



# Shanghai Electric Group Company Limited

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

Interim Report



2007



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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

2901, 29th Floor, Tower One,  
Lippo Centre, 89 Queensway, Hong Kong

## Joint company secretaries

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

## Authorized representatives

Mr. Xu Jianguo  
Mr. Huang Dinan

## Alternate authorized representatives

Dr. Cheung Wai Bun  
Mr. Li Chung Kwong Andrew (FCCA, FCPA)

## Qualified accountant

Mr. Li Chung Kwong Andrew (FCCA, FCPA)

## 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 auditor)  
Ernst & Young Da Hua (PRC auditor)

## Legal advisers

Grandall Legal Group (As to PRC Law)  
Freshfields Bruckhaus Deringer (As to Hong Kong law  
and U.S. law)  
Anderson Mori & Tomotsune (As to Japanese Law)  
Dear shareholders

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  
Website: <http://www.shanghai-electric.com>  
Email address: [ir@shanghai-electric.com](mailto:ir@shanghai-electric.com)  
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# Performance Highlights

Revenue for the first half of 2007 was RMB**25,849** million, representing an increase of **22.0%** over the corresponding period last year

Profit attributable to equity holders of the parent for the first half of 2007 was RMB**1,760** million, representing an increase of **50.0%** over the corresponding period last year

Basic earnings per share was RMB**14.80** cents

Successfully secured the following major contracts during the Period:

- ◆ Domestic contracts for supply of 4 sets of 1,000 MW thermal power generation equipment, total contract value RMB**3,353** million
- ◆ 3 overseas contracts for the provision of altogether 3,600MW thermal power generation equipment to India, total contract value USD **1,046** million
- ◆ An overseas contract for supply of 4 sets of 50 MW coal-fired power generation equipment to Tanzania in respect of the Kiwira power station project, contract value USD**230** million
- ◆ Tianjin Dagang Oilfield circulating fluidized bed (CFB) thermal power project, contract value RMB**673** million
- ◆ Domestic EPC contract for supply of 60 sets of 1.25 MW wind power equipment for Shanxi, contract value RMB**644** million
- ◆ Contracts for supply of 72 ship-use crankshafts for RMB**373** million

# Chairman's Statement

The Board of Directors (the "Board") of Shanghai Electric Group Company Limited (the "Company") is delighted to present the results of operations of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007. The results of operations 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

The Group's revenue for the first half of 2007 was RMB25,849 million (1H06: RMB21,195 million), representing an increase of 22.0% over the same period last year. Profit attributable to equity holders of the parent was RMB1,760 million (1H06: RMB1,173 million), representing an increase of 50.0% over the same period last year. Basic earnings per share was RMB14.80 cents (1H06: RMB9.87 cents).

As at 30 June 2007, total assets of the Group were RMB69,301 million (2006: RMB64,048 million), and total liabilities amounted to RMB44,050 million (2006: RMB40,550 million). Total shareholders' equity was RMB25,252 million (2006: RMB23,498 million), of which RMB17,922 million (2006: RMB16,726 million) was attributable to the equity holders of the parent. Net asset value per share (attributable to the equity holders of the parent) was RMB1.51, an increase of RMB0.1 compared to the beginning of the year.

In the first half of 2007, the growth rate of China's GDP reached 11.5%, while total electricity consumption reached 1,514.954 billion kWh, a year-on-year increase of 15.56%. Thanks to the rapid growth of China's economy at macroeconomic level and the concerted efforts of our dedicated staff, the Group attained remarkable operating results at various divisions. This was a solid proof that both operations and development of the Group's businesses remained unaffected by the "Directors' incidents" during the middle of last year. The Group's major divisions have sustained a healthy development.

In order to scale down outsourcing, the Group further enhanced its production capacity of power generation equipment through increased investment in technological research and development. For the first half of 2007 the Group received new orders for power generation equipment exceeding 16,000MW in total capacity (including EPC projects) and exceeding RMB27 billion in contract value. As at 30 June 2007, the total outstanding orders for power generation equipment were at a capacity of above 60,000 MW.

In the first half of 2007, the Group continued to strengthen cooperative ties with international conglomerates. This was to maintain our leading position in China as well as to accelerate our expansion in overseas markets. The orders from countries such as India, South Korea and Tanzania signify our positive brand image overseas.

## Outlook

To realize our aspiration to be one of the large-scale equipment manufacturing groups with a competitive core, the Group put great efforts in raising our products' technological standard and competitiveness by investing unrelentingly in innovations of equipment and technology research. With resources leveraging on our market advantages, the Group will strive to further expand core businesses such as power equipment and electromechanical equipment. Meanwhile, the Group will proactively develop our railway transportation equipment and environmental systems businesses, both of which are technology-intensive and have a strong market outlook.

### Power Equipment Division

The first half of 2007 saw the continuing governmental regulation on industrial structure with the closing down of 5,510 MW small thermal power generation units and the speeding up of approvals of new “small capacity units replacement by big capacity units” projects. With respect to the national industrial policies, the Group will continue to focus on enhancement of manufacturing capability for 1,000 MW nuclear power equipment and 1,000 MW thermal power equipment. At the same time, the Group will offset the adverse impact on gross margin resulted from raw material price increase by improvement of production efficiency and production cost control measures through R&D investment for high-end products and absorption of advanced technology. Capability for provision of power plant EPC services and equipment repairs and maintenance services will also be enhanced. The Group will seize the opportunities in countries such as India and Indonesia where power demand is on the rise, so as to explore further the overseas market. The Group will hedge against the exchange risks in connection with fluctuation of Renminbi through various financial means.

The Group will take China’s rapid and continuing growth of power transmission and distribution equipment market in stride by building ultra high and super high voltage power transmission and distribution equipment in Lingang Heavy Equipment Base. It will also realign its product structure and improve its innovation capability and technological level.

### Electromechanical Equipment Division

For heavy machinery business, on the foundation of product chain established for nuclear power nuclear island equipment, the Group will move forward for business restructuring and resources redeployment, and build up mass production capability for key equipment in nuclear island including pressure vessels, steam generators, pressurizers, reactor vessel internals, control rods drive mechanism, polar crane systems, nuclear fuel manipulator etc, securing the competitive edge of the Group in nuclear power nuclear island equipment business. The Group will also speed up its hot processing technology upgrade project. Upon completion of the project, the Group will be able to supply key parts and components for 600 MW and 1,000 MW ultra-supercritical thermal power equipment, 1,000 MW capacity nuclear power equipment, MW-capacity wind power equipment and vessel electromechanical systems. The production capability for large-scale forging and casting pieces will also be greatly enhanced as a result.

While maintaining its leading position in the domestic elevator market, the Group will step up its efforts in high-end product development and technological innovation. The new factory of another joint-venture of the Group with Mitsubishi Electric with annual production capacity of 10,000 high-end elevators will be completed and start operation by the end of this year. This will add to our product structure and improve our market share. In the meantime the Group will further build on its network of after-sales service of elevators to advance the commercialization of maintenance service.

Research on technologically advanced products such as large-scale, precision, dedicated and digitally controlled machine tools will continue. Leveraging on the consolidation and utilization of internal resources, the Group will speed up its renewal of technology and refurbishment of equipment, so as to enact stepwise transition from low-end products and to maintain its high-end technological edge and self-reliance on product processing and assembling. It is the Group’s goal to be one of the major suppliers of high-end digitally-controlled machine tools in China.

The Group will also take advantage of technology synergistic effects through overseas entities acquired by consolidation of resources within the division, so as to expand its market share in high-end printing and packaging equipment.

### **Transportation Equipment Division**

As Shanghai - and China at large - continues to expand its metropolitan rail transportation network, the Group will seize every opportunity by advancing its research efforts on domestic production of type A large railcars, including system integration and development, manufacturing of railcars and key parts, contracting of electromechanical systems, and providing maintenance service for railcars. The Group will endeavour to be a competitive provider of integrated metropolitan rail transportation systems.

The Group will strive to raise its competitiveness through adopting differentiation competitive strategy in its diesel engine business, exploring into high-end product market and widening sales channels.

### **Environmental Systems Division**

The Group will continue to develop its environmental systems business through provision of complete sets of equipment. The Group will put emphasis on development of comprehensive utilization of coal bed gas, sludge incineration, solid waste treatment. It will also proactively explore market opportunities for solar power systems and engineering projects, maintain leading position in power plant desulphurization and denitration technology, and become a supplier for modernized and comprehensive environmental systems.

In addition to our production base at Minhang District, the Group saw a smooth progress in the construction of our new heavy equipment manufacturing base at Lingang. Lingang's Phase I project is expected to be completed by the end of this year. By then, the Group will have manufacturing capability for large-scale parts and components and annual production capacity of 2.5 sets of 1,000 MW capacity nuclear island and conventional island equipment, and will provide a solid foundation for further development of heavy equipment manufacturing business of the Group. As such, the Group is fully confident in its future prospects. Through its relentless efforts, the Group will create value for its shareholders and share with them the benefits of the Group's steady growth.

**Xu Jianguo**

Chairman

17 August 2007

Shanghai, China



# Management Discussion and Analysis

The Group achieved further growth in its operating results in the first half of 2007. The increase in profits was mainly attributable to the growth of our Electromechanical Equipment Division and our Financial Business. Meanwhile, our Transportation Equipment Division experienced growth in results as compared to same period last year as well. During the reporting period, influence from the drop of the overseas demand on our solar energy products resulted in a decrease of our operating profit from our Environmental Systems Division.

## Business Review of Major Divisions

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

<i>(in RMB million)</i>	Revenue		Operating profit	
	for the six months ended 30 June 2007	for the six months ended 30 June 2006	for the six months ended 30 June 2007	for the six months ended 30 June 2006
Power Equipment	15,405	13,054	1,498	1,492
Percentage of total	59.6%	61.6%	48.6%	69.8%
Electromechanical Equipment	7,314	6,106	697	519
Percentage of total	28.3%	28.8%	22.6%	24.3%
Transportation Equipment	2,332	1,639	79	5
Percentage of total	9.0%	7.7%	2.6%	0.2%
Environmental Systems	1,102	754	10	25
Percentage of total	4.3%	3.6%	0.3%	1.2%
Financial business	-	-	939	244
Percentage of total	-	-	30.4%	11.4%
Other businesses*	218	151	876	708
Percentage of total	0.8%	0.7%	28.4%	33.2%
Consolidation adjustment and elimination*	(522)	(509)	(1,014)	(857)
Percentage of total	(2.0%)	(2.4%)	(32.9%)	(40.1%)
Total	25,849	21,195	3,085	2,136

\* Included in operating profit of other businesses was dividend income of RMB899 million(1H06: RMB763 million) from the Company's subsidiaries, which has been eliminated by consolidation adjustment and elimination.

### **Power Equipment Division**

To cope with the continuous robust market demand for power equipment in PRC during the first half of 2007, the integrated operation model which has been actively implemented by the Group has achieved further success. During the first half of 2007, sales volume for power generation equipment reached a total capacity of approximately 12,000 MW and the turnover of the Power Equipment Division amounted to RMB15,405 million (1H06: RMB13,054 million), representing a rise of 18.0% over the corresponding period last year. Operating profit slightly increased to RMB1,498 million (1H06: RMB1,492 million) over the corresponding period last year.

### **Electromechanical Equipment Division**

During the first half of 2007, due to the rise in sales volume for elevators and machine tools, turnover of our Electromechanical Equipment Division increased by 19.8% as compared to that of the corresponding period last year. Our operating profit also recorded a year-on-year rise of 34.3% as the gross margin of the elevators and heavy machinery increased.

### **Transportation Equipment Division**

During the first half of 2007, the turnover and operating profit of the Transportation Equipment Division increased by 42.3% and 1,480.0% respectively as compared to the same period last year. This was mainly attributable to the increase of the delivery of metropolitan railcars and the increase in gross margin.

### **Environmental Systems Division**

During the first half of 2007, the turnover of the Environmental Systems Division increased by 46.2% as compared to the corresponding period last year, which was mainly due to the expansion of our desulphurization and denitration and complete sets of environmental equipment businesses. As a result of the drop in the gross margins of our desulphurization and denitration and the solar energy businesses, the operating profit decreased 60.0% when compared with the same period last year.

### **Financial Business**

During the first half of 2007, the operating profit of the Financial Business increased by 284.8% as compared to the corresponding period last year, primarily due to the increase in the return on investments.

### **Share of Profits and Losses of Associates**

During the first half of 2007, share of profits of associates was RMB312 million (1H06: RMB155 million). The increase over the corresponding period last year was mainly due to the disposal of an associate by our Electromechanical Equipment Division which led to a drop in the Group's share of loss from an associate.

### **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 2007 increased by 50.0% from the last corresponding period to RMB1,760 million (1H06: RMB1,173 million). Earnings per share was RMB14.80 cents (1H06: RMB9.87 cents).

## Cash Flow

As at 30 June 2007, the Group had bank balances, cash and deposits in central bank of RMB12,655 million, representing an increase of RMB1,594 million from the beginning of the period. During the period, the Group had net cash outflow from operating activities of RMB978 million, net cash inflow from investing activities of RMB2,767 million, and net cash inflow from financing activities of RMB167 million.

## Assets and Liabilities

As at 30 June 2007, the Group has total assets of RMB69,301 million (2006: RMB64,048 million), an increase of RMB5,253 million, or 8.2%, compared with the beginning of the year. Total current assets increased by RMB4,590 million from the beginning of the year to RMB54,052 million (2006: RMB49,462 million), accounting for 78.0% of the total assets. Total non-current assets were RMB15,249 million (2006: RMB14,586 million), representing an increase of RMB663 million from the beginning of the year and accounting for 22.0% of the total assets.

As at 30 June 2007, total liabilities of the Group were RMB44,050 million (2006: RMB40,550 million), which represented an increase of RMB3,500 million, or 8.6% compared with the beginning of the year. Total current liabilities increased by RMB3,306 million from the beginning of the year to RMB42,885 million (2006: RMB39,579 million), whereas total non-current liabilities increased by RMB193 million from the beginning of the year to RMB1,165 million (2006: RMB972 million).

As at 30 June 2007, total net current assets of the Group were RMB11,167 million (2006: RMB9,884 million), representing an increase of RMB1,283 million from the beginning of the year.

## Source of Funding and Indebtedness

As at 30 June 2007, the Group had aggregate bank and other borrowings and debentures of RMB1,665 million (2006: RMB1,037 million), an increase of RMB628 million from the beginning of the year. Borrowings repayable within one year and after one year were RMB1,531 million and RMB134 million respectively, which represented an increase of RMB601 million and RMB27 million compared with the beginning of the year, respectively.

As of 30 June 2007, all bank and other borrowings and debentures of the Group were interest-bearing at fixed rates. Except for loans of USD0 (2006: USD300,000), HKD125,000,000 (2006: HKD125,000,000), EURO100,000 (2006: Nil) and JPY80,000,000 (2006: JPY230,000,000), which are denominated in foreign currencies, all other borrowings are in Renminbi.

## Finance Costs

Finance costs for the first half of 2007 were RMB44.64 million (1H06: RMB41.00 million), representing a slight increase over the same period of last year.

## **Gearing Ratio**

As at 30 June 2007, 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 6.2%, a slight increase from 4.2% in the beginning of the year.

## **Contingent Liabilities**

For details please refer to Note 14 to the Unaudited Interim Condensed Consolidated Financial Statements.

## **Capital Commitments**

For details please refer to Note 16 to the Unaudited Interim Condensed Consolidated Financial Statements.

## **Capital Expenditure**

Total capital expenditure of the Group for the period was approximately RMB1,546 million (1H06: RMB1,388 million), principally applied for upgrading of production technologies and production equipment.

## **Risk of Foreign Exchange Fluctuations**

During the reporting 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 denominated in foreign currencies. Furthermore, as at 30 June 2007, bank deposits of the Group included HK\$321 million, USD28 million, JPY1,137 million and other foreign currencies equivalent to RMB107 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 reporting period, the Group acquired significant business from the Parent Company as follows:

The Group acquired 97.24% of the equity interests in Shanghai Crane and Conveyor Works Co. Ltd from the Parent Company for a total cash consideration of RMB152 million.

Resolution for the acquisition was passed in the 23rd meeting of the first Board of Directors held on 22 January 2007 and the acquisition was completed accordingly.

## **Employees**

As at 30 June 2007, the Group had approximately 32,500 employees (2006: 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	100.00%

## Disclosure of Interests

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

As at 30 June 2007, the following persons had interests or short positions in the shares and underlying shares who were entitled to exercise or control the exercise of 5% or more of voting power at any general meeting of the Company were recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO"):

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	7,409,088,498	Long position	83.07	62.30
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	D	Interest of controlled corporation	1	7,898,980,620	Long position	88.57	66.42
Guangdong Zhujiang Investment Co., Ltd	D	Beneficial owner	2	917,778,942	Long position	10.29	7.72
Guangdong Hanjiang Building and Installation Co., Ltd	D	Interest of controlled corporation	2	917,778,942	Long position	10.29	7.72
Zhu Qingyi	D	Interest of controlled corporation	2	917,778,942	Long position	10.29	7.72
Shenergy Group	D	Beneficial owner	1	489,892,122	Long position	5.49	4.12
Deutsche Bank Aktiengesellschaft	H	Beneficial owner		21,615,660	Long position	0.73	0.18
		Investment manager	3	303,332,998	Long position	10.20	2.55
		Person having a security interest in shares		13,100,000	Long position	0.44	0.11
		<b>Total long position</b>		<b>338,048,658</b>		<b>11.37</b>	<b>2.84</b>
		Beneficial owner		21,074,000	Short position	0.71	0.18
		Person having a security interest in shares		1,214,000	Short position	0.04	0.01
		<b>Total short position</b>		<b>22,288,000</b>		<b>0.75</b>	<b>0.19</b>

(continued)

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 (%)
Lloyd George Investment Management (Bermuda)Ltd	H	Investment manager		204,658,000	Long position	6.88	1.72
State Street Corporation	H	Interest of controlled corporation	4	177,225,321	Lending pool	5.96	1.49
Government of Singapore Investment Corporation Pte Ltd	H	Investment manager		176,668,099	Long position	5.94	1.49
Siemens International Holding B.V.	H	Beneficial owner	5	148,646,000	Long position	5.00	1.25
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporation	5	148,646,000	Long position	5.00	1.25
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporation	5	148,646,000	Long position	5.00	1.25
Siemens Aktiengesellschaft	H	Interest of controlled corporation	5	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 7,409,088,498 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) Guangdong Zhujiang Investment Co., Ltd, holding 917,778,942 shares of the Company, was owned as to 80% 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.

**(continued)**

- (3) Deutsche Bank Aktiengesellschaft was interested in 303,332,998 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

<b>Name of controlled Corporation</b>	<b>Percentage of ownership in controlled corporation (%)</b>	<b>No. of shares</b>
DWS (Australia) Investmentgesellschaft mbH	100	1,000,000
Deutsche Asset Management International GmbH	100	1,600,000
Deutsche Asset Management Investmentgesellschaft mbH	100	2,146,940
DWS Investment GmbH	100	255,404,000
DWS Investment S.A., Luxemburg	100	34,820,000
Deutsche Bank International Limited	100	604,058
DWS Investment Trust Managers Limited	100	1,608,000
Deutsche Asset Management (Japan) Limited	100	6,000,000
Deutsche Asset Management Schweiz	100	150,000

Among the entire interest of Deutsche Bank Aktiengesellschaft in the Company, a short position in 21,074,000 shares was held through cash settled unlisted derivative interests.

- (4) State Street Corporation held a lending pool in 177,225,321 shares of the Company by virtue of its control over State Street Bank & Trust Company.
- (5) 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 having any interests or short positions in the shares and underlying shares of the Company as at 30 June 2007 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### **Directors' and Supervisors' Interests and Short Positions and Underlying Shares**

As at 30 June 2007, 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, supervisors or chief executives 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 set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange. As at 30 June 2007, 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 as set out in Appendix 10 of the Listing Rules. In addition, further to the Company's enquiry, all Directors confirmed that they had complied with the Model Code for Securities Transactions by Directors as set out in Appendix 10 of the Listing Rules and the relevant provisions during the period between 1 January 2007 and 30 June 2007.

### **Corporate Governance**

For the first half of 2007, the Board of the Directors are of the view that the Company has 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 separated 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 2007, 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 Dr. Cheung Wai Bun, Dr. Yao Fusheng and Mr. Lei Huai Chin, has reviewed the accounting policies adopted by the Group and credit limits of its connected transactions in respect of financial services with the management and the Company's external auditors, and discussed on matters concerning internal control and financial reporting, including review and approval of the unaudited interim condensed consolidated financial statements of the period.



### Remuneration Committee

The Board of Directors established a Remuneration Committee which comprises Mr. Lei Huai Chin, Mr. Wang Qiang and Dr. Yao Fusheng. The Remuneration Committee is mainly responsible for providing recommendations to the Board of Directors in respect of the overall remuneration policy and structure of the Directors and senior management of the Company, and determining applicable and transparent procedures.

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

During the reporting 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 will continue to put great efforts on investor relations and further enhance transparency of the Group.

### Board of Directors and Supervisors

As at the date of this report, the Board of Directors consists of executive directors, namely Mr. Xu Jianguo, 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. Shen Maosong, as well as independent non-executive directors, namely Dr. Yao Fusheng, Dr. 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 and Ms. Miu Xiufeng.

By order of the Board

**Xu Jianguo**

Chairman

17 August 2007

Shanghai, China

# Unaudited Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>REVENUE</b>	3	25,849,273	21,195,406
Cost of sales		(21,432,857)	(17,420,470)
<b>GROSS PROFIT</b>		4,416,416	3,774,936
Other income and gains	3	1,203,814	591,331
Selling and distribution costs		(771,819)	(495,348)
Administrative expenses		(1,467,365)	(1,380,688)
Other expenses		(296,366)	(362,116)
Finance costs		(44,640)	(40,595)
Share of profits and losses of associates		311,697	154,616
<b>PROFIT BEFORE TAX</b>	4	3,351,737	2,242,136
Tax	5	(825,934)	(562,014)
<b>PROFIT FOR THE PERIOD</b>		2,525,803	1,680,122
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent		1,760,037	1,173,204
Minority interests		765,766	506,918
		2,525,803	1,680,122
<b>DIVIDEND</b>			
Proposed interim	6	-	-
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	7		
Basic			
- For profit for the period		14.80 cents	9.87 cents

# Unaudited Interim Condensed Consolidated Balance Sheet

30 June 2007

	Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	9,345,537	8,590,538
Prepaid land lease payments	8	1,270,296	1,236,598
Goodwill		183,440	183,440
Other intangible assets		321,636	360,004
Investments in associates		2,503,911	2,267,372
Loans receivable		274,718	153,248
Other investments		801,304	1,340,167
Other long term assets		79,765	60,061
Deferred tax assets		468,600	394,089
Total non-current assets		15,249,207	14,585,517
<b>CURRENT ASSETS</b>			
Inventories		15,743,507	15,012,619
Construction contracts		446,016	1,356,641
Trade receivables	9	9,688,000	8,497,762
Loans receivable		354,207	781,536
Discounted bills receivable		84,431	183,023
Bills receivable		2,905,422	1,559,901
Prepayments, deposits and other receivables		7,865,533	5,867,431
Investments		4,275,866	5,099,263
Derivative financial instruments		46	8,164
Due from the central bank		907,305	754,046
Restricted deposits	10	1,411,747	1,693,199
Cash and cash equivalents	10	10,336,157	8,614,165
		54,018,237	49,427,750
Non-current assets classified as held for sale		33,832	34,510
Total current assets		54,052,069	49,462,260
<b>CURRENT LIABILITIES</b>			
Trade payables	11	10,660,312	7,187,424
Bills payable		1,734,527	1,253,193
Other payables and accruals		26,463,486	28,108,377
Derivative financial instruments		164	986
Debentures		498,467	489,267
Customer deposits		223,302	260,023
Interest-bearing bank and other borrowings		1,032,142	440,675
Tax payable		1,578,589	1,228,079
Provisions		615,408	528,757
		42,806,397	39,496,781

# Unaudited Interim Condensed Consolidated Balance Sheet (continued)

30 June 2007

Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Liabilities directly associated with the non-current assets classified as held for sale	78,398	81,843
Total current liabilities	42,884,795	39,578,624
<b>NET CURRENT ASSETS</b>	<b>11,167,274</b>	<b>9,883,636</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>26,416,481</b>	<b>24,469,153</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	134,548	107,390
Provisions	26,842	31,213
Government grants	136,284	126,992
Other long term payables	80,478	81,145
Deferred tax liabilities	786,684	624,811
Total non-current liabilities	1,164,836	971,551
<b>Net assets</b>	<b>25,251,645</b>	<b>23,497,602</b>
<b>EQUITY</b>		
<b>Equity attributable to equity holders of the parent</b>		
Issued capital 12	11,891,648	11,891,648
Reserves	6,030,531	4,109,141
Proposed final dividend	-	725,391
<b>Minority interests</b>	<b>17,922,179</b>	<b>16,726,180</b>
	7,329,466	6,771,422
<b>Total equity</b>	<b>25,251,645</b>	<b>23,497,602</b>

Mr. Xu Jianguo  
Director

Mr. Yu Yingui  
Director

# Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	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	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
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)
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

# Unaudited Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2007

	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	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
At 1 January 2007	11,891,648	3,912,940	(3,487,636)	2,042,997	295,864	(18,260)	1,363,236	725,391	16,726,180	6,771,422	23,497,602
Changes in fair value of											
available-for-sale investments	-	-	-	-	171,110	-	-	-	171,110	57,686	228,796
Exchange realignment	-	-	-	-	-	(7,944)	-	-	(7,944)	(6,238)	(14,182)
Total income and expense for											
the period recognised directly in equity	-	-	-	-	171,110	(7,944)	-	-	163,166	51,448	214,614
Profit for the period	-	-	-	-	-	-	1,760,037	-	1,760,037	765,766	2,525,803
Total income and expense for the period	-	-	-	-	171,110	(7,944)	1,760,037	-	1,923,203	817,214	2,740,417
PRC statutory adjustments #	-	-	-	(63,866)	-	-	63,866	-	-	-	-
Capital injection in subsidiaries	-	-	-	-	-	-	-	-	-	73,207	73,207
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(7,982)	(7,982)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(321,931)	(321,931)
Final 2006 dividend declared	-	-	-	-	-	-	-	(725,391)	(725,391)	-	(725,391)
Others	-	(1,078)	-	-	-	-	(735)	-	(1,813)	(2,464)	(4,277)
As at 30 June 2007 (Unaudited)	11,891,648	3,911,862*	(3,487,636)*	1,979,131*	466,974*	(26,204)*	3,186,404*	-	17,922,179	7,329,466	25,251,645

\* These reserve accounts comprise the consolidated reserves of RMB6,030,531,000 (31 December 2006: RMB4,109,141,000) in the unaudited interim condensed consolidated balance sheet.

# The surplus reserves were adjusted to reflect the prior year adjustments made in the PRC statutory financial statements of the Group due to the first adoption of the new Chinese Accounting Standards.

# Unaudited Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	(978,341)	(1,051,578)
<b>NET CASH INFLOW FROM INVESTING ACTIVITIES</b>	2,766,786	166,168
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES</b>	166,857	(117,518)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,955,302	(1,002,928)
Cash and cash equivalents at beginning of period	6,944,549	7,487,075
Effect of foreign exchange rate changes, net	(23,866)	(18,359)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	8,875,985	6,465,788
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents in the unaudited interim condensed consolidated balance sheet	10,336,157	8,134,254
Less: Non-restricted time deposits with original maturity of over three months when acquired	(1,460,172)	(1,668,466)
	8,875,985	6,465,788

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2007

## 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies and basis of preparation adopted in the preparation of the unaudited interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except in relation to the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that are adopted for the first time for the current period’s unaudited interim condensed consolidated financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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.



## 2. SEGMENT INFORMATION (continued)

The following tables present revenue and profit/(loss) of the Group's business segments for the six months ended 30 June 2007 (the "Period"):

Six months ended 30 June 2007 (Unaudited)	Electro- Power 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
<b>Segment revenue</b>								
Sales to external								
customers	15,057,309	7,214,195	2,328,848	1,057,869	-	191,052	-	25,849,273
Inter segment sales	347,288	99,742	3,222	44,256	-	27,302	(521,810)	-
Other revenue	139,980	65,514	21,268	3,951	970,150	1,360	(397,869)	804,354
<b>Total</b>	<b>15,544,577</b>	<b>7,379,451</b>	<b>2,353,338</b>	<b>1,106,076</b>	<b>970,150</b>	<b>219,714</b>	<b>(919,679)</b>	<b>26,653,627</b>
<b>Segment results</b>								
Interest and dividend								
income and unallocated								
gains						107,910	291,550	399,460
Corporate and other								
unallocated expenses						(40,033)		(40,033)
Finance costs						(63,077)	18,437	(44,640)
Share of profits and losses								
of associates	122,881	180,234	8,582	-	-	-	-	311,697
Profit before tax								3,351,737
Tax								(825,934)
Profit for the period								2,525,803

## 2. SEGMENT INFORMATION (continued)

The following tables present revenue and profit/(loss) of the Group's business segments for the six months ended 30 June 2006:

Six months ended 30 June 2006 (Unaudited)	Electro- Power equipment RMB'000	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
<b>Segment revenue</b>									
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	278,501	3,032		(119,090)	431,058
Total	13,128,989	6,263,171	1,672,808	756,661	278,501	154,290		(627,956)	21,626,464
<b>Segment results</b>									
Interest and dividend income and unallocated gains							148,713	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
Profit before tax									2,242,136
Tax									(562,014)
Profit for the period									1,680,122

### 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; an appropriate proportion of contract revenue of construction contracts; and the value of services rendered, 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:

	<b>For the six months ended 30 June</b>	
	<b>2007 (Unaudited) RMB'000</b>	<b>2006 (Unaudited) RMB'000</b>
<b>Revenue</b>		
Sales of goods	22,283,114	19,919,602
Construction contracts	2,746,631	610,330
Rendering of services	819,528	665,474
	<b>25,849,273</b>	<b>21,195,406</b>
<b>Other income</b>		
Bank interest income	115,573	81,439
Interest income on loans receivable and discounted bills receivable	13,499	10,514
Interest income on debt investments	44,861	22,876
	<b>173,933</b>	<b>114,829</b>
Dividend income from investments	267,533	29,045
Gross rental income	32,986	38,580
Profit from the sale of raw materials, spare parts and semi-finished goods	65,125	32,982
Subsidy income	994	5,236
Compensation income	35,713	17,047
Others	44,731	27,388
	<b>621,015</b>	<b>265,107</b>

## 3. REVENUE, OTHER INCOME AND GAINS (continued)

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>Other income</b>	621,015	265,107
<b>Gains</b>		
Gain on disposal of items of property, plant and equipment	15,176	11,347
Unrealised fair value gains, net:		
Investments at fair value through profit or loss	41,796	86,926
Derivative investments-transactions not qualifying as hedges	96	-
Gain on disposal of a subsidiary	470	13,452
Gain on disposal of associates	196	3,364
Gain on disposal of equity interest in a jointly-controlled entity	-	10,190
Realised gain on investments at fair value through profit or loss	132,491	95,271
Realised gain on available-for-sale investments (transfer from equity)	402,447	4,489
Gain on disposal of unquoted investments stated at cost	32,133	84,786
Excess over the cost of a business combination	-	14,807
Exchange (losses)/gains, net	(42,006)	1,592
	582,799	326,224
Total	1,203,814	591,331

#### 4. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Cost of inventories sold	17,830,662	16,150,885
Cost of construction contracts	2,514,372	598,919
Cost of services provided	628,566	527,328
Depreciation	385,077	319,745
Recognition of prepaid land lease payments**	15,062	17,319
Amortisation of patents and licences**	14,723	12,837
Amortisation of other intangible assets**	4,611	1,790
Research and development costs:**		
Amortisation of technology know-how	17,312	14,776
Current period expenditure	197,544	124,164
	214,856	138,940
Minimum lease payments under operating leases:		
Land and buildings	61,979	45,693
Plant, machinery and motor vehicles	23,752	5,462
Staff costs	1,787,957	1,411,012
Write-down of inventories to net realisable value*	252,098	20,723
Impairment of accounts receivable and other receivables**	8,872	140,319
Reversal of impairment for loans receivable**	(4,379)	(144)
Impairment/(reversal of impairment) for discounted bills receivable**	2,775	(561)
Impairment of items of property, plant and equipment**	3,540	69
Impairment of goodwill**	-	10,398
Impairment of investments in associates**	-	7,910
Product warranty provisions:*		
Additional provisions	91,226	111,026
Reversal of unutilised provision	(2,641)	(404)
Onerous contract provisions:*		
Additional provisions	118,574	11,993

\* These items are included in "Cost of sales" on the face of the unaudited interim condensed consolidated income statement.

\*\* These items are included in "Other expenses" on the face of the unaudited interim condensed consolidated income statement.

## 5. TAX

The Company and all its subsidiaries that operate in Mainland China are 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:

- twelve subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai;
- four 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;
- one subsidiary 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; and
- one subsidiary is entitled to full exemption on corporate income tax as it is 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.

Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

	<b>For the six months ended 30 June</b>	
	<b>2007 (Unaudited) RMB'000</b>	<b>2006 (Unaudited) RMB'000</b>
<b>Group:</b>		
Current -Mainland China		
Charge for the period	845,744	606,686
Overprovision in prior years	(28,136)	(37,432)
Current -Elsewhere		
Charge for the period	4,082	-
Deferred*	4,244	(7,240)
<b>Total tax charge for the period</b>	<b>825,934</b>	<b>562,014</b>

## 5. TAX (continued)

\* During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. A qualified hi-tech enterprise may enjoy a 15% preferential income tax rate. This change in the income tax rate will directly change the Group's effective tax rate prospectively from 2008. According to HKAS 12, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. As a result, the change in the corporate income tax rate has led to a decrease in deferred tax charge of RMB25,350,000 of the Group for the Period.

The share of tax attributable to associates amounting to RMB44,687,000 (six months ended 30 June 2006: RMB45,272,000) is included in "Share of profits and losses of associates" on the face of the unaudited interim condensed consolidated income statement.

## 6. DIVIDEND

The directors do not recommend the payment of interim dividend (six months ended 30 June 2006: Nil).

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent of RMB1,760,037,000 (six months ended 30 June 2006: RMB1,173,204,000) and the number of 11,891,648,000 ordinary shares in issue during the Period (six months ended 30 June 2006: 11,891,648,000 ordinary shares).

No diluted earnings per share amounts have been presented for the six months ended 30 June 2007 and 2006 as no diluting events occurred during these periods.

## 8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

As at 30 June 2007, the Group had not obtained real estate certificates for 233 (31 December 2006: 188) buildings with a total gross area of approximately 305 (31 December 2006: 272) thousand m<sup>2</sup> and a net book value of RMB299,945,000 (31 December 2006: RMB261,458,000); and for 7 (31 December 2006: 7) parcels of land with a total gross area of approximately 357 (31 December 2006: 460) thousand m<sup>2</sup> and a net book value of RMB93,657,000 (31 December 2006: RMB164,071,000).

## 8. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS (continued)

Included in the above amounts, the Group is in the process of applying for the real estate certificates for 32 buildings with a gross area of approximately 38 thousand m<sup>2</sup> and a net book value of approximately RMB84,078,000 as at 30 June 2007; and for 5 parcels of land with a gross area of approximately 302 thousand m<sup>2</sup> and a net book value of approximately RMB81,582,000 as at 30 June 2007.

## 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 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within 3 months	3,372,861	3,023,566
Over 3 months but within 6 months	1,558,862	1,046,855
Over 6 months but within 1 year	1,726,893	1,866,036
Over 1 year but within 2 years	2,381,708	1,965,277
Over 2 years but within 3 years	507,193	518,197
Over 3 years	140,483	77,831
	9,688,000	8,497,762

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, with retention periods of one to two years.

For the sale of other products, 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 three months and may extend to six months for key customers.



## 10. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

The Group's cash and cash equivalents and restricted deposits are denominated in RMB at each balance sheet date, except for the followings:

	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
USD	28,136	214,272	22,364	174,634
JPY	1,137,238	70,309	955,536	62,712
HKD	320,674	312,452	653,132	656,182
EUR	10,120	103,561	4,931	50,624
Swiss Franc	242	1,497	1	6
South Africa Rand	1,849	1,928	2,372	2,567

## 11. TRADE PAYABLES

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within 3 months	9,316,316	6,221,461
Over 3 months but within 6 months	621,503	323,977
Over 6 months but within 1 year	411,259	252,373
Over 1 year but within 2 years	159,162	265,284
Over 2 years but within 3 years	63,319	34,201
Over 3 years	88,753	90,128
	10,660,312	7,187,424

## 12. ISSUED CAPITAL

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each, currently not listed:		
- state-owned shares	7,898,981	6,624,279
- other legal person shares	1,019,755	2,294,457
H shares of RMB1.00 each	2,972,912	2,972,912
<b>Total</b>	<b>11,891,648</b>	<b>11,891,648</b>

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 restrictions.

On 6 April 2007, Shanghai Electric (Group) Corporation ("SE Corporation"), the holding company of the Company, entered into a share transfer agreement with Shantou Municipal Mingguang Investment Co., Ltd. ("Mingguang"), a promoter and a shareholder of the Company, pursuant to which Mingguang agreed to transfer the 356,920,287 shares, representing approximately 3.0% of the entire issued share capital of the Company, to SE Corporation.

On 15 June 2007, SE Corporation entered into a share transfer agreement with Fuxi Investment Holding Co., Ltd ("Fuxi"), a promoter and a shareholder of the Company, pursuant to which, Fuxi agreed to transfer the 917,780,877 shares, representing approximately 7.7% of the entire issued share capital of the Company, to SE Corporation.

Following the completion of the transfers above, SE Corporation holds 7,409,088,877 shares in the Company, representing approximately 62.3% of the entire issued share capital of the Company.

## 13. THE ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is SE Corporation, a state-owned enterprise established in the PRC.

## 14. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>Guarantees given to banks:</b>		
<b>In connection with banking facilities granted to and utilised by:</b>		
- the ultimate holding company	29,000	29,000
- associates	210,549	205,919
	239,549	234,919
<b>In which,</b>		
<b>Guarantees given to banks in connection with facilities utilised by:</b>		
- the ultimate holding company	29,000	29,000
- associates	166,772	147,549
	195,772	176,549
<b>Non-financial guarantee letters issued on behalf of:</b>		
- the ultimate holding company	28,139	28,139
- associates	7,461	13,268
- SEC group companies*	19,254	22,542
- third parties	46,116	61,806
	100,970	125,755

\* SEC group companies are defined as the Group's related companies over which SE Corporation is able to exert control.

## 14. CONTINGENT LIABILITIES (continued)

### (a) (continued):

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 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>Guarantees given to banks in connection with banking facilities granted to and utilised by:</b>		
- third parties	1,663	743

- (b) 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 totaling 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 plaintiff has not taken further action to date.

## 15. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases out certain of its properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years and those for plant and machinery are negotiated for terms ranging from 1 to 15 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.

## 15. OPERATING LEASE ARRANGEMENTS (continued)

### (a) As lessor (continued)

At 30 June 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	33,102	31,126
In the second to fifth years, inclusive	77,189	56,097
After five years	168,360	159,786
	278,651	247,009

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	8,200	8,425
In the second to fifth years, inclusive	32,800	36,307
After five years	72,775	51,857
	113,775	96,589

## 15. OPERATING LEASE ARRANGEMENTS (continued)

### (b) As lessee

The Group leases certain of its properties, plant and machinery and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to 20 years, while those for plant and machinery and motor vehicles are for terms ranging from one to two years.

At 30 June 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	59,162	60,241
In the second to fifth years, inclusive	139,202	105,612
After five years	223,181	306,869
	421,545	472,722

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
Within one year	6,872	5,229
In the second to fifth years, inclusive	22,326	18,677
After five years	65,139	42,539
	94,337	66,445

## 16. COMMITMENTS

In addition to the operating lease commitments detailed in note15(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>Contracted, but not provided for:</b>		
In respect of the acquisition of:		
- land and buildings	321,030	765,908
- plant and machinery	1,757,588	1,784,762
- intangible assets	48,076	18,173
In respect of capital contribution to:		
- associates	55,125	4,760
- companies to be established	173,990	231,850
	2,355,809	2,805,453
<b>Authorised, but not contracted for:</b>		
In respect of the acquisition of:		
- land and buildings	509,367	726,605
- plant and machinery	543,910	1,194,482
	1,053,277	1,921,087
	3,409,086	4,726,540

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>Contracted, but not provided for:</b>		
In respect of the acquisition of:		
- land and buildings	1,656	11,716
- plant and machinery	3,725	27,259
- intangible assets	210	-
	5,591	38,975

## 17. RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>Purchase of materials from:</b>	(i)		
Jointly-controlled entities		38,313	24,177
Associates		274,228	196,754
SEC group companies		224,688	540,389
Other related companies		360,247	726,728
		897,476	1,488,048
<b>Sales of goods to:</b>	(i)		
The ultimate holding company		212,916	292
Jointly-controlled entities		14,045	2,123
Associates		101,457	107,053
SEC group companies		104,125	123,326
Other related companies		37,539	29,094
		470,082	261,888
<b>Sales of scraps and spare parts to:</b>	(i)		
Associates		443	3,807
<b>Purchase of manpower services from:</b>	(i)		
Associates		9,894	16,683
SEC group companies		3,111	466
Other related companies		7,966	24,279
		20,971	41,428
<b>Provision of manpower services to:</b>	(i)		
Associates		31,555	20,045
SEC group companies		3,822	-
Other related companies		-	808
		35,377	20,853



## 17. RELATED PARTY TRANSACTIONS (continued)

### (a) (continued):

	Notes	For the six months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>Rental income from:</b>	(ii)		
Associates		4,550	4,553
<b>Rental fee to:</b>	(ii)		
The ultimate holding company		8,376	16,773
SEC group companies		4,662	-
Associate		1,007	-
Other related companies		1,170	-
		15,215	16,773

#### Notes:

- (i) Sales and purchases were conducted in accordance with mutually agreed terms.
- (ii) Rental income and rental fee were based on mutually agreed terms with reference to the market rates.

### (b) Other transactions with related parties

- (i) In March 2007, Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel"), a subsidiary of the Group, entered into a compensation agreement with SE Corporation, according to which SE Corporation paid Shanghai Diesel for the compensation of land development costs of two parcels of land obtained by SE Corporation, namely, Jungong Road and Yinxing Road, originally paid by Shanghai Diesel. The compensation was made by using certain tangible assets with the value of RMB15,737,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China.

Meanwhile, Shanghai Diesel contracted with SE Corporation to lease the two parcels mentioned above with the term starting from year 2005 to year 2024. The first rental fee will be initiated from the second half year in 2008, with the mutually agreed annual rental fee of RMB6,480,000. The rental fee may be adjusted once every three years.

## 17. RELATED PARTY TRANSACTIONS (continued)

### (b) Other transactions with related parties (continued)

- (ii) The Company and SE Corporation entered into entrusted agreements, according to which the Company entrusted SE Corporation to negotiate with Vietnam Quang Ninh Thermal Power Joint-Stock Company ("Vietnam Quang Ninh"), and respective suppliers as well as constructors regarding the construction of Phase I and Phase II of coal-fired power plant (the "Project"). SE Corporation acted as an entrusted party to sign the contracts on behalf of the Company. SE Corporation would not charge any fee in relation to the entrusted agreements apart from a reimbursement of reasonable costs actually incurred.

Total contract considerations of Phase I and Phase II of the Project are USD 452,240,000 and USD418,580,000, respectively. Sales regarding Phase I of RMB203,874,000 were recognised during the Period. In addition, purchases of RMB183,895,000 and agent fee of RMB35,287,000 were incurred through SE Corporation during the Period.

- (iii) The Group purchased certain equipment of RMB17,628,000 from a subsidiary of SE Corporation.

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

As at 30 June 2007, the Group has provided corporate guarantees in connection with facilities totalling RMB 239,549,000 (31 December 2006: RMB234,919,000) to related parties, out of which RMB195,772,000 (31 December 2006: RMB176,549,000) had been utilised. And Shanghai Electric Group Finance Co., Ltd. ("Finance Company"), a subsidiary of the Company, had issued non-financial guarantee letters on behalf of related parties totalling RMB54,854,000 (31 December 2006: RMB63,949,000) (note 14(a)).

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

	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
<b>Guarantees provided to the Group by:</b>		
The ultimate holding company	45,186	51,701
SEC group companies	33,600	41,600
Other related companies	26,000	9,000
	104,786	102,301

## 17. RELATED PARTY TRANSACTIONS (continued)

**(d) Interest on deposit and loan services provided to related parties by Finance Company**

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
<b>Interest expenses on customer deposits:</b>		
The ultimate holding company	139	-
Jointly-controlled entities	253	101
Associates	347	282
SEC group companies	171	-
Other related companies	456	44
	1,366	427
<b>Interest income on loans and bills discounting:</b>		
The ultimate holding company	4,011	-
Jointly-controlled entities	3,223	1,834
Associates	969	1,550
SEC group companies	1,648	-
Other related companies	703	324
	10,554	3,708

Interest on customer deposits, loans and bills discounting were based on mutually agreed terms with reference to the market rates.

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

	For the six months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Fees	408	275
Short term employee benefits	592	486
Post-employment benefits	47	45
	1,047	806

## 18. POST BALANCE SHEET EVENTS

- (a) On 20 July 2007, the board of directors approved the following proposals:
- (i) The Board passed the proposal for the establishment of Shanghai Electric Ultra High Voltage Equipment Manufacturing Base (the "Base") by Shanghai Power Transmission and Distribution Co., Ltd. ("Power Transmission"), a subsidiary of the Company in which the Company holds 83.75% equity interest. The proposed investment for the Base amounts to RMB695,150,000. The Base will mainly focus on the research, development and manufacture of 110KV~1000KV AC heavy PTD equipment and  $\pm 500KV\sim\pm 800KV$  DC power transmission key equipment.
  - (ii) Finance Company intends to make an application to the China Banking Regulatory Commission ("CBRC") and the People's Bank of China (the "PBOC") in relation to the proposed issuance of the bonds of an aggregate value of no more than RMB1.5 billion (the "Bonds") to the qualified domestic institutional investors in PRC, save for those that are prohibited by PRC laws or regulations from subscribing for the Bonds. It is intended that the Bonds be listed in PRC inter-bank bond market after obtaining the approvals from the relevant authorities. Details and terms of the issuance of the Bonds are subject to the final approval of the PBOC and the CBRC, and will be finalised according to the prevailing condition of PRC inter-bank bond market at issuing.
- (b) On 19 July 2007, the Company acquired a 97.24% interest in Shanghai Crane & Conveyor Works Co., Ltd., which is mainly engaged in the manufacture and installation of cranes and conveyors, from SE Corporation. The purchase consideration of RMB151,831,000 for the acquisition, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China, was in the form of cash and paid upon completion of the equity purchase.
- (c) On 19 July 2007, the Company disposed its 95% interest in Shanghai Electric Equipment Lease Co., Ltd., a subsidiary of the Company, which is engaged in various leasing operations, for a cash consideration of RMB198,170,000. The cash consideration was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China and was received upon completion of the equity transfer.

## 18. POST BALANCE SHEET EVENTS (continued)

- (d) On 18 July 2007, the Group, through its subsidiary, Finance Company, disposed 50% interest in Shanghai Electric Insurance Company Brokerage Co., Ltd., which is engaged in insurance brokerage, for a cash consideration of RMB5,130,000. The cash consideration was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China and was received upon completion of the equity transfer.

## 19. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 17 August 2007.