							195,480	(19,972)	175,508
Corporate and other unallocated expenses							(33,775)		(33,775)
Finance costs							(45,720)	2,763	(42,957)
Share of profits and losses of associates	72,647	53,031	3,289	-	-	-		-	128,967
Impairment of investments in 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

3. Revenue, other income and gains

Revenue, which is also the Group's 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 revenue. An analysis of the Group's revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Revenue		
Sales of goods	20,206,883	15,825,289
Rendering of services	988,523	534,933
	21,195,406	16,360,222
Other income		
Interest income	114,829	163,811
Gross rental income	38,580	25,109
Dividend income from investments	29,045	3,528
Profit/(losses) from the sale of raw materials, spare parts and semi-finished goods	32,982	(15,428)
Subsidy income	5,236	8,735
Forfeiture of purchase deposits from customers	2,859	1,820
Compensation income	17,047	21,079
Others	24,529	71,685
	265,107	280,339
Gains		
Gain on disposal of items of property, plant and equipment	11,347	9,228
Fair value gains/(losses), net:		
Investments at fair value through profit or loss	86,926	(2,459)
Gain on disposal of subsidiaries	13,452	-
Gain on disposal of associates	3,364	-
Gain on reduction of equity interests in a jointly-controlled entity	10,190	-
Gain on disposal of current other financial assets	95,271	58,264
Gain on disposal of non-current other financial assets	89,275	5,159
Excess over the cost of a business combination	14,807	-
Exchange gains, net	1,592	8,169
	326,224	78,361
Total	591,331	358,700

4. Profit before tax

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

	For the six months ended 30 June	
	2006 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>
Cost of inventories sold	16,606,853	12,708,855
Cost of services provided	813,617	403,131
Depreciation	319,745	295,046
Recognition of prepaid land premiums/land lease payments	17,319	14,413
Amortisation of patents and licences	12,837	11,725
Amortisation of other intangible assets	1,790	266
Research and development costs:		
Amortisation of technology know-how	14,776	12,699
Current period expenditure	124,164	62,639
	138,940	75,338
Goodwill:		
Impairment arising during the period	10,398	4,903
Minimum lease payments under operating leases:		
Land and buildings	45,693	45,372
Plant, machinery and motor vehicles	5,462	-
Staff costs	1,411,012	1,265,160
Write-down of inventories to net realisable value	20,723	28,167
Provision for bad and doubtful receivables	140,319	29,404
Reversal of provision for loans receivable	(144)	(47,044)
Product warranty provisions:		
Additional provisions	111,026	56,798
Reversal of unutilised provision	(404)	(153)
Impairment of items of property, plant and equipment	69	825
Onerous contract provisions:		
Additional provisions	11,993	173,720
Reversal of unutilised provision	-	(1,141)
Impairment of investments in associates	7,910	72,013

5. Tax

The Group is subject to the statutory corporate income tax rate of 33% for the Period under the income tax rules and regulations of the People's Republic of China ("the PRC"), except that:

- certain subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai;
- certain subsidiaries 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;
- certain subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Shanghai Minhang Economic and Technological Development Zone with foreign investment in production business; and
- certain subsidiaries were entitled to full exemption on corporate income tax as they were established as local research institutes.

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.

	For the six months ended 30 June	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Group:		
Current -PRC		
Charge for the period	606,686	570,461
Over provision in prior years	(37,432)	(45,138)
Deferred tax	(7,240)	(25,422)
Total tax charge for the period	562,014	499,901

The share of tax attributable to associates amounting to RMB45,272,000 (six months ended 30 June 2005: RMB40,787,000) is included in "Share of profits and losses of associates" on the face of the interim condensed consolidated income statement.

6. Earnings per share

The calculation of basic earnings per share amounts is based on the net profit for the Period attributable to ordinary equity holders of the parent of RMB1,173,204,000 (six months ended 30 June 2005: RMB826,350,000) and the weighted average number of 11,891,648,000 ordinary shares in issue during the Period (six months ended 30 June 2005: 10,129,701,000 ordinary shares).

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

7. Dividend

The directors do not recommend the payment of interim dividend (six months ended 30 June 2005: Nil).

8. Property, plant and equipment and prepaid land premiums/land lease payments

As at 30 June 2006, the Group had not obtained real estate certificates for 178 (31 December 2005: 186) buildings with a total gross area of approximately 287 (31 December 2005: 248) thousand m² and a net book value of RMB231,376,000 (31 December 2005: RMB195,578,000); and for 11 (31 December 2005: 11) parcels of land with a total gross area of approximately 294 (31 December 2005: 293) thousand m² and a net book value of RMB83,125,000 (31 December 2005: RMB80,285,000).

Included in the above amounts, the Group is in the process of applying for the real estate certificates for 3 (31 December 2005: 4) buildings with a gross area of approximately 103 (31 December 2005: 120) thousand m² and a net book value of approximately RMB78,838,000 as at 30 June 2006 (31 December 2005: RMB90,766,000); and for 3 (31 December 2005: 4) parcels of land with a gross area of approximately 103 (31 December 2005: 141) thousand m² and a net book value of approximately RMB41,253,000 as at 30 June 2006 (31 December 2005: RMB66,201,000).

9. Trade receivables

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

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Within 3 months	3,379,933	2,140,213
Over 3 months but within 6 months	1,345,175	1,056,252
Over 6 months but within 1 year	1,622,188	1,215,414
Over 1 year but within 2 years	1,539,441	1,197,674
Over 2 years but within 3 years	469,581	245,885
Over 3 years	147,410	130,962
	8,503,728	5,986,400

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. Restricted deposits and cash and cash equivalents

As at 30 June 2006, the Group's restricted deposits and cash and cash equivalents included HKD1,411,150,000 equivalent to RMB1,452,637,000 (31 December 2005: HKD2,159,000,000 equivalent to RMB2,246,008,000), USD22,397,000 equivalent to RMB179,076,000 (31 December 2005: USD28,219,000 equivalent to RMB227,740,000), JPY1,807,122,000 equivalent to RMB125,535,000 (31 December 2005: JPY132,636,000 equivalent to RMB9,114,000) and other foreign currencies equivalent to RMB46,850,000 (31 December 2005: RMB44,873,000).

11. Trade payables

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

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Within 3 months	5,928,920	4,508,946
Over 3 months but within 6 months	319,040	290,462
Over 6 months but within 1 year	350,206	142,982
Over 1 year but within 2 years	108,104	98,766
Over 2 years but within 3 years	30,245	27,964
Over 3 years	80,980	72,544
	6,817,495	5,141,664

12. Issued capital

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	Number of shares '000	Amount <i>RMB'000</i>	Number of shares '000	Amount <i>RMB'000</i>
Registered, issued and fully paid:				
Domestic shares of RMB1.00 each, currently not listed:				
-State-owned Shares	6,624,279	6,624,279	6,624,279	6,624,279
-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	2,972,912	2,972,912
	11,891,648	11,891,648	11,891,648	11,891,648

The shareholders 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.

13. Ultimate holding company

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

14. Business combination

During the Period, the Group acquired the following companies:

- (i) On 29 March 2006, the Group acquired a 50.88% interest in Shanghai Ship-use Crankshaft Co., Ltd., which is engaged in the manufacture of crankshaft used for large low-speed ship-use diesel engines. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB71,436,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;
- (ii) On 29 March 2006, the Group acquired a 100% interest in Magine Machine Tool Co., Ltd., which is engaged in the manufacture of various kinds of cutting machine tools. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB252,426,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;
- (iii) On 28 March 2006, the Group acquired a 100% interest in Shanghai Relay Works Co., Ltd., which is engaged in the production of protective relaying equipment used in secondary control, protection and dispatching automation in power systems. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB23,865,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;
- (iv) On 10 May 2006, the Group acquired a 65% interest in Japan Ikegai Corporation, which is engaged in the production and servicing of machine tools, with a focus on the manufacture of various kinds of computer numerical controlled machine tools. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB109,256,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;

- (v) On 20 April 2006, the Group acquired a 100% interest in SMAC Werkzeugmaschine GmbH, which is engaged in the production of computer numerical controlled machine tools. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB8,866,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;
- (vi) On 27 March 2006, the Group acquired a 100% interest in Shanghai Rail Traffic Equipment Railcar Engineering Co., Ltd., which is engaged in project management in relation to railcar equipment and electrical and mechanical equipment and it is licensed to act as a general contractor for this type of projects. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB30,890,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date; and
- (vii) On 12 January 2006, the Group acquired a 70% interest in Shanghai Ying Da Xin Auto Electronic Co., Ltd., which is engaged in the production of auto speed-change devices and electronic control mechanism. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB11,000,000 in cash.

The fair values of the identifiable assets and liabilities of the above acquired companies as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Property, plant and equipment	363,258	303,162
Prepaid land premiums/land lease payments	62,012	22,908
Goodwill	-	43,421
Inventories	232,344	223,751
Trade and other receivables	354,198	354,198
Cash and bank balances	336,090	336,090
Other assets	9,849	9,849
Interest-bearing bank and other borrowings	(103,588)	(103,588)
Trade and other payables	(596,450)	(596,450)
Tax payable	(7,329)	(7,329)
Deferred tax liabilities	(35,498)	-
Minority interests	(144,369)	(144,369)
	470,517	441,643

	Fair value recognised on acquisition <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Goodwill arising from the acquisitions	64,230	
Excess over the cost of a business combination recognised in the income statement	(14,807)	
	519,940	
Satisfied by:		
Cash	483,874	
Other payables	41,410	
Offset by other receivables	(5,344)	
	519,940	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries is as follows:

	<i>RMB'000</i>
Cash consideration	(483,874)
Cash and bank balances acquired	336,090
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(147,784)

Since the acquisitions, these newly acquired subsidiaries contributed RMB221,675,000 to the Group's turnover and RMB8,528,000 to the consolidated profit for the Period.

Had the combination taken place at the beginning of the period, the revenue from operations of the Group and the profit of the Group for the Period would have been RMB21,474,014,000 and RMB1,692,264,000, respectively.

15. Operating lease commitments

(a) As lessor

The Group leases out certain of its buildings and plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from 1 to 20 years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions.

As at 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Within one year	44,151	34,353
In the second to fifth years, inclusive	97,408	71,916
After five years	160,176	174,104
	301,735	280,373

In addition, the Group's share of the jointly-controlled entities' own total future minimum lease receivables under non-cancellable operating leases, which are not included in the above, is as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Within one year	4,138	332
In the second to fifth years, inclusive	35,543	1,083
After five years	95,939	-
	135,620	1,415

(b) As lessee

The Group leases certain land, buildings, motor vehicles and trademark under operating lease arrangements, with leases negotiated for terms ranging from 1 to 30 years.

As at 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Within one year	48,539	51,969
In the second to fifth years, inclusive	79,758	82,534
After five years	177,843	169,336
	306,140	303,839

In addition, the Group's share of the jointly-controlled entities' own total future minimum lease payments under non-cancellable operating leases, which are not included in the above, is as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Within one year	808	1,528
In the second to fifth years, inclusive	862	1,521
	1,670	3,049

16. 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 2006:

(a) Capital commitments

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Contracted, but not provided for:		
In respect of the acquisition of:		
- land and buildings	411,227	753,123
- plant and machinery	2,250,127	1,800,087
- intangible assets	122,035	26,344
	2,783,389	2,579,554
In respect of capital contribution to associates	162,260	38,867
	2,945,649	2,618,421
Authorised, but not contracted for:		
In respect of the acquisition of:		
- land and buildings	800,435	668,031
- plant and machinery	1,530,558	1,923,644
	2,330,993	2,591,675
	5,276,642	5,210,096

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Contracted, but not provided for:		
In respect of the acquisition of:		
- land and buildings	8,461	14,723
- plant and machinery	6,390	363
- intangible assets	-	46
	14,851	15,132
In respect of capital contribution to an associate	-	1,500
	14,851	16,632
Authorised, but not contracted for:		
In respect of the acquisition of plant and machinery	1,000	-
	15,851	16,632

(b) Contingent liabilities

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Guarantees given to banks:		
In connection with banking facilities granted to and utilised by:		
- ultimate holding company	28,139	28,139
- jointly-controlled entities	100,307	99,310
- associates	20,768	36,741
- SEC group companies *	60,471	143,290
- third party	246,370	1,993
	456,055	309,473

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

In addition, the Group's share of the jointly-controlled entities' own contingent liabilities, which are not included in the above, is as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- third parties	-	898

During the year ended 31 December 2003, a customer (the "plaintiff") of the Group's subsidiary filed a claim with a court in the United States for damages and related litigation costs totalling USD2.5 million arising from the allegedly defective products purchased from the subsidiary and/or negligence in repairs. The Group's subsidiary has denied the claim and requested the relevant court to set aside the claim. The date of court session has not been settled.

17. 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	
		2006 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>
Purchase of materials from:	(i)		
Associates		196,754	245,231
SEC group companies		540,389	396,812
Jointly-controlled entities		24,177	-
Other related companies		726,728	74,633
		1,488,048	716,676
Sales of goods to:	(i)		
Ultimate holding company		292	37,110
Associates		107,053	80,432
SEC group companies		123,326	113,091
Jointly-controlled entities		2,123	-
Other related companies		29,094	12,282
		261,888	242,915

	Notes	For the six months ended 30 June	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Interest expense:	(ii)		
Jointly-controlled entities		101	112
Associates		282	300
Other related companies		44	255
		427	667
Purchase of manpower services:	(i)		
Associates		16,683	25,709
SEC group companies		466	-
Other related companies		24,279	15,079
		41,428	40,788
Rental income:	(iii)		
Associates		4,553	6,905
Other related companies		-	160
		4,553	7,065
Rental fee:	(iii)		
Ultimate holding company		16,773	19,884
SEC group companies		-	1,894
		16,773	21,778
Interest income:	(ii)		
Jointly-controlled entities		1,834	3,280
Associates		1,550	236
Other related companies		324	6,255
		3,708	9,771
Sales of scraps and spare parts:	(i)		
Associates		3,807	6,238
SEC group companies		-	808
		3,807	7,046
Provision of manpower services:	(i)		
Ultimate holding company		-	9,815
Associates		20,045	25,458
Other related companies		808	356
		20,853	35,629

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

(b) Non-recurring

During the Period, the Group effected the following non-recurring transactions:

- (i) acquired six subsidiaries from SE Corporation for an aggregate consideration of RMB496,739,000 which was determined with reference to valuations carried out by independent professional qualified valuers in Mainland China (notes 14 (i), (ii), (iii), (iv), (v) and (vi));
- (ii) purchased one property from SE Corporation for a cash consideration of RMB32,620,000 which was determined with reference to valuation and carried out by independent professional qualified valuers in Mainland China; and
- (iii) entered into a royalty agreement with a minority shareholder for a cash consideration of RMB11,989,000.

(c) Guarantees provided to/by related companies of the Group

As at 30 June 2006, the Group has provided corporate guarantees totalling RMB209,685,000 (31 December 2005: RMB307,480,000) to related companies (note 16(b)).

The Group's related companies have provided corporate guarantees, in connection with bank borrowings and guarantee letters, to the Group as follows:

	30 June 2006 (Unaudited) <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Guarantees provided to the Group by:		
Ultimate holding company	40,650	20,295
SEC group companies	6,500	-
Other related companies	9,000	14,500
	56,150	34,795

(d) Interest income and expenses from/to the Finance Company

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 six months ended 30 June 2005. 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 six months ended 30 June 2005.

The Finance Company had no interest income and expenses transactions with the ultimate holding company and SEC group companies for the Period.

(e) Compensation of the key management personnel of the Group

	For the six months ended 30 June	
	2006 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>
Fees	275	-
Short term employee benefits	486	585
Post-employment benefits	45	48
	806	633

(f) Conversion of shares in listed subsidiary to tradable A shares

On 7 April 2006, the special shareholders' meeting of Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel"), a listed subsidiary of the Group, passed the resolution in respect of the conversion of non-tradable state-owned shares, representing 50.32% of the issued capital of Shanghai Diesel, all of which are held by the Company, to tradable A shares. Pursuant to the resolution, SE Corporation, as the ultimate holding company of Shanghai Diesel, will pay a cash consideration of RMB16 for every 10 tradable A shares held by the public shareholders with an aggregate consideration of approximately RMB32,560,000. The Company undertook not to sell the converted shares on the Shanghai Stock Exchange for a period of 36 months from the date of completion of the conversion. The conversion was completed on 15 May 2006.

18. Post balance sheet events

On 21 July 2006, the special shareholders' meeting of Shanghai Mechanical & Electrical Industry Co., Ltd. ("Shanghai Mechanical & Electrical"), a listed subsidiary of the Group, passed the resolution in respect of the conversion of state-owned shares, representing 47.28% of the issued capital of Shanghai Mechanical & Electrical, all of which are held by the Company, to tradable A shares. Pursuant to the resolution, the terms of the conversion were as follows:

- SE Corporation, as the ultimate holding company of Shanghai Mechanical & Electrical, would pay a cash consideration of RMB5 for every 10 tradable A shares held by the public shareholders with an aggregate consideration of RMB134,580,000;
- SE Corporation would conditionally pay additional cash consideration of RMB2 for every 10 tradable A shares held by the public shareholders with an aggregate consideration of RMB53,831,000, depending on the operating results of Shanghai Mechanical & Electrical for the year ending 31 December 2006;
- SE Corporation would purchase 24% of the equity interests in Shanghai Novel Color Picture Tube Co., Ltd., an associate of Shanghai Mechanical & Electrical, from Shanghai Mechanical & Electrical at a consideration of RMB286,660,000, which is determined with reference to valuation carried out by independent professional qualified valuers in Mainland China; and
- SE Corporation would support Shanghai Mechanical & Electrical to conduct an asset consolidation with a view to consolidate various business divisions of Shanghai Mechanical & Electrical in a two-year period following the completion of the conversion.

The Company undertook not to sell the converted shares on the Shanghai Stock Exchange for a period of 36 months from the date of completion of the conversion.

19. Approval of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements have not been audited, but have been reviewed by the Company's audit committee.

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 18 August 2006.