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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)

CLARIFICATION ON MEDIA REPORTS AND RESUMPTION OF TRADING

CLARIFICATION

The Company refers to recent newspapers articles concerning the detention of Mr. Han Guozhang, an executive director of the Company and Mr. Zhang Rongkun, a non-executive director of the Company, in connection with certain ongoing investigations and seeks to clarify the Company's position with regards to these articles.

The Company wishes to state that it is of the view that the abovementioned incidents have not affected and will not affect the business and operations of the Company as the 2 Directors are not involved in the day-to-day operations of the Company. The operations and business have not been affected in any way and are carrying on as usual.

As far as the Company is aware, the said incidents do not involve the misappropriation of the funds or assets of the Company. The Company has conducted internal checks in the assets of the Group and the results of these checks did not reveal any misappropriation of the assets of the Group. The Group has in place, a system of internal controls to prevent any misappropriation of its assets. The Company believes that it would have been questioned or notified if the investigations related to misappropriation of its assets. In addition, the Company wishes to clarify that "Sunshine Protection Scheme" mentioned in certain newspaper reports is not an insurance scheme for the employees of the Company and the Company does not make any contribution to the said scheme. The Company understands that "Sunshine Protection Scheme" is an insurance set up by Shanghai Electric Group Corporation, a promoter and a substantial shareholder of the Company holding 51.59% shareholding interests in the total issued share capital of the Company, for its employees.

Further to an enquiry made by the Company to the Information Office of Shanghai Municipality, the department responsible for the dissemination of news and facts under the purview of the Shanghai Municipal Government, the Company understands that Mr. Han is suspected of serious violation of certain rules and regulations of the PRC Communist Party in his personal capacity, and not in his role as a Director of the Company, and is now detained for questioning. The said investigations do not relate to the Company. As the Company is based in Shanghai, the Information Office of the Shanghai Municipality is the appropriate point of reference for the ascertainment of facts relating to the investigations involving Mr. Han.

The Company is unable to obtain further information about the reasons for the detention of Mr. Zhang. However, the Company has made an enquiry to Fuxi Investment Holding Company Ltd, a shareholder in the Company holding domestic shares amounting to 8.15% of the issued share capital of the Company and which is indirectly 60%-owned by Mr. Zhang, and was directed to an announcement made on 24 July 2006 on the PBOC website designated for information on PRC Short Term Debentures (中國短期融資券) which disclosed that Mr. Zhang has been assisting the PRC Government in certain investigations. In this connection, the Company further understands that the Shanghai People's Courts has frozen the assets of Fuxi Investment Holdings Co., Ltd. The Company has also received notification from the Shanghai People's Court that any dividends to be paid to Fuxi Investment Holdings Co., Ltd. should be withheld and no transfer of the domestic shares in the Company held by Fuxi Investment Holdings Co., Ltd should be effected.

As far as the Company is aware, such investigations, involving Mr. Han and Mr. Zhang, involve each of them in their personal capacities and for their personal acts and not for their roles as Directors of the Company. As far as the Company is aware, the investigations are not related to the Group or management of the Company. Given that the said incidents are ongoing investigations and that limited official sources of information is available, the Company believes that it has carried out appropriate and sufficient procedures for the purpose of ascertaining the reasons for the said incidents. The Company reiterates that internal checks conducted have shown that the affairs of the Company are in order and no assets or funds of the Company has been misappropriated and that the said incidents have no effect on and will not affect the ongoing operations of the Company.

The Company will make an announcement should it be aware of any relevant updates or development in the said investigations.

Trading in the Shares on the Stock Exchange has been suspended with effect from 9.30am Tuesday 8 August 2006 pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares from 9.30am Friday 11 August 2006.

As at the date of this Announcement, the executive Directors of the Company are Mr. WANG Chengming, Mr. CHEN Longxing, Mr. HUANG Dinan, Mr. HAN Guozhang, Mr. WANG Qiang, Ms. LI Manping, Mr. YU Yingui, the non-executive Directors of the Company are Mr. ZHANG Rongkun, Mr. ZHU Kelin, Mr. YAO Qun, Mr. Lin Haitao, Mr. WANG Minwen, Mr. LI Songjian and the independent non-executive Directors of the Company are Dr. YAO Fusheng, Dr. CHEUNG Wai Bun and Mr. LEI Huai Chin.

DEFINITIONS

“Board”	the board of directors of the Company
“Company”	Shanghai Electric Group Company Limited, a joint stock company with limited liability incorporated in the PRC and whose H shares are listed on the Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“PBOC”	The People’s Bank of China
“PRC” or “China”	The People’s Republic of China which, for the purpose of this Announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board
Shanghai Electric Group Company Limited
Wang Chengming
Chairman

Shanghai, the PRC, 10 August 2006

“Please also refer to the published version of this announcement in South China Morning Post.”