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

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

(Stock Code: 02727)

2008 INTERIM RESULTS

BUSINESS HIGHLIGHTS

- ► Revenue for the first half of 2008 reached RMB28,963 million, representing an increase of 8.9% over the corresponding period last year
- ► Profit attributable to equity holders of the parent for the first half of 2008 was RMB1,547 million, representing a decrease of 13.8% over the corresponding period last year, and RMB1,331 million of which was profit attributable to equity holders net of financial business, representing an increase of 1.5% over the corresponding period last year
- ► Basic earnings per share were RMB13.01 cents
- ► Successfully secured the following major contracts:
  - 9 domestic contracts for the supply of 1,000MW coal-fired power plant equipment and coal-fire power plant EPC projects, with a total value of over RMB22,839 million
  - Overseas contracts for the supply of coal-fired power plant equipment with a total capacity of over 7,000MW and a total value of nearly RMB20,000 million
  - Contract for the supply of nuclear power conventional island equipment for Guangdong Yangjiang Nuclear Power Plant, total value RMB5,330 million
  - Domestic contracts for the supply of 179 metropolitan railcars

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 2008. 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 Ernst & Young.

UNAUDITED INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		11,455,872	10,778,743
Prepaid land lease payments		1,444,269	1,376,934
Goodwill		211,181	211,181
Other intangible assets		365,953	394,421
Investments in associates		2,624,221	2,575,749
Loans receivable		155,173	6,673
Other investments		717,362	923,424
Other long term assets		95,283	113,004
Deferred tax assets		756,103	616,099
Total non-current assets		17,825,417	16,996,228
CURRENT ASSETS			
Inventories		18,871,981	16,494,559
Construction contracts		270,806	285,873
Trade receivables	*8*	11,605,156	9,936,956
Loans receivable		148,495	604,451
Discounted bills receivable		141,699	280,845
Bills receivable		2,225,023	2,120,699
Prepayments, deposits and other receivables		10,996,771	8,409,166
Investments		4,253,463	5,639,599
Derivative financial instruments		25,853	18,255
Due from the central bank		1,655,282	1,580,991
Restricted deposits		1,450,331	1,184,121
Cash and cash equivalents		10,886,594	12,809,930
		62,531,454	59,365,445
Non-current assets classified as held for sale		–	35,794
Total current assets		62,531,454	59,401,239

	Notes	30 June 2008 (Unaudited) RMB'000	31 December 2007 (Audited) RMB'000
CURRENT LIABILITIES			
Trade payables	9	9,486,996	9,442,497
Bills payable		1,929,769	1,850,728
Other payables and accruals		34,592,682	30,060,535
Derivative financial instruments		4,820	–
Customer deposits		398,599	471,486
Interest-bearing bank and other borrowings		895,828	1,437,295
Tax payable		1,572,589	1,857,472
Provisions		512,894	672,690
		49,394,177	45,792,703
Liabilities directly associated with the non-current assets classified as held for sale		–	83,078
Total current liabilities		49,394,177	45,875,781
NET CURRENT ASSETS		13,137,277	13,525,458
TOTAL ASSETS LESS CURRENT LIABILITIES		30,962,694	30,521,686
NON-CURRENT LIABILITIES			
Bonds		1,000,000	1,000,000
Interest-bearing bank and other borrowings		1,405,270	824,304
Provisions		55,287	63,951
Government grants		123,281	118,544
Other long term payables		78,074	64,150
Deferred tax liabilities		626,779	939,687
Total non-current liabilities		3,288,691	3,010,636
Net assets		27,674,003	27,511,050
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		11,891,648	11,891,648
Reserves		8,289,288	7,777,648
		20,180,936	19,669,296
Minority interests		7,493,067	7,841,754
Total equity		27,674,003	27,511,050

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 2007, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that are adopted for the first time for the current period's unaudited interim condensed consolidated financial statements:

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

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

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

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

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

2. SEGMENT INFORMATION

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

The following tables present revenue and profit/(loss) of the Group's business segments for the six months ended 30 June 2008 (the "Period"):

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

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

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

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

3. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended 30 June	
	2008	**2007**
	(Unaudited)	**(Unaudited)**
	RMB'000	*RMB'000*
Revenue		
Turnover		
Sales of goods	22,172,112	22,283,114
Construction contracts	5,380,502	2,746,631
Rendering of services	695,058	819,528
	28,247,672	25,849,273
Other revenue		
Sales of raw materials, spare parts and semi-finished goods	456,281	534,410
Gross rental income	33,900	32,986
Finance Company:		
Interest income from banks and other financial institutions	91,285	69,808
Interest income on loans receivables and discounted bills receivable	28,560	13,499
Others	105,230	84,534
	715,256	735,237
	28,962,928	26,584,510
Other income		
Interest income on bank balances and time deposits	70,381	45,765
Interest income on debt investments*	7,532	44,861
	77,913	90,626
Dividend income from equity investments and investment funds*	32,771	267,533
Subsidy income	54,263	994
Others	34,475	38,889
	199,422	398,042
Gains		
Gain on disposal of items of property, plant and equipment	1,448	15,176
Unrealised fair value (loss)/gains, net:		
Investments at fair value through profit or loss*	(206,645)	41,796
Derivative financial instruments – transactions not qualifying as hedges:		
Unrealised fair value gains, net*	2,778	96
Realised fair value gains, net*	3,430	–
Gain on debt restructuring	5,260	–
Gain on disposal of subsidiaries*	31,400	470
Gain on disposal of equity interest in a jointly-controlled entity*	10,397	–
Gain on disposal of associates*	–	196
Realised gain on investments at fair value through profit or loss*	91,164	132,491
Realised gain on available-for-sale investments (transfer from equity)*	289,587	402,447
Gain on disposal of unquoted equity investments stated at cost*	209	32,133
Exchange losses, net	(9,460)	(42,006)
	219,568	582,799
	418,990	980,841

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

4. PROFIT BEFORE TAX

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

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

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

5. TAX

The Company and all its subsidiaries that operate in Mainland China are subject to the statutory corporate income tax rate of 25% for the six months ended 30 June 2008 (six months ended 30 June 2007: 33%) under the income tax rules and regulations of the Pepole's Republic of China (the "PRC"), except that:

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

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

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

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

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

The share of tax attributable to associates amounting to RMB33,722,000 (six months ended 30 June 2007: RMB44,687,000) is included in "Share of profits and losses of associates" on the face of the unaudited interim condensed consolidated income statement.

6. DIVIDEND

The directors do not recommend the payment of interim dividend (six months ended 30 June 2007: Nil).

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

The calculation of basic earnings per share amount is based on the profit for the Period attributable to ordinary equity holders of the parent of RMB1,546,710,000 (six months ended 30 June 2007: RMB1,794,557,000) and the number of 11,891,648,000 ordinary shares in issue during the Period (six months ended 30 June 2007: 11,891,648,000 ordinary shares).

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

8. TRADE RECEIVABLES

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

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

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

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

9. TRADE PAYABLES

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

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

10. POST BALANCE SHEET EVENTS

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

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

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

11. OTHER SIGNIFICANT MATTERS

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

12. COMPARATIVE AMOUNTS

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

REVIEW OF OPERATIONS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

OPERATION REVIEW OF MAJOR BUSINESS DIVISIONS

Power Equipment Division

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

Electromechanical Equipment Division

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

Heavy Machinery Division

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

Transportation Equipment Division

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

Environmental Systems Division

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

Financial Business

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

Finance Costs

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

Outlook

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

Power Equipment Business

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

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

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

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

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

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

Heavy Machinery Business

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

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

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

Elevator Business

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

Metropolitan Rail Transportation Equipment Business

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

Environmental Systems Business

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

Model Code for Securities Transactions by Directors

The Company has adopted the code provisions as set out in Appendix 10 of the Listing Rules as its model code for securities transactions by directors ("Model Code"). Further to the Company's enquiry, all Directors confirmed that they had complied with the requirements of the Model Code for Securities Transactions by Directors of Listed Issuers and the Model Code during the period from 1 January 2008 to 30 June 2008.

Corporate Governance

For the first half of 2008, the Board of the Directors is of the view that the Company had complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code") except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer.

Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. For the first half of 2008, the duties of the Chief Executive Officer and the Chairman of the Board have been carried out by Mr. Xu Jianguo. However, Mr. Huang Dinan, an Executive Director and the President, is fully responsible for the day-to-day operations of the Company and execution of instructions from the Board of Directors. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the senior management has been well maintained and there exists no problem of over-centralization of management power.

Audit Committee

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

Remuneration Committee

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

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

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

Interim Dividend

The directors do not recommend the payment of interim dividend for the period.

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

Board of Directors and Supervisors

As at the date of this report, the Board of Directors of the Company consists of executive directors, namely Mr. Xu Jianguo, Mr. Huang Dinan, Mr. Zhang Suxin, Mr. Yu Yingui, and non-executive directors, namely Mr. Zhu Kelin, Ms. Yao Minfang, as well as independent non-executive directors, namely Dr. Cheung Wai Bun and Mr. Lei Huai Chin.

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

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

By order of the Board
Xu Jianguo
Chairman

22 August 2008 Shanghai, China