

# Shanghai Mechanical & Electrical Industry Co., Ltd.

## 2010 Semi-annual Report Abstract

### §1 Critical Notes

1.1 The company's board of directors, board of supervisors, and directors, supervisors, and executives guarantee that the report do not have any false records, misleading statement or significant omission, and individually and collectively undertake the responsibility for the correctness, accuracy and completeness of its content.

Semi-annual Report Summary is extracted from full text of Semi-annual Report, so the investors shall carefully read full text of Semi-annual Report for more information.

1.2 The Company's all the directors are attend the board meeting.

1.3 The company's semiannual financial report is unaudited.

1.4 Are there any non-operating funds occupied by controlling shareholders and their related parties?  
No

1.5 Is there any external offering for security against stipulated decision-making process?  
No

1.6 Principal of the company, Mr. Xu Jianguo, principal of accounting, Mr. Si Wenpei, and accountant in chief, Ms. Zou Xiaolu jointly declare that the financial report in this semiannual report is true and complete.

### §2 Company's Basic Information

#### 2.1 Basic Information

Stock Abbreviation	Shanghai M & E	
Stock Code	600835	
Stock Listing Exchange	Shanghai Stock Exchange	
Stock Abbreviation	M & E B Share	
Stock Code	900925	
Stock Listing Exchange	Shanghai Stock Exchange	
	Secretary of Board of Directors	Securities Representative
Name	Si Wenpei	Xing Huihua
Contract Address	9F Huishang Building, No.1286 Minsheng Road, Pudong New Area, Shanghai	9F Huishang Building, No.1286 Minsheng Road, Pudong New Area, Shanghai
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#### 2.2 Main Financial Data and Indexes:

##### 2.2.1 Main Accounting Datum and Financial Indexes

Unit: Yuan    Currency: RMB

	At the end of the reporting period	At the end of the last year	Increase or Decrease of the end of the reporting period than the end of the last year (%)
Total assets	14,449,654,024.42	13,111,628,464.45	10.20
Owners' equity (or	5,209,489,129.77	4,950,057,722.39	5.24

shareholders' equity)			
Net assets per share of shareholders of listed company (Yuan/Share)	5.09	4.84	5.17
	Reporting period (Jan. – Jun.)	Same period of the last year	Increase or Decrease of the reporting period than the same period of the last year (%)
Business profits	628,417,782.77	573,212,679.01	9.63
Total Profits	639,401,515.50	592,877,328.07	7.85
Net profits of shareholders of listed company	352,609,649.94	334,956,605.77	5.27
Net Profits attributed to Shareholders of Listing Companies after Deducting Non-Recurring Profit and Loss	359,786,706.96	328,023,530.44	9.68
Basic income per share (Yuan)	0.34	0.33	3.03
Basic earnings per share after non-frequent profit and loss (Yuan)	0.35	0.32	9.38
Net profit per share (Yuan)	0.34	0.33	3.03
Weighted average yield of net assets (%)	6.87	6.95	Decreased by 0.08
Net cash flow generated in business	1,122,202,879.67	943,480,103.28	18.94
Net Cash Flow form Operating Activities	1.10	0.92	19.57

### 2.2.2 Items of the non-frequent profits and losses

√ Applicable □ Inapplicable

Unit: Yuan Currency: RMB

Items of the non-frequent profits and losses	Amount
Profits and losses of disposal of non-current assets	-12,506,866.70
Government subsidies included in the current profits and losses (Be closely related with business events, expect government subsidies with fixed amount or fixed quantity enjoyed as per united national standards)	2,427,158.00
Devaluation provision for payment receivable with separate devaluation test	2,392,021.61
Non-business income and expenses other than the items above	3,514,672.35
Amount affected by income tax	-1,066,833.90
Amount affected by minority shareholders' interest (after tax)	-1,937,208.38
Total	-7,177,057.02

## §3 Capital Stock Changes and Shareholders Information

### 3.1 Changes in Shares

□ Applicable √ Inapplicable

### 3.2 Number of Shareholders and Shareholding information

Unit: Share

Total number of shareholders up to the end of the reporting period is 95,635 units, including 62,131 units of A-tradable shareholders and 33,504 units of B-tradable shares.					
Particulars about the top ten shareholders					
Name of Shareholder	Nature of Shareholder	Proportion of Shares (%)	Total Shares	Restricted Shares	Pledged or Freezing Shares
Shanghai Electric Group Co., Ltd.	State-owned Legal Person	47.28	483,520,364	0	None
Agriculture Bank of China: Zhongyou Hexin Chengzhang Securities Investment Fund	Other	2.90	29,676,861	0	None
Agriculture Bank of China: Zhongyou Hexin Youxuan Securities Investment Fund	Other	2.36	24,095,113	0	None
China Life Insurance Company Limited – Profit sharing – Individual profit sharing - 005LFH002HU	Other	0.51	5,254,844	0	None
PICC – Tradition - General Insurance Product - 008C-CT001 Hu	Other	0.49	4,999,864	0	None
Industrial and Commercial Bank of China: Nuo'an Pingheng Securities Investment Fund	Other	0.42	4,257,659	0	None
TOYO SECURITIES ASIA LTD. A/C CLIENT	Foreign Shareholder	0.34	3,466,477	0	Unknown
ICBC - Huaxia Shanghai & Shenzhen Index 300 Securities Investment Fund	Other	0.27	2,762,258	0	None
Bank of China – Harvest Shanghai & Shenzhen Index 300 (LOF) Securities Investment Fund	Other	0.25	2,527,004	0	None
NAITO SECURITIES CO., LTD.	Foreign Shareholder	0.22	2,214,783	0	Unknown
Top 10 Non-Restricted Shareholders					
Name of Shareholder	Non-Restricted Shares Owned		Type and Number of Share		
Shanghai Electric Group Co., Ltd.	483,520,364		RMB common shares		
Agriculture Bank of China: Zhongyou Hexin Chengzhang Securities Investment Fund	29,676,861		RMB common shares		
Agriculture Bank of China: Zhongyou Hexin Youxuan Securities Investment Fund	24,095,113		RMB common shares		
China Life Insurance Company Limited – Profit sharing – Individual profit sharing - 005L – FH002HU	5,254,844		RMB common shares		

PICC – Tradition - General Insurance Product - 008C-CT001 Hu	4,999,864	RMB common shares
Industrial and Commercial Bank of China: Nuo'an Pingheng Securities Investment Fund	4,257,659	RMB common shares
TOYO SECURITIES ASIA LTD. A/C CLIENT	3,466,477	Foreign investment owned shares listed domestically and overseas
ICBC - Huaxia Shanghai & Shenzhen Index 300 Securities Investment Fund	2,762,258	RMB common shares
Bank of China – Harvest Shanghai & Shenzhen Index 300 (LOF) Securities Investment Fund	2,527,004	RMB common shares
NAITO SECURITIES CO., LTD.	2,214,783	Foreign investment owned shares listed domestically and overseas
Notes on the incidence relations and collective actions of the above-mentioned shareholders	<p>1. Shanghai Electric Group Co., Ltd. and the top ten circulating shareholders do not have incidence relations and are not collective action conductors as defined in “Listed Companies’ Shareholding Change Disclosure Regulations”.</p> <p>2. Zhongyou Hexin Chengzhang Securities Investment Fund and Zhongyou Hexin Youxuan Securities Investment Fund are both affiliated to Zhongyou Chuangye Fund Management Co. Ltd. Other shareholders don’t know whether there has relationship or a person acting in concert among them.</p>	

### 3.3 The changes in the controlling shareholder or the actual controller

Applicable Inapplicable

## §4 Directors, Supervisors and Senior Managers Information

### 4.1 Changes on Shares Held by Director, Supervisor and Managing Officer

Applicable Inapplicable

## §5 Report by Board of Directors

### 5.1 The discussion and analysis of the overall business situation during the reporting period

Aiming at international financial crisis and our economy, the country has unveiled a series of macroeconomic policies in the first half year of 2010 to exert influence on infrastructure construction, real estate market and consumer market. From the view of external environment, the economy is gradually warmer, but economic recovery foundation is not stable, the pressure from Euro devaluation and appreciation of RMB leads to weak export situation. Taking it from domestic environment, the country has introduced a series of regulatory policy on real estate to curb speculative real estate, and the inflationary pressures increases. Though uncertain external environment has brought operating pressure, the company has maintained the momentum of steady growth on main business by pooling the wisdom and efforts of everyone. It has realized operating income of RMB 6,311,000,000 in the first half year of 2010, an increase of 21.81% on an annual basis and net profit of RMB 353,000,000, an increase of 5.27% on year-on-year basis.

Along with the implementation of the state government’s policies to expand the domestic demand and to promote stable and rapid economic growth, the economy has started to recover, which is both an

opportunity and a challenge for the Company.

The company continues to emphasize on the orders and expand the channels to ensure marketing growth, and accumulated contracts have increased over 30% on year-on-year basis in the first half year of 2010.

Shanghai Mitsubishi Elevator based on product safety and reliability, it will aim at forming four major characteristics: energy-saving, environmental friendly, high-speed, and informatization, and maintaining competition advantages in technology, decorating, and quality in the elevator and escalator business. Comparing against the advanced international benchmark, absorb, transform, and apply to the management so as to improve its core competitiveness, form its sustainable competitive advantage, and improve its ability to respond to the fluctuation in economy.

In 2010, the market demand for the elevators continues to keep stable growth, the demand for the elevators brought from infrastructure construction on the transportation as a large number of railways, subways and airports will last to the second half year of 2010. It is predicated that market capacity for complete elevators is about 220,000 -250,000sets in 2010, and the demand presents stable rising situation in whole. At present, there are more than 30,000sets of the elevators that have signed the Contract in 2010, in which the contract No. in the first half of year has considerable increase over the same period of last year, and it is predicated that the orders increases sharply in 2010 by comparing to last year. In Shanghai World Expo Park, a part of customer orders for key projects as Line 10 of Shanghai Metro, Beijing-Shanghai Express Railway and Beijing-Guangzhou Express Railway have been delivered and put into service. Main operating income and net profit of Shanghai Mitsubishi Elevator in the first half year of 2010 has an increase of 21% and 7% on year-on-year basis respectively, and Shanghai Mitsubishi Elevator continues to lead domestic elevator market.

The striding development of national engineering machinery industry has also brought the development of hydraulic pneumatic industry, according to the latest information shown from hydraulic pneumatic industry, the production and sales of hydraulic pneumatic enterprise have grown larger than previous year. Among top 10 enterprises in main business income, the affiliated hydraulic pneumatic enterprise ranks the first and its other aspects also rank top in the industry. Nabtesco and Sauer, as Joint Ventures of hydraulic pneumatic enterprise, have continued to keep a trend of rapid development, and net profit of hydraulic pneumatic enterprise has grown 71% year-on-year basis in the first half year of 2010.

Engineering machinery industry of our country has ushered fast-than-expected rapid growth in the first half year of 2010, main reason is that a large number of engineering projects have entered into startup and implementation stage to drive the sale of engineering machinery industry. Main operating income and net profit of Jintai Engineering affiliated under the company has respectively grown 21% and 15% year-on-year basis. Meanwhile, Jintai Engineering has increased the strength on R&D of the products and invested the funds in developing underground construction machinery with international advanced level of similar products as hydraulic and pneumatic percussion drill, middle-driven multiple borer, large-triangle multi-functional drillers, hydraulic diaphragm wall grab, double-wheel drilling machine, and then pushed new products to market to seize the first chance, and hydraulic diaphragm wall grab occupies over 80% market share.

With weaken impact of financial crisis, the printing machinery market has gradually shown a sign of warmer market, domestic printing industry has started to rise firmly and economic operating indexes have been changed for better trend. Main operating income of the affiliated Printing and Packaging Group has been increased on an annual basis. In light of development target of "internationalization, integration and modernization" and current state of printing machinery industry, Printing and Packaging Group has rationalized property right structure through merger and acquisition as well as made a great

efforts on adjusting product structure, integrating and gathering resources, deepening internal reform and healthy sustained development by integrating printing machinery businesses. In addition, it continues to take the model of industrial group to integrate the resources as organizational structure, technology, management and manpower to further promote integrated management and operation, and it is to control and reduce the expenses as well as increase the profits through resource integration and high-effective management, and then realize value maximization of the business through synergistic effect to promote overall competitiveness.

## 5.2 Company's main business and situation

### 1. List of main business industries

Unit: Yuan Currency: RMB

By Industry	Main business income	Main business cost	Gross Profit Margin (%)	Increase or Decrease of Main Business Income Than Last Year (%)	Increase or Decrease of Main Business Cost Than Last Year (%)	Increase or Decrease of Gross Profit Margin Than Last Year (%)
Elevator & Escalator	4,666,761,868.68	3,710,299,367.60	20.50	21.02	21.97	Decreased by 0.62
Printing & Packing Machinery	418,037,864.12	323,013,649.33	22.73	145.27	112.81	Increased by 10.44
Hydraulic and Pneumatic products	270,243,878.66	257,017,486.48	4.89	-3.82	-3.63	Decreased by 0.20
Man-made Panel	298,322,222.23	269,066,972.68	9.81	2.49	1.75	Increased by 0.66
Engineering Machinery	301,853,679.17	208,685,492.43	30.87	20.64	23.74	Decreased by 1.73
Welding Equipment	225,010,101.35	210,762,049.32	6.33	4.12	4.93	Decreased by 0.73
Air conditioner	21,134,297.94	17,099,095.28	19.09	-31.21	-23.62	Decreased by 8.04

### 2. Main Operating Businesses Classified by Area

Unit: Ten Thousand Yuan Currency: RMB

Area	Main business income	Increase or Decrease of main business income than last year(%)
Export	37,491.60	-11.24
Domestic	582,644.79	24.67

### 5.3 Company's assets structure changes in the report term

Unit: Yuan Currency: RMB

Item	Jun. 30 <sup>th</sup> , 2010	Dec. 31 <sup>st</sup> , 2010	Changes over the same period of the Last Year (%)
Monetary fund	6,719,273,342.81	5,905,618,386.67	13.78
Payment receivable	1,237,628,831.60	998,917,972.98	23.90
Stock	2,037,735,523.03	2,105,104,591.23	-3.20
Long-term equity investment	1,264,185,034.75	1,131,494,722.24	11.73
Fixed assets	1,486,631,258.72	1,508,837,339.86	-1.47
Short-term loan	378,500,000.00	440,500,000.00	-14.07
Payment received	3,979,577,919.34	3,312,780,065.95	20.13

in advance			
Long-term loan	50,000,000.00	160,053,922.36	-68.76

## 5.4 Changes in Period Expenses during the Reporting Period than the Same Period of the Last Year

Unit: Yuan Currency: RMB

Item	Jan. – Jun. 2010	Jan. – Jun. 2009	Changes over the same period of the Last Year (%)
Sales expenses	284,133,934.61	257,251,654.05	10.45
Management expenses	478,880,324.41	340,190,388.22	40.77
Finance expenses	-28,857,004.61	-31,004,034.36	-6.93

The increase in management expenses is for adding Guanghua and UNIS (Unisplendour Corporation Limited) into consolidated scope and the increase in R&D expenses over the same period of last year.

## 5.5 Changes in Constitution of Cash Flow during the Reporting Period

Unit: Yuan Currency: RMB

Item	Jan. – Jun. 2010	Jan. – Jun. 2009	Changes over the same period of the Last Year (%)
Net cash flow generated in business	1,122,202,879.67	943,480,103.28	18.94

## 5.6 Reason Analysis for Significant Changes to Main Business Profitability (Gross Profit Rate) by Comparing to previous year

Applicable Inapplicable

## 5.7 Reason Analysis for Significant Changes to Profit Composition by Comparing to previous year

Applicable Inapplicable

## 5.8 Use of funds raised

## 5.8.1 Fund-Raising Application

Applicable Inapplicable

## 5.8.2 Condition for Change Project

Applicable Inapplicable

## 5.9 Use of non-raised capital

Within the report period, there is no significant non-fund-raising investment project

## 5.10 Amendment Plan to Business Plan for the Second Half of the Year of the Board of Directors

Applicable Inapplicable

## 5.11 The forecast and warning on the possible loss on the cumulative net profit from the year beginning to the next term end or the substantial changes comparing with the same term of last year and the causes

Applicable Inapplicable

## 5.12 Statement made by the Board of Directors or Changes and Handling Information of the Events concerned in “Non-Standard Auditor’s Report” of this Report Period issued by Accounting Firm

Applicable Inapplicable

## 5.13 Statement made by the Board of Directors or Changes and Handling Information of the Events concerned in “Non-Standard Auditor’s Report” of Preceding Year issued by Accounting Firm

Applicable  Inapplicable

## §6 Significant events

### 6.1 Asset Acquisitions

Applicable  Inapplicable

### 6.2 Assets Sale

Applicable  Inapplicable

Unit: Ten Thousand Yuan Currency: RMB

Transaction Party	Sold Assets	Sales Day	Sales price	Net Profits contributed to Company resulting from the beginning of this year to Sales Day of Assets Sale	Profit and Loss resulting from Sale	Whether it is related deals( if yes, state pricing principle)	Whether property right has been transferred	Whether the creditor's right or debt has been transferred
Wuxi Hongqi Pressure Vessel Manufacturing Co., Ltd.	100% equity of Wuxi Guanghua Printing Machinery Co., Ltd.		2,285			No	No	No
Shanghai Jingmeng Welding Material Marketing Co., Ltd.	100% equity of CHISA Welding Consumables (Proprietary) Ltd.	June 30 <sup>th</sup> , 2010	657.23	-11.96	-1,259.11	No	Yes	Yes

### 6.3 Guarantee matters

Applicable  Inapplicable

Unit: Ten Thousand Yuan Currency: RMB

<b>Guarantee provided by the company for invested holding subsidiaries</b>	
Total guarantee provided by the company for invested subsidiaries in the reporting period	39,631
Total balance of guarantee provided by the company for invested subsidiaries at the end of report term	27,131
<b>Company's total guarantee amount (including guarantee to its holding subsidiaries)</b>	
Total guarantee provided	27,131
Percentage of guarantee amount to company's net assets (%)	5.21
Including:	
Total guaranteed amount provided directly or indirectly to subsidiaries with the Assets Liabilities Ratio higher than 70%	12,000

### 6.4 Intercourse between Related Claim and Debt

Applicable  Inapplicable

### 6.5 Significant lawsuit or arbitration

Applicable  Inapplicable

### 6.6 Other significant events and the effects and resolutions

#### 6.6.1 Security Investment Situation

Applicable  Inapplicable

## 6.6.2 Shareholding status in other listed companies

√ Applicable □ Inapplicable

Unit: Yuan

Stock Code	Stock Abbreviation	Initial Investment Cost	Proportion (%)	Account value of term end	Profits and losses of report term	Changes of ownership interests in report term	Accounting items	Source of the stock
600618	Chlor-alkali Chemicals	1,240,000.00	0.03	2,002,308.00		-924,924.00	Financial assets available for sale	Purchase
600633	White Cat	7,461,700.00	1.44	15,951,936.00		-1,336,632.00	Financial assets available for sale	Purchase
600665	Tiandiyuan	1,400,000.00	0.09	3,247,200.00		-1,148,400.00	Financial assets available for sale	Purchase
600845	Baoxin Software	2,909,090.91	0.31	21,240,000.00		-4,008,000.00	Financial assets available for sale	Purchase
000501	E-Wushang A Ewushang A	353,400.00	0.03	2,160,444.96		-56,696.76	Financial assets available for sale	Purchase
601328	Bank of Communications	2,959,029.00	0.003	10,907,380.72		-3,848,321.78	Financial assets available for sale	Purchase
600643	Aijiang Share	93,400.00	0.006	354,614.69		-191,709.14	Financial assets available for sale	Purchase
Total		16,416,619.91	/	55,863,884.37		-11,514,683.68	/	/

## 6.6.3 Conditions for Holding the Equities of Non-Listed Financial Enterprises

√ Applicable □ Inapplicable

Name of Holding Object	Initial Investment Cost Initial Investment Cost (Yuan)	Number of Shares Held (Share)	Proportion (%)	Account value of term end (Yuan)	Profits and losses of report term (Yuan)	Changes of ownership interests in report term (Yuan)	Accounting items	Source of the stock
Bank of Shanghai Co., Ltd.	941,200	1,374,152	0.05	1,374,152			Long-term Investment	Purchase
Total	941,200	1,374,152	/	1,374,152			/	/

## §7 Financial statement

## 7.1 Audit opinion

Financial Report	√ Unaudited	□ Audited
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## 7.2 Financial Report

## Combined Balance Sheet

June 30<sup>th</sup>, 2010

Made by: Shanghai Mechanical &amp; Electrical Industry Co., Ltd.

Unit: Yuan Currency: RMB

Item	Annotation	Term-end balance	Year-beginning balance
<b>Floating assets:</b>			
Monetary fund		6,719,273,342.81	5,905,618,386.67
Provision settlement			
Funds for inter-bank lending			
Trading financial assets			
Notes receivable		202,554,975.72	181,162,671.29
Payment receivable		1,237,628,831.60	998,917,972.98
Advanced payment		506,694,466.04	332,214,189.42
Premiums receivable			
Reinsurance accounts receivable			
Reinsurance contract provision receivable			
Interest receivable		1,413,437.50	6,289,687.50
Dividend receivable		24,718,292.90	9,428,818.94
Other account receivable		150,683,263.10	139,601,399.88
Buying of counter-purchased financial assets			
Stock		2,037,735,523.03	2,105,104,591.23
Non-current assets to be due in a year			
Other floating assets			
Total floating assets		10,880,702,132.70	9,678,337,717.91
<b>Non-current assets:</b>			
Entrusted loan and advanced-payment giving			
Financial assets available for sale		55,863,884.37	67,378,568.05
Investment fund held to term end			
Long-term payment payable			
Long-term equity investment		1,264,185,034.75	1,131,494,722.24
Investment real estate		78,481,910.93	80,347,014.79
Fixed assets		1,486,631,258.72	1,508,837,339.86
Construction in progress		147,486,223.10	118,928,402.94
Engineering materials			
Liquidation of fixed assets			
Manufacturing biological assets			
Gas and oil assets			
Invisible assets		346,983,480.17	354,630,274.79
Development expense			
Goodwill		77,068,187.05	77,068,187.05
long-term fees to be apportioned		25,948,705.26	8,242,770.62
Deferred income tax assets		86,303,207.37	86,363,466.20
Other non-current assets			
Total non-current assets		3,568,951,891.72	3,433,290,746.54
Total assets		14,449,654,024.42	13,111,628,464.45
<b>Floating liabilities:</b>			
Short-term loan		378,500,000.00	440,500,000.00

Loans from central bank			
Deposit absorbing and Vostro account			
Funds for inter-bank borrowing			
Trading financial debts			
Notes payable		32,451,837.37	21,889,473.00
Account payable		1,749,083,756.33	1,425,621,794.23
Payment received in advance		3,979,577,919.34	3,312,780,065.95
Fund of selling of counter-purchased financial assets			
Handling charges and commissions payable			
Employees' salaries payable		160,801,635.58	202,063,672.66
Tax payable		111,124,539.26	157,284,409.05
Interest Payable			
Dividend payable		281,325,447.46	25,306,407.46
Other account payable		620,051,089.22	490,657,810.44
Reinsurance account payable			
Insurance contract provision			
Proxy securities transaction fund			
Proxy securities undertaking fund			
Non-current liabilities to be due in a year		5,000,000.00	5,000,000.00
Other floating liabilities		47,529,931.58	43,239,740.00
Total floating liabilities		7,365,446,156.14	6,124,343,372.79
<b>Non-current liabilities:</b>			
Long-term loan		50,000,000.00	160,053,922.36
Bonds payable			
Long-term payment payable		1,753,920.89	1,753,920.89
Specific account payable			
Estimated liabilities			
Deferred income tax liabilities		42,653,466.37	47,336,763.48
Other non-current liabilities		17,466,050.00	10,115,650.00
Total non-current liabilities		111,873,437.26	219,260,256.73
Total liabilities		7,477,319,593.40	6,343,603,629.52
<b>Owners' equity (or shareholders' equity):</b>			
Paid in capital (or equity capital)		1,022,739,308.00	1,022,739,308.00
Capital reserve fund		1,471,117,696.65	1,475,955,651.14
Minus: Treasury stocks			
Special Reserve			
Surplus accumulation fund		1,003,506,333.84	1,003,506,333.84
Normal risk provision			
Unallocated profits		1,712,125,791.28	1,461,790,072.14
Conversion difference of foreign currency report			-13,933,642.73
Total ownership equity of parental company		5,209,489,129.77	4,950,057,722.39
Minority shareholders' equity		1,762,845,301.25	1,817,967,112.54
Total ownership equity		6,972,334,431.02	6,768,024,834.93
Total liabilities and ownership equity		14,449,654,024.42	13,111,628,464.45

Company's legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu

## Balance Sheet of Parental Company

June 30<sup>th</sup>, 2010

Made by: Shanghai Mechanical &amp; Electrical Industry Co., Ltd.

Unit: Yuan Currency: RMB

Item	Annotation	Term-end balance	Year-beginning balance
<b>Floating assets:</b>			
Monetary fund		333,461,816.11	348,207,611.92
Trading financial assets			
Notes receivable			
Payment receivable			
Advanced payment		1,025,496.78	
Interest receivable			
Dividend receivable		299,859,584.72	
Other account receivable		2,051,596.52	3,998,706.81
Stock			
Non-current assets to be due in a year			
Other floating assets		10,000,000.00	
Total floating assets		646,398,494.13	352,206,318.73
<b>Non-current assets:</b>			
Financial assets available for sale		55,509,269.68	66,832,244.22
Investment fund held to term end			
Long-term payment payable			
Long-term equity investment		2,952,755,255.64	2,929,139,513.20
Investment real estate			
Fixed assets		57,825,872.67	59,318,890.98
Construction in progress			
Engineering materials			
Liquidation of fixed assets			
Manufacturing biological assets			
Gas and oil assets			
Invisible assets		43,398,678.02	43,931,797.82
Development expense			
Goodwill			
long-term fees to be apportioned			
Deferred income tax assets			
Other non-current assets			
Total non-current assets		3,109,489,076.01	3,099,222,446.22
Total assets		3,755,887,570.14	3,451,428,764.95
<b>Floating liabilities:</b>			
Short-term loan			
Trading financial debts			
Notes payable			
Account payable		4,842,773.48	4,842,773.48
Payment received in advance			
Employees' salaries payable		8,510,252.02	8,737,632.85
Tax payable		179,189.71	157,753.59
Interest Payable			

Dividend payable			
Other account payable		26,192,041.05	23,577,676.49
Non-current liabilities to be due in a year			
Other floating liabilities			
Total floating liabilities		39,724,256.26	37,315,836.41
<b>Non-current liabilities:</b>			
Long-term loan			
Bonds payable			
Long-term payment payable			
Specific account payable			
Estimated liabilities			
Deferred income tax liabilities		13,459,425.87	16,556,481.76
Other non-current liabilities			
Total non-current liabilities		13,459,425.87	16,556,481.76
Total liabilities		53,183,682.13	53,872,318.17
<b>Owners' equity (or shareholders' equity):</b>			
Paid in capital (or equity capital)		1,022,739,308.00	1,022,739,308.00
Capital reserve fund		1,429,976,361.42	1,439,267,529.07
Minus: Treasury stocks			
Special Reserve			
Surplus accumulation fund		309,860,655.29	309,860,655.29
Normal risk provision			
Unallocated profits		940,127,563.30	625,688,954.42
Total owners' equity (or shareholders' equity)		3,702,703,888.01	3,397,556,446.78
Total liabilities and ownership equity (or shareholders' equity)		3,755,887,570.14	3,451,428,764.95

Company's legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu

## Combined Profit Statement

Jan. – Jun. 2010

Unit: Yuan Currency: RMB

Item	Annotation	Amount of current period	Amount of previous period
I. Gross trading income		6,310,896,504.95	5,180,700,037.86
Including: Business income		6,310,896,504.95	5,180,700,037.86
Interest received			
Insurance premium earned			
Handling charges and commissions income			
II. Total business cost		5,853,963,369.76	4,738,012,930.09
Including: Business cost		5,088,515,339.80	4,183,817,454.49
Interest expense			
Handling charges and commissions expense			
Surrender value			
Net indemnity expense			
Net provision of insurance contract			
Insurance policy dividends expense			
Reinsurance expense			
Business taxes and additions		23,807,994.21	18,394,534.01
Sales expenses		284,133,934.61	257,251,654.05
Management expenses		478,880,324.41	340,190,388.22
Finance expenses		-28,857,004.61	-31,004,034.36
Assets devaluation loss		7,482,781.34	-30,637,066.32
Plus: Fair value change income ("-" means loss)			
Investment income ("-" means loss)		171,484,647.58	130,525,571.24
Including: Investment income from cooperative business and joint companies		178,068,309.30	126,588,071.24
Exchange income ("-" means loss)			
III. Business profits ("-" means loss)		628,417,782.77	573,212,679.01
Plus: Non-revenue receipt		12,726,212.71	22,757,448.74
Minus: Non-business expenditure		1,742,479.98	3,092,799.68
Including: loss of non-current assets disposal		779,629.21	1,953,411.89
IV. Total profits ("-" means loss)		639,401,515.50	592,877,328.07
Minus: Income tax expense		80,839,747.83	66,625,921.39
V. Net profit ("-" means loss)		558,561,767.67	526,251,406.68
Net profits of parental company owner		352,609,649.94	334,956,605.77
Profit and loss of minority shareholders		205,952,117.73	191,294,800.91
VI. Income per share:			
(I) Basic income per share		0.34	0.33
(II) Diluted income per share		0.34	0.33
VII. Other Comprehensive Income		3,920,799.22	19,906,179.89
VIII. Total Comprehensive Income		562,482,566.89	546,157,586.57
Total Comprehensive Income attributed to the Owners of Parent Company		356,705,338.18	354,862,785.66

Total Comprehensive Income attributed to Minority Shareholders		205,777,228.71	191,294,800.91
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Company's legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu

Parental Company's Profit Statement  
Jan. – Jun. 2010

Unit: Yuan Currency: RMB

Item	Annotation	Amount of current period	Amount of previous period
I. Business income		1,144,233.00	2,051,373.34
Minus: Business cost			
Business taxes and additions		83,484.95	112,352.73
Sales expenses			
Management expenses		18,550,400.03	4,614,953.77
Finance expenses		-1,806,652.97	-1,528,837.42
Assets devaluation loss			
Plus: Fair value change income ("-" means loss)			
Investment income ("-" means loss)		432,600,081.87	525,725,310.90
Including: Investment income from cooperative business and joint companies		41,910,727.34	43,684,433.72
II. Business profits ("-" means loss)		416,917,082.86	524,578,215.16
Plus: Non-revenue receipt			
Minus: Non-business expenditure		204,543.18	70,969.20
Including: loss of non-current assets disposal		204,543.18	969.20
III. Total profits ("-" means loss)		416,712,539.68	524,507,245.96
Minus: Income tax expense			
IV. Net profit ("-" means loss)		416,712,539.68	524,507,245.96
V. Income per share:			
(I) Basic income per share		0.41	0.51
(II) Diluted income per share		0.41	0.51
VI. Other Comprehensive Income		-9,291,167.65	19,123,792.07
VII. Total Comprehensive Income		407,421,372.03	543,631,038.03

Company's legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu

Combined Statement of Cash Flow  
Jan. – Jun. 2010

Unit: Yuan Currency: RMB

Item	Annotation	Amount of current period	Amount of previous period
<b>I. Cash flow generated in business</b>			
Cash received by selling commodities or providing labor service		7,404,760,641.72	6,157,262,463.68
Net increase of customers' deposit and Vostro account			
Net increase of loan from central bank			
Net increase of Funds for inter-bank borrowing from other financial institutes			
Cash obtained from former insurance contract premium			
Net cash obtained from reinsurance business			
Net increase of policy holder and investment fund			
Net increase of disposing transaction financial assets			
Cash obtained from interest, handling charge and commission			
Net increase of funds for inter-bank borrowing			
Net increase of counter-purchased business fund			
Returned tax received		26,358,871.75	30,613,891.75
Cash received in other business		125,349,198.42	164,064,752.14
Subtotal of business cash flow-in		7,556,468,711.89	6,351,941,107.57
Cash paid for buying commodities or accepting labor service		5,173,682,553.94	4,374,429,893.74
Net increase of customers' loan and advanced payment			
Net increase of account in central bank and Vostro account			
Cash paid for indemnity of former insurance contract			
Cash paid for interest, handling charge and commission			
Cash paid for insurance policy dividends			
Cash paid to or for employees		314,897,446.24	279,554,711.61
Taxes paid		431,839,332.66	394,226,579.04
Cash paid for other business activities		513,846,499.38	360,249,819.90
Subtotal of business cash flow-in		6,434,265,832.22	5,408,461,004.29
Net cash flow generated in business		1,122,202,879.67	943,480,103.28
<b>II. Cash flow generated in investment</b>			
Cash received from returned investment		11,519,743.26	230,000,000.00
Cash received from investment income		24,046,255.65	69,268,805.23

Net cash received by disposing fixed assets, invisible assets and other long-term assets		14,575,555.60	14,785,914.10
Net cash amount received from the disposal of subsidiaries and other branches			
Cash received in other investment		73,733,586.17	
Subtotal of investment cash flow-in		123,875,140.68	314,054,719.33
Cash paid for purchasing fixed assets, invisible assets and other long-term assets		143,855,996.90	111,639,208.00
Cash paid for investment		1,065,249.00	135,300,612.93
Net increase of pledged loan			
Net cash value paid by subsidiaries and other branches			
Cash paid for other investment			
Subtotal of investment cash flow-out		144,921,245.90	246,939,820.93
Net cash flow generated in investment		-21,046,105.22	67,114,898.40
<b>III. Cash flow generated in fund raising</b>			
Cash received from investment absorbing			
Including: Cash received from minority shareholders affiliated by subsidiaries			
Cash received through loan		143,000,000.00	216,500,000.00
Cash received by bond issuance			
Cash received from other fund raising		5,000,000.00	
Subtotal of raising cash flow-in		148,000,000.00	216,500,000.00
Cash paid for debt		315,008,781.14	295,500,000.00
Cash paid for distribution of dividend, profits of interest disbursement		120,279,709.18	12,406,904.19
Including: dividends and profits paid by subsidiaries to minority shareholders		4,880,000.00	12,406,904.19
Cash paid in other fund raising			
Subtotal of raising cash flow-out		435,288,490.32	307,906,904.19
Net cash flow generated in fund raising		-287,288,490.32	-91,406,904.19
IV. Exchange rate effect on cash and cash equivalent		-213,327.99	-365,937.40
V. Net increase value of cash and its equivalent		813,654,956.14	918,822,160.09
Plus: balances of term beginning cash and cash equivalent		5,355,618,386.67	3,658,196,775.09
VI. Balances of term end cash and cash equivalent		6,169,273,342.81	4,577,018,935.18

Company's legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu

Parental Company's Cash Flow Statement  
Jan. – Jun. 2010

Unit: Yuan Currency: RMB

Item	Annotation	Amount of current period	Amount of previous period
<b>I. Cash flow generated in business</b>			
Cash received by selling commodities or providing labor service		1,144,233.00	2,051,373.34
Returned tax received			
Cash received in other business		2,035,627.09	1,538,825.22
Subtotal of business cash flow-in		3,179,860.09	3,590,198.56
Cash paid for buying commodities or accepting labor service			
Cash paid to or for employees		5,089,765.63	5,767,028.87
Taxes paid		81,888.22	83,360.85
Cash paid for other business activities		8,688,116.96	8,287,878.70
Subtotal of business cash flow-in		13,859,770.81	14,138,268.42
Net cash flow generated in business		-10,679,910.72	-10,548,069.86
<b>II. Cash flow generated in investment</b>			
Cash received from returned investment			
Cash received from investment income		110,498,906.71	506,063,044.13
Net cash received by disposing fixed assets, invisible assets and other long-term assets		193,000.00	
Net cash amount received from the disposal of subsidiaries and other branches			
Cash received in other investment			
Subtotal of investment cash flow-in		110,691,906.71	506,063,044.13
Cash paid for purchasing fixed assets, invisible assets and other long-term assets		44,460.00	74,137.57
Cash paid for investment		12,439,401.00	199,000,000.00
Net cash value paid by subsidiaries and other branches			
Cash paid for other investment			
Subtotal of investment cash flow-out		12,483,861.00	199,074,137.57
Net cash flow generated in investment		98,208,045.71	306,988,906.56
<b>III. Cash flow generated in fund raising</b>			
Cash received from investment absorbing			
Cash received through loan			
Cash received from other fund raising			
Subtotal of raising cash flow-in			
Cash paid for debt			
Cash paid for distribution of dividend, profits of interest disbursement		102,273,930.80	
Cash paid in other fund raising			
Subtotal of raising cash flow-out		102,273,930.80	
Net cash flow generated in fund raising		-102,273,930.80	
<b>IV. Exchange rate effect on cash and cash</b>			

<b>equivalent</b>			
<b>V. Net increase value of cash and its equivalent</b>		-14,745,795.81	296,440,836.70
Plus: balances of term beginning cash and cash equivalent		348,207,611.92	240,393,205.50
<b>VI. Balances of term end cash and cash equivalent</b>		333,461,816.11	536,834,042.20

Company's legal representative: Xu Jianguo Person in charge of accounting: Si Wenpei Accounting manager: Zou Xiaolu



reckoned into ownership interests									
3. Other		5,000,000.00							5,000,000.00
(IV) Profits distribution						-102,273,930.80		-260,899,040.00	-363,172,970.8
1. Surplus reserve provision									
2. Normal risk provision									
3. Distribution to owners (or shareholders)						-102,273,930.80			-102,273,930.80
4. Other								-260,899,040.00	-260,899,040.00
(V) Internal transfer of ownership interests									
1. Capital reserve transferred on capital (or equity)									
2. Surplus reserve transferred on capital (or equity)									
3. Surplus reserve compensation for loss									
4. Other									
(VI) Special Reserve									
1. Withdrawal at Current Period									
2. Use at Current Period									
IV. Current term-end balance	1,022,739,308.00	1,471,117,696.65			1,003,506,333.84		1,712,125,791.28	1,762,845,301.25	6,972,334,431.02

Company's legal representative: Xu Jianguo

Person in charge of accounting: Si Wenpei

Accounting manager: Zou Xiaolu



ownership interests									
3. Other									
(IV) Profits distribution				217,080.00		-102,646,048.80		-255,943,458.01	-358,372,426.81
1. Surplus reserve provision				217,080.00		-217,080.00			
2. Normal risk provision									
3. Distribution to owners (or shareholders)						-102,273,930.80		-255,943,458.01	-358,217,388.81
4. Other						-155,038.00			-155,038.00
(V) Internal transfer of ownership interests									
1. Capital reserve transferred on capital (or equity)									
2. Surplus reserve transferred on capital (or equity)									
3. Surplus reserve compensation for loss									
4. Other									
(VI) Special Reserve									
1. Withdrawal at Current Period									
2. Use at Current Period									
IV. Current term-end balance	1,022,739,308.00	1,446,570,162.63		870,530,104.06		1,489,433,745.72	-12,297,395.35	1,565,552,095.71	6,382,528,020.77

Company's legal representative: Xu Jianguo

Person in charge of accounting: Si Wenpei

Accounting manager: Zou Xiaolu



(IV) Profits distribution							-102,273,930.80	-102,273,930.80
1. Surplus reserve provision								
2. Normal risk provision								
3. Distribution to owners (or shareholders)							-102,273,930.80	-102,273,930.80
4. Other								
(V) Internal transfer of ownership interests								
1. Capital reserve transferred on capital (or equity)								
2. Surplus reserve transferred on capital (or equity)								
3. Surplus reserve compensation for loss								
4. Other								
(VI) Special Reserve								
1. Withdrawal at Current Period								
2. Use at Current Period								
IV. Current term-end balance	1,022,739,308.00	1,429,976,361.42			309,860,655.29		940,127,563.30	3,702,703,888.01



(V) Internal transfer of ownership interests								
1. Capital reserve transferred on capital (or equity)								
2. Surplus reserve transferred on capital (or equity)								
3. Surplus reserve compensation for loss								
4. Other								
(VI) Special Reserve								
1. Withdrawal at Current Period								
2. Use at Current Period								
IV. Current term-end balance	1,022,739,308.00	1,434,107,680.75			262,828,662.81		726,908,268.07	3,446,583,919.63

Company's legal representative: Xu Jianguo

Person in charge of accounting: Si Wenpei

Accounting manager: Zou Xiaolu

7.3 There are no changes on accounting policies and accounting estimate within the period of this report.

7.4 There are no pre-accounting error corrections.

7.5 Business Combination and Combined Financial Statement

7.5.1 Statement for Changes on Combination Scope

Shanghai Welding Equipment Co., Ltd. affiliated under our company and Shanghai Jingmeng Welding Material Co., Ltd. have concluded Share Transfer Agreement to its 100% share of CHISA Welding Consumables (Proprietary) Ltd. with the price of RMB 6,757,300, and the disposal date is on June 30<sup>th</sup>, 2010. From June 30<sup>th</sup>, 2010, this Group can't bring CHISA Welding Consumables (Proprietary) into combination scope, and the scope of Combined Financial Statement is consistent with pervious year.

Chairman: Xu Jianguo

Shanghai Mechanical & Electrical Industry Co., Ltd.

August 18<sup>th</sup>, 2010