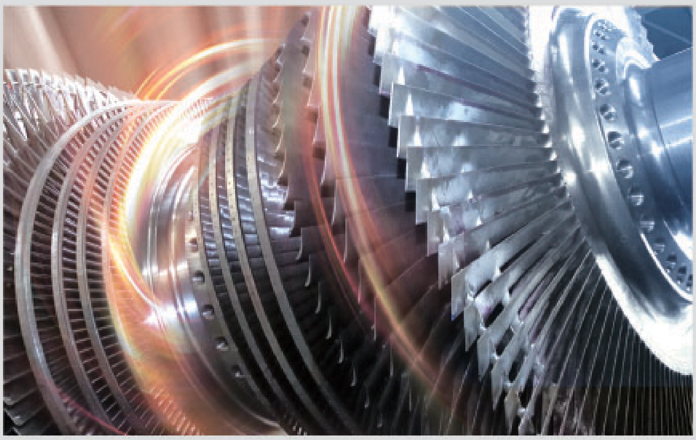
上海电气
SHANGHAI ELECTRIC

2008 Interim Report

Shanghai Electric Group Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)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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
Postal code: 200336

Principal Place of Business in Hong Kong
2901, 29th Floor,
Tower One, Lippo Centre,
89 Queensway, Hong Kong

Joint Company Secretaries
Li Chung Kwong Andrew
(FCCA, FCPA, ACA, CIA)
(became sole company secretary upon resignation of Mr. Yao Wenjun on 21 July 2008)
Yao Wenjun
(resigned on 21 July 2008)

Authorized Representatives
Xu Jianguo
Huang Dinan

Alternate Authorized Representatives
Cheung Wai Bun
Li Chung Kwong Andrew
(FCCA, FCPA, ACA, CIA)

Qualified Accountant
Li Chung Kwong Andrew
(FCCA, FCPA, ACA, CIA)

Stock Exchange on which H Shares are listed
The Stock Exchange of Hong Kong Limited - Main Board

Abbreviation of H Shares
SH Electric

Stock Code of H Shares
02727

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 and U.S. law)

Anderson Mori & Tomotsune
(As to Japanese Law)

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Performance Highlights

- Revenue for the first half of 2008 reached RMB**28,963** million, representing an increase of **8.9%** over the corresponding period last year

- Profit attributable to equity holders of the parent for the first half of 2008 was RMB**1,547** million, representing a decrease of **13.8%** over the corresponding period last year, and RMB**1,331** million of which was profit attributable to equity holders net of financial business, representing an increase of **1.5%** over the corresponding period last year

- Basic earnings per share were RMB**13.01** cents.

- Successfully secured the following major contracts:、
  - 9 domestic contracts for the supply of 1,000MW coal-fired power plant equipment and coal-fired power plant EPC projects, with a total value of over RMB**22,839** million
  - Overseas contracts for the supply of coal-fired power plant equipment with a total capacity of over 7,000MW and a total value of nearly RMB**20,000** million
  - Contract for the supply of nuclear power conventional island equipment for Guangdong Yangjiang Nuclear Power Plant, total value RMB**5,330** million
  - Domestic contracts for the supply of **179** metropolitan railcars

Chairman's Statement

The Board of Directors 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 2008. The results of operations have been prepared in accordance with the accounting principles generally accepted in Hong Kong and reviewed by Ernst & Young.

Review of Operations

The Group's revenue for the first half of 2008 was RMB28,963 million (1H07: RMB26,585 million), representing an increase of 8.9% over the corresponding period last year. Profit attributable to the equity holders of the parent was RMB1,547 million (1H07: RMB1,795 million), representing a decrease of 13.8% over the corresponding period last year, and RMB1,331 million of which was profit net of financial business attributable to equity holders, representing an increase of 1.5% over the corresponding period last year. Basic earnings per share were RMB13.01 cents (1H07: RMB15.10 cents).

As at 30 June 2008, total assets of the Group were RMB80,357 million (2007: RMB76,397 million) and total liabilities amounted to RMB52,683 million (2007: RMB48,886 million). Total shareholders' equity was RMB27,674 million (2007: RMB27,511 million), of which RMB20,181 million (2007: RMB19,669 million) was attributable to the equity holders of the parent. Net asset value per share (attributable to the equity holders of the Company) was RMB1.70, posting an increase of RMB0.05 compared with that at the beginning of the year.

During the first half of 2008, the macro economy of the world has undergone changes. Various aspects of the industrial sector and the economy were affected by the rising cost of materials such as steel, the price of which has been driven by the oil price hike. Against this background, the PRC Government decisively implemented a series of austerity measures to effectively curb the inflation with a view to preventing serious fluctuation of economic development in China. Nevertheless, China's economy maintained its growth momentum with the support of the accelerating urbanization. The GDP growth rate reached 10.4% for the first half of 2008. Market demands for power equipment, elevators, heavy machinery and metro-rail transportation equipment for various infrastructure projects remained strong, providing a favorable environment for the development of the Group's core businesses. Recognizing the structural change of the economy, the Group, on one hand, focused more on technological improvement through the introduction of new technology and the Group's research and development, which in turn, enhanced its capability and efficiency. On the other hand, the Group proactively adjusted its operating strategies by raising the unit price of products, exploring potential markets, streamlining business operations and increasing the localization of its products. As a result, the Group maintained its development momentum in the first half of 2008. The Group secured new orders of power generation equipment of over 29,000MW with total contract value of approximately RMB60,000 million. As at 30 June 2008, outstanding power generation equipment orders hit the historical high of over 90,000MW, ensuring the Group's continuous development for the coming years.

Outlook

Looking ahead, the Group will continue to maintain its sustainable growth of profitability by means of technological innovation, technological improvement and business structure optimization. Capitalizing on market and policy opportunities, the Group will seek to maintain its competitiveness in the power equipment, heavy machinery and elevators markets by leveraging its technological edge and effective measures on cost reduction. Amid the severe shortage in energy supply and the surge of raw material price such as steel and iron in the global market, the Group will strive to enhance our core competitiveness by expanding our business into wind power, nuclear power and metro-rail transportation equipment through its own research and development, technology introduction and application, as well as seeking cooperation opportunities with potential partners.

Power Equipment Business

The Group will continue to develop advanced technology and new thermal power generation equipment products in order to strengthen the competitiveness of its products in accordance with the national plan for the industry. Besides, the Group will actively develop wind and nuclear power equipment so as to consolidate the Group's presence in the market of alternative energy equipment.

For thermal power generation equipment business, the Group was exposed to the risks of rising raw material price and exchange rate fluctuation as a result of the change in international and local economic environment in the first half of 2008. Nevertheless, a lot of development opportunities arise in the meantime, such as (1) the PRC government has progressed its industrial policy of "replacement of small capacity units by large capacity units" and proposed to shut down small capacity thermal power generation units to the extent of 13,000MW in 2008, increasing the room for expansion for our large capacity and high technology coal-fired power generation equipment products; (2) the demand of power generation equipment in overseas markets like India remained robust. The Group secured overseas orders of power generation equipment with a capacity exceeding 7,000MW in first half of 2008.

In light of the rising raw material price, the Group will continue to implement various cost reduction measures as well as to adjust the product price so as to mitigate the pressure on gross profit margins. For the risk of exchange rate fluctuation, the Group will adjust the bidding prices for overseas projects, enter into forward foreign exchange contracts and flexibly adopt different foreign exchange settlement arrangements to monitor its exposure to exchange rate fluctuation risks.

With regard to the wind power equipment business, the Group will further expand its production of wind power equipment. Over 60 sets of wind power equipment of 1.25MW were produced in the first half of 2008. A local manufacturing chain of ancillary parts for wind power equipment of 2MW was established and 2MW capacity equipment is expected to commence production in 2009. The Group is also optimistic about the offshore wind power equipment business for the coastal areas of the PRC and is actively planning to become a large offshore wind power equipment manufacturer.

For nuclear power conventional island equipment business, the Group was awarded the project for provision of six sets of 1,000MW nuclear power conventional island equipment in Yangjiang during the first half of 2008. This is the largest nuclear power conventional island equipment order in history in the PRC, which contributed to a rapid growth of market share in nuclear power generation equipment business of the Group. The construction project for nuclear power conventional island equipment plant at Lingang Base with an annual capacity of 2,500MW was completed and commenced operation. This laid a solid foundation for the future development of the Group under the market competition situation.

To seize opportunities in the rapidly growing power transmission and distribution equipment market in the PRC, the Group will focus on the development of power transmission and distribution equipment of ultra-high and super-high voltage through the establishment of joint ventures and business cooperation, technology introduction and absorption as well as resources consolidation. The Group will continue the construction project for super-high voltage power transmission and distribution equipment plant at the Lingang Base.

Heavy Machinery Business

The project for hot processing technology upgrade for large-scale forging and casting pieces was basically completed. With the successful completion of the casting project and the expected completion of the forging project by the end of this year, the Group is building up its competitive edge in the extreme processing capability of the heavy machinery business. In addition, the projects also enhance the sufficient supply of large casting pieces for the production of our power generation equipment and crankshafts, ensuring higher cost effectiveness for the Group.

Chairman's Statement

As the Group has already obtained nuclear power nuclear island equipment orders from projects such as Hongyanhe, Ningde and Fangjiashan, it will actively seek potential nuclear power plant projects elsewhere in China to capture more market share. Besides, projects for the construction of the nuclear power nuclear island equipment production facilities at our Lingang Base are expected to commence operation in full swing by the end of this year. As such, our production capacity will be enhanced and the production chain for the nuclear power nuclear island equipment of the Group will be further strengthened.

The phase 2 of the ship-use crankshaft project at our Lingang Base has been completed and commenced operation, and will gradually reach an annual production capacity of 200 ship-use crankshafts.

Elevator Business

Though the austerity measures of the PRC are not favourable for the development of elevator industry, the medium to long term potential of the elevator industry is relatively promising with the support of the continuous urbanization in the PRC. The Group will further optimize its product mix and increase the production capacity of its elevator business. It will strive to maintain its technological advantages by innovations and to satisfy market demand by new products. The Group will also further expand its installation and maintenance service network and develop its repairs and maintenance service business.

Metropolitan Rail Transportation Equipment Business

Apart from cities such as Beijing, Shanghai, Shenzhen, Tianjin, Guangzhou and Chongqing, it is expected that more than 20 cities in the PRC will develop metro-rail transportation networks in the next few years. While the Group will maintain its leading position in the Shanghai market, it will also strive to expand the market of metro-rail transportation equipment into other cities, as well as seeking the opportunity to tap into overseas markets. Meanwhile, our self-developed Type A railcars are well equipped for operation tests on the metro-rail routes. Upon completion of relevant subsequent tests, the Group will speed up the commercialization of our Type A railcar production.

Environmental Systems Business

The Group regards environment, resources, renewable energy and recycled economy as its future business direction. It is looking into the expansion of its business into application fields of coal-bed methane, solid waste disposal, sewage treatment, desulphurization and de-nitration. The Group intends to develop its capability of system design, EPC (engineering, procurement and construction), installation design and manufacturing, as well as research and development of core components.

Last but not least, may I take this opportunity to thank all of our shareholders for their continued support and trust to the Group, and express my heartfelt gratitude to the unremitting efforts and commitment devoted by all the Directors, supervisors, senior management and staff of the Group in the first half of the year.

Xu Jianguo
Chairman
Shanghai, the PRC,
22 August 2008

Management Discussion and Analysis

Although the raw material price has been rising generally due to changes in the global macro economic environment, which has brought pressure and challenges on the profitability of major businesses of the Group, the Group still recorded growth in sales in its core business segments in the first half of 2008 as a result of the diligence and efforts of every member of the Group. Particularly, the revenue of its heavy machinery division recorded a significant growth, representing an increase of 2.6 percentage points in revenue contribution percentage for the Group.

Operation Review of Major Business Divisions

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

	Revenue		Operating Profit	
	For the six months ended 30 June		For the six months ended 30 June	
(in RMB million)	2008	2007	2008	2007
Power equipment	**15,814**	15,747	**1,497**	1,598
Percentage of the total	**54.6%**	59.2%	**58.8%**	50.5%
Electromechanical equipment	**6,874**	6,117	**568**	543
Percentage of the total	**23.7%**	23.0%	**22.3%**	17.2%
Heavy machinery	**2,287**	1,422	**106**	154
Percentage of the total	**7.9%**	5.3%	**4.2%**	4.9%
Transportation equipment	**2,773**	2,419	**106**	79
Percentage of the total	**9.6%**	9.1%	**4.2%**	2.5%
Environmental systems	**1,623**	1,105	**37**	10
Percentage of the total	**5.6%**	4.2%	**1.4%**	0.3%
Financial business	**194**	128	**347**	917
Percentage of the total	**0.7%**	0.5%	**13.6%**	29.0%
Other businesses*	**233**	220	**209**	876
Percentage of the total	**0.8%**	0.8%	**8.2%**	27.7%
Adjustment and elimination upon consolidation*	**(835)**	(573)	**(324)**	(1,015)
Percentage of the total	**(2.9%)**	(2.1%)	**(12.7%)**	(32.1%)
Total	**28,963**	26,585	**2,546**	3,162
	100.0%	100.0%	**100.0%**	100.0%

* Included in the operating profit of other businesses was dividend income of RMB242 million (1H07: RMB899 million) from the Company's subsidiaries, which has been eliminated by consolidation adjustment.

Management Discussion and Analysis

Power Equipment Division

To cope with the continuously robust market demand for power equipment in the PRC during the first half of 2008, the integrated operation model which has been actively implemented by the Group has achieved further success. During the first half of 2008, the revenue of the Power Equipment Division amounted to RMB15,814 million (1H07: RMB15,747 million). Divisional operating profit amounted to RMB1,497 million (1H07: RMB1,598 million). Because of the tight cashflow of individual power producers due to the macro environment, more provision in relation to growing retention money balance has been made. In addition, expenses for improvement of the technology management, research and development as well as information technology increased, resulting in a reduction of the operating profit of this division.

Electromechanical Equipment Division

During the first half of 2008, primarily due to the rise in sales volume for elevators and machine tools, revenue of our electromechanical equipment division increased by 12.4% as compared to that of the corresponding period last year. This division's operating profit also increased by 4.6% over the corresponding period last year, growth rate lower than that of the division's revenue. This was mainly attributable to a decrease of its gross profit margin and an increase of research and development expenses.

Heavy Machinery Division

During the first half of 2008, the revenue of the heavy machinery division increased by 60.8% as compared with that of the same period last year. This was mainly attributable to an increase of sales of heavy machinery and nuclear power equipment products. Operating profit of this division decreased by 31.2% over the corresponding period last year. This was mainly attributable to a decrease of the gross profit margin and an increase of expenses.

Transportation Equipment Division

During the first half of 2008, the revenue and operating profit of the transportation equipment division increased by 14.6% and 34.2% respectively as compared with those of the same period last year. This was mainly attributable to an increase of sales of diesel engines.

Environmental Systems Division

During the first half of 2008, the revenue of the environmental systems division increased by 46.8% as compared with that of the corresponding period last year. As a result of an improvement in our solar energy and desulphurization and denitration systems businesses, the operating profit increased by RMB27 million compared to that of the same period last year.

Financial Business

During the first half of 2008, due to the reduction in investment gain, operating profit for financial business decreased by RMB570 million compared to that of the same period last year.

Share of Profits and Losses of Associates

During the first half of 2008, the share of profits of associates was RMB277 million (1H07: RMB312 million). This was mainly attributable to a decrease of net profits in certain associates.

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 2008 decreased by 13.8% from the last corresponding period to RMB1,547 million (1H07: RMB1,795 million). Earnings per share were RMB13.01 cents (1H07: RMB15.10 cents).

Cash Flow

As at 30 June 2008, the Group had bank balances, cash and deposits in the Central Bank of RMB13,992 million, representing a decrease of RMB1,583 million from the beginning of the period. During the period, the Group had a net cash outflow from operating activities of RMB769 million, net cash outflow from investing activities of RMB1,353 million, and net cash outflow from financing activities of RMB136 million.

Assets and Liabilities

As at 30 June 2008, the Group has total assets of RMB80,357 million (2007: RMB76,397 million), with an increase of RMB3,960 million, or 5.2%, compared with the beginning of the period. Total current assets increased by RMB3,131 million from the beginning of the period to RMB62,532 million (2007: RMB59,401 million), accounting for 77.8% of the total assets. Total non-current assets were RMB17,825 million (2007: RMB16,996 million), representing an increase of RMB829 million from the beginning of the period and accounting for 22.2% of the total assets.

As at 30 June 2008, total liabilities of the Group were RMB52,683 million (2007: RMB48,886 million), representing an increase of RMB3,797 million, or 7.8% compared with that of the beginning of the period. Total current liabilities increased by RMB3,519 million from the beginning of the period to RMB49,394 million (2007: RMB45,875 million), whereas total non-current liabilities increased by RMB278 million from the beginning of the period to RMB3,289 million (2007: RMB3,011 million).

As at 30 June 2008, total net current assets of the Group were RMB13,137 million (2007: RMB13,526 million), representing a decrease of RMB389 million from the beginning of the period.

Source of Funding and Indebtedness

As at 30 June 2008, the Group had aggregate bank and other borrowings and bonds of RMB3,301million (2007: RMB3,261 million), with an increase of RMB40 million from the beginning of the period. Borrowings repayable within one year amounted to RMB896 million, representing a decrease of RMB541 million compared with that of the beginning of the period. Borrowings and bonds repayable after one year amounted to RMB2,405 million, which represented an increase of RMB581 million compared with that of the beginning of the period.

As of 30 June 2008, for the bank and other borrowings of the Group, except for loans of USD7,405,000 in aggregate (2007: USD9,420,000), HKD48,000,000 in aggregate (2007: HKD48,000,000), EURO275,000 in aggregate (2007: EURO490,000), JPY222,000,000 in aggregate (2007: JPY280,000,000) and ZAR141,211 in aggregate (2007: ZAR413,000), which are denominated in foreign currencies, all other borrowings are in Renminbi.

Finance Costs

Finance costs for the first half of 2008 were RMB32 million (1H07: RMB22 million).

Management Discussion and Analysis

Pledged Assets

As at 30 June 2008, the Group's bank deposits of RMB1,450 million in aggregate (2007: RMB1,184 million) were pledged to a bank. In addition, certain land use rights, buildings and machinery of the Group were pledged as the securities for certain bank borrowings of the Group. As at 30 June 2008, the net value of its pledged assets amounted to RMB127 million (2007: RMB128 million). Except for the abovementioned assets, the Group had not pledged any other assets in the first half of 2008.

Gearing Ratio

As at 30 June 2008, the gearing ratio of the Group, which represented the ratio of interest-bearing bank and other borrowings plus bonds to total equity plus interest-bearing bank and other borrowings and bonds, was 10.66%.

Contingent Liabilities

Please refer to Note 14 to the Unaudited Interim Condensed Consolidated Financial Statements for details.

Capital Commitments

Please refer to Note 16 to the Unaudited Interim Condensed Consolidated Financial Statements for details.

Capital Expenditure

Total capital expenditure of the Group for the period was approximately RMB1,598 million (1H07: RMB1,546 million), principally applied to the upgrading of production technologies and production equipment.

Risk of Foreign Exchange Fluctuations

During the period under review, the Group exported certain products 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 2008, the Group had certain foreign currency borrowings (please see earlier part of this analysis for details) and bank deposits of HKD134 million, USD16 million, JPY794 million, EURO35 million and other foreign currencies equivalent to RMB768,000 in total, and sales contracts of USD6 billion approximately in the outstanding foreign currencies orders on hand. Apart from this, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Employees

As at 30 June 2008, the Group had approximately 31,500 employees (30 June 2007: 32,500). The Company has short term and long term incentive programs to encourage employee performance and a series 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 2008, the following persons (other than the directors, supervisors and chief executives of the Company) 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") share	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
Shenzhen Fengchi Investment Co., Ltd.	D	Beneficial owner	2	917,778,942	Long position	10.29	7.72
Shanghai Depeng Investment Co., Ltd.	D	Interest of controlled corporation	2	917,778,942	Long position	10.29	7.72
Guangdong Zhujiang Investment Holding Group Co., Ltd.	D	Interest of controlled corporation	2	917,778,942	Long position	10.29	7.72
Guangdong Hanjiang Asset Management Co., Ltd.	D	Interest of controlled corporation	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

Other Information

Name of substantial shareholder	H/ Domestic ("D") share	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 (%)
Deutsche Bank Aktiengesellschaft	H	Beneficial owner		11,799,405	Long position	0.40	0.10
		Investment manager	3	319,298,800	Long position	10.74	2.69
		Person having a security interest in shares		27,563,170	Long position	0.93	0.23
		Total long position		**358,661,375**		**12.06**	**3.02**
		Beneficial owner		9,265,183	Short position	0.31	0.08
		Person having a security interest in shares		23,440,000	Short position	0.79	0.20
		Total short position		**32,705,183**		**1.10**	**0.28**
JPMorgan Chase & Co.	H	Beneficial owner	4	56,225,626	Long position	1.89	0.47
		Custodian	4	240,999,335	Long position	8.11	2.03
		Total long position		**297,224,961**		**10.00**	**2.50**
		Beneficial owner	4	22,573,012	Short position	0.76	0.19
Artisan Partners Limited Partnership	H	Investment manager	5	238,108,400	Long position	8.01	2.00
ZFIC, Inc.	H	Beneficial owner	5	238,108,400	Long position	8.01	2.00
Lloyd George Investment Management (Bermuda) Ltd	H	Investment manager		185,751,000	Long position	6.25	1.56
UBS AG	H	Beneficial owner		51,959,603	Long position	1.75	0.44
		Person having a security interest in shares		80,024,500	Long position	2.69	0.67
		Interest of controlled corporation	6	21,243,000	Long position	0.71	0.18
		Total long position		**153,227,103**		**5.15**	**1.29**
		Beneficial owner		12,600,000	Short position	0.42	0.11
		Interest of controlled corporation	6	18,515,000	Short position	0.62	0.16
		Total short position		31,115,000		1.05	0.26

Name of substantial shareholder	H/ Domestic ("D") share	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 (%)
Morgan Stanley	H	Interest of controlled corporation	7	149,366,414	Long position	5.02	1.26
		Interest of controlled corporation	7	147,612,704	Short position	4.97	1.24
Siemens International Holding B.V.	H	Beneficial owner	8	148,646,000	Long position	5.00	1.25
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporation	8	148,646,000	Long position	5.00	1.25
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporation	8	148,646,000	Long position	5.00	1.25
Siemens Aktiengesellschaft	H	Interest of controlled corporation	8	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) Shenzhen Fengchi Investment Co., Ltd. holding 917,778,942 shares of the Company, was owned as to 90% by Shanghai Depeng Investment Co., Ltd., which in turn was wholly owned by Guangdong Zhujiang Investment Holding Group Co., Ltd. ("Guangdong Zhujiang"). Guangdong Zhujiang was owned as to 75% by Guangdong Hanjiang Asset Management Co., Ltd. ("Guangdong Hanjiang"). Guangdong Hanjiang 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.

Other Information

Notes (continued)

(3) Deutsche Bank Aktiengesellschaft was interested in 319,298,800 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage ownership in controlled corporation (%)	No.of shares
Deutsche Asset Management Investmentgesellschaft mbH	100	929,000
DWS Investment GmbH	100	129,722,000
Deutsche Asset Management Schweiz	100	740,000
DWS Investment S.A., Luxemburg	100	18,430,000
Deutsche Bank Trust Company Americas	100	2,332,800
Deutsche Investment Management Americas Inc.	100	165,654,400
DWS Trust Company	100	1,398,600
Tilney Investment Management	100	92,000

Among the entire interest of Deutsche Bank Aktiengesellschaft in the Company, a long position in 7,670,000 shares was held through cash settled unlisted derivative interests.

(4) JPMorgan Chase & Co. held a long position in 297,224,961 shares and a short position in 22,573,012 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage ownership in controlled corporation (%)	No.of shares
JP Morgan Chase Bank, N.A.	100	240,999,335 (Long position)
J.P. Morgan Whitefriars Inc.	100	53,456,600 (Long position) 6,245,012 (Short position)
J.P. Morgan Securities Ltd.	100	246,000 (Long position)
J.P. Morgan Structured Products B.V.	100	15,328,000 (Short position)
Bear, Stearns International Limited	100	2,523,026 (Long position) 1,000,000 (Short position)

The interests of JPMorgan Chase & Co. included a lending pool of 240,999,335 shares. Among the entire interests of JPMorgan Chase & Co. in the Company, a short position in 15,328,000 shares was held through cash settled listed derivative instruments. A long position in 6,200,000 shares and a short position in 6,245,012 shares were held through physically settled unlisted derivative instruments.

(5) Artisan Partners Limited Partnership holdings 238,108,400 shares of the Company, was wholly owned by Artisan Investment Corporation which in turn was wholly owned by ZFIC, Inc. The aforesaid corporation, or their directors, are accustomed or obliged to act in accordance with the directions or instructions of Mr. Andrew A. Ziegler and Ms. Carfene M. Ziegler. The interest in 238,108,400 shares relates to the same block of shares in the Company.

Notes (continued)

(6) UBS AG held a long position in 21,243,000 shares and a short position in 18,515,000 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage ownership in controlled corporation (%)	No.of shares
UBS Securities LLC	100	18,515,000 (Long position) 18,515,000 (Short position)
UBS Global Asset Management (UK) Limited	100	1,642,000 (Long position)
UBS Global Asset Management (Japan) Ltd	100	1,086,000 (Long position)

Among the entire interests of UBS AG in the Company, a long position in 26,000 shares was held through cash settled listed derivative instruments and a long position in 300,000 shares was held through physically settled unlisted derivative instruments.

(7) Morgan Stanley held a long position in 149,366,414 shares and a short position in 147,612,704 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage ownership in controlled corporation (%)	No.of shares
Morgan Stanley & Co. International plc.	100	100,774,490 (Long position) 99,142,016 (Short position)
Morgan Stanley Hong Kong Securities Limited	100	41,058 (Long position) 76,000 (Short position)
Morgan Stanley Capital (Cayman Islands) Limited	100	680,000 (Short position)
Morgan Stanley Capital Services Inc.	100	5,864 (Long position)
Morgan Stanley Capital (Luxembourg) S.A.	93.75	820,000 (Long positio)
Morgan Stanley & Co, Inc.	100	47,725,002 (Long position) 47,714,688 (Short position)

(8) 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 2008 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Other Information

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

As at 30 June 2008, Mr. Zhu Kelin (a non-executive director of the Company)'s spouse, Ms. Liu Shaopin held 30,000 shares of Shanghai Power Transmission and Distribution Company Limited, an associated corporation (as defined in Part XV of the SFO) of 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 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 2008, 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 code provisions as set out in Appendix 10 of the Listing Rules as its model code for securities transactions by directors ("Model Code"). Further to the Company's enquiry, all Directors confirmed that they had complied with the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers and the Model Code during the period from 1 January 2008 to 30 June 2008.

Corporate Governance

For the first half of 2008, 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 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 2008, the duties of the Chief Executive Officer and the Chairman of the Board have been carried out by Mr. Xu Jianguo. 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.

Audit Committee

Our audit committee, comprising Dr. Cheung Wai Bun, Dr. Yao Fusheng (passed away on 11 July 2008), Mr. Lei Huai Chin and Ms. Yao Minfang (appointed on 11 August 2008), has reviewed the accounting policies adopted by the Group and credit limits of its connected transactions with the management and the Company's external auditors, and discussed on matters concerning internal control and financial reporting of the Group, including review and approval of the unaudited interim condensed consolidated financial statements of the period.

Remuneration Committee

The Remuneration Committee, which comprises Mr. Lei Huai Chin, Mr. Huang Dinan and Dr. Yao Fusheng (passed away on 11 July 2008), is mainly responsible for providing recommendations to the Board of Directors in respect of the remuneration policy and structure of the Directors, Supervisors 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 has 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.

Per Merger Agreement the Company entered into with Shanghai Power Transmission and Distribution Co., Ltd., prior to the closing of the merger transaction, both parties will not declare any dividends at present. Thus, the Board of Directors will discuss dividend payout issues after the closing of the merger.

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.hkexnews.hk) in due course.

Disclosure of Information and Investor Relations

The Company recognises 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. To facilitate 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 of the Company consists of executive directors, namely Mr. Xu Jianguo, Mr. Huang Dinan, Mr. Zhang Suxin, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhu Kelin, Ms. Yao Minfang, as well as independent non-executive directors, namely Dr. Cheung Wai Bun and Mr. Lei Huai Chin.

Since Dr. Yao Fusheng passed away on 11 July 2008, the Company has only two independent non-executive Directors, which falls below the minimum number required under Rule 3.10(1) of the Listing Rules. The Board expects to appoint sufficient number of appropriate independent non-executive Directors to meet the requirements under the Listing Rules within three months after the announcement of Dr. Yao Fusheng's demise on 14 July 2008.

During the reporting period, the Supervisors of the Company are Mr. Cheng Zuomin (resigned on 6 August, 2008), Mr. Xie Tonglun, Mr. Li Bin, Ms. Sun Wenzhu and Mr. Zhou Changsheng.

By order of the Board
Xu Jianguo
Chairman
Shanghai, China
22 August 2008

Report on Review of Interim Condensed Consolidated Financial Statements

To the shareholders of Shanghai Electric Group Company Limited

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

Introduction

We have reviewed the interim condensed consolidated financial statements of Shanghai Electric Group Company Limited and its subsidiaries set out on pages 19 to 45, which comprise the interim condensed consolidated balance sheet as of 30 June 2008, and the interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review and to report our conclusion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong
22 August 2008

Unaudited Interim Condensed Consolidated Income Statement

For the six months ended 30 June 2008

	Notes	For the six months ended 30 June 2008 (Unaudited) RMB'000	 2007 (Unaudited) RMB'000
REVENUE	3	28,962,928	26,584,510
Cost of sales		(23,628,585)	(21,983,055)
GROSS PROFIT		5,334,343	4,601,455
Other income and gains	3	418,990	980,841
Selling and distribution costs		(730,146)	(671,819)
Administrative expenses		(1,752,062)	(1,467,365)
Other expenses		(724,367)	(281,029)
Finance costs		(31,922)	(22,043)
Share of profits and losses of associates		276,590	311,697
PROFIT BEFORE TAX	4	2,791,426	3,451,737
Tax	5	(532,479)	(889,594)
PROFIT FOR THE PERIOD		2,258,947	2,562,143
ATTRIBUTABLE TO:			
Equity holders of the parent		1,546,710	1,794,557
Minority interests		712,237	767,586
		2,258,947	2,562,143
DIVIDEND			
Proposed interim	6	-	-
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic			
- For profit for the period		13.01 cents	15.10 cents

Unaudited Interim Condensed Consolidated Balance Sheet

30 June 2008

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	11,455,872	10,778,743
Prepaid land lease payments	8	1,444,269	1,376,934
Goodwill		211,181	211,181
Other intangible assets		365,953	394,421
Investments in associates		2,624,221	2,575,749
Loans receivable		155,173	6,673
Other investments		717,362	923,424
Other long term assets		95,283	113,004
Deferred tax assets		756,103	616,099
Total non-current assets		17,825,417	16,996,228
CURRENT ASSETS			
Inventories		18,871,981	16,494,559
Construction contracts		270,806	285,873
Trade receivables	9	11,605,156	9,936,956
Loans receivable		148,495	604,451
Discounted bills receivable		141,699	280,845
Bills receivable		2,225,023	2,120,699
Prepayments, deposits and other receivables		10,996,771	8,409,166
Investments		4,253,463	5,639,599
Derivative financial instruments		25,853	18,255
Due from the Central Bank		1,655,282	1,580,991
Restricted deposits	10	1,450,331	1,184,121
Cash and cash equivalents	10	10,886,594	12,809,930
		62,531,454	59,365,445
Non-current assets classified as held for sale		-	35,794
Total current assets		62,531,454	59,401,239
CURRENT LIABILITIES			
Trade payables	11	9,486,996	9,442,497
Bills payable		1,929,769	1,850,728
Other payables and accruals		34,592,682	30,060,535
Derivative financial instruments		4,820	-
Customer deposits		398,599	471,486
Interest-bearing bank and other borrowings		895,828	1,437,295
Tax payable		1,572,589	1,857,472
Provisions		512,894	672,690
		49,394,177	45,792,703

Unaudited Interim Condensed Consolidated Balance Sheet (continued)

30 June 2008

	Note	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
CURRENT LIABILITIES (continued)		49,394,177	45,792,703
Liabilities directly associated with the non-current assets classified as held for sale		-	83,078
Total current liabilities		49,394,177	45,875,781
NET CURRENT ASSETS		13,137,277	13,525,458
TOTAL ASSETS LESS CURRENT LIABILITIES		30,962,694	30,521,686
NON-CURRENT LIABILITIES			
Bonds		1,000,000	1,000,000
Interest-bearing bank and other borrowings		1,405,270	824,304
Provisions		55,287	63,951
Government grants		123,281	118,544
Other long term payables		78,074	64,150
Deferred tax liabilities		626,779	939,687
Total non-current liabilities		3,288,691	3,010,636
Net assets		27,674,003	27,511,050
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	12	11,891,648	11,891,648
Reserves		8,289,288	7,777,648
		20,180,936	19,669,296
Minority interests		7,493,067	7,841,754
Total equity		27,674,003	27,511,050

Mr. Xu Jianguo
Director

Mr. Yu Yingui
Director

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity 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	-	-	-	-	234,698	-	-	-	234,698	81,632	316,330
Deferred tax impact on changes in fair value of available-for-sale investments	-	-	-	-	(63,588)	-	-	-	(63,588)	(23,946)	(87,534)
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	-	-	-	-	-	-	1,794,557	-	1,794,557	767,586	2,562,143
Total income and expense for the period	-	-	-	-	171,110	(7,944)	1,794,557	-	1,957,723	819,034	2,776,757
Transfer of surplus reserves #	-	-	-	(594,346)	-	-	594,346	-	-	-	-
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)	1,448,651	466,974	(26,204)	3,751,404	-	17,956,699	7,331,286	25,287,985

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

For the six months ended 30 June 2008

	Attributable to equity holders of the parent									
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	11,891,648	3,932,918	(3,487,636)	2,058,537	1,135,333	(18,845)	4,157,341	19,669,296	7,841,754	27,511,050
Changes in fair value of available-for-sale investments	-	-	-	-	(1,369,091)	-	-	(1,369,091)	(352,465)	(1,721,556)
Deferred tax impact on changes in fair value of available-for-sale investments	-	-	-	-	327,393	-	-	327,393	84,283	411,676
Exchange realignment	-	-	-	-	-	(1,053)	-	(1,053)	(2,759)	(3,812)
Others	-	10,305	-	2,125	-	-	-	12,430	-	12,430
Total income and expense for the period recognised directly in equity	-	10,305	-	2,125	(1,041,698)	(1,053)	-	(1,030,321)	(270,941)	(1,301,262)
Profit for the period	-	-	-	-	-	-	1,546,710	1,546,710	712,237	2,258,947
Total income and expense for the period	-	10,305	-	2,125	(1,041,698)	(1,053)	1,546,710	516,389	441,296	957,685
Disposal of subsidiaries	-	(4,749)	-	(9,785)	-	-	9,785	(4,749)	(114,101)	(118,850)
Transfer to capital reserve	-	4,137	-	-	-	-	(4,137)	-	-	-
Appropriation to surplus reserves	-	-	-	83,142	-	-	(83,142)	-	-	-
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(677,052)	(677,052)
Others	-	-	-	-	-	-	-	-	1,170	1,170
As at 30 June 2008 (Unaudited)	11,891,648	3,942,611*	(3,487,636)*	2,134,019*	93,635*	(19,898)*	5,626,557*	20,180,936	7,493,067	27,674,003

* These reserve accounts comprise the consolidated reserves of RMB8,289,288,000 (31 December 2007: RMB7,777,648,000) in the unaudited interim condensed consolidated balance sheet.

During the period, because of the adoption of the new PRC Accounting Standards which became effective from 1 January 2007, the Group transferred surplus reserves of RMB594,346,000 to retained earnings.

Unaudited Interim Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
NET CASH OUTFLOW FROM OPERATING ACTIVITES	(768,525)	(978,341)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(1,353,311)	2,766,786
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES	(135,589)	166,857
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,257,425)	1,955,302
Cash and cash equivalents at beginning of period	10,808,129	6,944,549
Effect of foreign exchange rate changes, net	(11,917)	(23,866)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8,538,787	8,875,985
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents in the unaudited interim condensed consolidated balance sheet	10,886,594	10,336,157
Less: Non-restricted time deposits with original maturity of over three months when acquired	(2,347,807)	(1,460,172)
	8,538,787	8,875,985

Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2008

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 2007, 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 the current period's unaudited interim condensed consolidated financial statements:

HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

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 2008 (the "Period"):

Six months ended 30 June 2008 (Unaudited)	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	15,430,627	6,833,908	2,168,972	2,773,212	1,456,682	121,029	178,498	-	28,962,928
Intersegment sales	383,293	40,091	117,268	-	165,866	73,172	54,517	(834,207)	-
Total	15,813,920	6,873,999	2,286,240	2,773,212	1,622,548	194,201	233,015	(834,207)	28,962,928
Investment income*	-	-	-	-	-	207,768	-	-	207,768
Segment results	1,424,702	496,254	113,282	51,239	32,782	346,766	(7,131)	13,086	2,470,980
Interest and dividend income and other unallocated gains									115,776
Corporate and other unallocated expenses									(39,998)
Finance costs									(31,922)
Share of profits and losses of associates	127,163	129,832	-	19,595	-	-	-	-	276,590
Profit before tax									2,791,426
Tax									(532,479)
Profit for the period									2,258,947

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:

Six months ended 30 June 2007 (Unaudited)	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	15,395,052	6,106,978	1,328,614	2,415,705	1,060,672	84,419	193,070	-	26,584,510
Intersegment sales	352,462	10,132	93,166	3,222	44,256	43,428	27,302	(573,968)	-
Total	15,747,514	6,117,110	1,421,780	2,418,927	1,104,928	127,847	220,372	(573,968)	26,584,510
Investment income*	-	-	-	-	-	837,321	-	-	837,321
Segment results	1,514,603	527,461	131,986	71,166	11,699	853,598	(8,207)	11,349	3,113,655
Interest and dividend income and other unallocated gains									88,461
Corporate and other unallocated expenses									(40,033)
Finance costs									(22,043)
Share of profits and losses of associates	122,881	180,234	-	8,582	-	-	-	-	311,697
Profit before tax									3,451,737
Tax									(889,594)
Profit for the period									2,562,143

* The investment income, as defined in note 3, arising from the financial business is included in the segment result of the financial business, which is engaged in the provision of financial services and products by Shanghai Electric Group Finance Company ("Finance Company"). The investment income of the Group's other segments is included in "interest and dividend income and unallocated gains" in the above segment information.

3. REVENUE, OTHER INCOME AND GAINS

Revenue includes turnover and other revenue that arise in the Group's course of ordinary activities. The Group's turnover, which arises from the principal activities of the Group, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; net of sale taxes and surcharges.

An analysis of revenue, other income and gains is as follows:

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Revenue		
Turnover		
Sales of goods	22,172,112	22,283,114
Construction contracts	5,380,502	2,746,631
Rendering of services	695,058	819,528
	28,247,672	25,849,273
Other revenue		
Sales of raw materials, spare parts and semi-finished goods	456,281	534,410
Gross rental income	33,900	32,986
Finance Company:		
Interest income from banks and other financial institutions	91,285	69,808
Interest income on loans receivable and discounted bills receivable	28,560	13,499
Others	105,230	84,534
	715,256	735,237
	28,962,928	26,584,510
Other income		
Interest income on bank balances and time deposits	70,381	45,765
Interest income on debt investments*	7,532	44,861
	77,913	90,626

3. REVENUE, OTHER INCOME AND GAINS (continued)

	For the six months ended 30 June 2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Dividend income from equity investments and investment funds*	32,771	267,533
Subsidy income	54,263	994
Others	34,475	38,889
	199,422	398,042
Gains		
Gain on disposal of items of property, plant and equipment	1,448	15,176
Unrealised fair value (loss)/gains, net:		
Investments at fair value through profit or loss*	(206,645)	41,796
Derivative financial instruments - transactions not qualifying as hedges:		
Unrealised fair value gains, net*	2,778	96
Realised fair value gains, net*	3,430	-
Gain on debt restructuring	5,260	-
Gain on disposal of subsidiaries*	31,400	470
Gain on disposal of equity interest in a jointly-controlled entity*	10,397	-
Gain on disposal of associates*	-	196
Realised gain on investments at fair value through profit or loss*	91,164	132,491
Realised gain on available-for-sale investments (transfer from equity)*	289,587	402,447
Gain on disposal of unquoted equity investments stated at cost*	209	32,133
Exchange losses, net	(9,460)	(42,006)
	219,568	582,799
	418,990	980,841

* These items are collectively referred to as "investment income".

4. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Cost of inventories sold	18,096,203	18,484,312
Cost of construction contracts	4,650,018	2,348,344
Cost of services provided	600,593	628,566
Finance Company:		
Interst expense due to banks and other financial institutions	4,926	21,089
Interest expense on customer deposits	6,906	1,509
Interest expense on bonds	26,100	-
	37,932	22,598
Depreciation	435,901	385,077
Recognition of prepaid land lease payments*	16,316	15,062
Amortisation of patents and licences*	14,274	14,723
Amortisation of other intangible assets*	6,775	4,611
Research and development costs:*		
Amortisation of technology know-how	16,799	17,312
Current period expenditure	335,436	197,544
	352,235	214,856
Minimum lease payments under operating leases:		
Land and buildings	60,302	61,979
Plant, machinery and motor vehicles	28,167	23,752
Staff costs	2,156,359	1,787,957
Write-down of inventories to net realisable value	73,135	252,098
Impairment of accounts receivable and other receivables*	363,101	8,872
Reversal of impairment of loans receivable*	(2,578)	(4,379)
Impairment of discounted bills receivable*	193	2,775
Reversal of impairment of held-to-maturity entrusted assets management*	(75,000)	-
Impairment of items of property, plant and equipment*	-	3,540
Product warranty provisions:		
Additional provisions	90,785	91,226
Reversal of unutilised provision	(2,070)	(2,641)
Onerous contract provisions:		
Additional provisions	37,031	118,574

* 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 25% for the six months ended 30 June 2008 (six months ended 30 June 2007: 33%) under the income tax rules and regulations of the Pepole's Republic of China (the "PRC"), except that:

- Certain subsidiaries are subject to a corporate income tax rate of 18% as they were subject to the transitional preferential income tax rate in the current period under the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law"), which became effective on 1 January 2008;

- A subsidiary is subject to a corporate income tax rate of 12.5% as it was granted a transitional 50% reduction tax holiday in the current period under the New Corporate Income Tax Law.

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.

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Group:		
Current – Mainland China		
Charge for the period	609,618	845,744
Overprovision in prior years	(66,368)	(28,136)
Current – Elsewhere		
Charge for the period	2,499	4,082
Underprovision in prior years	349	-
Deferred	(13,619)	67,904
Total tax charge for the period	532,479	889,594

The share of tax attributable to associates amounting to RMB33,722,000 (six months ended 30 June 2007: RMB44,687,000) 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 2007: 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 RMB1,546,710,000 (six months ended 30 June 2007: RMB1,794,557,000) and the number of 11,891,648,000 ordinary shares in issue during the Period (six months ended 30 June 2007: 11,891,648,000 ordinary shares).

No diluted earnings per share amounts have been presented for the six months ended 30 June 2008 and 2007 as no diluting events occurred during these periods.

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

During the six months ended 30 June 2008, the Group acquired property, plant and equipment with a cost of RMB1,415,853,000; the Group disposed of property, plant and equipment with a net book value of RMB312,519,000, including those through disposal of subsidiaries and a jointly-controlled entity.

As at 30 June 2008, the Group had not obtained real estate certificates for buildings with a total gross area of approximately 164 (31 December 2007: 148) thousand m^2 and a net book value of RMB342,733,000 (31 December 2007: RMB323,376,000), and for 2 (31 December 2007: 2) parcels of land with a total gross area of approximately 165 (31 December 2007: 165) thousand m^2 and a net book value of RMB44,708,000 (31 December 2007: RMB44,718,000).

Included in the above amounts, the Group is in the process of applying for the real estate certificates for buildings with a gross area of approximately 96 thousand m^2 and a net book value of approximately RMB291,251,000 as at 30 June 2008, and for 2 parcels of land with a gross area of approximately 165 thousand m^2 and a net book value of RMB44,708,000 as at 30 June 2008.

9. TRADE RECEIVABLES

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

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Undue	6,201,434	5,633,933
Overdue within 3 months	2,756,125	2,442,611
Overdue 3 months but within 6 months	966,650	679,915
Overdue 6 months but within 1 year	1,196,586	696,651
Overdue 1 year but within 2 years	364,434	387,238
Overdue 2 years but within 3 years	104,492	84,818
Overdue 3 years above	15,435	11,790
	11,605,156	9,936,956

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 2008 (Unaudited)		31 December 2007 (Audited)	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
USD	10,585	72,601	18,593	135,814
JPY	794,091	51,193	833,752	53,413
HKD	105,493	92,746	136,859	128,152
EUR	34,752	376,366	6,546	69,826
Swiss Franc	-	-	259	1,692
South Africa Rand	812	768	1,245	1,325
Time deposits:				
USD	5,477	37,569	5,606	40,950
HKD	28,039	24,651	23,953	22,430

11. TRADE PAYABLES

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

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within 3 months	6,690,731	7,236,973
Over 3 months but within 6 months	1,347,834	1,016,811
Over 6 months but within 1 year	1,012,511	734,462
Over 1 year but within 2 years	266,196	273,883
Over 2 years but within 3 years	84,498	92,409
Over 3 years	85,226	87,959
	9,486,996	9,442,497

12. ISSUED CAPITAL

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each, currently not listed:		
- state-owned shares	7,898,981	7,898,981
- other legal person shares	1,019,755	1,019,755
H shares of RMB1.00 each	2,972,912	2,972,912
Total	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 restrictions.

On 23 April 2007, the Company received a notification from Shanghai Electric (Group) Corporation ("SE Corporation"). According to the notification, SE Corporation entered into a share pledge agreement with Shantou Municipal Mingguang Investment Co., Ltd. ("Mingguang"), pursuant to which Mingguang agreed to pledge 50,988,612 shares (the "Pledged Shares"), representing approximately 0.43% of the entire issued share capital of the Company, to SE Corporation. On 11 January 2008, the Company received a notification from SE Corporation, according to which, SE Corporation and Mingguang have agreed to release the Pledged Shares.

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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Guarantees given to banks in connection with banking facilities granted to:		
- associates	192,788	219,591
- SEC group companies*	-	6,000
	192,788	225,591
In which,		
Guarantees given to banks in connection with facilities utilised by:		
- associates	30,779	159,108
- SEC group companies*	-	6,000
	30,779	165,108
Non-financial guarantee letters issued on behalf of:		
- the ultimate holding company	28,139	28,139
- associates	7,547	7,439
- SEC group companies*	1,144	12,326
- third parties	36,400	41,130
	73,230	89,034

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

14. CONTINGENT LIABILITIES (continued)

(b) On 15 September 2003, an American customer (the "Plantiff") of Shanghai Yawa Printing Machinery Co., Ltd. ("Yawa"), a subsidiary of the Group, filed a lawsuit with a court in the United States of America (the "Court") against Yawa. The Plantiff sued Yawa for negligence and/or quality warranty of the products of Yawa and claimed damages of USD2,500,000 and relevant charges and expenses. Yawa has appointed a legal counsel, demanded a rejection of the claim of the Plantiff and filed the request of evidence. Yawa is assisting the legal counsel and providing the relevant equipment technical specification to minimise the loss incurred by the lawsuit. As at the balance sheet date, the directors are of the opinion that it is premature to conclude on the final outcome, and the lawsuit is not expected to have any significant financial impact on the Group at this stage.

15. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases out certain 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.

At 30 June 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	45,301	37,797
In the second to fifth years, inclusive	46,314	102,168
After five years	57,793	101,605
	149,408	241,570

15. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	8,612	8,612
In the second to fifth years, inclusive	34,448	34,448
After five years	72,501	76,807
	115,561	119,867

(b) As lessee

The Group leases certain properties, plant and machinery and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 50 years, while those for plant and machinery and motor vehicles are for terms ranging from 1 to 3 years.

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	58,244	66,964
In the second to fifth years, inclusive	118,163	158,565
After five years	183,997	282,908
	360,404	508,437

15. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Within one year	7,076	4,234
In the second to fifth years, inclusive	24,488	19,413
After five years	54,711	64,176
	86,275	87,823

16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15(b) above, the Group had the following capital commitments at the balance sheet date:

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Contracted, but not provided for:		
In respect of the acquisition of:		
- land and buildings	159,948	467,586
- plant and machinery	1,685,542	1,575,473
- intangible assets	123,800	129,152
In respect of capital contribution to:		
- associates	9,900	12,000
- other investee companies	181,810	181,810
	2,161,000	2,366,021

16. COMMITMENTS (continued)

	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Authorised, but not contracted for:		
In respect of the acquisition of:		
- land and buildings	690,109	957,771
- plant and machinery	1,075,430	368,594
	1,765,539	1,326,365
	3,926,539	3,692,386

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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Coracted, bt not provided for:		
In respect of the acquisition of:		
- plant and machinery	3,138	3,421

17. RELATED PARTY TRANSACTIONS

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

	Notes	For the six months ended 30 June 2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Purchase of materials from:	(i)		
Jointly-controlled entities		20,836	38,313
Associates		407,330	274,228
SEC group companies		506,471	224,688
Other related companies		738,611	360,247
		1,673,248	897,476
Sales of goods to:	(i)		
The ultimate holding company		12,130	212,916
Jointly-controlled entities		13,308	14,045
Associates		115,981	101,457
SEC group companies		338,060	104,125
Other related companies		112,594	37,539
		592,073	470,082
Construction contract from:	(i)		
Other related company		709,995	-
Sales of scraps and spare parts to:	(i)		
Associates		341	443
Purchase of manpower services from:	(i)		
Jointly-controlled entities		2,360	-
Associates		3,036	9,894
SEC group companies		2,718	3,111
Other related companies		5,181	7,966
		13,295	20,971
Provision of manpower services to:	(i)		
The ultimate holding company		4,273	-
Associates		38,040	31,555
SEC group companies		687	3,822
Other related companies		1,039	-
		44,039	35,377

17. RELATED PARTY TRANSACTIONS (continued)

(1) (cotinued)

	Notes	For the six months ended 30 June 2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Purchase of technology from:	(i)		
Other related company		103,240	-
Rental income from:	(ii)		
Associates		10,246	4,550
Rental fee to:	(ii)		
The ultimate holding company		11,362	8,376
SEC group companies		6,498	4,662
Associates		990	990
Other related companies		-	1,170
		18,850	15,198

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.

(2) Other transactions with related parties

(i) The Group disposed of its 90% equity interest in Shanghai Pudong "EV" Fuel Injection Co., Ltd. to SE Corporation for a cash consideration of RMB239,420,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China;

(ii) The Group disposed of its 50% equity interest in Shanghai Hino Diesel Engines Co., Ltd. to SE Corporation for a cash consideration of RMB57,367,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China;

(iii) 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.

17. RELATED PARTY TRANSACTIONS (continued)

(2) Other transactions with related parties (continued)

(iii) (continued)

Sales regarding the Project of RMB912,339,000 was recognised during the Period. In addition, purchases of RMB242,095,000 and agent fee of RMB28,066,000 were incurred through SE Corporation during the Period;

(iv) The Group entered into property transfer agreements on 17 November 2005 to dispose of two properties to a subsidiary of SE Corporation for a total cash consideration of RMB127,400,000, which approximately covered the carrying amounts of the properties and related expenses in respect of the removal. The transaction was completed on 30 June 2008.

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

As at 30 June 2008, the Group has provided corporate guarantees in connection with facilities totalling RMB192,788,000 (31 December 2007: RMB225,591,000) to related parties, of which RMB30,779,000 (31 December 2007: RMB165,108,000) had been utilised; and Finance Company had issued non-financial guarantee letters on behalf of related parties totalling RMB36,830,000 (31 December 2007: RMB47,904,000) (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 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
Guarantees provided to the Group by:		
The ultimate holding company	240	468,313
SEC group companies	-	19,000
Other related companies	32,000	22,347
	32,240	509,660

As at 30 June 2008, SE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the five-year floating rate bonds with a nominal value of RMB1 billion issued by Finance Company.

17. RELATED PARTY TRANSACTIONS (continued)

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

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Interest expenses on customer deposits:		
The ultimate holding company	5,117	139
Jointly-controlled entities	97	253
Associates	508	347
SEC group companies	374	171
Other related companies	690	456
	6,786	1,366
Interest income on loans and bills discounting:		
The ultimate holding company	607	4,011
Jointly-controlled entities	2,995	3,223
Associates	3,096	969
SEC group companies	2,847	1,648
Other related companies	1,305	703
	10,850	10,554

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

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

	For the six months ended 30 June	
	2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Fee	325	325
Salaries and other allowances	499	547
Employee benefits	49	45
Post-employment benefits	53	47
	926	964

Apart from the above, in February 2008, three directors and one supervisor each received three-year term management bonuses for the years 2004-2006 of RMB100,000 per annum.

18. POST BALANCE SHEET EVENTS

(a) On 17 July 2008, the Company received a notification from Shanghai City Construction and Investment Corporation, pursuant to which, Fuxi Investment Holding Co., Ltd., a promoter and shareholder of the Company, was ordered by Tianjin No.2 Intermediary People's Court to transfer 50,987,826 shares of the Company to Shanghai City Construction and Investment Corporation (the "Transfer"). The Transfer was completed on 7 July 2008. Following the completion of the Transfer, Shanghai City Construction and Investment Corporation becomes the ultimate beneficial shareholder of 50,987,826 shares, representing approximately 0.43% of the entire share capital of the Company.

(b) The Company has applied to the relevant regulatory authorities for the allotment and issue of A Shares by way of a share exchange with the minority shareholder of Shanghai Power Transmission and Distribution Co., Ltd. ("Shanghai Power Transmission") at the exchange ratio determined as 7.32 A Shares for one Shanghai Power Transmission share through an initial public offering of A Shares to implement the merger proposal (the "Merger Proposal"). Such A Shares are proposed to be listed on the Shanghai Stock Exchange. On 22 July 2008, the Issuance Review Committee of China Securities Regulatory Commission (the "CSRC") reviewed the application by Shanghai Power Transmission in respect of the Merger Proposal and passed such application. On 24 July 2008, the Company was notified that the Review Committee of Merger, Acquisition and Reorganization of the CSRC reviewed the application by Shanghai Power Transmission in respect of the Merger Proposal and passed such application. The merger has not been completed up to the date of approval of the unaudited interim condensed consolidated financial statements.

(c) As at the date of approval of the unaudited interim condensed consolidated financial statements, Finance Company has disposed of all the listed equity investments held as of 30 June 2008 with carrying amounts of RMB987,342,000 and realised net gains of RMB4,704,000.

19. OTHER SIGNIFICANT MATTERS

On 29 December 2007, the Company entered into a Share Sales Agreement with SAIC Motor Corporation Co., Ltd. ("SAIC Motor") to dispose of its entire 50.32% equity interest in Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel") for a cash consideration of RMB923,420,000 (the "Disposal Proposal"). The Company obtained the approval from the State-owned Assets Supervision and Administration Commission of the State Council on 8 April 2008. On 3 June 2008, the Company was notified that the approval from the Ministry of Commerce, one of the conditions precedent to the Disposal Proposal, has been obtained. The disposal has not been completed up to the date of approval of the unaudited interim condensed consolidated financial statements.

20. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

21. 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 22 August 2008.