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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)

NON-BINDING MEMORANDUM OF UNDERSTANDING

This announcement is made by Shanghai Electric Group Company Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The board of the directors (the “**Board**”) of the Company announces that, SE Leasing Company Ltd. (“**SE Leasing**”), a 95% subsidiary of the Company, will enter into a non-binding memorandum of understanding (the “**MOU**”) with AVIC I Commercial Aircraft Co., Ltd., 中航商用飛機有限公司 (“**ACAC**”), regarding a possible purchase of 30 civil aircrafts by SE Leasing from ACAC with a view to developing the aircraft leasing business in the People's Republic of China (“**PRC**”). To the knowledge of the Board, ACAC is an economic entity established in the PRC and is principally engaged in research and development of civil aircrafts. To the best knowledge, information and belief of the directors of the Company having made all reasonable enquiry, ACAC is an independent third party not connected with the promoters, directors, supervisors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined under the Listing Rules. The signing of the MOU is expected to take place on 31 October 2006. Up to the date of this announcement, no binding agreement has yet been entered into between the parties.

The Board wishes to remind the shareholders of the Company (the “**Shareholders**”) that a binding agreement may or may not be signed between the relevant parties. The Shareholders and potential investors are urged to exercise caution when dealing in the shares of the Company. Even if a binding agreement is signed, the Board does not expect to receive the delivery of aircrafts nor commit itself to any major payment obligation payable over the next three years. The Company will make further announcement(s) as and when appropriate to keep the Shareholders informed of any relevant update or development.

As at the date of this Announcement, the executive Directors of the Company are Mr. XU Jianguo, Mr. CHEN Longxing, Mr. HUANG Dinan, Mr. WANG Qiang, Ms. LI Manping, Mr. YU Yingui, the non-executive Directors of the Company are 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.

By Order of the Board
Shanghai Electric Group Company Limited
XU Jianguo
Chairman

Shanghai, the PRC, 31 October 2006

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