SHANGHAI ELECTRIC GROUP COMPANY LIMITED
上海電氣集團股份有限公司

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

(Stock code: 2727)

2007 INTERIM RESULTS

SUMMARY

Revenue for the first half of 2007 was RMB25,849 million, representing an increase of 22.0% over the corresponding period last year

Profit attributable to equity holders of the parent for the first half of 2007 was RMB1,760 million, representing an increase of 50.0% over the corresponding period last year

Basic earnings per share was RMB14.80 cents

Successfully secured the following major contracts during the Period:

(1) Domestic contracts for supply of 4 sets of 1,000 MW thermal power generation equipment, total contract value RMB3,353 million

(2) 3 overseas contracts for the provision of altogether 3,600MW thermal power generation equipment to India, total contract value USD1,046 million

(3) An overseas contract for supply of 4 sets of 50 MW coal-fired power generation equipment to Tanzania in respect of the Kiwira power station project, contract value USD230 million

(4) Tianjin Dagang Oilfield circulating fluidized bed (CFB) thermal power project, contract value RMB673 million

(5) Domestic EPC contract for supply of 60 sets of 1.25 MW wind power equipment for Shanxi, contract value RMB644 million

(6) Contracts for supply of 72 ship-use crankshafts for RMB373 million

The Board of Directors (the "Board") of Shanghai Electric Group Company Limited (the "Company") is delighted to present the results of operations of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 (the "Period"). The results of operations have been prepared in accordance with accounting principles generally accepted in Hong Kong. They have not been audited but have been reviewed by Audit Committee of the Company.

UNAUDITED INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2007 (Unaudited) *RMB'000*	31 December 2006 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		9,345,537	8,590,538
Prepaid land lease payments		1,270,296	1,236,598
Goodwill		183,440	183,440
Other intangible assets		321,636	360,004
Investments in associates		2,503,911	2,267,372
Loans receivable		274,718	153,248
Other investments		801,304	1,340,167
Other long term assets		79,765	60,061
Deferred tax assets		468,600	394,089
Total non-current assets		15,249,207	14,585,517
CURRENT ASSETS			
Inventories		15,743,507	15,012,619
Construction contracts		446,016	1,356,641
Trade receivables	*8*	9,688,000	8,497,762
Loans receivable		354,207	781,536
Discounted bills receivable		84,431	183,023
Bills receivable		2,905,422	1,559,901
Prepayments, deposits and other receivables		7,865,533	5,867,431
Investments		4,275,866	5,099,263
Derivative financial instruments		46	8,164
Due from the central bank		907,305	754,046
Restricted deposits		1,411,747	1,693,199
Cash and cash equivalents		10,336,157	8,614,165
		54,018,237	49,427,750
Non-current assets classified as held for sale		33,832	34,510
Total current assets		54,052,069	49,462,260

	Notes	30 June 2007 (Unaudited) RMB'000	31 December 2006 (Audited) RMB'000
CURRENT LIABILITIES			
Trade payables	9	10,660,312	7,187,424
Bills payable		1,734,527	1,253,193
Other payables and accruals		26,463,486	28,108,377
Derivative financial instruments		164	986
Debentures		498,467	489,267
Customer deposits		223,302	260,023
Interest-bearing bank and other borrowings		1,032,142	440,675
Tax payable		1,578,589	1,228,079
Provisions		615,408	528,757
		42,806,397	39,496,781
Liabilities directly associated with the non-current assets classified as held for sale		78,398	81,843
Total current liabilities		42,884,795	39,578,624
NET CURRENT ASSETS		11,167,274	9,883,636
TOTAL ASSETS LESS CURRENT LIABILITIES		26,416,481	24,469,153
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		134,548	107,390
Provisions		26,842	31,213
Government grants		136,284	126,992
Other long term payables		80,478	81,145
Deferred tax liabilities		786,684	624,811
Total non-current liabilities		1,164,836	971,551
Net assets		25,251,645	23,497,602
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		11,891,648	11,891,648
Reserves		6,030,531	4,109,141
Proposed final dividend		–	725,391
		17,922,179	16,726,180
Minority interests		7,329,466	6,771,422
Total equity		25,251,645	23,497,602

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

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

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

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

2. SEGMENT INFORMATION

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

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

Six months ended 30 June 2007 (Unaudited)	Power equipment *RMB'000*	Electro-mechanical equipment *RMB'000*	Transportation equipment *RMB'000*	Environmental systems *RMB'000*	Financial business *RMB'000*	Others *RMB'000*	Corporate and other unallocated amounts *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:									
Sales to external customers	15,057,309	7,214,195	2,328,848	1,057,869	–	191,052		–	25,849,273
Inter segment sales	347,288	99,742	3,222	44,256	–	27,302		(521,810)	–
Other revenue	139,980	65,514	21,268	3,951	970,150	1,360		(397,869)	804,354
Total	15,544,577	7,379,451	2,353,338	1,106,076	970,150	219,714		(919,679)	26,653,627
Segment results	1,456,773	661,754	71,732	11,699	853,599	(8,207)		(322,097)	2,725,253
Interest and dividend income and unallocated gains							107,910	291,550	399,460
Corporate and other unallocated expenses							(40,033)		(40,033)
Finance costs							(63,077)	18,437	(44,640)
Share of profits and losses of associates	122,881	180,234	8,582	–	–	–		–	311,697
Profit before tax									3,351,737
Tax									(825,934)
Profit for the period									2,525,803

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

Six months ended 30 June 2006 (Unaudited)	**Power equipment** *RMB'000*	**Electro-mechanical equipment** *RMB'000*	**Transportation equipment** *RMB'000*	**Environmental systems** *RMB'000*	**Financial business** *RMB'000*	**Others** *RMB'000*	**Corporate and other unallocated amounts** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Segment revenue:									
Sales to external customers	12,689,121	6,012,293	1,638,542	717,151	–	138,299		–	21,195,406
Inter segment sales	365,329	93,782	–	36,796	–	12,959		(508,866)	–
Other revenue	74,539	157,096	34,266	2,714	278,501	3,032		(119,090)	431,058
Total	13,128,989	6,263,171	1,672,808	756,661	278,501	154,290		(627,956)	21,626,464
Segment results	1,382,825	488,149	4,674	24,971	128,829	(2,401)		(14,900)	2,012,147
Interest and dividend income and unallocated gains							148,713	11,560	160,273
Corporate and other unallocated expenses							(44,305)		(44,305)
Finance costs							(52,409)	11,814	(40,595)
Share of profits and losses of associates	108,008	39,205	7,403	–	–	–		–	154,616
Profit before tax									2,242,136
Tax									(562,014)
Profit for the period									1,680,122

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; and the value of services rendered, net of sale taxes and surcharges.

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

	For the six months ended 30 June	
	2007	**2006**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Revenue		
Sales of goods	22,283,114	19,919,602
Construction contracts	2,746,631	610,330
Rendering of services	819,528	665,474
	25,849,273	21,195,406
Other income		
Bank interest income	115,573	81,439
Interest income on loans receivable and discounted bills receivable	13,499	10,514
Interest income on debt investments	44,861	22,876
	173,933	114,829
Dividend income from investments	267,533	29,045
Gross rental income	32,986	38,580
Profit from the sale of raw materials, spare parts and semi-finished goods	65,125	32,982
Subsidy income	994	5,236
Compensation income	35,713	17,047
Others	44,731	27,388
	621,015	265,107
Gains		
Gain on disposal of items of property, plant and equipment	15,176	11,347
Unrealised fair value gains, net:		
Investments at fair value through profit or loss	41,796	86,926
Derivative investments-transactions not qualifying as hedges	96	–
Gain on disposal of a subsidiary	470	13,452
Gain on disposal of associates	196	3,364
Gain on disposal of equity interest in a jointly-controlled entity	–	10,190
Realised gain on investments at fair value through profit or loss	132,491	95,271
Realised gain on available-for-sale investments (transfer from equity)	402,447	4,489
Gain on disposal of unquoted investments stated at cost	32,133	84,786
Excess over the cost of a business combination	–	14,807
Exchange (losses)/gains, net	(42,006)	1,592
	582,799	326,224
Total	1,203,814	591,331

4. PROFIT BEFORE TAX

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

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

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

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

5. TAX

The Company and all its subsidiaries that operate in Mainland China are subject to the statutory corporate income tax rate of 33% for the period under the income tax rules and regulations of the People's Republic of China (the "PRC"), except that:

- twelve subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai;

- four subsidiaries are subject to a corporate income tax rate of 27% as they are located in the coastal economic and technology development area and special economic region with foreign investment in production business in the old city area;

- one subsidiary is subject to a corporate income tax rate of 15% as it is registered in the Shanghai Minhang Economic and Technological Development Zone with foreign investment in production business; and

- one subsidiary is entitled to full exemption on corporate income tax as it is established as a local research institute.

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

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

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

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

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

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

6. DIVIDEND

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

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

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

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

8. TRADE RECEIVABLES

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

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

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

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

9. TRADE PAYABLES

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

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

REVIEW OF OPERATIONS

The Group's revenue for the first half of 2007 was RMB25,849 million (2006: RMB21,195 million), representing an increase of 22.0% over the same period last year. Profit attributable to equity holders of the parent was RMB1,760 million (2006: RMB1,173 million), representing an increase of 50.0% over the same period last year. Basic earnings per share were RMB14.80 cents (2006: RMB9.87 cents).

As at 30 June 2007, total assets of the Group were RMB69,302 million (2006: RMB64,048 million), and total liabilities amounted to RMB44,050 million (2006: RMB40,550 million). Total shareholders' equity was RMB25,252 million (2006: RMB23,498 million), of which RMB17,922 million (2006: RMB16,726 million) was attributable to the equity holders of the parent. Net asset value per share (attributable to the equity holders of the parent) was RMB1.51, an increase of RMB0.1 compared to the beginning of the year.

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

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

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

Management Discussion and Analysis

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

Business Review of Major Divisions

Power Equipment Division

To cope with the continuous robust market demand for power equipment in PRC during the first half of 2007, the integrated operation model which has been actively implemented by the Group has achieved further success. During the first half of 2007, sales volume for power generation equipment reached a total capacity of approximately 12,000 MW and the turnover of the Power Equipment Division amounted to RMB15,405 million (2006: RMB13,054 million), representing a rise of 18.0% over the corresponding period last year. Operating profit slightly increased to RMB1,498 million (2006: RMB1,492 million) over the corresponding period last year.

Electromechanical Equipment Division

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

Transportation Equipment Division

During the first half of 2007, the turnover and operating profit of the Transportation Equipment Division increased by 42.2% and 1,480.0% respectively as compared to the same period last year. This was mainly attributable to the increase of the delivery of metropolitan railcars and the increase in gross margin.

Environmental Systems Division

During the first half of 2007, the turnover of the Environmental Systems Division increased by 46.1% as compared to the corresponding period last year, which was mainly due to the expansion of our desulphurization and denitration and complete sets of environmental equipment businesses. As a result of the drop in the gross margins of our desulphurization and denitration and the solar energy businesses, the operating profit decreased 60.0% when compared with the same period last year.

Financial Business

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

Finance Costs

Finance costs for the first half of 2007 were RMB44.64 million (2006: RMB41.00 million), representing a slight increase over the same period of last year.

OUTLOOK

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

Power Equipment Division

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

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

Electromechanical Equipment Division

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

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

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

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

Transportation Equipment Division

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

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

Environmental Systems Division

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Listing Rules. In addition, further to the Company's enquiry, all Directors confirmed that they had complied with the Model Code and the relevant provisions during the period between 1 January 2007 to 30 June 2007.

CORPORATE GOVERNANCE

For the first half of 2007, the Board are of the view that the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer.

Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. For the first half of 2007, the duties of the Chief Executive Officer and the Chairman of the Board have been carried out by the same individual person. However, Mr. Huang Dinan, an Executive Director and the President, is fully responsible for the day-to-day operations of the Company and execution of instructions from the Board. 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 power on one person.

AUDIT COMMITTEE

Our audit committee, comprising Dr. Cheung Wai Bun, Dr. Yao Fusheng and Mr. Lei Huai Chin, has reviewed the accounting policies adopted by the Group and credit limits of its connected transactions in respect of financial services with the management and the Company's external auditors, and discussed on matters concerning internal control and financial reporting, including review and approval of the unaudited interim financial statements of the Period.

REMUNERATION COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY's LISTED SECURITIES

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

INTERIM DIVIDEND

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

BOARD OF DIRECTORS AND SUPERVISORS

As at the date of this announcement, the Board of Directors consists of executive directors, namely Mr. Xu Jianguo, Mr. Chen Longxing, Mr. Huang Dinan, Mr. Wang Qiang, Ms. Li Manping, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhu Kelin, Mr. Yao Qun, Mr. Lin Haitao, Mr. Shen Maosong, as well as independent non-executive directors, namely Dr. Yao Fusheng, Dr. Cheung Wai Bun and Mr. Lei Huai Chin.

As at the date of this announcement, the Supervisors of the Company are Mr. Cheng Zuomin, Mr. Xie Tonglun, Ms. Ling Feifei, Mr. Zheng Weijian and Ms. Miu Xiufeng.

By order of the Board
Xu Jianguo
Chairman

17 August 2007
Shanghai, China