

2014 Interim Report

Shanghai Electric Group Company Limited





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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:	Room 2602, 26th Floor, Tower 1, Lippo Centre, 89 Queensway, Hong Kong
Company Secretary:	Li Chung Kwong Andrew (FCCA, FCPA, ACA, CIA)
Authorized Representatives:	Huang Dinan, Zheng Jianhua
Alternate Authorized Representative:	Li Chung Kwong Andrew (FCCA, FCPA, ACA, CIA)
Stock Exchange on which H Shares are listed:	The Stock Exchange of Hong Kong Limited
Abbreviation of H Shares:	SH Electric
Stock Code of H Shares:	02727
H Share Registrar and Transfer Office:	Computershare Hong Kong Investor Services Limited
Stock Exchange on which A Shares are listed:	Shanghai Stock Exchange
Abbreviation of A Shares:	上海電氣
Stock Code of A Shares:	601727
A Share Registrar and Transfer Office:	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
Auditors:	PricewaterhouseCoopers (International auditor) PricewaterhouseCoopers Zhong Tian (Special General Partnership) (PRC auditor)
Legal Advisers as to PRC Law:	Grandall Law Firm (Shanghai)
Legal Advisers as to Hong Kong Law	Clifford Chance
Legal Advisers as to Japanese Law	Anderson Mori & Tomotsune
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PERFORMANCE HIGHLIGHTS

- ▶ Revenue for the first half of 2014 reached RMB**35,883** million, representing a decrease of **6.43%** over the corresponding period last year
- ▶ Profit attributable to owners of the company for the first half of 2014 was RMB**1,297** million, representing a decrease of **8.05%** over the corresponding period last year
- ▶ Basic earnings per share were RMB**10.11** cents, representing a decrease of **8.09%** over the corresponding period last year

CHAIRMAN'S STATEMENT

During the first half of 2014, the global economic growth momentum was sluggish and the outlook remained uncertain. The domestic economy in China, as a whole, was stable. Demand in the power market was still in a downward trend. Adhering to the development theme of innovation and development, Shanghai Electric pushes ahead development with a direction towards high-end technology, asset-light business structure, group level centralized management and controls, simplified operation structure, together with a pragmatic and result-oriented work approach. The Group stayed close to the principle of "transform amid difficulties and develop in transformation". During the reporting period, the Company achieved a turnover of RMB35,883 million, representing a decrease of 6.43% over the corresponding period last year. The net profit attributable to the owners of the company amounted to RMB1,297 million, representing a decrease of 8.05% over the corresponding period last year. Basic earnings per share were RMB10.11 cents, down by 8.09% year on year. The Board of Directors did not recommend interim dividend for the first half of 2014.

New Energy Equipment

During the reporting period, the domestic nuclear power market revived gradually. Most of the nuclear power projects under construction were resumed one after another. New nuclear power projects also started to proceed at a relatively slow pace. In line with the national strategy of "safe and high efficiency development of nuclear power", we proactively advanced the progress of nationalization of production of nuclear power equipment. We had become a well-equipped and technologically advanced manufacturing group providing nuclear power equipment of various types of reactors and complete sets of equipment in China, with top-notch integrated capabilities in the domestic nuclear power equipment manufacturing area. The nuclear power equipment orders we secured involve many domestic nuclear power projects under construction, while export orders are on the rise. During the reporting period, the domestic wind power market continued to pick up with the momentum emerged in the second half of last year. We grasped this opportunity and received RMB4.6 billion worth of wind power equipment orders, representing a year-on-year growth of 142%.

High Efficiency and Clean Energy Equipment

The Group continued to develop its thermal power equipment business. The fact that China continues to have its coal-fired power as its mainstream energy consumption structure indicates that thermal power equipment is still the pillar product category in the power generation equipment manufacturing industry in the future. We consider that large capacity, high performance parameters, energy-saving and environment friendly thermal power equipment products will be the direction of the upgrade for future products. During the reporting period, the Group officially commenced the design and manufacturing of 1,200MW-class thermal power generation unit which is currently the largest capacity of this kind in the world. This has continued to reinforce Shanghai Electric's leading position in the 1,000MW-class ultra-supercritical thermal power equipment market. In the gas turbine area, the Group successfully entered into an equity purchase agreement with Fondo Strategico Italiano S.p.A. to acquire a 40% equity interest in Italy's Ansaldo Energia S.p.A. ('Ansaldo'), and to tap the heavy gas turbine market with Ansaldo, a move that can help us accelerate internationalization of our gas turbine business. During the reporting period, our power transmission and distribution equipment business followed the prevailing trend in the industry chain to rationalize and integrate power transmission and distribution equipment products. Meanwhile, we consolidated our foothold in the domestic power transmission and distribution equipment market in Shanghai while proactively extended our presence in markets outside Shanghai. By focusing on key projects, we further kept track of the end-user market and enhanced our market share.

Industrial Equipment

At the beginning of 2014, sales in the property market in China was subdued due to the persisting credit tightening policy. As China continues to implement its urbanization policy, we expect the demand from the domestic elevator market will maintain a modest yet steady pace of growth in 2014. During the reporting period, adhering to the marketing strategies of "cover market in full, highlight market focuses, deepen business development, extend beyond market limits", Shanghai Mitsubishi Elevator captured business opportunities arising from construction of public facilities (in particular, the large-scale metro construction development) while we secured our foothold in the low-end social security housing market by launching elevator products that accommodate customized needs of different users. Meanwhile, we also focused on developing high-end and high-speed elevator products. During the reporting period, Shanghai Mitsubishi Elevator successfully received large orders from projects including CITIC Pacific, Suzhou Center, and Chongqing Wanhui Center, which helped it strengthen its leading industry position. During the reporting period, a new joint venture engaging in electric motors high-voltage frequency conversion field jointly established by the Group and Fuji Electric of Japan, officially commenced operation, realizing a parallel pursuit of development of corporate establishment and market development. The Group will proactively explore the domestic high voltage frequency conversion market in the future and proactively seek orders.

Modern Services

The Group continued to achieve steady development in the power plant engineering business. During the reporting period, there were further progresses in some power plant projects within China and in some overseas countries including India, Iraq, Vietnam, Xinjiang and Beijing. For our power plant service business, we capitalized on growing awareness of the need for energy saving and environment protection in the society and proactively explored markets for equipment enhancement and various services for power plants, and achieved further development in the domestic and overseas markets. In the domestic market, we received a ventilation enhancement project order for new model heat regenerative system of Jia Hua Phase III 1,000MW ultra-supercritical thermal power generation unit. In the overseas market, we entered into a long term service agreement with a subsidiary of PT Perusahaan Listrik Negara, the National Electric Power Company of Indonesia, under which we provide power plant equipment spare parts and components as well as other services for its 43 power plants in total. The business model of our power plant services has shifted to provision of solutions, which combined energy saving, environmental redevelopment and installation together, and realized a model with general integration and general contracting of the enhancement services. During the reporting period, under the business model of "integrating business and finance, boosting business development by financial services" for our financial services business, we continued to enhance the constructive interaction between the Group's financial services and manufacturing business. Our financial leasing business had boosted the sales of the Group's products by almost RMB5 billion. By capitalizing on the opportunity of the development of the China (Shanghai) Pilot Free Trade Zone (the "FTZ"), we set up a financial leasing subsidiary in the FTZ, establishing an important platform for enhancing the service capability of overseas businesses, innovation business models and financial leasing products.

Outlook

2014 is a year of breakthroughs for Shanghai Electric, which seeks transformational development. The Group will adopt a strategic development approach, adhere to scientific development perspectives and pursue an innovation-driven transformation to enhance our core competitiveness so as to maintain a healthy and sustainable growth trend for the Group.

Huang Dinan

Chairman
Shanghai, the PRC,
15 August 2014

MAJOR FINANCIAL DATA AND INDICATORS

Major Accounting Data and Financial Indicators (in accordance with the HK Financial Reporting Standards)

Unit: '000 Currency: RMB

	As at the end of current reporting period	As at the end of last year	Increase/decrease as at the end of the current reporting period as compared to the end of last year (%)
Total assets	134,484,922	129,292,714	4.02
Equity attributable to owners of the company	32,581,809	32,205,954	1.17
Net assets per share attributable to owners of the company (RMB/share)	2.54	2.51	1.20

	The reporting period (January to June)	The corresponding period of the last year	Increase/decrease for the current reporting period as compared to the corresponding period of the last year (%)
Operating profit	2,704,865	2,531,305	6.86
Profit before tax	2,842,979	2,746,755	3.50
Net profit attributable to owners of the company	1,296,529	1,410,077	-8.05
Basic earnings per share (RMB)	0.1011	0.1100	-8.09
Weighted average net assets return rate (%)	3.94	4.53	-0.59 percentage point
Net cash flow generated from operating activities	(2,021,213)	1,033,268	N/A
Net cash flow per share generated from operating activities (RMB)	(0.1576)	0.0806	N/A

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operating Results

During the reporting period, the Group achieved a turnover of RMB35,883 million, representing a decline 6.43% compared with that of the same period of last year. The net profit attributable to owners of the company amounted to RMB1,297 million, representing a decline of 8.05% compared with that of the same period of last year.

New Energy Equipment

During the reporting period, the New Energy Equipment Segment achieved a turnover of RMB3,092 million, representing a surge of 46.2% compared with that of the same period of last year. Segment gross profit margin was 12.6% while operating profit margin improved by 3.3 percentage points year on year to 0.7%. The substantial increases in turnover and profitability in this segment were mainly due to the overall recovery of wind turbine industry during the period and the steady price increases of wind turbine products. Meanwhile, the nuclear island equipment business further strengthened its cost control, resulting in an enhancement in profitability.

Industrial Equipment

During the reporting period, the Industrial Equipment Segment achieved a turnover of RMB12,529 million, representing an increase of 4.0% compared with that of the same period last year. Segment gross profit margin was 21.1%, 1.4 percentage points higher than that of the same period last year, and operating profit margin was 8.4%, 1.8 percentage points higher than that of the same period last year. The movements were mainly attributable to the significant growth in turnover and operating profit of the elevator business during the reporting period.

High Efficiency and Clean Energy Equipment

During the reporting period, the High Efficiency and Clean Energy Equipment segment achieved a turnover of RMB12,275 million, representing a decline of 23.4% compared with that of the same period last year. The segment gross profit margin and operating profit margin decreased by different magnitudes as a result of lower prices prompted by dwindling demand for power plant equipment due to the weaker macroeconomic environment, which in turn led to lower product sales and profit.

Modern Services

During the reporting period, the Modern Services Segment achieved a turnover of RMB9,122 million, representing a decline of 6.6% compared with that of the same period last year. Segment gross profit margin was 18.0%, representing a marked improvement from the same period last year, while the operating profit margin was 14.4%, 4.6 percentage points higher than that of the same period last year. Substantial growth in both operating profit and operating margin was mainly due to a higher gross margin of power plant engineering projects delivered during the reporting period.



Principal activities and operation review of the Company

Table showing principal activities by business segments

Unit: million; Currency: RMB

By business segments	Revenue	Cost of Sales	Gross Profit Margin	Year-on-year % Change in Revenue	Year-on-year % Change in Costs of Sales	Year-on-year Change in Gross Profit Margin
New Energy Equipment	3,092	2,701	12.6%	46.2%	36.3%	+6.3 percentage points
High Efficiency and Clean Energy Equipment	12,275	10,067	18.0%	(23.4%)	(22.4%)	-1.1 percentage points
Industrial Equipment	12,529	9,881	21.1%	4.0%	2.1%	+1.4 percentage points
Modern Services	9,122	7,478	18.0%	(6.6%)	(14.5%)	+7.6 percentage points
Other business	1,250	1,101	11.9%	0.6%	1.8%	-1.0 percentage points
Elimination	(2,385)	(2,299)				
Total	35,883	28,929	19.4%	(6.4%)	(8.5%)	+1.9 percentage points

Review of the principal activities by geographical areas

Unit: million; Currency: RMB

Geographical Areas	Revenue	Year-on-year Change in Revenue
Mainland China	28,908	(9.3%)
Elsewhere	6,975	7.6%
Total	35,883	(6.4%)

Exchange rate Fluctuation

Risk in the Operations of the Company

The Company's businesses in power plant equipments, power plant engineering and power transmission and distribution engineering involve export business and their contract amounts are large and usually denominated in US dollars. During its production, the Company needs to purchase imported equipments and components as well. If the fluctuations of exchange rate between RMB and USD tend to expand, the Company may be exposed to an increasing exchange risk.

Solution: the Company will utilize more hedging instruments and enlarge its RMB settlement in cross-border trade, limit exchange risk and restrain its cost of overseas projects.

Major financial reporting items and Analysis of Changes

Unit: million Currency: RMB

	January to June 2014	January to June 2013	Year-on-year Change
Revenue	35,883	38,349	(6.4%)
Cost of Sales	28,929	31,626	(8.5%)
Selling and distribution costs	1,217	1,159	5.0%
Administrative expenses	2,176	2,380	(8.6%)
Finance costs	137	115	19.1%
Net cash flows from operating activities	(2,021)	1,033	N/A
Net cash flows from investing activities	4,807	1,568	206.6%
Net cash flows from financing activities	(1,062)	(319)	232.9%
Research and development costs	972	837	16.1%

Analyses and Explanations for the Changes

The fact that operating activities registered cash outflows against cash inflows for the same period last year was due to an increase in cash for procurement of stocks in preparation of the peak season of delivery in power plant equipment and power distribution and transmission equipment business in the second half of the year.

Net cash inflows from investing activities increased when compared with that of the same period last year mainly due to the reduction in external investments by the Company's subsidiary finance company as compared to that of the same period last year.

Net cash outflows from financing activities increased when compared with that of the same period last year mainly due to an increase in cash inflow resulting from a corporate bond issuance during the corresponding period of last year.

Research and development costs increased when compared with that of the same period of last year mainly due to the fact that the Company continued to increase investments in R&D and that the number of R&D projects increased when compared with that of the same period last year.

Source of Funding and Indebtedness

As at 30 June 2014, the Group had bank and other borrowings and bonds aggregating RMB5,792 million (31 December 2013: RMB5,973 million), representing a decrease of RMB181 million when compared with that of the beginning of the year. Borrowings due to be repaid by the Group within one year amounted to RMB3,594 million, representing a decrease of RMB171 million when compared with that of the beginning of the year. Borrowings and bonds due to be repaid after one year amounted to RMB 2,198 million, representing a decrease of RMB10 million when compared with that of the beginning of the year.

As at 30 June 2014, among the Group's bank and other borrowings, borrowings denominated in US dollars amounted to US\$233 million (31 December 2013: USD233 million). Other borrowings are denominated in Renminbi.

Pledge of Assets

As at 30 June 2014, the Group's bank deposits to the extent of RMB687million (31 December 2013: RMB615 million) were pledged with banks to secure bank loans or credit facilities. In addition, certain land use rights, buildings and machineries of the Group, with net carrying value amounting to RMB372 million as at 30 June 2014 (31 December 2013: RMB427 million), were pledged as securities for certain bank loans of the Group.

As at 30 June 2014, accounts receivables of a net carrying amount of approximately RMB510 million (31 December 2013: RMB810 million) were factored with recourse for certain bank facilities amounting to RMB397 million (31 December 2013: RMB537 million). In addition, lease

receivables with a net carrying amount of approximately RMB11 million (31 December 2013: RMB18 million) were factored with recourse for certain bank facilities amounting to RMB9 million (31 December 2013: RMB 16 million).

Gearing Ratio

As at 30 June 2014, the gearing ratio of the Group, which represents the ratio of the sum of interest-bearing bank and other borrowings and bonds to the sum of total equity of the shareholders plus interest-bearing bank and other borrowings and bonds, was 11.9%, representing a decrease of 0.4 percentage points from that as at the beginning of this year.

Contingent Liabilities

Please refer to note 16 of the unaudited interim condensed consolidated financial statements for details.

Capital Commitments

Please refer to note 18 of the unaudited interim condensed consolidated financial statements for details.

Capital Expenditure

Total capital expenditure of the Group for the reporting period was approximately RMB668 million (1H2013: RMB930 million), which had been applied to upgrading of production technologies and production equipment.

OTHER INFORMATION

Share Capital Structure

	Number of shares	Approximate percentage of issued share capital
A shares	9,850,714,660	76.82%
H shares	2,972,912,000	23.18%
Total	12,823,626,660	100.00%

Disclosure of Interests

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

As at 30 June 2014, the following persons had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, Hong Kong ("SFO"):

Name of Substantial Shareholder	Class of shares	Capacity	Notes	No. of shares	Nature of Interest	Percentage of the relevant shares in issue (%)	Percentage of all the issued shares (%)
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	A	Interest of controlled corporation	1	7,901,889,924*	Long position	80.22	61.62
	H	Interest of controlled corporation	1	31,184,000*	Long position	1.05	0.24
Shanghai Electric (Group) Corporation	A	Beneficial owner	1	7,411,997,802*	Long position	75.24	57.80
	H	Beneficial owner	1	31,184,000*	Long position	1.05	0.24
Fengchi Investment Co., Ltd.	A	Beneficial owner	2	907,778,942	Long position	9.22	7.08
Shenergy Group Company Limited	A	Beneficial owner	1	489,892,122	Long position	4.97	3.82
Templeton Investment Counsel, LLC	H	Investment manager		264,998,067	Long position	8.91	2.07
Siemens International Holding B.V.	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
Siemens Beteiligungen Management GmbH	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
Siemens Aktiengesellschaft	H	Beneficial owner	3	148,646,000	Long position	5.00	1.16
JPMorgan Chase & Co.	H	Beneficial owner	4	22,798,873	Long position		
	H	Investment manager	4	2,000	Long position		
	H	Custodian corporation	4	333,195,932	Long position		
		Total long position	4	355,996,805		11.97	2.78
	H	Beneficial owner	4	2,697,561	Short position	0.09	0.02
BlackRock, Inc.	H	Interest of controlled corporation	5	152,571,591	Long position	5.13	1.19
	H	Interest of controlled corporation	5	10,824,000	Short position	0.36	0.08

- * As referred to the announcement on increase in holding of shares of the Company by our controlling shareholder dated 26 June 2013 and the announcement on completion of the share acquisition plan by the controlling shareholder dated 26 December 2013, the above numbers of shares reflected the interests and short positions of the relevant substantial shareholders as at 30 June 2014.

Notes

- (1) 上海電氣（集團）總公司 (Shanghai Electric (Group) Corporation) and 申能（集團）有限公司 (Shenergy Group Company Limited) were wholly owned by 上海市國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government) and accordingly, their interests in the A shares and H shares of the Company were deemed to be the interests of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.
- (2) 豐馳投資有限公司 (Fengchi Investment Co., Ltd.) holding 907,778,942 A shares of the Company, was owned as to 90% by 上海德鵬投資有限公司 (Shanghai Depeng Investment Co., Ltd) ("Shanghia Depeng") in which 廣東珠江投資控股集團有限公司 (Guangdong Zhujiang Investment Holding Group Co., Ltd) ("Guangdong Zhujiang"), 廣東韓江資產經營管理有限公司 (Guangdong Hanjiang Asset Operation and Management Co., Ltd) ("Guangdong Hanjiang Asset"), 廣東偉業投資有限公司 (Guangdong Weiye Investment Co., Ltd) ("Guangdong Weiye"), 廣東韓江建築安裝工程有限公司 (Guangdong Hanjiang Construction and Installation Engineering Co., Ltd) ("Guangdong Hanjiang Construction") and 朱一航 (Zhu Yihang) were deemed to be interested in by virtue of SFO because:
- Shanghai Depeng was 100% owned by Guangdong Zhujiang.
 - Guangdong Zhujiang was 95% owned by Guangdong Hanjiang Asset which in turn was 100% owned by Guangdong Weiye.
 - Guangdong Weiye was 100% owned by Guangdong Hanjiang Construction which in turn was 99% owned by Zhu Yihang.
- (3) Siemens International Holding B.V., holding 148,646,000 H 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.
- (4) JPMorgan Chase & Co. had a long position in 355,996,805 H shares and a short position in 2,697,561 H shares of the Company by virtue of its control over the following corporations:-
- (4.1) J.P. Morgan Clearing Corp, an indirect wholly-owned subsidiary of JPMorgan Chase & Co., had a long position in 2,531,900 H shares and a short position in 400,000 H shares of the Company.
- (4.2) J.P. Morgan Investment Management Inc., an indirect wholly-owned subsidiary of JPMorgan Chase & Co., had a long position in 2,000 H shares of the Company.
- (4.3) J.P. Morgan Whitefriars Inc., an indirect wholly-owned subsidiary of JPMorgan Chase & Co., had a long position in 19,693,589 H shares and a short position in 1,737,561 H shares of the Company.
- (4.4) J.P. Morgan Securities plc, an indirect wholly-owned subsidiary of JPMorgan Chase & Co., had a long position in 573,384 H shares and a short position in 560,000 H shares of the Company.
- (4.5) JPMorgan Chase Bank, N.A., a wholly-owned subsidiary of JPMorgan Chase & Co., had a long position in 333,195,932 H shares of the Company.
- (4.6) The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 333,195,932 H shares (long position).
- (5) BlackRock, Inc. had a long position in 152,571,591 H shares and a short position in 10,824,000 H shares (in which a long position in 198,000 H shares and a short position in 382,000 H shares were held through cash settled derivatives (on exchange)) of the Company through a number of its indirect wholly-owned subsidiaries.

Save as disclosed above, the Company is not aware of any other person having any interests or short positions in the shares or underlying shares of the Company as at 30 June 2014 required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

Directors, supervisors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2014, none of the directors, supervisors or chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise required to be notified by the directors, supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules. Also, no right to acquire the aforementioned interests had been granted to the directors, supervisors or chief executives of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted the provisions as set out in Appendix 10 of the Listing Rules as its model code for securities transactions by directors (the "Directors"), supervisors (the "Supervisors") and relevant employees of the Company. Further to the Company's enquiry, all Directors and Supervisors confirmed that they had complied with the Model Code and the relevant provisions as set out in Appendix 10 of the Listing Rules during the period from 1 January 2014 to 30 June 2014. No violation of the Model Code by relevant employees has been found by the Company.

Corporate Governance

For the first half of 2014, the Board is of the view that the Company had complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules except for a deviation from code provision A.2.1 of the Code concerning the requirements to separate the roles of the chairman and chief executive officer.

Pursuant to code provision A.2.1 of the Code, roles of the Chairman and Chief Executive Officer should 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 2014, the duties of the Chairman of the Board and the Chief Executive Officer have been carried out by Mr. Xu Jianguo (resigned on 22 May 2014) and Mr. Huang Dinan (appointed on 22 May 2014). However, The President has been responsible for all the day-to-day operations of the Company and execution of instructions from the Board. The Company is of the opinion that segregation of duties and responsibilities between the Board and the senior management has been well

maintained and there exists no problem of over-centralization of management authority.

Strategy Committee

During the reporting period, the Strategy Committee was composed of Mr. Huang Dinan (appointed on 22 May 2014), Mr. Xu Jianguo (resigned on 22 May 2014), Mr. Wang Qiang (appointed on 30 June 2014), Mr. Zheng Jianhua, Mr. Zhu Sendi and Dr. Lui Sun Wing. During the reporting period, the Strategy Committee has discussed and studied the Company's future development plans with management.

Nomination Committee

During the reporting period, the Nomination Committee comprised Mr. Zhu Sendi, Mr. Huang Dinan (resigned on 30 June 2014), Mr. Wang Qiang (appointed on 30 June 2014), Mr. Kan Shun Ming (appointed on 26 February 2014) and Dr. Cheung Wai Bun (resigned on 26 February 2014). The primary functions of our Nomination Committee include studying the criteria, procedures and methods for selecting candidates for directors and making recommendations to the Board.

To realize a sustainable and balanced development, the Company adopted the written policy of board member diversification. A diversified board enables the Company to reach its strategic goals and promote a sustainable development. When deciding the board member composition, the Company takes several elements into the consideration, including but not limited to gender, age, culture and educational background, region, expertises, skills, knowledge and terms of service. The Nomination Committee sticks to the principle of meritocracy in the nomination of the directors and fully considers the above mentioned goals and requirements.

Audit Committee

During the reporting period, the Audit Committee comprised Mr. Kan Shun Ming (appointed on 26 February 2014), Dr. Cheung Wai Bun (resigned on 26 February 2014), Mr. Zhu Sendi, Dr. Lui Sun Wing and Ms. Yao Minfang. The Audit Committee has reviewed the accounting policies adopted by the Group with the management and the Company's external auditors, and conducted a review of the credit limits for connected transactions of the Company. They also discussed internal controls of the Group and financial reporting matters, including having reviewed and agreed to the unaudited interim condensed consolidated financial statements for the period under review.

Remuneration Committee

During the reporting period, the Remuneration Committee, which comprised Dr. Lui Sun Wing, Mr. Huang Dinan (resigned on 30 June 2014), Mr. Wang Qiang (appointed on 30 June 2014) and Mr. Zhu Sendi, is mainly responsible for providing recommendations to the Board in respect of the remuneration policy and structure of the Directors, Supervisors and executives team of the Company, and determining applicable and transparent procedures.

Purchase, Sale or Redemption of the Company's Securities

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

Interim Dividend

The Board of Directors did not recommend interim dividend during the period.

Disclosure of Information on Stock Exchange's Website

The results announcement will be published on the Company's website (<http://www.shanghai-electric.com>) and the Stock Exchange's website (<http://hkexnews.hk>). The 2014 Interim Report will be despatched to the shareholders of the Company and will be made available on the websites of the Company and the Stock Exchange in due course.

Disclosure of Information and Investor Relations

The Company recognizes the importance of good communication with its investors. Our team under Investor Relations Department arranges meetings, plant visits and reverse roadshows for investors from time to time. The team has also attended investors' forums actively and conducted non-deal road shows in China and overseas regularly to help investors gain a better understanding of the Company's operating results as well as its strategies and plans for future development. The Company will continue to make great efforts in its investor relations work to help investors explore the potential value for investments in the Company's shares.

Employees

On 30 June 2014, the Group had approximately 28,903 employees (30 June 2013: approximately 29,616). The Group has short term and long term incentive programs to encourage employee performance and a series of training programs for the development of its staff.

Board of Directors and Supervisors

As at the date of this report, the executive directors of the Company are Mr. Huang Dinan, Mr. Zheng Jianhua and Mr. Yu Yingui; the non-executive directors of the Company are Mr. Wang Qiang, Mr. Zhu Kelin and Ms. Yao Minfang; and the independent non-executive directors of the Company are Dr. Lui Sun Wing, Mr. Kan Shun Ming and Dr. Chu Junhao.

During the reporting period, the Supervisors of the Company are Mr. Dong Jianhua, Mr. Xie Tonglun, Mr. Li Bin, Mr. Zhou Changsheng and Mr. Zheng Weijian.

UNAUDITED INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 JUNE 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Revenue	6	35,882,648	38,349,410
Cost of sales		(28,929,079)	(31,625,849)
Gross profit		6,953,569	6,723,561
Other income and gains	6	619,680	580,386
Selling and distribution costs		(1,216,953)	(1,158,684)
Administrative expenses		(2,175,818)	(2,380,446)
Other expenses		(1,475,613)	(1,233,512)
Finance costs		(136,594)	(115,339)
Share of profits and losses of:			
Jointly-controlled entities		135	3,545
Associates		274,573	327,244
Profit before tax	7	2,842,979	2,746,755
Income tax expense	8	(580,038)	(607,352)
Profit for the period		2,262,941	2,139,403
Attributable to:			
Owners of the Company		1,296,529	1,410,077
Non-controlling interests		966,412	729,326
		2,262,941	2,139,403
Earnings per share attributable to owners of the Company	9		
Basic and diluted (RMB)		10.11 cents	11.00 cents

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 JUNE 2014

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Profit for the period	2,262,941	2,139,403
Changes in fair value and disposal of available-for-sale investments net of income tax	104,279	(77,179)
Effective portion of changes in fair value of hedging instruments net of income tax	(62,971)	65,427
Exchange differences	806	(102,089)
Others	(7,657)	4,727
Other comprehensive income for the period, net of tax	34,457	(109,114)
Total comprehensive income for the period	2,297,398	2,030,289
Attributable to:		
Owners of the Company	1,310,807	1,331,471
Non-controlling interests	986,591	698,818
	2,297,398	2,030,289

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	14,046,148	15,126,716
Investment properties		137,348	140,201
Prepaid land lease payment		1,594,757	1,581,477
Goodwill		148,073	148,073
Other intangible assets		1,073,297	990,499
Investment in jointly-controlled entities		6,405	6,270
Investment in associates		4,141,095	3,881,944
Loans and lease receivables		2,856,540	2,410,803
Other investments		921,917	969,356
Derivative financial instruments		2,122	20,625
Other non-current assets		409,944	429,180
Deferred tax assets		2,203,838	2,116,923
Total non-current assets		27,541,484	27,822,067
Current assets			
Inventories		24,055,702	20,644,804
Construction contracts		2,218,617	1,505,713
Trade receivables	11	27,129,249	25,268,380
Loans and lease receivables		5,211,611	5,441,146
Discounted bills receivable		286,906	548,702
Bills receivable		5,199,080	4,868,920
Prepayments, deposits and other receivables		12,534,362	10,807,108
Investments		3,973,184	6,224,328
Derivative financial instruments		9,402	50,584
Due from the Central Bank		3,543,643	4,087,577
Restricted deposits		686,634	614,629
Cash and cash equivalents		22,095,048	21,408,756
Total current assets		106,943,438	101,470,647

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

30 JUNE 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
LIABILITIES			
Current liabilities			
Trade payables	12	28,169,923	25,098,974
Bills payable		4,023,513	4,144,473
Other payables and accruals		45,933,669	43,212,906
Derivative financial instruments		32,800	8,376
Customer deposits		1,237,039	1,762,404
Interest-bearing bank and other borrowings	13	3,594,080	3,764,512
Tax payable		838,523	995,932
Provisions		3,364,270	3,248,962
Total current liabilities		87,193,817	82,236,539
Net current assets		19,749,621	19,234,108
Total assets less current liabilities		47,291,105	47,056,175
Non-current liabilities			
Bonds	14	1,992,056	1,990,910
Interest-bearing bank and other borrowings	13	206,228	217,661
Provisions		60,321	23,246
Government grants		291,215	511,194
Derivative financial instruments		-	-
Other non-current liabilities		1,260,995	992,926
Deferred tax liabilities		522,843	611,670
Total non-current liabilities		4,333,658	4,347,607
Net assets		42,957,447	42,708,568

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

30 JUNE 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	15	12,823,627	12,823,627
Reserves		19,758,182	18,425,043
Proposed final dividends		-	957,284
		<u>32,581,809</u>	<u>32,205,954</u>
Non-controlling interests		<u>10,375,638</u>	<u>10,502,614</u>
Total equity		<u>42,957,447</u>	<u>42,708,568</u>

Director: Mr. Huang Dinan

Director: Mr. Zheng Jianhua

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 JUNE 2014

	Attributable to owners of the parent												Non-controlling interests	Total equity
	Issued capital	Capital reserve	Contributed surplus	Surplus reserves	Hedging revaluation reserve	Available-for-sale investment revaluation reserve	Special reserve	Exchange differences	Retained profits	Proposed final dividends	Total			
	RMB'000	RMB'000	RMB'000	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 2014	12,823,627	5,214,447	(2,352,526)	4,271,319	45,550	145,709	52,760	(54,255)	11,102,039	957,284	32,205,954	10,502,614	42,708,568	
Profit for the period	-	-	-	-	-	-	-	-	1,296,529	-	1,296,529	966,412	2,262,941	
Other comprehensive income	-	(3,625)	-	-	(62,971)	79,311	-	1,563	-	-	14,278	20,179	34,457	
Total comprehensive income for the period	-	(3,625)	-	-	(62,971)	79,311	-	1,563	1,296,529	-	1,310,807	986,591	2,297,398	
Declared dividends relating to 2013	-	-	-	-	-	-	-	-	-	(957,284)	(957,284)	-	(957,284)	
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,160,580)	(1,160,580)	
Transfer from retained profits	-	-	-	23,158	-	-	10,324	-	(33,482)	-	-	-	-	
Others	-	22,332	-	-	-	-	-	-	-	-	22,332	47,013	69,345	
At 30 June 2014 (unaudited)	12,823,627	5,233,154*	(2,352,526)*	4,294,477*	(17,421)*	225,020*	63,084*	(52,692)*	12,365,086*	-	32,581,809	10,375,638	42,957,447	

* These reserve accounts comprise the consolidated reserves of RMB 19,758,182,000 (31 December 2013: RMB 18,425,043,000) in the unaudited interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)

For the six months ended 30 JUNE 2013

	Attributable to owners of the parent												Total equity RMB'000
	Issued capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Surplus reserves RMB'000	Hedging revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Special reserve RMB'000	Exchange differences RMB'000	Retained profits RMB'000	Proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	
At 1 January 2013	12,823,627	5,157,041	(2,352,526)	3,715,986	(74,450)	127,077	25,925	461	10,266,556	816,865	30,506,562	10,175,696	40,682,258
Profit for the period	-	-	-	-	-	-	-	-	1,410,077	-	1,410,077	729,326	2,139,403
Other comprehensive income	-	2,238	-	-	66,571	(84,618)	-	(62,797)	-	-	(78,606)	(30,508)	(109,114)
Total comprehensive income for the period	-	2,238	-	-	66,571	(84,618)	-	(62,797)	1,410,077	-	1,331,471	698,818	2,030,289
Declared dividends relating to 2012	-	-	-	-	-	-	-	-	-	(816,865)	(816,865)	-	(816,865)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	(1,385,019)	(1,385,019)
Appropriation of special reserve	-	-	-	-	-	-	10,216	-	(10,216)	-	-	-	-
Transfer from retained profits	-	-	-	122,295	-	-	-	-	(122,295)	-	-	-	-
Others	-	(30,624)	-	-	-	-	-	-	(19,623)	-	(50,247)	(8,226)	(58,473)
At 30 June 2013 (unaudited)	12,823,627	5,128,655*	(2,352,526)*	3,838,281*	(7,879)*	42,459*	36,141*	(62,336)*	11,524,499*	-	30,970,921	9,481,269	40,452,190

* These reserve accounts comprise the consolidated reserves of RMB 18,147,294,000 (31 December 2012: RMB 15,453,840,000) in the unaudited interim condensed consolidated statement of financial position.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 JUNE 2014

	For the six months ended 30 June	
	2014	2013
	(Unaudited) RMB'000	(Unaudited) RMB'000
Cash flows from operating activities		
Cash flows from operating activities	(1,113,931)	2,189,587
Cash paid for income tax	(907,282)	(1,156,319)
Net cash inflows from operating activities	(2,021,213)	1,033,268
Cash flows from investing activities		
Cash paid to acquire property, plant and equipment and investment property	(346,958)	(724,540)
Cash received from sale of property, plant and equipment	388,819	90,214
Cash paid to acquire other intangible assets	(149,040)	(147,071)
Other investing activities	1,708,244	2,354,890
Cash received from sale of subsidiary	-	(60,105)
Net decrease of the unrestricted deposit of more than 3 months	1,073,437	2,080,363
Net decrease /(increase) of the financial assets purchased by the financial company under resale agreements	2,190,100	(1,396,700)
The decrease/ (increase) of the central bank reserve under the financial company	543,934	(540,203)
The increase of finance lease receivables of the leasing company	(601,979)	(88,706)
Net cash inflows from investing activities	4,806,557	1,568,142
Cash flows from financing activities		
Dividend payments to equity holders	(154,856)	(397,472)
Cash repayment of loan	(603,213)	(2,982,350)
Cash received from loan	324,948	1,500,002
Cash received from other financing activities	(628,872)	1,560,449
Net cash inflows from financing activities	(1,061,993)	(319,371)
Net increase in cash and cash equivalents	1,723,351	2,282,039
Cash and cash equivalents at beginning of period	16,175,872	15,909,804
Effect of foreign exchange rate changes on cash, net	36,378	(84,343)
Cash and cash equivalents at the end of period	17,935,601	18,107,500

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

1. COMPANY INFORMATION

Shanghai Electric Group Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") on 1 March 2004. The registered office of the Company is located on 30th floor, No. 8 Xing Yi Road, Shanghai, the PRC.

During the year, the Group was engaged in the following principal activities:

- design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components;
- design, manufacture and sale of thermal power equipment products, nuclear power conventional island equipment products and power transmission and distribution equipment products;
- design, manufacture and sale of elevators, electrical motors, machine tools, printing and packaging equipment, marine crankshafts, and other electromechanical equipment products; and
- provision of integrated engineering services for power station projects and other industries, financial products, financial services and functional services including international trading services.

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

Otherwise indicated, the information in the interim condensed consolidated financial statements was presented in RMB, all values are rounded to the nearest one thousand yuan.

This condensed consolidated interim financial information was unaudited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

2.2 Accounting policy

Other amendments to HKFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

3. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In the process of preparing the condensed consolidated interim financial statements, except for the changes of required estimates for income tax provision and special items, the key sources for the significant judgement and estimation uncertainty made by the management with the adoption of accounting policies are the same as the policies applied in the consolidated financial statements for the year ended 31 December 2013.

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

There have been no changes in the risk management department since year end or in any risk management policies since the year end.

4.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

4.3 Estimation of fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

4. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONT'D)

4.3 Estimation of fair value (cont'd)

The fair value of the financial assets and financial liabilities of the Group as at 30 June 2014 is listed below.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative instrument held for trading	222,050	1,894	-	223,944
Hedge instrument	-	9,630	-	9,630
Available-for-sale financial assets				
- Equity securities	2,677,445	1,069,111	-	3,746,556
- Debt securities	-	467,883	-	467,883
Total assets	<u>2,899,495</u>	<u>1,548,518</u>	<u>-</u>	<u>4,448,013</u>
Liabilities				
Hedge instrument	-	32,800	-	32,800
Total liabilities	<u>-</u>	<u>32,800</u>	<u>-</u>	<u>32,800</u>

The fair value of the financial assets and financial liabilities of the Group as at 31 December 2013 is listed below:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Derivative instrument held for trading	196,823	2,101	-	198,924
Hedge instrument	-	69,108	-	69,108
Available-for-sale financial assets				
- Equity securities	2,896,945	793,718	-	3,690,663
- Debt securities	-	675,916	-	675,916
Total assets	<u>3,093,768</u>	<u>1,540,843</u>	<u>-</u>	<u>4,634,611</u>
Liabilities				
Hedge instrument	-	8,376	-	8,376
Total liabilities	<u>-</u>	<u>8,376</u>	<u>-</u>	<u>8,376</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

5. SEGMENT INFORMATION

The Group organises and manages its operating business in accordance with the nature of business and provision of goods and services. Each business segment of the Group is one operating group, providing goods and services with risks and rewards different from those of the other business segments.

The details of operating segments are as follows:

- (1) the new energy segment is engaged in the design, manufacture and sale of nuclear power, nuclear island equipment products, wind power equipment products and heavy machinery including large forging components;
- (2) the high efficiency and clean energy segment is engaged in the design, manufacture and sale of thermal power equipment products and corollary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products;
- (3) the industrial equipment segment is engaged in the design, manufacture and sale of elevators, printing and packaging equipment, machine tools, marine crankshafts, electrical motors and other electromechanical equipment products;
- (4) the modern services segment is principally engaged in the provision of integrated engineering services for power station projects and other industries, financial products and services, international trading services and other functional services;
- (5) the "others" segment includes components such as the central research institute.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

5. SEGMENT INFORMATION (CONT'D)

Business segment

The revenue and profit or loss of each business segment of the Group for the period and as at 30 June 2014 are presented below:

	New energy RMB'000	High efficiency and clean energy equipment RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
At 30 June 2014							
(Unaudited)							
Segment revenue							
Sales to external customers	2,943,757	11,126,288	12,084,202	8,884,590	843,811	-	35,882,648
Intersegment sales	147,990	1,148,827	445,201	237,562	406,082	(2,385,662)	-
Total	3,091,747	12,275,115	12,529,403	9,122,152	1,249,893	(2,385,662)	35,882,648
Operating profit/(loss)	22,764	590,921	1,048,009	1,315,927	(59,687)	(213,069)	2,704,865
Financial expenses							(136,594)
Share of profits and losses of joint ventures	-	-	-	135	-	-	135
Share of profits and losses of associates	-	89,016	185,557	-	-	-	274,573
Profit before tax							2,842,979
Income tax expense							(580,038)
Profit for the period							2,262,941
Assets and Liabilities							
Total assets	20,908,663	46,993,747	34,083,574	49,446,461	16,639,255	(33,586,778)	134,484,922
Total liabilities	11,750,672	33,192,370	24,760,373	41,712,495	7,829,233	(27,717,668)	91,527,475

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

5. SEGMENT INFORMATION (CONT'D)

Business segment (cont'd)

The revenue and profit or loss of each business segment of the Group for the period and as at 30 June 2013 are presented below:

	New energy RMB'000	High efficiency and clean energy equipment RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
At 30 June 2013							
(Unaudited)							
Segment revenue							
Revenue from external customers	1,980,755	14,236,366	11,626,821	9,533,986	971,482	-	38,349,410
Intersegment sales	133,838	1,788,415	424,703	229,396	271,940	(2,848,292)	-
Total	2,114,593	16,024,781	12,051,524	9,763,382	1,243,422	(2,848,292)	38,349,410
Operating profit/(loss)	(54,468)	1,040,746	797,509	953,751	(15,431)	(190,802)	2,531,305
Financial expenses							(115,339)
Share of profits and losses of joint ventures	-	-	-	3,545	-	-	3,545
Share of profits and losses of associates	-	114,021	210,398	8,855	(6,030)	-	327,244
Income tax expense							2,746,755
Taxation							(607,352)
Profit for the period							2,139,403
Assets and Liabilities							
Total assets	21,231,665	45,959,228	30,653,604	42,838,455	15,979,826	(33,536,020)	123,126,758
Total liabilities	11,005,704	33,457,263	20,067,834	37,790,680	10,004,986	(29,652,079)	82,674,388

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

5. SEGMENT INFORMATION (CONT'D)

Geographical segment

Information on revenue of geographical segments of the Group for the six months ended 30 June 2014 and the six months ended 30 June 2013 is listed below:

	For the six months ended 30 June 2014 (unaudited)			For the six months ended 30 June 2013 (unaudited)		
	Mainland China	Other countries/ jurisdictions	Total	Mainland China	Other countries/ jurisdictions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:						
Sales to external customers	28,908,397	6,974,251	35,882,648	31,869,075	6,480,335	38,349,410

6. REVENUE, OTHER INCOME AND GAINS

Revenue includes turnover and other revenue that arise from the ordinary course of business of the Group. 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 and 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	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenues		
<i>Revenues from main operations</i>		
Sale of goods	26,784,560	28,530,753
Construction contract	5,840,948	7,202,986
Rendering of services	2,211,376	1,832,365
	34,836,884	37,566,104

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

6. REVENUE, OTHER INCOME AND GAINS (CONT'D)

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
<i>Revenue from other operations</i>		
Sales of raw materials, spare parts and semi-finished goods	333,001	294,617
Finance lease income	175,141	129,790
Rental income under operating leases	44,967	40,054
Finance Company:		
Interest income from banks and other financial institutions	181,524	145,488
Interest income on loans receivable and discounted notes receivable	135,516	38,553
Others	175,615	134,804
	<u>1,045,764</u>	<u>783,306</u>
	<u>35,882,648</u>	<u>38,349,410</u>
Other income		
Interest income on bank balances and time deposits	98,441	149,707
Interest income from debt investment	9,430	-
Dividend income from equity investments and funds	37,672	7,920
Subsidy income	149,806	372,760
	<u>295,349</u>	<u>530,387</u>
Gains		
Gain on disposal of property, plant and equipment	97,626	8,897
Losses on disposal of subsidiaries	-	(158,993)
Investments at fair value through profit or loss:		
Unrealised fair value losses, net	(2,317)	(3,318)
Realised fair value gains/(losses), net	1,698	(4,694)
Derivative financial instruments - transactions not qualifying as hedges:		
Unrealised fair value (losses)/gains, net	(208)	1,368
Realised gains on available-for-sale investments (transfer from equity)	121,222	154,760
Gains from debt restructuring	698	9,875
Exchange gains/(losses), net	44,695	(42,656)
Others	60,917	84,760
	<u>324,331</u>	<u>49,999</u>
	<u>619,680</u>	<u>580,386</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Cost of inventories sold	21,783,498	23,323,313
Cost of construction contracts	4,882,948	6,215,161
Cost of services provided	1,905,115	1,661,819
Finance Company:		
Interest expense due to banks and other financial institutions	7,521	8,500
Interest expense on customer deposits	8,147	9,285
Interest expense on bonds	-	-
	<u>15,668</u>	<u>17,785</u>
Depreciation of property, plant and equipment	659,177	629,218
Depreciation of investment properties	2,853	2,620
Recognition of prepaid land lease payments*	21,630	17,781
Amortisation of patents and licences*	20,656	12,577
Amortisation of concession intangible assets*	8,643	8,765
Amortisation of other intangible assets*	14,508	9,377
Research and development costs:*		
Amortisation of technology know-how	11,754	26,860
Current period expenditure	956,890	823,338
	<u>968,644</u>	<u>850,198</u>
Minimum lease payments under operating leases:		
Land and buildings	80,369	97,701
Plant, machinery and motor vehicles	29,050	44,443
Staff costs	3,425,412	3,258,680
(Reversal)/write-down of inventories to net realisable value	(38,287)	89,096
Impairment of trade receivable and other receivables*	385,376	211,964
Impairment of loans receivable*	(5,945)	46,840
Impairment of lease receivables*	22,451	4,697
(Reversal)/impairment of discounted notes receivable*	2,126	(6,574)
Product warranty provision:		
Additional provision	87,054	302,237
Onerous contract provision:		
Additional provision	<u>260,202</u>	<u>426,295</u>

* These items are included in "Other expenses" on the unaudited interim condensed consolidated statement of profit or loss.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

8. INCOME TAX

With the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") effective on 1 January 2008, the Company and all of its subsidiaries that operate in Mainland China were subject to the statutory corporate income tax rate of 25% for the six months ended 30 June 2014 under the income tax rules and regulations of the PRC, except that:

Fifteen subsidiaries, directly hold by the Company were subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises", approved by certain government bureaus, under the Corporate Income Tax Law for the three successive years from 2011. The subsidiaries includes Shanghai Electric Group Shanghai Electric Machinery Co., Ltd., Shanghai Boiler Works, Ltd., Shanghai Electric Wind Power Equipment Co., Ltd., Shanghai Heavy Machine Tool Works Co., Ltd., Shanghai Electric Nuclear Power Equipment Co., Ltd., Shanghai Heavy Machinery Plant Co., Ltd., Shanghai No.1 Machine Tool Works Co., Ltd., Shanghai Machine Tool Works Ltd., Shanghai Centrifuge Institute Co., Ltd., Shanghai Electric Automation R&D Institute Ltd Inc., Shanghai Capital Numerical Control Co., Ltd., Shanghai Marine Crankshaft Co., Ltd., Shanghai Institute of Mechanical & Electric Engineering Co., Ltd., Shanghai Institute of Machine Building Technology Co., Ltd. and Shanghai Electric SPX Engineering Technology Co., Ltd.. Shanghai Electric Nuclear Power Equipment Co., Ltd., Shanghai Marine Crankshaft Co., Ltd. and Shanghai Electric SPX Engineering Technology Co., Ltd. are subject to tax rate of 15% in 2014. Other entities are no longer valid for High-New Technology Enterprises after 31 December 2013. During the six months period ended 30 June 2014, these subsidiaries have submit the application for the High-New Technology Enterprises. The management of the Company is of the view that these subsidiaries will be subject to a corporate income tax rate of 15% as they will be assessed as "High-New Technology Enterprises", approved by certain government bureaus, under the Corporate Income Tax Law for the three successive years since 2014. Therefore, these subsidiaries calculated taxes on profit at the rates of 15% for the period ended 30 June 2014.

Taxes 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.

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
The Group:		
Current - Mainland China		
Charge for the period	764,058	668,383
Overprovision/ Under in prior years	(16,590)	2,315
Current - Elsewhere		
Charge for the period	2,338	1,528
Underprovision in prior years	73	-
Deferred	(169,841)	(64,874)
Total tax charge for the period	580,038	607,352

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent company amounting to RMB 1,296,529,000 (for the six months ended 30 June 2013: RMB 1,410,077,000), and the weighted average number of ordinary shares of 12,823,626,660 (for the six months ended 30 June 2013: 12,823,626,660) in issue during the period.

10. PROPERTY, PLANT AND EQUIPMENT

For the six months period ended 30 June 2014, the total amount for purchasing property, plant and equipment by the Group was 372,074,000 (for the six months ended 30 June 2013: RMB 693,827,000). The total carrying amount of the property, plant and equipment disposed by the Group was 1,239,039,000 (for the six months ended 30 June 2013: RMB 608,069,000).

As at 30 June 2014, the Group had not obtained real estate certificates for buildings with a net carrying amount of RMB 85,776,000 (for the six months ended 30 June 2013: RMB 356,317,000). Included in the above amounts, the Group is in the process of applying for the real estate certificates for buildings with a net carrying amount of approximately RMB 64,279,000 (for the six months ended 30 June 2013: RMB 333,618,000).

For the six months period ended 30 June 2014, the depreciation charged in the interim condensed consolidated income statements is of RMB65,911,900 (for the six months period ended 30 June 2013: RMB130,248,000).

11. TRADE RECEIVABLES

The ageing of trade receivable net of provision for bad debts calculated based on maturity date is analysed below:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Undue	18,197,343	17,411,100
Within 3 months	3,319,067	2,210,641
Over 3 months but within 6 months	2,123,213	2,012,003
Over 6 months but within 1 year	1,744,581	1,844,327
Over 1 year but within 2 years	1,270,791	1,380,238
Over 2 years but within 3 years	451,713	386,405
Over 3 years	22,541	23,666
	<u>27,129,249</u>	<u>25,268,380</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

11. TRADE RECEIVABLES (CONT'D)

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

For the sale of other products, the Group's trading terms with its customers are mainly on credit except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally three months and may extend to six months for key customers.

12. TRADE PAYABLES

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 3 months	15,733,667	14,915,112
Over 3 months but within 6 months	3,956,109	3,187,148
Over 6 months but within 1 year	3,824,645	3,067,758
Over 1 year but within 2 years	2,054,835	1,944,389
Over 2 years but within 3 years	2,156,745	1,503,348
Over 3 years	443,922	481,219
	28,169,923	25,098,974

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

13. INTEREST BEARING BANK BORROWINGS AND OTHER BORROWINGS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Non-current	206,228	217,661
Current	3,594,080	3,764,512
Total borrowings	3,800,308	3,982,173

Movement of borrowings is analysed below:

	RMB'000
For the six months ended 30 June 2014	
Balance at 1 January 2014	3,982,173
New borrowings	324,948
Repayment of borrowings	(506,813)
Balance at 30 June 2014	3,800,308

The interest expense for the six months ended 30 June 2014: RMB87,063,000. (for the six months ended 30 June 2013: RMB105,910,000)

14. BONDS

The Company was approved by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2012]1703) on 24 December 2012 to issue corporate bonds with an aggregate nominal value of up to RMB4 billion by public offer. The corporate bonds would be issued in instalment. The nominal value of the bond actual issued was RMB2 billion.

On 27 February 2013, the Company issued three-year fixed rate bonds with an offering size of RMB400 million and coupon rate of 4.50% and five-year fixed rate bonds with an offering size of RMB1,600 million and coupon rate of 4.90%. The corporate bonds was issued to public investors online and to institutional investors by inquiry placement offline. The Bonds were issued at par value and the interest is settled on an annual basis with the principal payable in full when due. No guarantee was provided for the bonds. The maturity dates of the Bonds are 27 February 2016 and 27 February 2018, respectively. The balance was listed in Bonds at 30 June 2014.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

15. ISSUED CAPITAL

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Registered, issued and fully paid:		
A shares of RMB1.00 each without limit conditions	9,850,715	9,850,715
H shares of RMB1.00 each	2,972,912	2,972,912
	<u>12,823,627</u>	<u>12,823,627</u>

Ordinary shareholders have the right to get the dividends declared by the Company. All ordinary shares enjoy equal shares and rights.

16. CONTINGENT LIABILITIES

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

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Guarantees given to banks in order to obtain credit limit for companies below:		
Associates	<u>91,061</u>	<u>90,234</u>
Including guarantees given to banks for the credit limit that has been used by the companies below:		
Associates	<u>91,061</u>	<u>90,234</u>
Non-financial guarantee letters issued by Finance Company on behalf of:		
Associates	<u>8,473</u>	<u>6,174</u>

- (b) As of 30 June 2014, no financial guarantee letter was issued by financial institutions (31 December 2013: nil). Non-financial guarantees issued by financial institutions for the Group amounted to RMB 22,036,061,000 (31 December 2013: RMB 23,170,416,000).
- (c) As of 30 June 2014, contingent liabilities amounted to RMB 16,550,000 relating to pending lawsuits and arbitration (31 December 2013: RMB 17,850,000).

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

17. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties, 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 10 years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 June 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 year	53,154	70,599
In the second to fifth years, inclusive	144,060	144,800
After five years	84,434	88,252
	<u>281,648</u>	<u>303,651</u>

(b) As lessee

The Group rents certain of its properties, plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 50 years, plant and machinery are negotiated for terms ranging from 1 to 20 years and cars are negotiated for terms of 1 year.

As at 30 June 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 year	99,657	108,183
In the second to fifth years, inclusive	206,693	234,037
After five years	125,703	104,915
	<u>432,053</u>	<u>447,135</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 7(b) above, the Group had the following capital commitments at the reporting date:

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Contracted, but not provided for:		
In respect of the acquisition of		
Land and buildings	95,127	112,678
Plant and machinery	728,703	806,806
Intangible assets	-	82,505
In respect of capital contribution to		
Associates	3,974,578	185,492
	<u>4,798,408</u>	<u>1,187,481</u>
Authorised, but not contracted for:		
In respect of the acquisition of		
Land and buildings	-	1,293
Plant and machinery	252,070	366,332
	<u>252,070</u>	<u>367,625</u>
	<u>5,050,478</u>	<u>1,555,106</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

19. RELATED PARTY TRANSACTIONS

(a) Significant transactions between the Group and related parties during the period are as follows:

	Note	For the six months ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Purchase of materials from:	(i)		
Associates		1,345,605	1,435,570
SEC group companies		304,871	336,996
Other related companies		404,835	501,444
		<u>2,055,311</u>	<u>2,274,010</u>
Sales of goods to:	(i)		
Associates		28,943	131,281
SEC group companies		87,189	95,672
Other related companies		71,563	118,785
		<u>187,695</u>	<u>345,738</u>
Construction contracts from:	(i)		
Other related companies		<u>152,967</u>	<u>1,635,231</u>
Purchases of services from:	(i)		
Associates		17,036	-
SEC group companies		6,497	17,886
Other related companies		6,773	3,401
		<u>30,306</u>	<u>21,287</u>
Provision of services to:	(i)		
Ultimate holding company		38	2,272
Associates		378	2,269
SEC group companies		2,072	1,462
Other related companies		105	1,810
		<u>2,593</u>	<u>7,813</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

19. RELATED PARTY TRANSACTIONS (CONT'D)

- (a) Significant transactions between the Group and related parties during the period are as follows (Cont'd):

	Note	For the six months ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Purchases of equipment from:	(i)		
SEC group companies		932	-
Sales of property, plant and equipment to:	(i)		
Ultimate holding company		862,705	-
Rental income from:	(ii)		
Associates		6,462	4,390
Rental fee to:	(ii)		
Ultimate holding company		5,354	9,668
SEC group companies		1,264	2,900
		<u>6,618</u>	<u>12,568</u>

Notes:

- (i) The sales and purchases, services and construction contracts were conducted in accordance with mutually agreed terms.
- (ii) The rental income and rental fee were based on mutually agreed terms with reference to the market rates.
- (b) Other significant transactions between the Group and related parties during the period:

- (i) 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 a 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. The contractual amount of the Project is of USD870,986,000.

Sales regarding the Project of RMB 124,924,000 (for the period ended 30 June 2013: RMB 476,407,000). In addition, the purchase of RMB 3,318,000 (for the period ended 30 June 2013: RMB 3,378,000) were incurred through SE Corporation during the period. No agent fee was incurred through SE Corporation during the period ended 30 June 2014 (for the period ended 30 June 2013: USD9,513,000)

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

19. RELATED PARTY TRANSACTIONS (CONT'D)

- (c) Deposits and loan services provided to related parties by Finance Company

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Interest expenses for customer deposits:		
Ultimate holding company	854	601
Joint ventures	-	21
Associates	212	340
SEC group companies	9117	7,767
Other related companies	-	7
	<u>10,183</u>	<u>8,736</u>
Interest income for loans and bills discounting:		
Ultimate holding company	80,915	11,327
Joint ventures	-	1,275
Associates	5,092	2,770
SEC group companies	28,990	30,353
Other related companies	901	-
	<u>115,898</u>	<u>45,725</u>

Interest rates for customer deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

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

As at 30 June 2014, the Group has provided guarantees for the credit limit obtained by the related parties with a total amount of USD 14,800,000 (31 December 2013: USD 14,800,000). In this amount, the used amount is USD 14,800,000 (31 December 2013: USD 14,800,000). In addition, finance company has issued non-financial guarantee letters on behalf of related parties totalling RMB 8,473,000 (31 December 2013: RMB 15,028,000).

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

30 JUNE 2014

19. RELATED PARTY TRANSACTIONS (CONT'D)

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

	For the six months ended 30 June	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Fees	375	375
Salaries and other allowances	1,962	1,641
Employee benefits	177	172
Welfare after retirement	184	137
	2,698	2,325

20. SUBSEQUENT EVENTS

On 4 August 2014, the Company held 2014 second extraordinary general meeting, the 2014 first A share class meeting and the 2014 first H shares class meeting. During the meeting, the shareholders approved the proposal to issue A Share convertible bonds with the amount limited within RMB6 billion.

This proposal is subject to the approval by the China Securities Regulatory Commission.

21. APPROVAL OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements are unaudited but reviewed by the audit committee of the Company.

The unaudited interim condensed consolidated financial statements were approved to be issued by the Board of Directors on 15 Aug 2014.