Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
REVENUE	5	34,400,124	24,502,365
Cost of sales		(27,693,790)	(19,322,830)
GROSS PROFIT		6,706,334	5,179,535
Other income and gains	5	893,985	838,991
Selling and distribution costs		(949,894)	(830,112)
Administrative expenses		(2,660,012)	(2,362,279)
Other expenses		(620,732)	(431,681)
Finance costs	7	(66,742)	(117,391)
Share of profits and losses of associates		247,169	246,611
Impairment of investments in associates/amortisation of goodwill arising on acquisition of associates		(72,090)	(23,187)
PROFIT BEFORE TAX	6	3,478,018	2,500,487
Tax	10	(1,002,856)	(573,475)
PROFIT FOR THE YEAR		2,475,162	1,927,012
Attributable to:			
Equity holders of the parent	11	1,672,212	1,088,526
Minority interests		802,950	838,486
		2,475,162	1,927,012
DIVIDENDS	12		
Proposed final		487,558	-
Paid during the year		-	306,422
		487,558	306,422
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
- For profit for the year (cents)		15.17	11.85

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
NON-CURRENT ASSETS			
Property, plant and equipment	14	6,350,712	5,097,148
Prepaid land premiums/land lease payments	15	1,056,332	1,005,710
Goodwill:	16		
Goodwill		130,736	135,637
Negative goodwill		-	(11,004)
Other intangible assets	17	315,444	298,724
Investments in associates	20	2,234,150	2,118,685
Loans receivable	21	12,147	42,650
Other financial assets/long term investments	22	721,317	919,475
Other long term assets		191,929	73,056
Deferred tax assets	23	289,808	250,078
Total non-current assets		11,302,575	9,930,159
CURRENT ASSETS			
Inventories	24	12,053,209	8,869,509
Trade receivables	25	5,986,400	4,054,559
Loans receivable	21	83,395	846,906
Discounted bills receivable	26	68,547	145,360
Bills receivable	27	925,765	1,061,916
Prepayments, deposits and other receivables	28	5,276,271	3,810,053
Other financial assets/short term investments	29	6,500,397	5,228,742
Due from the central bank	30	670,945	727,118
Pledged deposits	30	1,416,673	1,002,935
Cash and cash equivalents	30	10,881,171	11,433,019
Total current assets		43,862,773	37,180,117
CURRENT LIABILITIES			
Trade payables	31	5,141,664	3,814,601
Bills payable	32	357,380	333,737
Other payables and accruals	33	25,580,858	24,375,271
Debentures	34	682,898	-

	Notes	2005	2004
		RMB'000	*RMB'000*
			(Restated)
Customer deposits	35	146,909	749,436
Interest-bearing bank and other borrowings	36	249,238	649,853
Tax payable		885,917	332,773
Provisions	37	216,874	320,987
Repurchase agreements	38	-	1,503,800
Total current liabilities		33,261,738	32,080,458
NET CURRENT ASSETS		10,601,035	5,099,659
TOTAL ASSETS LESS CURRENT LIABILITIES		21,903,610	15,029,818
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	36	69,499	155,341
Provisions	37	80,125	82,934
Government grants		128,191	69,847
Other long term payables	39	66,503	92,628
Deferred tax liabilities	23	373,010	297,131
Total non-current liabilities		717,328	697,881
Net assets		21,186,282	14,331,937
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	40	11,891,648	9,189,000
Reserves	41 (a)	2,500,801	(684,376)
Proposed final dividend	12	487,558	-
		14,880,007	8,504,624
Minority interests		6,306,275	5,827,313
Total equity		21,186,282	14,331,937

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Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

		Attributable to equity holders of the parent							
	Note	Paid-up capital/Issued share capital RMB'000	Capital reserve RMB'000	Contributed surplus RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2004		3,279,816	2,216,561	(159,916)	737,909	(1,115,582)	4,958,788	4,952,785	9,911,573
Net profit for the year		-	-	-	-	1,088,526	1,088,526	838,486	1,927,012
Total income and expenses for the year		-	-	-	-	1,088,526	1,088,526	838,486	1,927,012
Capitalisation from capital reserve		84,304	(84,304)	-	-	-	-	-	-
Reversal of paid-up capital of the 17 Companies upon the establishment of the Company		(2,893,800)	-	2,893,800	-	-	-	-	-
Capital contribution to the Company upon its establishment		9,010,950	-	(6,257,765)	-	-	2,753,185	-	2,753,185
Adjustments on investment costs of the 17 Companies		-	-	29,822	-	-	29,822	-	29,822
Capital reduction of a subsidiary		(470,320)	461,292	-	-	-	(9,028)	-	(9,028)
Restructuring into a joint stock limited liability company		178,050	(121,832)	6,423	(54,396)	(1,822)	6,423	22,920	29,343
Acquisition of subsidiaries		-	-	-	-	-	-	248,706	248,706
Disposal of a subsidiary		-	-	-	-	-	-	(6,062)	(6,062)
Transfer to accumulated losses		-	(507,676)	-	(1,466)	509,142	-	-	-
Transfer to capital reserve		-	8,382	-	-	(8,382)	-	-	-
Transfer/appropriation to statutory surplus reserve		-	-	-	288,626	(288,626)	-	-	-
Dividends paid to equity holders of the parent	12	-	-	-	-	(306,422)	(306,422)	-	(306,422)
Dividends paid to minority shareholders		-	-	-	-	-	-	(349,509)	(349,509)
Capital injection in subsidiaries		-	-	-	-	-	-	130,134	130,134
Others		-	(1,005)	-	(15,665)	-	(16,670)	(10,147)	(26,817)
As at 31 December 2004		9,189,000	1,971,418	(3,487,636)	955,008	(123,166)	8,504,624	5,827,313	14,331,937

		Attributable to equity holders of the parent										
		Issued share capital	Capital reserve	Contributed surplus	Surplus reserves	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority Interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Notes											
At 1 January 2005												
As previously stated		9,189,000	1,971,418	(3,487,636)	955,008	-	-	(123,166)	-	8,504,624	5,827,313	14,331,937
Adoption of new accounting policies	2.4(b)	-	-	-	-	-	-	27,940	-	27,940	3,504	31,444
As restated		9,189,000	1,971,418	(3,487,636)	955,008	-	-	(95,226)	-	8,532,564	5,830,817	14,363,381
Changes in fair value of available-for-sale investments		-	-	-	-	3,497	-	-	-	3,497	992	4,489
Exchange realignment		-	-	-	-	-	(8,007)	-	-	(8,007)	211	(7,796)
Total income and expense for the year recognised directly in equity		-	-	-	-	3,497	(8,007)	-	-	(4,510)	1,203	(3,307)
Net profit for the year		-	-	-	-	-	-	1,672,212	-	1,672,212	802,950	2,475,162
Total income and expense for the year		-	-	-	-	3,497	(8,007)	1,672,212	-	1,667,702	804,153	2,471,855
Issue of shares	40	2,702,648	2,196,875	-	-	-	-	-	-	4,899,523	-	4,899,523
Share issue expenses	40	-	(221,488)	-	-	-	-	-	-	(221,488)	-	(221,488)
Acquisition of subsidiaries	42	-	-	-	-	-	-	-	-	-	77,617	77,617
Reduction of equity interests in a subsidiary		-	-	-	-	-	-	-	-	-	6,827	6,827
Transfer to accumulated losses		-	(100,000)	-	(3,302)	-	-	103,302	-	-	-	-
Transfer to capital reserve		-	52,403	-	-	-	-	(52,403)	-	-	-	-
Transfer/appropriation to statutory surplus reserve		-	-	-	599,561	-	-	(599,561)	-	-	-	-
Proposed final 2005 dividend	12	-	-	-	-	-	-	(487,558)	487,558	-	-	-
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	(477,089)	(477,089)
Capital injection in subsidiaries		-	-	-	-	-	-	-	-	-	75,948	75,948
Acquisition of minority interests											(12,614)	(12,614)
Others		-	2,518	-	(341)	-	-	(471)	-	1,706	616	2,322
As at 31 December 2005		11,891,648	3,901,726	(3,487,636)	1,550,926	3,497	(8,007)	540,295	487,558	14,880,007	6,306,275	21,186,282

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

	Notes	2005 *RMB'000*	2004 *RMB'000* (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,478,018	2,500,487
Adjustments for:			
Finance costs	7	66,742	117,391
Share of profits and losses of associates		(247,169)	(246,611)
Impairment of investments in associates	6	72,090	-
Amortisation of goodwill arising on acquisition of associates	6	-	23,187
Interest income	5	(354,387)	(384,692)
Fair value gains, net:			
Investments at fair value through profit or loss	5	(49,383)	(12,523)
Dividend income from investments	5	(27,372)	(12,033)
Depreciation	6	796,445	496,094
Amortisation of prepaid land premiums/land lease payments	6	31,577	26,772
Amortisation of other intangible assets	6	54,260	44,497
Amortisation of goodwill	6	-	13,863
Loss/(gain) on disposal of non-current other financial assets	5	87	(4,026)
Gain on disposal of current other finance assets	5	(114,173)	(42,601)
Provision for a product warranty	6	205,097	80,238
Provision for onerous contracts	6	19,239	166,250
Early retirement benefit costs	6	14,650	35,633
Impairment/(reversal of impairment) of available-for-sale equity investments	6	4,146	(872)
Impairment of items of property, plant and equipment	6	77,424	23,786
Impairment of prepaid land premiums/land lease payments	6	-	5,939
Impairment of goodwill	6	18,926	-
Gain on disposal of associates	5	(39,663)	-
Gain on disposal of subsidiaries	5	-	(46,896)
Gain on disposal of items of property, plant and equipment	5	(62,711)	(60,253)
Provision for bad and doubtful receivables	6	159,677	66,156
Write-down of inventories to net realisable value	6	262,370	57,594
Gain from debt restructuring	5	(2,076)	(7,134)
Reversal of provision for loans receivable	6	(47,806)	-
Reversal of provision for discounted bills receivable	6	(776)	-
Excess over the cost of a business combination	5	(3,177)	-
Operating profit before working capital changes		4,312,055	2,840,246

	Notes	2005	2004
		RMB'000	*RMB'000*
			(Restated
Increase in inventories		(3,410,022)	(3,553,068)
Increase in trade receivables and other receivables		(3,358,181)	(1,914,916)
Decrease/(increase) in other long-term assets		18,899	(59,432)
Increase in trade payables, bills payable, other payables and accruals		2,085,595	9,178,810
Utilisation and reversal of warranty provision and other provisions		(345,908)	(71,255)
Cash (used in)/generated from operations		(697,562)	6,420,385
Taxes paid		(413,875)	(485,645)
Net cash (outflow)/inflow from operating activities		(1,111,437)	5,934,740
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		350,574	384,692
Dividends received from investments	5	27,372	12,033
Dividends received from jointly-controlled entities and associates		269,801	202,243
Purchases of items of property, plant and equipment		(1,947,438)	(1,321,526)
Prepaid land premiums/land lease payments		(89,857)	(381,076)
Proceeds from disposal of items of property, plant and equipment		209,996	259,475
Recovery of prepaid land premium/land lease payments		10,183	200,996
Advances from recovery of prepaid land premium/land lease payments		45,480	-
Acquisition of subsidiaries	42	5,772	(7,128,598)
Disposal of subsidiaries	43(a)	41,577	(28,037)
Acquisition of associates		(230,159)	(378,700)
Proceeds from disposal of associates		8,421	214,029
Purchases of non-current other financial assets		(707,002)	(409,868)
Proceeds from disposal of non-current other financial assets		81,796	61,445
Purchases of intangible assets		(46,665)	(43,875)
Proceeds from disposal of intangible assets		715	281
Increase in pledged deposits		(413,738)	(673,152)
Decrease/(increase) in non-pledged time deposits with original maturity of over three months when acquired		(464,448)	249,755
Decrease in loans receivable		841,820	2,604,153
Decrease in discounted bills receivable		77,589	590,133
Decrease in an amount due from the central bank		56,173	48,886

	Notes	2005 *RMB'000*	2004 *RMB'000* (Restated)
Increase in current other financial assets		(257,935)	(2,322,759)
Capital injection in subsidiaries		10,974	-
Acquisition of minority interests		(15,600)	(27,150)
Net cash outflow from investing activities		(2,134,599)	(7,886,620)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in issued capital/paid-up capital	40	4,899,523	2,750,000
Capital injection by minority interests		16,056	157,340
New bank and other loans		231,471	1,033,522
Repayments of bank and other loans		(722,587)	(1,563,423)
Issue of debentures	34	680,120	-
Share issue expenses	40	(221,488)	-
Dividends paid to minority interests		(483,064)	(349,509)
Dividends paid by the Company		-	(306,422)
Increase/(decrease) in customer deposits		(602,527)	11,130
Increase/(decrease) in repurchase agreements		(1,503,800)	527,800
Interest paid		(63,964)	(117,391)
Net cash inflow from financing activities		2,229,740	2,143,047
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,016,296)	191,167
Cash and cash equivalents at beginning of year		8,503,371	8,312,204
CASH AND CASH EQUIVALENTS AT END OF YEAR		7,487,075	8,503,371
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	30	10,881,171	11,433,019
Less: Non-pledged time deposits with original maturity of over three months when acquired		(3,394,096)	(2,929,648)
		7,487,075	8,503,371

BALANCE SHEET
31 December 2005

	Notes	2005 *RMB'000*	2004 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	14	258,739	240,474
Investments/interests in subsidiaries	18	10,043,967	8,011,362
Investments in associates	20	49,413	-
Total non-current assets		10,352,119	8,251,836
CURRENT ASSETS			
Inventories	24	112,315	10,976
Trade receivables	25	296,251	-
Bills receivable	27	300	-
Prepayments, deposits and other receivables	28	4,012,084	430,067
Pledged deposits	30	104,030	-
Cash and cash equivalents	30	4,135,433	1,084,316
Total current assets		8,660,413	1,525,359
CURRENT LIABILITIES			
Trade payables	31	309,211	-
Bills payable	32	300	-
Other payables and accruals	33	4,968,859	1,012,948
Total current liabilities		5,278,370	1,012,948
NET CURRENT ASSETS		3,382,043	512,411
TOTAL ASSETS LESS CURRENT LIABILITIES		13,734,162	8,764,247
NON-CURRENT LIABILITIES			
Other long term payables	39	30,026	-
Total non-current liabilities		30,026	-
Net assets		13,704,136	8,764,247
EQUITY			
Paid-up/Issued capital	40	11,891,648	9,189,000
Reserves	41(b)	1,324,930	(424,753)
Proposed final dividend	12	487,558	-
Total equity		13,704,136	8,764,247

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Director *Director*

NOTES TO FINANCIAL STATEMENTS

31 December 2005

1. CORPORATE INFORMATION

Shanghai Electric Group Company Limited is a limited liability company established in the PRC on 1 March 2004. The registered office of the Company is located on 30th floor, No. 8 Xing Yi Road, Shanghai, the PRC.

During the year, the Group was involved in the following principal activities:

- design, manufacture and sale of power equipment products and provision of related services;
- design, manufacture and sale of electromechanical equipment products and provision of related services;
- design, manufacture and sale of transportation equipment products and provision of related services; and
- design, manufacture and sale of environmental protection industries products and provision of related services.

In the opinion of the directors, the parent and the ultimate holding company of the Group is Shanghai Electric (Group) Corporation ("SE Corporation"), a wholly stated-owned enterprise established in the PRC.

In February 2004, SE Corporation underwent a corporate reorganisation ("the Reorganisation"). Pursuant to the Reorganisation, SE Corporation entered into an investment agreement dated 19 February 2004 (the "Investment Agreement") with Guangdong Zhujiang Investment Co., Ltd., Fuxi Investment Holding Co., Ltd., Shenergy Group, Shanghai Baosteel Group Co., Ltd. and Shantou Municipal Mingguang Investment Co., Ltd. (collectively the "Investors") to establish the Company in the PRC. Pursuant to the Investment Agreement, SE Corporation contributed its equity interests in 17 companies (the "17 Companies"), which, together with their then subsidiaries, jointly-controlled entities and associates, including all of their corresponding assets and liabilities (the "Net Assets"), and fixed assets (the "Fixed Assets"), in the amount of RMB6,257,765,000 and RMB3,185,000, respectively, as capital contribution and the remaining Investors contributed cash in aggregate, amounting to RMB2,750,000,000 to the Company. The Net Assets also included the 17 Companies' then equity interests in their subsidiaries, jointly-controlled entities and associates, which, upon the capital contribution to the Company by SE Corporation, became indirectly owned by the Company through its equity interests in the 17 Companies.

The value of the Net Assets contributed by SE Corporation was appraised by Shanghai Orient Certified Appraisal Co., Ltd., an independent professionally qualified valuer in Mainland China, on 5 January 2004 by reference to the book values as at 31 October 2003. Details of the Reorganisation were set out in SE Corporation's press announcement dated 27 February 2004. The capital contributions by the Investors totalling RMB9,010,950,000 were certified on 1 March 2004 by Shanghai Da Gong Da Tong Certified Public Accountants Co., Ltd., an independent professionally qualified certified accountant in Mainland China. As a result of the above capital contributions by the Investors, SE Corporation and the remaining Investors owned 69.48% and 30.52% of the paid-up capital of the Company, respectively.

Pursuant to a board resolution of the Company, SE Corporation transferred its equity interests of 4.99% in the Company to Fuxi Investment Holding Co., Ltd. on 19 August 2004. On 27 August 2004, Shanghai Baosteel Group Co., Ltd.'s equity interests of 4.99% in the Company were transferred to SE Corporation pursuant to another board resolution of the Company.

On 29 September 2004, the Company was converted into a joint stock limited liability company with a registered capital of RMB9,189,000,000, which was determined based on the Company's net assets of the same amount as at 30 June 2004, as determined in accordance with the Accounting System for Business Enterprises in the PRC and audited by Ernst & Young Da Hua. This signified the completion of the Reorganisation.

On 28 April 2005, 2,702,648,000 ordinary shares were issued through the global offering.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for certain investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The consolidated financial statements would have been prepared on a continuing basis as if the Reorganisation had been completed as at the beginning of the financial years presented. The consolidated financial statements include the Group's results of operations and cash flows as if the equity interests in the 17 Companies had been transferred to the Group at the beginning of the financial years presented. For the purpose of determining the capital contribution from SE Corporation upon the incorporation of the Company, the Net Assets and the Fixed Assets were transferred to the Company on 19 February 2004 (being the effective date of the Investment Agreement between the shareholders of the Company, the Assets Transfer Agreement between SE Corporation and the Company, and the articles of association of the Company) at revalued amounts as required and approved by the relevant PRC authorities. The Net Assets and Fixed Assets were recorded at their respective book values upon the capital contribution into the Company, with the difference between the net book values and revalued amounts recorded as contributed surplus in the consolidated balance sheet.

Except that the results of those companies that were historically acquired or disposed of by the 17 Companies or their subsidiaries are consolidated from or to their effective dates of acquisition or disposal, the results of the companies comprising the Group upon the Reorganisation were presented on a merger basis as described in the preceding paragraph.

The results of subsidiaries that are acquired by the Group after the Reorganisation are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

In the opinion of the directors, the financial statements, prepared on the above basis, present fairly the results, cash flows and the state of affairs of the Group as a whole.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements

HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes - Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 28, 33, 37, 38, HKFRSs 2, 5, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 - Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land premiums/land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKFRS 3 - Business Combinations and HKAS 36 - Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill against retained profits.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(c) HKAS 32 and HKAS 39 - Financial Instruments

In prior years, the Group classified its investments in equity securities held for non-trading purposes and debts securities with maturity over one year as long term investments.

Investments in equity securities held for non-trading purposes were stated at cost and net of impairment as they did not have a quoted market price in an active market and whose fair value cannot be reliably measured. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB250,065,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at cost until subsequent derecognition or impairment.

Investments in debts securities with maturity over one year were stated at amortised cost in prior years. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB669,410, 000 are designated as held to maturity investments under the transitional provisions of HKAS 39 and accordingly are stated at amortised cost until subsequent derecognition.

In prior years, the Group classified its investments in equity and debts securities and investment funds for trading purposes, debt investments and entrusted assets management with maturity within one year, and entrusted assets management held for non-trading purposes as short term investments.

Investments in equity and debts securities and investment funds for trading purposes were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities and investment funds held by the Group at 1 January 2005 in the amount of RMB255,743,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

Debt investments and entrusted assets management with maturity within one year were stated at amortised cost in prior years. Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB3,984,751,000 are designated as held-to-maturity investments under the transitional provisions of HKAS 39 and accordingly are stated at amortised cost until subsequent derecognition.

Entrusted assets management held for non-trading purpose were stated at cost and net of impairment as they did not have a quoted market price in an active market and whose fair value cannot be reliably measured. Upon the adoption of HKAS 39, these investments held by the Group at 1 January 2005 in the amount of RMB988,248,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at cost until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these investments. The classification effects of the above changes are summarised in notes 2.4, 22 and 29 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(d) HKAS 31 - Interests in Joint Ventures

Upon the adoption of HKAS 31, the Group is allowed to adopt the proportionate consolidation method for investments in jointly-controlled entities. The Group has determined to change the accounting policy for investments in jointly-controlled entities from the equity method to the proportionate consolidation method. Such change in accounting policy was accounted for retrospectively and involved recognising a proportionate share of the jointly-controlled entities' assets, liabilities, income and expenses into similar items in the consolidated financial statement on a line-by-line basis. However, such treatment has had no impact on the Group's net profit for the year ended 31 December 2005 and the net assets as at 31 December 2005.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005. HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 March 2006.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) *Effect on the consolidated balance sheet*

At 1 January 2005	Effect of adopting				
	HKAS 17#	HKASs 32# & 39*	HKAS 31#	HKFRS 3*	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments	Changes in classification of investments	Proportionate consolidation of jointly-controlled entities	Derecognition of negative goodwill	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Property, plant and equipment	(1,035,640)	-	336,624	-	(699,016)
Prepaid land premiums/ land lease payments	1,005,710	-	-	-	1,005,710
Goodwill/negative goodwill	-	-	7,426	11,004	18,430
Other intangible assets	-	-	69	-	69
Investments in jointly-controlled entities	-	-	(554,575)	-	(554,575)
Investments in associates	-	-	35,953	20,440	56,393
Non-current other financial assets	-	919,475	-	-	919,475
Long term investments	-	(919,475)	5,931	-	(913,544)
Other long term assets	-	-	944	-	944
Inventories	-	-	148,331	-	148,331
Trade receivables	-	-	104,004	-	104,004
Bills receivable	-	-	24,581	-	24,581
Prepayments, deposits and other receivables	29,930	-	19,869	-	49,799
Current other financial assets	-	5,228,742	-	-	5,228,742
Short term investments	-	(5,228,742)	-	-	(5,228,742)
Cash and cash equivalents	-	-	148,797	-	148,797
					309,398
Liabilities/equity					
Trade payables	-	-	76,466	-	76,466
Tax payable	-	-	3,705	-	3,705
Other payables and accruals	-	-	77,833	-	77,833
Interest-bearing bank and other borrowings					
- current portion	-	-	109,500	-	109,500
- non-current portion	-	-	8,701	-	8,701
Other long term payables	-	-	1,749	-	1,749
Accumulated losses	-	-	-	27,940	27,940
Minority interests	-	-	-	3,504	3,504
					309,398

* Adjustments taken effect prospectively from 1 January 2005
# Adjustments/presentation taken effect retrospectively

At 31 December 2005	Effect of adopting HKAS 17	HKASs 32 & 39	HKAS 31	HKFRS 3	
Effect of new policies (Increase/(decrease))	**Prepaid land lease payments**	**Changes in classification of investments**	**Proportionate consolidation of jointly-controlled entities**	**Discontinuation of amortisation of goodwill/ derecognition of negative goodwill**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets					
Property, plant and equipment	(1,090,278)	-	374,423	-	(715,855)
Prepaid land premiums/ land lease payments	1,056,332	-	-	-	1,056,332
Goodwill/negative goodwill	-	-	7,426	27,004	34,430
Other intangible assets	-	-	7,764	-	7,764
Investments in jointly-controlled entities	-	-	(543,529)	-	(543,529)
Investments in associates	-	-	2,614	43,199	45,813
Non-current other financial assets	-	718,833	2,484	-	721,317
Long term investments	-	(718,833)	-	-	(718,833)
Other long term assets	-	-	2,044	-	2,044
Inventories	-	-	195,888	-	195,888
Trade receivables	-	-	113,428	-	113,428
Bills receivable	-	-	16,632	-	16,632
Prepayments, deposits and other receivables	33,946	-	36,474	-	70,420
Current other financial assets	-	6,500,397	-	-	6,500,397
Short term investments	-	(6,500,397)	-	-	(6,500,397)
Cash and cash equivalents	-	-	134,767	-	134,767
					420,618
Liabilities/equity					
Trade payables	-	-	115,708	-	115,708
Tax payable	-	-	(3,194)	-	(3,194)
Other payables and accruals	-	-	146,701	-	146,701
Interest-bearing bank and other borrowings					
- current portion	-	-	75,004	-	75,004
- non-current portion	-	-	15,750	-	15,750
Other long term payables	-	-	446	-	446
Retained profits	-	-	-	63,130	63,130
Minority interests	-	-	-	7,073	7,073
					420,618

(b) *Effect on the balances of equity at 1 January 2005*

	Effect of adopting HKFRS 3 Derecognition of negative goodwill
	RMB'000
1 January 2005	
Accumulated losses	27,940
Minority interests	3,504
	31,444

(c) *Effect on the consolidated income statement for the years ended 31 December 2005 and 2004*

	Effect of adopting			
	HKAS 1	**HKAS 31**	**HKFRS 3**	
Effect of new policies	**Share of post-tax profits and losses of associates**	**Proportionate consolidation of jointly-controlled entities**	**Discontinuation of amortisation of goodwill/ recognition of negative goodwill as income**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2005				
Increase in revenue	-	556,822	-	556,822
Increase in cost of sales	-	(398,455)	-	(398,455)
Increase in other income and gains	-	4,458	3,177	7,635
Increase in selling and distribution costs	-	(46,543)	-	(46,543)
Increase in administrative expenses	-	(60,576)	-	(60,576)
Decrease/(increase) in other expenses	-	(19,939)	12,823	(7,116)
Increase in finance costs	-	(6,250)	-	(6,250)
Increase/(decrease) in share of profits and losses of:				
- jointly-controlled entities	(6,394)	(13,601)	-	(19,995)
- associates	(124,744)	(9,522)	5,403	(128,863)
Decrease in amortisation of goodwill arising on acquisition of associates	-	-	17,356	17,356
Decrease/(increase) in tax	131,138	(6,394)	-	124,744
Total increase in profit	-	-	38,759	38,759
Increase/(decrease) in basic earnings per share	-	-	-	-

Effect of new policies	Effect of adopting HKAS 1 Share of post-tax profits and losses of associates	HKAS 31 Proportionate consolidation of jointly-controlled entities	HKFRS 3 Discontinuation of amortisation of goodwill/ recognition of negative goodwill as income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2004				
Increase in revenue	-	190,262	-	190,262
Increase in cost of sales	-	(122,483)	-	(122,483)
Increase in other income and gains	-	4,236	-	4,236
Increase in selling and distribution costs	-	(21,246)	-	(21,246)
Increase in administrative expenses	-	(25,989)	-	(25,989)
Increase in other expenses	-	(12,141)	-	(12,141)
Increase in finance costs	-	(1,862)	-	(1,862)
Increase/(decrease) in share of profits and losses of:				
- jointly-controlled entities	(9,038)	(2,161)	-	(11,199)
- associates	(81,366)	422	-	(80,944)
Increase/(decrease) in tax	90,404	(9,038)	-	81,366
Total increase/(decrease) in profit	-	-	-	-
Increase/(decrease) in basic earnings per share	-	-	-	-

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments/interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities
A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates
An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1 January 2005)
Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The excess for associates is included in the Group's share of the associates' profit or loss in the period in which the investments are acquired.

Impairment of assets
Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties
A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation
Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives for this purpose are as follows:

Buildings	20 to 40 years
Plant and machinery	5 to 20 years
Motor vehicles	5 to 10 years
Tools and machine tools	5 to 10 years
Moulds	2 to 3 years
Office and other equipment	3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction and installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)
Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each balance sheet date.

Patents and licences
Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 20 years.

Technology know-how
Purchased technology know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

Research and development costs
All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets
Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entities, as long term investments and short term investments.

Long term investments
Long term investments are non-trading investments in listed and unlisted equity and debt securities intended to be held on a long term basis.

Listed equity securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Investment in equity instruments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less any impairment losses.

Securities with fixed maturity where management has both the intention and ability to hold to maturity are classified as held-to-maturity. Securities which are intended to be held to maturity are measured at amortised cost using the straight-line method, less any provision for impairment. The amount of the impairment loss for securities investments carried at amortised cost is calculated as the difference between the securities investments' carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Short term investments
Short term investments are investments in equity and debt securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Securities with fixed maturity where management has both the intention and ability to hold to maturity are classified as held-to-maturity. Securities which are intended to be held to maturity are measured at amortised cost using the straight-line method, less any provision for impairment. The amount of the impairment loss for securities investments carried at amortised cost is calculated as the difference between the securities investments' carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets (applicable to the year ended 31 December 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

Derecognition of financial assets (applicable to the year ended 31 December 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Debentures
Proceeds received on the issuance of debentures are initially recorded as a liability.

Interest on debentures is accounted for on an accrual basis. Interest and issuance costs that do not meet the capitalisation requirement are expensed.

The difference (discount or premium) between the proceeds received and the face value of the debenture is amortised using the effective interest rate method over the term of debentures.

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis or specific individual basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts for services
Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads. Revenue from the rendering of services is recognised when services are rendered.

Cash and cash equivalents
For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised directly in equity in the same or a different period.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments/interests in subsidiaries, jointly-controlled entities and assoicates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments/interests in subsidiaries, jointly-controlled entities and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants
Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when services are rendered;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

Employee benefit

Pension schemes

The Group and the jointly-controlled entities participate in a government-regulated defined contribution pension scheme, under which the Group and the jointly-controlled entities make contributions to a government-regulated pension scheme at a fixed percentage of wages and salaries of the existing full-time employees in Mainland China and have no further legal or constructive obligations to make additional contributions. The contributions are charged as an expense to the income statement as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiary and jointly-controlled entities are currencies other than the Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiary and jointly-controlled entities are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary and jointly-controlled entities which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

Reverse repurchase and repurchase transactions
The Group enters into purchases of national bonds under agreements to resell and sales of national bonds under agreements to repurchase. National bonds purchased subject to commitments to resell at a future date are treated as loans collateralised by the bonds and are included in reverse repurchase agreements in the consolidated balance sheet. National bonds which have been sold subject to repurchase agreements continue to be recognised in the consolidated balance sheet.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense, respectively, over the term of each agreement.

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was RMB130,736,000 (2004: RMB135,637,000). More details are given in note 16.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will have impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying amount of deferred tax assets at 31 December 2005 was RMB289,808, 000 (2004: RMB250,078,000). More details are given in note 23.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. 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. Summary details of the business segments are as follows:

(a) the power equipment segment is engaged in the design, manufacture and sale of power generation, transmission and distribution equipment;

(b) the electromechanical equipment segment is engaged mainly in the production and sale of elevators, escalators and moving walkways, printing and packaging equipment, heavy machinery and machine tools;

(c) the transportation equipment segment is engaged in the production and sale of rail transportation products and systems and diesel engines;

(d) the environmental systems segment is principally engaged in the provision of consultancy services and design of environmental systems;

(e) the financial business segment is engaged in the provision of financial services and products principally by Shanghai Electric Group Finance Co., Ltd. (the "Finance Company"), which became a 77.25%-owned subsidiary of the Group on 30 June 2004 (before that, the Finance Company was an associate of the Group). The Group's equity interest in the Finance Company further increased to 77.90% in October 2004; and

(f) the others segment is engaged, principally, in research and development and automation controls.

Inter segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Year ended 31 December 2005	**Power equipment**	**Electro-mechanical equipment**	**Transportation equipment**	**Environmental systems**	**Financial business**	**Others**	**Corporate and other unallocated amounts**	**Eliminations**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:									
Sales to external customers	19,073,357	10,953,844	3,142,955	947,109	-	282,859		-	34,400,124
Inter-segment sales	417,786	87,600	-	79,978	-	16,316		(601,680)	-
Other revenue	225,192	157,880	108,273	1,221	372,077	40,780		(286,914)	618,509
Total	19,716,335	11,199,324	3,251,228	1,028,308	372,077	339,955		(888,594)	35,018,633
Segment results	2,370,372	645,376	(5,303)	(20,586)	210,414	34,595		(50,822)	3,184,046
Interest and dividend income and unallocated gains							320,563	(45,087)	275,476
Corporate and other unallocated expenses							(89,841)		(89,841)
Finance costs							(100,157)	33,415	(66,742)
Share of profits and losses of associates	190,197	52,865	4,391	(422)	-	138		-	247,169
Impairment of investments in associate	(1,438)	(66,672)	(3,980)	-	-	-			(72,090)
Profit before tax									3,478,018
Tax									(1,002,856)
Profit for the year									2,475,162

Year ended 31 December 2005	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities									
Segment assets	31,626,756	12,049,919	4,671,034	890,262	12,239,175	393,245		(9,577,282)	52,293,109
Investments in associates	971,307	1,188,641	67,687	2,286	-	4,229		-	2,234,150
Corporate and other unallocated assets							4,039,891	(3,401,802)	638,089
Total assets									55,165,348
Segment liabilities	26,487,264	5,772,933	2,062,786	630,461	10,899,526	254,457		(12,954,069)	33,153,358
Corporate and other unallocated liabilities							825,708		825,708
Total liabilities									33,979,066
Other segment information:									
Depreciation and amortisation	400,838	335,481	126,436	6,050	1,784	7,596	4,097	-	882,282
Capital expenditure	680,321	1,297,850	387,935	99,510	5,860	8,837	12,144	(18,305)	2,474,152
Impairment losses:									
Recognised in the income statement	82,069	91,814	4,585	-	629	4	1,712	-	180,813
Reversed in the income statement	(2,436)	-	(5,791)	-	-	-	-	-	(8,227)
Other non-cash expenses	370,971	42,748	5,537	2,931	(48,582)	(140)	-	-	373,465
Product warranty provision	100,373	47,242	57,482	-	-	-	-	-	205,097
Provision for onerous contracts	19,239	-	-	-	-	-	-	-	19,239
Year ended 31 December 2004 (restated)									
Segment revenue:									
Sales to external customers	11,176,181	8,651,395	4,027,310	346,260	-	301,219		-	24,502,365
Inter segment sales	216,346	23,801	1,622	48,768	-	4,078		(294,615)	-
Other revenue	176,649	142,938	71,435	25	291,764	8,086		(256,969)	433,928
Total	11,569,176	8,818,134	4,100,367	395,053	291,764	313,383		(551,584)	24,936,293
Segment results	1,035,823	706,371	295,361	197	160,226	5,543		(164,502)	2,039,019

Year ended 31 December 2004 (restated)	Power equipment *RMB'000*	Electro-mechanical equipment *RMB'000*	Transportation equipment *RMB'000*	Environmental systems *RMB'000*	Financial business *RMB'000*	Others *RMB'000*	Corporate and other unallocated amounts *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Interest and dividend income and unallocated gains							244,092	160,971	405,063
Corporate and other unallocated expenses							(49,628)		(49,628)
Finance costs							(98,546)	(18,845)	(117,391)
Share of profits and losses of associates	113,182	121,374	(6,818)	-	18,873	-		-	246,611
Impairment of investments in associates/amortisation of goodwill arising on acquisition of associates	340	(23,312)	(215)	-	-	-		-	(23,187)
Profit before tax									2,500,487
Tax									(573,475)
Profit for the year									1,927,012
Assets and liabilities									
Segment assets	26,806,048	11,374,392	3,789,170	515,764	13,977,250	338,777		(12,433,934)	44,367,467
Investments in associates	700,899	1,346,279	67,416	-	-	4,091		-	2,118,685
Corporate and other unallocated assets							718,557	(94,433)	624,124
Total assets									47,110,276
Segment liabilities	24,128,099	6,445,688	1,525,108	470,533	12,386,955	270,848		(12,528,367)	32,698,864
Corporate and other unallocated liabilities							79,475		79,475
Total liabilities									32,778,339
Other segment information:									
Depreciation and amortisation	255,049	234,080	101,400	701	474	10,859	1,850	-	604,413
Capital expenditure	796,574	866,655	422,635	10,920	10,434	17,143	232,463	-	2,356,824
Impairment losses:									
Recognised in the income statement	15,162	9,067	6,734	2,006	-			-	32,969
Reversed in the income statement	(4,116)	-	-	-	-			-	(4,116)
Other non-cash expenses	84,771	42,178	(3,300)	(1,911)		2,012		-	123,750
Product warranty provision	63,991	3,240	13,007	-	-			-	80,238
Provision for onerous contracts	166,250	-	-	-	-			-	166,250

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the value of services rendered, net of sale taxes and surcharges.

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

	Note	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
Revenue			
Sales of goods		33,285,168	23,689,940
Rendering of services		1,114,956	812,425
		34,400,124	24,502,365
Other income			
Interest income		354,387	384,692
Gross rental income		56,385	62,057
Dividend income from investments		27,372	12,033
Profit from the sale of raw materials, spare parts and semi-finished goods		100,381	49,695
Subsidy income		53,169	22,040
Forfeiture of purchase deposits from customers		17,027	9,463
Compensation income		47,710	23,365
Others		72,742	100,308
		729,173	663,653
Gains			
Gain on disposal of items of property, plant and equipment		62,711	60,253
Fair value gains, net:			
Investments at fair value through profit or loss		49,383	12,523
Gain on debt restructuring		2,076	7,134
Gain on disposal of subsidiaries		-	46,896
Gain on disposal of associates		39,663	-
Gain on disposal of current other financial assets		114,173	42,601
Gain/(loss) on disposal of non-current other financial assets		(87)	4,026
Excess over the cost of a business combination	42	3,177	-
Exchange gains/(losses), net*		(106,284)	1,905
		164,812	175,338
		893,985	838,991

* The exchange gains/(losses) have been included in the same item disclosed in note 6.

6. PROFIT BEFORE TAX

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

	Notes	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
Cost of inventories sold		26,804,824	18,747,460
Cost of services provided		888,966	575,370
Depreciation	14	796,445	496,094
Recognition of prepaid land premiums/land lease payments**	15	31,577	26,772
Amortisation of patents and licences**	17	25,023	21,549
Amortisation of other intangible assets**	17	2,985	1,415
Research and development costs:**			
Amortisation of technology know-how	17	26,252	21,533
Current year expenditure*		162,931	101,778
		189,183	123,311
Goodwill:	16		
Amortisation for the year **		-	13,863
Impairment arising during the year **		18,926	-
Minimum lease payments under operating leases:			
Land and buildings		83,431	69,980
Plant, machinery and motor vehicles		10,239	-
Auditors' remuneration		28,955	10,653
Staff costs (including directors' and supervisors' remuneration - note 8 below):			
Wages and salaries		2,343,948	1,872,665
Defined contribution pension scheme (note i)		364,417	261,769
Early retirement benefits costs (note ii)	37	14,650	35,633
Medical benefits costs (note iii)		115,888	78,262
Housing fund		102,533	78,787
Staff bonuses		86,936	51,130
Cash housing subsidies costs		4,736	3,312
		3,033,108	2,381,558
Exchange losses/(gains), net		186,594	(1,905)
Write-down of inventories to net realisable value		262,370	57,594
Provision for bad and doubtful debts**		159,677	66,156
Reversal of provision for loans receivable		(47,806)	-

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Reversal of provision for discounted bills receivable	26	(776)	-
Product warranty provision:	37		
Additional provision		233,971	80,238
Reversal of unutilised provision		(28,874)	-
Impairment of items of property, plant and equipment**	14	77,424	23,786
Impairment of prepaid land premiums/land lease payments	15	-	5,939
Impairment/(reversal of impairment) of available-for-sale equity investments**		4,146	(872)
Onerous contract provision:	37		
Additional provision		19,239	166,250
Impairment of investments in associates	20	72,090	-
Amortisation of goodwill arising on acquisition of associates		-	23,187

* Various government grants have been received for setting up research activities. The government grants released have been deducted from the research and development costs to which they relate. Government grants received for which related expenditure has not yet been undertaken are accounted for as deferred income in the consolidated balance sheet. There are no unfulfilled conditions or contingencies relating to these grants.

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

Notes:

(i) Defined contribution pension scheme

All of the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension scheme at 22.5% of the employees' basic salaries. This defined contribution pension scheme continued to be available to the Group's employees for the year. The related pension costs are expensed as incurred.

Certain of the Group's employees who retired before 1 January 2000 are entitled to supplementary pension benefits ("the Supplementary Pension Benefits") provided by certain subsidiaries of the Group in addition to the benefits under the government-regulated pension scheme described above. The Supplementary Pension Benefits are calculated based on factors including the number of years of services and salary level on the date of retirement of the respective employee. The costs of the Supplementary Pension Benefits have been included in the consolidated income statement for the year. The Company and SE Corporation have agreed that the costs of the Supplementary Pension Benefits will be borne by SE Corporation from 1 March 2004 onwards, i.e. the incorporation date of the Company. Beginning from that date, the related costs paid by the Group will be fully reimbursed by SE Corporation.

(ii) Early retirement benefits

The Group implemented an early retirement plan for certain employees in addition to the benefits under the government-regulated defined contribution pension scheme and the Supplementary Pension Benefits described above. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of services from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the respective employee.

The directors have estimated the Group's obligations to the early retirement benefits until the qualified employees are eligible for the government-regulated pension scheme totalling approximately RMB115,008,000 as at 31 December 2005 (2004: RMB148,684,000) and the full amount has been accrued for. The costs of early retirement benefits were recognised in the period when employees opted for early retirement. The provision for early retirement benefits was not assessed by independent actuary. Where the effect of discounting is material, the amount recognised for early retirement benefits is the present value at the balance sheet date of the future cash flows expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance cost in the consolidated income statement.

(iii) Medical benefits

The Group contributes on a monthly basis to defined contribution medical benefit plans organised by the PRC government. The PRC government undertakes to assume the medical benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for medical benefits and supplemental medical benefits for their qualified employees under these plans.

7. FINANCE COSTS

	2005	**2004**
	RMB'000	*RMB'000*
		(Restated)
Interest on bank loans and other loans		
wholly repayable within five years	67,493	117,391
Less: Interest capitalised	(751)	-
	66,742	117,391

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Fees	550	-
Other emoluments:		
Salaries, allowances and benefits in kind	2,125	2,302
Pension scheme contributions	96	70
	2,221	2,372
	2,771	2,372

(a) *Independent non-executive directors*

The fees paid to independent non-executive directors during the year were as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Dr. Yao Fusheng	150	-
Dr. Cheung Wai Bun	250	-
Mr. Lei Huai Chin	150	-
	550	-

There were no other emoluments payable to the independent non-executive directors during the year.

(b) Executive directors, non-executive directors and supervisors

	Fees	Salaries, housing benefits, other allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2005					
Executive directors					
Mr. Wang Chengming	-	-	-	-	-
Mr. Chen Longxing	-	340	-	16	356
Mr. Huang Dinan	-	459	-	16	475
Mr. Han Guozhang	-	-	-	-	-
Mr. Wang Qiang	-	369	-	16	385
Ms. Li Manping	-	369	-	16	385
Mr. Yu Yingui	-	369	-	16	385
	-	1,906	-	80	1,986
Non-executive Directors					
Mr. Zhang Rongkun	-	-	-	-	-
Mr. Zhu Kelin	-	-	-	-	-
Mr. Yao Qun	-	-	-	-	-
Mr. Cheng Xinhua	-	-	-	-	-
Mr. Wang Minwen	-	-	-	-	-
Mr. Li Songjian	-	-	-	-	-
	-	-	-	-	-
Supervisors					
Mr. Chen Zhenhao	-	-	-	-	-
Mr. Xie Tonghun	-	219	-	16	235
Ms. Ling Feifei	-	-	-	-	-
Mr. Zheng Weijuan	-	-	-	-	-
Mr. Zhang Jun	-	-	-	-	-
Ms. Miu Xiufeng	-	-	-	-	-
	-	219	-	16	235
	-	2,125	-	96	2,221

	Fees	Salaries, housing benefits, other allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2004					
Executive directors					
Mr. Wang Chengming	-	-	-	-	-
Mr. Chen Longxing	-	478	-	14	492
Mr. Huang Dinan	-	420	-	14	434
Mr. Han Guozhang	-	-	-	-	-
Mr. Wang Qiang	-	370	-	14	384
Ms. Li Manping	-	384	-	-	384
Mr. Yu Yingui	-	430	-	14	444
	-	2,082	-	56	2,138
Non-executive Directors					
Mr. Zhang Rongkun	-	-	-	-	-
Mr. Zhu Kelin	-	-	-	-	-
Mr. Yao Qun	-	-	-	-	-
Mr. Cheng Xinhua	-	-	-	-	-
Mr. Wang Minwen	-	-	-	-	-
Mr. Li Songjian	-	-	-	-	-
	-	-	-	-	-
Supervisors					
Mr. Chen Zhenhao	-	-	-	-	-
Mr. Xie Tonghun	-	220	-	14	234
Ms. Ling Feifei	-	-	-	-	-
Mr. Zheng Weijuan	-	-	-	-	-
Mr. Zhang Jun	-	-	-	-	-
Ms. Miu Xiufeng	-	-	-	-	-
	-	220	-	14	234
	-	2,302	-	70	2,372

During the year, no director or supervisor waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no director or supervisor (2004: one), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining five (2004: four) non-directors and non-supervisors, highest paid employees for the year are as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	3,821	1,841
Pension scheme contributions	47	58
	3,868	1,899

The number of non-directors and non-supervisors, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2005	**2004**
Nil to HK$ 000,000	5	4

10. TAX

The Group is subject to the statutory corporate income tax rate of 33% for the year under the income tax rules and regulations of the PRC, except that:

- six subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai;
- four subsidiaries are subject to a corporate income tax rate of 27% as they are located in the coastal economic and technology development area and special economic region with foreign investment in production business in the old city area;
- one subsidiary is subject to a corporate income tax rate of 15% as it is registered in the Shanghai Minhang Economic and Technological Development Zone with foreign investment in production business; and
- two subsidiaries were entitled to full exemption of corporate income tax as it was established as a local research institute.

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

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

	2005	**2004**
	RMB'000	*RMB'000*
		(Restated)
Group:		
Current - PRC		
Charge for the year	994,875	615,696
Under provision/(over provision) in prior years	(45,138)	1,698
Deferred tax (note 23)	53,119	(43,919)
Total tax charge for the year	1,002,856	573,475

A reconciliation of the tax expense applicable to profit before tax using the statutory rate of 33% to the tax expense at the effective tax rate, is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
		(Restated)
Profit before tax	3,478,018	2,500,487
Tax at the statutory tax rate of 33%	1,147,746	825,161
Lower tax rate for specific provinces/districts or concessions	(142,544)	(270,822)
Adjustments in respect of current tax of previous periods	(45,138)	1,698
Profits and losses attributable to associates	(79,799)	(81,382)
Income not subject to tax	(43,369)	(37,000)
Expenses not deductible for tax	141,782	105,557
Tax incentives on eligible expenditures	(37,596)	(2,219)
Tax losses utilised from previous periods	(9,611)	(9,271)
Tax losses not recognised	71,385	41,753
Total income tax charge for the year	1,002,856	573,475
The Group's effective income tax rate	28.8%	22.9%

The share of tax attributable to associates amounting to RMB124,744,000 (2004: RMB 81,366,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company, was RMB263,129,000 (2004: RMB53,296,000) (note 41 (b)).

12. DIVIDENDS

	2005 *RMB'000*	**2004** *RMB'000*
Proposed final - RMB4.1 cents (2004: Nil) per ordinary share	487,558	-
Dividends paid by the Company to the then shareholders before the global offering	-	306,422
	487,558	306,422

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the shares issued pursuant to the global offering on 28 April 2005.

No diluted earnings per share amounts have been presented for the years ended 31 December 2004 and 2005 as no diluting events occurred during these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Equipment, tools and moulds *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2005						
At cost:						
At 1 January 2005						
Cost as previously reported	4,087,503	4,756,758	370,635	430,939	688,827	10,334,662
Effect of adopting						
HKAS 17 (note 2.2 (a))	(1,154,551)	-	-	-	-	(1,154,551)
HKAS 31 (note 2.2 (d))	228,946	125,349	15,232	21,631	73,386	464,544
As restated	3,161,898	4,882,107	385,867	452,570	762,213	9,644,655
Additions	176,364	235,271	36,391	65,777	1,693,962	2,207,765
Acquisition of subsidiaries (note 42)	24,966	86,827	2,892	2,621	2,983	120,289
Disposals	(82,838)	(143,976)	(31,800)	(157,575)	(4,898)	(421,087)
Transfers	172,429	558,099	31,645	58,936	(821,109)	-
Exchange realignment	179	752	91	42	-	1,064
At 31 December 2005	3,452,998	5,619,080	425,086	422,371	1,633,151	11,552,686
Accumulated depreciation and impairment:						
At 1 January 2005						
As previously reported	1,482,735	2,541,087	222,464	282,978	9,234	4,538,498
Effect of adopting						
HKAS 17 (note 2.2 (a))	(118,911)	-	-	-	-	(118,911)
HKAS 31 (note 2.2 (d))	42,281	67,226	7,406	11,007	-	127,920
As restated	1,406,105	2,608,313	229,870	293,985	9,234	4,547,507
Depreciation provided during the year	243,035	444,678	45,819	62,913	-	796,445
Impairment	65,884	10,596	212	369	363	77,424
Acquisition of subsidiaries (note 42)	3,620	15,887	1,269	1,219	-	21,995
Disposals	(34,013)	(69,842)	(25,911)	(112,520)	-	(242,286)
Exchange realignment	52	743	54	40	-	889
At 31 December 2005	1,684,683	3,010,375	251,313	246,006	9,597	5,201,974
Net book value:						
At 31 December 2005	1,768,315	2,608,705	173,773	176,365	1,623,554	6,350,712

Group

	Buildings	Plant and machinery	Motor vehicles	Equipment, tools and moulds	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2004						
At cost:						
At 1 January 2004						
Cost as previously reported	3,880,389	4,179,439	343,087	439,019	533,386	9,375,320
Effect of adopting						
HKAS 17 (note 2.2 (a))	(923,269)	-	-	-	-	(923,269)
HKAS 31 (note 2.2 (d))	12,669	17,921	2,045	2,492	1,047	36,174
As restated	2,969,789	4,197,360	345,132	441,511	534,433	8,488,225
Additions	70,267	135,030	31,070	95,177	1,276,009	1,607,553
Acquisition of subsidiaries	103,538	130,163	27,875	23,286	40,909	325,771
Disposals	(149,743)	(206,570)	(50,596)	(141,151)	(34,034)	(582,094)
Disposal of subsidiaries	(74,699)	(94,356)	(8,587)	(9,678)	(7,480)	(194,800)
Transfers	242,746	720,480	40,973	43,425	(1,047,624)	-
At 31 December 2004	3,161,898	4,882,107	385,867	452,570	762,213	9,644,655
Accumulated depreciation and impairment:						
At 1 January 2004						
As previously reported	1,455,816	2,351,099	224,216	296,876	37,809	4,365,816
Effect of adopting						
HKAS 17 (note 2.2 (a))	(117,810)	-	-	-	-	(117,810)
HKAS 31 (note 2.2 (d))	7,123	9,392	1,442	1,478	-	19,435
As restated	1,345,129	2,360,491	225,658	298,354	37,809	4,267,441
Depreciation provided during the year	148,673	288,940	28,030	30,451	-	496,094
Impairment	6,284	14,772	1,471	-	1,259	23,786
Acquisition of subsidiaries	34,988	67,867	11,878	11,622	-	126,355
Disposals	(81,905)	(77,678)	(31,518)	(41,937)	(29,834)	(262,872)
Disposal of subsidiaries	(47,064)	(46,079)	(5,649)	(4,505)	-	(103,297)
At 31 December 2004	1,406,105	2,608,313	229,870	293,985	9,234	4,547,507
Net book value:						
At 31 December 2004	1,755,793	2,273,794	155,997	158,585	752,979	5,097,148

The Group's property interests, included above and in note 15 at cost, were valued as at 31 January 2005 in the prospectus issued on 18 April 2005 in connection with the listing of the Company's shares on 28 April 2005 (note 40). Had the valuation surplus arising from the revaluation of the Group's property interests amounting to RMB774,000,000 been included in these financial statements throughout the year ended 31 December 2005, an additional depreciation charge of RMB26,000,000 would have been charged to the consolidated income statement for the year ended 31 December 2005.

Company

	Buildings	Plant and machinery	Motor vehicles	Equipment, tools and moulds	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005						
At cost:						
At 1 January 2005	44,144	1,710	323	10,194	186,574	242,945
Additions	7,973	2,517	2,792	4,094	8,189	25,565
Disposals	-	-	-	-	(1,351)	(1,351)
Transfers	568	-	281	2,883	(3,732)	-
At 31 December 2005	52,685	4,227	3,396	17,171	189,680	267,159
Accumulated depreciation:						
At 1 January 2005	1,137	195	37	1,102	-	2,471
Depreciation provided during the year	2,920	599	181	2,249	-	5,949
At 31 December 2005	4,057	794	218	3,351	-	8,420
Net book value:						
At 31 December 2005	48,628	3,433	3,178	13,820	189,680	258,739
At 31 December 2004						
At cost:						
At 1 January 2004	-	-	-	-	-	-
Additions	44,144	1,710	942	10,490	186,574	243,860
Disposals	-	-	(619)	(296)	-	(915)
At 31 December 2004	44,144	1,710	323	10,194	186,574	242,945
Accumulated depreciation:						
At 1 January 2004	-	-	-	-	-	-
Depreciation provided during the year	1,137	195	162	1,229	-	2,723
Disposals	-	-	(125)	(127)	-	(252)
At 31 December 2004	1,137	195	37	1,102	-	2,471
Net book value:						
At 31 December 2004	43,007	1,515	286	9,092	186,574	240,474

As at 31 December 2005, certain buildings and machinery of the Group with net book values of approximately RMB61, 660,000 (2004: RMB73,824,000) and RMB68,285,000 (2004: RMB20,546,000), respectively, were pledged to secure general banking facilities granted to the Group (note 36).

As at 31 December 2005, the Group had not obtained real estate certificates for 186 (2004: 209) buildings with a total gross area of approximately 248 (2004: 207) thousand m^2 and a net book value of RMB195,578,000 (2004: RMB141, 700,000).

Included in the above amounts, the Group is in the process of applying for the real estate certificates for four buildings with a gross area of approximately 120 thousand m^2 and a net book value of approximately RMB90,766,000 as at 31 December 2005.

15. PREPAID LAND PREMIUMS/LAND LEASE PAYMENTS

	2005 *RMB'000*	**2004** *RMB'000* (Restated)
At cost:		
At 1 January		
Cost as previously reported	-	-
Effect of adopting HKAS 17 (note 2.2 (a))	1,154,551	923,269
As restated	1,154,551	923,269
Additions	89,857	381,076
Acquisition of subsidiaries (note 42)	6,910	119,377
Disposals	(11,367)	(231,457)
Disposal of subsidiaries	-	(37,714)
At 31 December	1,239,951	1,154,551
Accumulated amortisation and impairment:		
At 1 January		
As previously reported	-	-
Effect of adopting HKAS 17 (note 2.2 (a))	118,911	117,810
As restated	118,911	117,810
Amortisation provided during the year	31,577	26,772
Impairment	-	5,939
Acquisition of subsidiaries (note 42)	369	1,449
Disposals	(1,184)	(30,461)
Disposal of subsidiaries	-	(2,598)
At 31 December	149,673	118,911
Net book value:		
At 31 December	1,090,278	1,035,640
Of which:		
Current portion included in prepayments, deposits and other receivables (note 28)	33,946	29,930
Non-current portion	1,056,332	1,005,710
	1,090,278	1,035,640

The Group's leasehold lands are all situated in Mainland China and are held under the following lease terms:

	2005	**2004**
	RMB'000	*RMB'000*
		(Restated)
At cost:		
Long terms	19,769	19,769
Medium terms	1,220,182	1,134,782
	1,239,951	1,154,551

As at 31 December 2005, certain Group's lands with a net book value of approximately RMB23,373,000 (2004: RMB20, 300,000) were pledged to secure general banking facilities granted to the Group (note 36).

As at 31 December 2005, the Group had not obtained real estate certificates for 11 (2004: 9) parcels of land with a total gross area of approximately 293 (2004: 311) thousand m^2 and a net book value of RMB80,285,000 (2004: RMB15,215,000).

The Group is in the process of applying for the real estate certificates for 4 parcels of land with a gross area of approximately 141 thousand m^2 and a net book value of approximately RMB66,201,000 as at 31 December 2005.

16. GOODWILL/NEGATIVE GOODWILL

	Goodwill		**Negative goodwill**	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At cost:				
At 1 January				
Cost previously stated	198,539	139,087	(11,582)	-
Effect of adopting				
HKAS 31 (note 2.2 (d))	17,473	17,473	-	-
HKFRS 3 (note 2.2 (b))	(80,375)	-	11,582	-
As restated	135,637	156,560	-	-
Acquisition of subsidiaries (note 42)	11,039	60,772	-	(11,582)
Acquisition of minority interests	2,986	-	-	-
Disposal of subsidiaries	-	(1,320)	-	-
At 31 December	149,662	216,012	-	(11,582)

	Goodwill		Negative goodwill	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated amortisation:				
At 1 January				
As previously stated	70,328	58,194	(578)	-
Effect of adopting				
HKAS 31 (note 2.2 (d))	10,047	8,300	-	-
HKFRS 3 (note 2.2 (b))	(80,375)	-	578	-
As restated	-	66,494	-	-
Amortisation provided during the year	-	12,694	-	(578)
Impairment	18,926	-	-	-
Acquisition of subsidiaries/				
jointly-controlled entities	-	-	-	-
Effect of adopting HKAS 31 (note 2.2 (d))	-	1,747	-	-
Disposal of subsidiaries	-	(560)	-	-
At 31 December	18,926	80,375	-	(578)
Net book value:				
At 31 December	130,736	135,637	-	(11,004)

In 2004, goodwill was amortised on the straight-line basis over its estimate useful life of seven to ten years.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units, which are reportable segments, for impairment testing. Out of the carrying amount of goodwill of RMB130,736,000 as at 31 December 2005, RMB105,262,000 (2004: RMB109,253,000) has been allocated to electromechanical equipment cash generating units.

The recoverable amount of the electromechanical equipment cash-generating units is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 8% and cash flows beyond the five-year period are assumed to be stable.

Key assumptions were used in the value in use calculation of the electromechanical equipment cash-generating units for 31 December 2005. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins - The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements and expected market development.

Discount rates - The discount rates used are before tax and reflect specific risks relating to the relevant units.

17. OTHER INTANGIBLE ASSETS

	Patents and licences	Technology know-how	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2005				
At cost:				
As previously stated	304,661	146,518	22,635	473,814
Effect of adopting HKAS 31 (note 2.2 (d))	3,449	-	30	3,479
As restated at 1 January 2005	308,110	146,518	22,665	477,293
Additions	38,955	21,943	10,797	71,695
Disposals	(715)	-	-	(715)
At 31 December 2005	346,350	168,461	33,462	548,273
Accumulated amortisation:				
As previously stated	118,175	50,942	6,042	175,159
Effect of adopting HKAS 31 (note 2.2 (d))	3,380	-	30	3,410
As restated at 1 January 2005	121,555	50,942	6,072	178,569
Amortisation provided during the year	24,954	26,252	2,985	54,191
Effect of adopting HKAS31 (note2.2 (d))	69	-	-	69
At 31 December 2005	146,578	77,194	9,057	232,829
Net book value:				
At 31 December 2005	199,772	91,267	24,405	315,444

	Patents and licences *RMB'000*	Technology know-how *RMB'000*	Others *RMB'000*	Total *RMB'000*
31 December 2004				
At cost:				
At 1 January 2004	296,013	115,462	19,227	430,702
Additions	1,148	38,875	3,851	43,874
Acquisition of subsidiaries/ jointly-controlled entities	7,500	-	173	7,673
Effect of adopting HKAS31 (note2.2 (d))	3,449	-	30	3,479
Disposals	-	(7,819)	(616)	(8,435)
At 31 December 2004	308,110	146,518	22,665	477,293
Accumulated amortisation and impairment:				
At 1 January 2004	95,848	37,228	4,975	138,051
Amortisation provided during the year	21,498	21,533	1,402	44,433
Effect of adopting HKAS 31 (note2.2 (d))	51	-	13	64
Acquisition of subsidiaries/ jointly-controlled entities	829	-	-	829
Effect of adopting HKAS 31 (note2.2 (d))	3,329	-	17	3,346
Disposals	-	(7,819)	(335)	(8,154)
At 31 December 2004	121,555	50,942	6,072	178,569
Net book value:				
At 31 December 2004	186,555	95,576	16,593	298,724

18. INVESTMENTS/INTERESTS IN SUBSIDIARIES

	2005 *RMB'000*	2004 *RMB'000*
Unlisted investments, at cost	10,043,967	7,870,320
Due from subsidiaries	-	141,042
	10,043,967	8,011,362

The balances with subsidiaries are unsecured, interest free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operation and date of establishment	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Turbine Works Co., Ltd.	PRC 10 August 1989	RMB246,675	99.5%	0.5%	Production and sale of turbines, ancillary appliances and spare parts
Shanghai Electric Machinery Co., Ltd. ^	PRC 24 February 2000	RMB241,820	99.6%	0.4%	Production and sale of turbine generators and spare parts
Shanghai Boiler Works, Ltd. ^	PRC 20 October 1989	RMB107,886	51%	41.04%	Sale of power station boilers, industry boilers and power station equipment
Shanghai Boiler Works, Ltd. (SEC)	PRC 15 February 2000	RMB99,597	97.8%	2.2%	Production, installation and maintenance of boiler equipment
Shanghai Power Station Auxiliary Equipment Works Co., Ltd.	PRC 2 May 1980	RMB62,480	99.77%	0.23%	Design and production of turbo-ancillary appliances and ancillary boiler appliances
Shanghai Power Transmission and Distribution Co., Ltd.## ^	PRC 20 May 1987	RMB517,965	83.75%	-	Production and sale of complete equipment for power station; construction of large and medium scale infra-structure projects
Shanghai Mechanical & Electrical Industry Co., Ltd.##* ^ ^	PRC 24 February 1994	RMB710,235	47.28%	-	Production and sale of household electrical apparatus, printing and packaging machinery
Shanghai Heavy Machinery Plant Co., Ltd. ^	PRC 1 January 1992	RMB555,514	99.77%	0.23%	Sale of metallurgy materials, spare parts, power station equipment and anti-pressure containers
Shanghai Machine Tool Works Ltd. ^	PRC 1 June 1981	RMB518,733	99.43%	0.57%	Production and sale of machinery and spare parts
Shanghai Diesel Engine Co., Ltd. ##	PRC 27 December1993	RMB480,309	50.32%	-	Production and sale of diesel engines, oil pumps and spare parts
Shanghai Rail Traffic Equipment Development Co., Ltd.	PRC 17 February 2003	RMB600,000	83.33%	-	Production, sale, maintenance and technology development of city rail-traffic equipment and provision of consultatancy services

Company name	Place of incorporation/ registration and operation and date of establishment	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Environment Protection Complete Engineering Co., Ltd. ^	PRC 1 June 1987	RMB35,000	90%	10%	Operation of environmental related technology research, imports and exports trading, and equipment installation
Shanghai Capital Numerical Control Co., Ltd.	PRC 26 September 1992	RMB26,235	95%	-	Development, design, sale, lease and maintenance of numerical control software systems, driving systems and industrial automation systems
Shanghai Electrical Automation D&R Institute Co., Ltd.	PRC 1 April 1992	RMB17,650	100%	-	Design and installation of automatic apparatus
Shanghai Institute of Mechanical and Electrical Engineering Co., Ltd.	PRC 16 October 1990	RMB21,656	100%	-	Development of machinery for communal projects
Shanghai Centrifuge Institute Co., Ltd.	PRC 6 December 1999	RMB8,706	97.5%	2.5%	Development of technology for general purpose machinery
Shanghai Electric Group Finance Co., Ltd. ^	PRC 12 December 1995	RMB800,000	71.13%	6.77%	Provision of financial services
Shanghai Electric International Economic and Trading Co., Ltd.	PRC 30 August 1995	RMB349,152	99%	1%	Import and export of products
Shanghai Electric Hydraulics Pneumatics Co., Ltd. ^	PRC 7 August 2003	RMB171,243	99%	1%	Sale of pressurised pumps and related equipment
SEC-IHI Power Generation Enviroment Protection Engineering Co.,Ltd. (formerly as "SEC-IHI Desulphurization Engineering Co., Ltd.")	PRC 10 April 2000	RMB50,000	70%	-	Design, manufacture and sale of desulphurization
Shanghai Top Solar Green Energy Co., Ltd. ^	PRC 8 November 2002	RMB163,000	61.35%	-	Production and sale of solar energy related products
Shanghai Electric LinGang Heavy Machinery Co., Ltd.	PRC 7 July 2005	RMB1,000,000	95%	5%	Design, manufacture and sale of heavy machineries and provision of related services
Bin Hai Ace Environmental Protection Co.,Ltd. ^	PRC 26 September 2005	RMB16,080	60%	40%	Sewage treatment
Shanghai Electronic Nan Tong Sewage Treatment Co.,Ltd. ^	PRC 24 November 2005	RMB20,000	95%	5%	Provision of sewage treatment, water recycling and related service
Shanghai Power Equipment Co., Ltd. # ^	PRC 23 November 1995	USD45,000	-	70%	Production and sale of auxiliary machinery
Shanghai Mitsubishi Elevator Co., Ltd. #* ^	PRC 2 December 1986	USD155,269	-	24.59%	Manufacture and sale of elevators, escalators, electronic ramps, building automation, management and safety systems and provision of related services
Shanghai Mechanical & Electric Industrial Investment Co., Ltd. * ^	PRC 7 March 1995	RMB66,430	-	47.28%	Provision of labour and export services
Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd.*	PRC 14 May 1999	RMB266,470	-	47.28%	Production and sale of refrigeration and air-conditioning equipment, provision of technical services and equipment construction services

Company name	Place of incorporation/ registration and operation and date of establishment	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Electric Group Printing & Packaging Machinery Co., Ltd.* ^	PRC 4 May 1999	RMB262,349	-	47.28%	Production and sale of printing and packaging equipment, spare parts and raw materials
Shanghai Green Continent Investment Co., Ltd.* ^	PRC 10 May 2000	RMB190,000	-	47.28%	Investment and sale of wood-based panels
Shanghai Welding Equipment Co., Ltd.*	PRC 24 May 1993	RMB100,714	-	47.28%	Production of welding rods, non-ferrous metal and welding materials
Shanghai No. 1 Machine Tool Works Co., Ltd. ^	PRC 22 September 2004	RMB50,000	-	87.44%	Design, manufacture and sale of machinery and related equipment
Shanghai Turbine Co., Ltd. # ^	PRC 21 November 1995	USD134,375	-	68%	Manufacture and sale of power generators and related equipment
Shanghai Refrigerating Machine Co., Ltd *	PRC 4 June 1989	RMB70,129	-	47.28%	Manufacture and sale of air-conditioning equipment and provision of related engineering services
Shanghai Jintai Engineering Machinery Co., Ltd.*	PRC 15 August 2002	RMB287,797	-	50.03%	Manufacture & operation of engineering machinery and related equipment
Shanghai Turbine Generator Co., Ltd. # ^	PRC 22 November 1995	USD60,000	-	60%	Design and production of electricity generators
Shanghai Alstom Transport Co., Ltd. #*	PRC 18 January 1999	USD15,000	-	36%	Design and production of city-traffic testing equipment
Shanghai Pudong "EV" Fuel Injection Co., Ltd.* ^	PRC 15 December 1995	RMB210,000	-	45.29%	Production and sale of fuel injection related products

\# Sino-foreign equity joint ventures.

\## Joint stock limited liability companies.

^ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firm.

^ ^ Shanghai Mechanical and Electrical Industry Co., Ltd. is a 47.28%-owned subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

* The Company consolidated the results of these entities because the Company controlled the board of directors of these entities and had the power to govern their financial and operating policies.

During the year, the Group acquired 61.35% interest in Shanghai Top Solar Green Energy Co., Ltd. ("Top Solar"), a 100% interest in CHISA Welding Consumables (Proprietary) Ltd. ("CHISA") and an additional 21% interest in Anhui Green Continent Wood-base Panel Co., Ltd. ("Anhui Wood"). Further details of this acquisition are included in note 42 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

The Group's loans receivable, trade receivables, prepayments, deposits and other receivables, trade payables and other payables and accrual balances with the jointly-controlled entities are disclosed in notes 21, 25, 28, 31 and 33, respectively.

Particulars of the principal jointly-controlled entities are as follows:

Company name	Place of incorporation/ registration and date of establishment	Percentage of ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shanghai Pulux Machinery Co., Ltd. ^	PRC 2 December 1992	50%	50%	50%	Design, production and repair of packaging machinery
Shanghai Hino Diesel Engines Co., Ltd.#	PRC 8 October 2003	50%	50%	50%	Production and sale of generators
Shanghai Guanghua Printing Machinery Co., Ltd.# ^	PRC 27 April 1992	50%	50%	50%	Production and sale of printing machinery

\# Sino-foreign equity joint ventures.

^ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firm.

All of the above investments in jointly-controlled entities are indirectly held by the Company.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2005 *RMB'000*	2004 *RMB'000*
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	497,189	445,582
Non-current assets	389,329	379,521
Current liabilities	(334,219)	(267,504)
Non-current liabilities	(16,196)	(10,450)
Net assets	536,103	547,149

	2005	2004
	RMB'000	*RMB'000*
Share of the jointly-controlled entities' results:		
Turnover	556,822	190,262
Other revenue	4,458	4,236
Total revenue	561,280	194,498
Total expenses	(541,285)	(183,299)
Tax	(6,394)	(9,038)
Profit after tax	13,601	2,161

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2005	2004	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	2,116,233	1,949,116	49,413	-
Goodwill on acquisition	191,067	170,629	-	-
	2,307,300	2,119,745	49,413	-
Provision for impairment	(73,150)	(1,060)	-	-
	2,234,150	2,118,685	49,413	-

During the year, impairment of RMB64,377,000 was provided for the Group's interest in Shanghai Novel Colour Picture Tube Co., Ltd. ("Shanghai Novel"), a 11.35% indirectly held associate of the Group. In view of significant losses incurred by Shanghai Novel for the year ended 31 December 2005, the Group tested the associate for impairment as at 31 December 2005. The recoverable amount of the Group's interest in Shanghai Novel has been determined based on a value in use calculation by estimating the Group's share of the present value of the estimated future cash flows expected to be generated by the associate. The discount rate applied to cash flow projection is 8%.

The Group's loans receivable, trade receivables, bills receivable, prepayments, deposits and other receivables, trade payables and other payables and accruals balances with the associates are disclosed in notes 21, 25, 27, 28, 31 and 33 to the financial statements, respectively.

Particulars of the principal associates are as follows:

Company Name	Place of incorporation/ registration and date of establishment	Percentage of ownership interest attributable to the Group Direct	Indirect	Principal activities
Siemens Gas Turbine Parts Co., Ltd.# ^	PRC 6 February 2005	49%	-	Production and sale of combustion chambers and burners
Schneider Shanghai Power Distribution Electrical Apparatus Co., Ltd. #	PRC 14 November 1995	-	16.75%	Production and sale of low voltage air breakers and low voltage containers
Schneider Shanghai Industrial Control Co., Ltd.#	PRC 30 October 1995	-	16.75%	Production and sale of circuit breaker, thermal overload replay, contactor and industrial control components
Siemens Shanghai Switchgear Ltd.# ^	PRC 25 September 1993	-	37.69%	Design, manufacture and sale of switchgears and related products
Shanghai Goss Graphic Systems Co., Ltd. # ^	PRC 8 December 1993	-	18.91%	Production and sale of printing machines, spare parts and provision of after-sales service
Shanghai Yileng Carrier Air Conditioning Equipment Co., Ltd.# ^	PRC 1 August 1999	-	18.91%	Production and sale of centra-lised air-conditioning systems
MWB Shanghai Instrument Transformer Co., Ltd. # ^	PRC 9 March 1993	-	29.31%	Production and sale of mutual inductors
Shanghai Marathon-Gexin Electric. Co., Ltd. # ^	PRC 18 March 1996	-	45%	Production, repair and sale of eletric machine and related machine sets
Shanghai Novel Colour Picture Tube Co., Ltd. ^	PRC 18 December 1987	-	11.35%	Design, manufacture and sale of colour picture tubes

Sino-foreign equity joint ventures.

^ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firm.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2005 *RMB'000*	2004 *RMB'000*
Assets	21,932,441	21,510,568
Liabilities	16,353,132	15,375,386
Revenues	21,679,271	18,605,166
Profit	1,001,843	827,275

21. LOANS RECEIVABLE

	2005			2004		
	Gross	Provision	Net	Gross	Provision	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Loans to SEC group companies*	-	-	-	760,320	(47,013)	713,307
Loans to jointly-controlled entities	66.250	(663)	65,587	-	-	-
Loans to associates	24,800	(248)	24,552	113,000	(1,130)	111,870
Loans to other related companies	-	-	-	31,980	(320)	31,660
Loans to third parties	5,480	(77)	5,403	33,050	(331)	32,719
	96,530	(988)	95,542	938,350	(48,794)	889,556
Portion classified as current assets	84,250	(855)	83,395	895,150	(48,244)	846,906
Long term portion	12,280	(133)	12,147	43,200	(550)	42,650

The year-end balance of loans receivable is attributable to the Finance Company.

* SEC group companies are defined as the Group's related companies over which SE Corporation is able to exert control or significant influence.

22. OTHER FINANCIAL ASSETS/LONG TERM INVESTMENTS

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Equity investments		
- Available for sale (unlisted), at cost and net of impairment	209,483	250,065
Debt investments		
- Held to maturity (unlisted), at amortised cost	511,834	669,410
	721,317	919,475

Included in the year-end balance of other financial assets as at 31 December 2005, a balance of RMB513,834,000 (2004: RMB650,230,000) is attributable to the Finance Company.

23. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Losses available for offset against future taxable profit *RMB'000*	**Provision for impairment of assets and onerous contracts and warranty provision** *RMB'000*	**Early retirement benefits** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
At 1 January 2005	9,455	175,708	36,218	28,697	250,078
Deferred tax credited/(charged) to the income statement during the year	(9,455)	103,855	(7,383)	1,680	88,697
Gross deferred tax assets At 31 December 2005	-	279,563	28,835	30,377	338,775
Offset by deferred tax liabilities					(48,967)
Net deferred tax assets At 31 December 2005					289,808

Deferred tax liabilities

	Revaluation of properties *RMB'000*	**Unremitted earnings** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
At 1 January 2005	(277,006)	(13,746)	(6,379)	(297,131)
Deferred tax charged/(credited) to the income statement during the year	-	(143,984)	2,168	(141,816)
Deferred tax utilised during the year	16,970	-	-	16,970
Gross deferred tax liabilities At 31 December 2005	(260,036)	(157,730)	(4,211)	(421,977)
Offset by deferred tax assets				48,967
Net deferred tax liabilities At 31 December 2005				(373,010)

Deferred tax assets

	Losses available for offset against future taxable profit	Provision for impairment of assets and onerous contracts and warranty provision	Early retirement benefits	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	10,534	129,495	34,901	10,231	185,161
Deferred tax credited /(charged) to the income statement during the year	(1,079)	40,476	1,317	18,466	59,180
Acquisition of subsidiaries	-	5,737	-	-	5,737
Deferred tax assets At 31 December 2004	9,455	175,708	36,218	28,697	250,078

Deferred tax liabilities

	Revaluation of properties	Unremitted earnings	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	(305,184)	-	(4,864)	(310,048)
Deferred tax charged to the income statement during the year	-	(13,746)	(1,515)	(15,261)
Deferred tax utilised during the year	28,178	-	-	28,178
Deferred tax liabilities At 31 December 2004	(277,006)	(13,746)	(6,379)	(297,131)

The Group has unrecognised tax losses arising in Mainland China of RMB343,451,000 (2004: RMB131,218,000) that are available for offsetting against future taxable profits of the relevant companies for a period of five years. Deferred tax assets have not been recognised for the losses of those entities that have been loss-making for some time.

24. INVENTORIES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000* *(Restated)*	*RMB'000*	*RMB'000*
Raw materials	3,559,789	2,697,747	109,411	-
Work in progress	6,490,402	4,466,349	2,904	10,976
Finished goods	2,003,018	1,705,413	-	-
	12,053,209	8,869,509	112,315	10,976

25. TRADE RECEIVABLES

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

For other sales, 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 for a period of three months and may extend to six months for key customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000* *(Restated)*	*RMB'000*	*RMB'000*
Within 3 months	2,140,213	1,259,995	295,751	-
Over 3 months but within 6 months	1,056,252	1,017,200	500	-
Over 6 months but within 1 year	1,215,414	874,804	-	-
Over 1 year but within 2 years	1,197,674	655,985	-	-
Over 2 years but within 3 years	245,885	214,679	-	-
Over 3 years	130,962	31,896	-	-
	5,986,400	4,054,559	296,251	-

The amounts due from the ultimate holding company, jointly-controlled entities, associates, SEC group companies and other related companies included in the above can be analysed as follows:

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000* *(Restated)*	*RMB'000*	*RMB'000*
Ultimate holding company	138,162	232,157	-	-
Jointly-controlled entities	576	-	-	-
Associates	35,247	23,175	-	-
SEC group companies	176,152	245,184	54,104	-
Other related companies	92,333	12,080	-	-
	442,470	512,596	54,104	-

The amounts due from related parties are with similar credit terms to those offered to the major customers of the Group.

26. DISCOUNTED BILLS RECEIVABLE

The maturity profile of the discounted bills receivable of the Group is as follows:

	2005 *RMB'000*	2004 *RMB'000*
Within 3 months	43,126	98,816
Over 3 months but within 6 months	26,113	48,012
	69,239	146,828
Less: Provision for discounted bills receivable	(692)	(1,468)
	68,547	145,360

The year-end balance of discounted bills receivable is attributable to the Finance Company.

Discounted bills receivable related to discounting services provided by the Finance Company. For those bills endorsed by banks, the banks have irrevocable liability to effect payment when the bills fall due. With regard to the commercial acceptance bills, all of them are with recourse to the issuer and endorsers.

27. BILLS RECEIVABLE

The maturity profile of the bills receivable of the Group is as follows:

	Group		Company	
	2005 *RMB'000*	2004 *RMB'000* *(Restated)*	2005 *RMB'000*	2004 *RMB'000*
Within 3 months	289,223	493,737	-	-
Over 3 months but within 6 months	636,542	568,179	300	-
	925,765	1,061,916	300	-

The bills issued by the ultimate holding company, associates and SEC group companies included in the above can be analysed as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ultimate holding company	-	16,650	-	-
Associates	1,957	-	-	-
SEC group companies	14,067	84,243		
Other related parties	1,617	-	300	-
	17,641	100,893	300	-

The balances are unsecured, non-interest-bearing and repayable as the bills fall due.

Included in the year-end balance of bills receivable as at 31 December 2005, RMB55,865,000 (2004: RMB404,770,000) relates to bills receivable discounted by the Group companies with the Finance Company. The balance was thus reclassified as bills receivable in the Group's consolidated balance sheet as at 31 December 2005.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		
Prepayments	2,671,392	1,937,206	119,872	3,953
Deposits and other receivables	547,912	528,560	44,895	31,902
Prepaid land premiums/ land lease payments (note 15)	33,946	29,930	-	-
Due from subsidiaries	-	-	3,727,715	283,490
Due from the ultimate holding company	82,043	138,972	39,669	86,631
Due from jointly-controlled entities	14,439	-	3,127	8,254
Due from associates	269,685	220,801	68,836	2,970
Due from SEC group companies	505,508	410,898	5,000	12,867
Due from other related companies	1,151,346	543,686	2,970	-
	5,276,271	3,810,053	4,012,084	430,067

As at 31 December 2005, balances due from the ultimate holding company, jointly-controlled entities, associates, SEC group companies and other related companies include prepayments of RMB1,685,659,000 (2004: RMB972,371,000). The remaining balance of RMB337,362,000 (2004: RMB341,986,000) is non-trade in nature and is unsecured, non-interest-bearing and repayable on demand.

29. OTHER FINANCIAL ASSETS/SHORT TERM INVESTMENTS

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Equity investments:		
- At fair value through profit or loss (listed)	40,949	19,200
Debt investments:		
- At fair value through profit or loss (listed)	-	32,459
- At fair value through profit or loss (unlisted)	-	18,000
- Held to maturity (listed), at amortised cost	-	995,800
- Held to maturity (unlisted), at amortised cost	1,599,189	2,488,951
	1,599,189	3,535,210
Investment funds:		
- At fair value through profit or loss (listed)	12,382	20,614
- At fair value through profit or loss (unlisted)	4,145,938	165,470
	4,158,320	186,084
Entrusted assets management:		
- Available for sale (unlisted), at fair value	104,489	-
- Available for sale (unlisted), at cost and net of impairment	145,000	988,248
- Hold to maturity (unlisted), at amortised cost	452,450	500,000
	701,939	1,488,248
	6,500,397	5,228,742

During the year, the gross gain of the Group's available-for-sale equity investments recognised directly in equity amounted to RMB4,489,000 (2004: RMB Nil).

Included in the year-end balance of other financial assets, RMB6,500,297,000 (2004: RMB5,228,742,000) is attributable to the Finance Company.

30. DUE FROM THE CENTRAL BANK, PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000* *(Restated)*	*RMB'000*	*RMB'000*
Cash and bank balances	6,013,504	7,989,213	1,816,003	764,316
Time deposits	6,284,340	4,446,741	2,423,460	320,000
	12,297,844	12,435,954	4,239,463	1,084,316
Less: Pledged deposits	(1,416,673)	(1,002,935)	(104,030)	-
Cash and cash equivalents	10,881,171	11,433,019	4,135,433	1,084,316
Due from the central bank	670,945	727,118	-	-
Total	11,552,116	12,160,137	4,135,433	1,084,316

	2005	**2004**
	RMB'000	*RMB'000* *(Restated)*
Pledged deposits secured for:		
Bank loans (note 36)	26,357	3,027
Credit facilities	1,390,316	999,908
	1,416,673	1,002,935

The Group's cash and bank balances and time deposits are denominated in RMB at each balance sheet date, except for cash and bank balances with aggregate amounts of RMB203,527,000 (2004: RMB 325,970,000), RMB9,114,000 (2004: RMB9,440,000), RMB172,411,000 (2004: RMB16,875,000), RMB36,413,000 (2004: RMB1, 288,000) RMB4,618,000 and RMB3,842,000 which are denominated in USD25,219,000 (2004: USD39,413,000), JPY132,636,000 (2004: JPY118,442,000), HKD165,732,000 (2004: HKD15,864,000), EUR3,801,000 (2004: EUR114,000), Swiss Franc 752,000 (2004:Nil) and South Africa Rand 2,999,000 (2004: Nil), respectively; and time deposits of RMB2,073,597,000 and RMB24,213,000 (2004: RMB24,829,000) which are denominated in HKD1,993,268,000 (2004: Nil) and USD3,000,000 (2004: USD3,000,000), respectively. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Due from the central bank as at 31 December 2005 was a deposit of RMB670,945,000 (2004: RMB727,118,000) with the People's Bank of China, including a statutory reserve of 7.5% on customer deposits denominated in RMB held by the Finance Company.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

Included in the Company's year-end balance of cash and cash equivalents, cash and bank balance of RMB849,312,000 (2004: RMB408,134,000) and time deposits of RMB1,414,569,000 (2004: Nil) were deposited with the Finance Company according to the prevailing market conditions. Out of the year-end balances, the Company's cash and bank balances with aggregate amounts of RMB3,389,000, RMB104,208,000 and RMB3,295,000 were denominated in USD420,000, HKD100,104,000 and EUR344,000, respectively; and time deposits of RMB2,144,403,000 were denominated in HKD2,059,945,000 as at 31 December 2005. All of the Company's cash and cash equivalents were denominated in RMB as at 31 December 2004.

31. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		
Within 3 months	4,508,946	3,179,044	225,183	-
Over 3 months but within 6 months	290,462	306,315	69,602	-
Over 6 months but within 1 year	142,982	158,243	14,426	-
Over 1 year but within 2 years	98,766	76,209	-	-
Over 2 years but within 3 years	27,964	14,039	-	-
Over 3 years	72,544	80,751	-	-
	5,141,664	3,814,601	309,211	-

The amounts due to the ultimate holding company, jointly-controlled entities, associates, SEC group companies and other related companies included in the above can be analysed as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)		
Ultimate holding company	135	4,227	-	-
Jointly-controlled entities	1,018	-	-	-
Associates	119,281	77,577	-	-
SEC group companies	67,712	36,702	278,605	-
Other related companies	227,003	7,524	-	-
	415,149	126,030	278,605	-

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

32. BILLS PAYABLE

The maturity profile of the Group's bills payable is as follows:

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	167,425	171,670	300	-
Over 3 months but within 6 months	189,955	162,067	-	-
	357,380	333,737	300	-

Bills payble are non-interest-bearing.

33. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	**2004**	**2005**	**2004**
	RMB'000	*RMB'000* *(Restated)*	*RMB'000*	*RMB'000*
Advances from customers	22,798,867	21,827,000	4,790,338	884,870
Other payables	2,032,348	1,833,372	114,739	102,731
Accruals	546,325	400,603	-	5,538
Due to subsidiaries	-	-	55,674	19,509
Due to the ultimate holding company	109,479	257,916	6,589	-
Due to associates	8,109	14,113	188	-
Due to jointly-controlled entities	3,627	-	-	-
Due to SEC group companies	26,544	18,219	1,331	-
Due to other related companies	55,559	24,048	-	300
	25,580,858	24,375,271	4,968,859	1,012,948

The amounts due to the ultimate holding company, associates, subsidiaries, SEC group companies and other related companies are unsecured, non-interest-bearing and repayable on demand.

Except for amounts due to related companies of RMB128,314,000 as at 31 December 2005 (2004: RMB165,950,000) which are non-trading in nature, the amounts due to the ultimate holding company, SEC group companies and other related companies as at 31 December 2005 all relate to purchase deposits received by the Group. Such trade related balances are to be settled in accordance with the trading terms.

34. DEBENTURES

On 1 November 2005, Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel") issued debentures with face value of RMB700 million due in 365 days. The debentures were issued at a discount with an effective interest rate of 2.92% per annum. The proceed received by Shanghai Diesel was RMB680,120,000. As at 31 December 2005, the amortised cost of the debentures was approximately RMB682,898,000.

35. CUSTOMER DEPOSITS

	2005	**2004**
	RMB'000	*RMB'000*
Deposits from the ultimate holding company	1,211	223,034
Deposits from associates	42,209	49,093
Deposits from jointly-controlled entities	17,738	-
Deposits from SEC group companies	37,787	449,705
Deposits from other related companies	47,964	27,604
	146,909	749,436
Repayable:		
- On demand	130,335	647,696
- Within 3 months	384	72,840
- Over 3 months but within 1 year	16,190	28,900
	146,909	749,436

The year-end balance of customer deposits is attributable to the Finance Company.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	*Maturity*	**Group** 2005 *RMB'000*	**Group** 2004 *RMB'000* (Restated)
Current				
Bank loans				
- secured	5.10 - 8.76	2006	95,809	166,287
- EUR2,400,000 secured	2.93	2006	22,992	-
- unsecured	4.7 - 6.14	2006	124,959	430,753
			243,760	597,040
Other loans				
- secured			-	4,700
- unsecured	5.00	2006	5,478	48,113
			5,478	52,813
			249,238	649,853
Non-current				
Bank loans				
- secured	5.94	2007~2008	29,500	56,500
- unsecured	2.55	2007~2015	4,091	5,000
- unsecured	5.49 - 5.85	2007~2010	35,908	93,841
			69,499	155,341
			318,737	805,194
Analysed into:				
Bank loans repayable:				
Within one year or on demand			243,760	597,040
In the second year			25,176	22,091
In the third to fifth years, inclusive			42,050	114,250
Beyond five years			2,273	19,000
			313,259	752,381
Other loans repayable:				
Within one year or on demand			5,478	52,813
			318,737	805,194

Certain of the Group's bank loans are secured by:

(i) mortgages over certain of the Group's land use rights, buildings and machinery, which had net book values of approximately RMB23,373,000 (2004: RMB20,300,000), RMB61,660,000 (2004: RMB73,824,000) and RMB68,285,000 (2004: RMB20,546,000) (notes 14 and 15), respectively;

(ii) the pledge of certain of the Group's time deposits amounting to RMB26,357,000 (2004: RMB3,027,000) (note 30).

Except for secured bank loans of USD409,000 (2004: Nil), equivalent to RMB3,309,000, and EUR2,400,000 (2004: Nil), equivalent to RMB22,992,000, which are denominated in foreign currencies, all other borrowings are in Renminbi.

The outstanding bank loan balance, as at 31 December 2005 which was guaranteed by the ultimate holding company, SEC group companies, other related companies and third parties, is analysed follows:

	2005	**2004**
	RMB'000	*RMB'000*
		(Restated)
Guaranteed by:		
The ultimate holding company	20,295	13,400
SEC group companies	-	38,687
Other related companies	14,500	36,000
Total	34,795	88,087

37. PROVISIONS

	Product warranty	Onerous contracts	Early retirement benefits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year	88,987	166,250	148,684	403,921
Additional provision	233,971	19,239	14,650	267,860
Amounts utilised during the year	(131,332)	(166,250)	(48,326)	(345,908)
Reversal of unutilised amounts	(28,874)	-	-	(28,874)
At 31 December 2005	162,752	19,239	115,008	296,999
Portion classified as current liabilities	162,752	19,239	34,883	216,874
Non-current portion	-	-	80,125	80,125

Warranty provision

The Group provides warranties ranging from 1 to 2 years to its customers on certain products and undertakes to repair or replace items that fail to perform satisfactorily. The amount of the provision for warranties is estimated based on the sales volume and past experience on the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised when appropriate.

Onerous contracts provision

Certain subsidiaries of the Group entered into several contracts of the sale of power equipment in which the unavoidable costs of meeting the obligations under the contracts has exceeded the economic benefits expected to be received under the contracts as at 31 December 2005. Provision has been made for such onerous contracts based on the least net cost of exiting from the contracts.

Early retirement benefits

The Group implemented an early retirement plan for certain employees. Please refer to note 6 (ii) for details.

38. REPURCHASE AGREEMENTS

The counterparties of the repurchase agreements are financial institutions in Mainland China.

The year-end balance of repurchase agreements as at 31 December 2004 is attributable to the Finance Company.

39. OTHER LONG TERM PAYABLES

Included in other long term payables are the following balances with the ultimate holding company and jointly-controlled entities of the Group:

	Group		Company	
	2005	2004	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to ultimate holding company	6,667	-	-	-
Due to jointly-controlled entities	582	-	-	-
Total	7,249	-	-	-

40. SHARE CAPITAL

Shares	2005	2004
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each, currently not listed:		
- State-owned shares	6,624,279	6,894,543
- Other legal person shares	2,294,457	2,294,457
H shares of RMB1.00 each	2,972,912	-
Total	11,891,648	9,189,000

The Domestic shares are currently not listed on any stock exchange.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares in Raising the Social Security Fund", 270,264,000 state-owned shares of the Company were converted into 270,264,000 Sale H Shares and the sales proceeds therefore are payable to the National Social Security Fund (the "NSSF").

2,972,912,000 H shares of the Company, representing 2,702,648,000 new H shares and 270,264,000 sale H shares, were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 April 2005. These H shares with a nominal value of RMB1.00 each were issued to the public by way of the global offering at a price of HK$1.70 per share. After deducting net proceeds of RMB465,733,000 from the sale of the 270,264,000 Sale H Shares, which are payable to NSSF as explained above, and the share issue expenses totalling approximately RMB221,488,000, the Company raised net proceeds of approximately RMB4,678,035,000, of which issued capital amounted to RMB2,702,648,000 and capital reserve amounted to RMB1,975,387,000.

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
	'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	-	-	-	-
Capital injection on 1 March 2004	9,010,950	9,010,950	-	9,010,950
Capital injection on 29 September 2004	178,050	178,050	-	178,050
At 31 December 2004 and 1 January 2005	9,189,000	9,189,000	-	9,189,000
Share issue on 28 April 2005	2,702,648	2,702,648	2,196,875	4,899,523
	11,891,648	11,891,648	2,196,875	14,088,523
Share issue expenses	-	-	(221,488)	(221,488)
At 31 December 2005	11,891,648	11,891,648	1,975,387	13,867,035

41. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 48 to 49 of the financial statements.

Statutory surplus reserve

In accordance with the PRC Company Law and the articles of association of the Group companies, the Company and its subsidiaries are required to appropriate certain percentages of their net profits after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory reserve fund may be used either to offset losses, or to be converted to increase paid-up capital. The reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

Contributed surplus

The contributed surplus arises from the preparation of the Group's consolidated financial statements on the basis of preparation set out in note 2.1 to the financial statements. It represents the difference between the Company's cost of investment in the Net Assets acquired from SE Corporation as part of the Reorganisation and the aggregate amount of the paid-up capital of the 17 Companies (excluding the Finance Company, which was an associate of the Group upon the Reorganisation) attributable to the Group upon the establishment of the Company.

Capital reserve

The capital reserve of the Group includes the Company's share premium of RMB 1,975,387,000 and the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations of the PRC.

(b) Company

	Notes	**Capital reserve** *RMB'000*	**Statutory surplus reserve** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 1 January 2004		-	-	-	-
Restructuring into a joint stock limited liability company		(115,409)	(54,396)	(1,822)	(171,627)
Transfer/appropriation to statutory surplus reserve		-	118,675	(118,675)	-
Net profit for the year		-	-	53,296	53,296
Dividend	12	-	-	(306,422)	(306,422)
As at 31 December 2004 and 1 January 2005		(115,409)	64,279	(373,623)	(424,753)
Issue of shares	40	2,196,875	-	-	2,196,875
Share issue expenses	40	(221,488)	-	-	(221,488)
Transfer/appropriation to statutory surplus reserve		-	219,826	(219,826)	-
Net profit for the year		-	-	263,129	263,129
Proposed final 2005 dividend	12	-	-	(487,558)	(487,558)
Others		(1,275)	-	-	(1,275)
As at 31 December 2005		1,858,703	284,105	(817,878)	1,324,930

The Capital reserve account balance as at 31 December 2005 included the Company's share premium of RMB 1,975,387,000.

42. BUSINESS COMBINATION

During the year, the Group acquired the following companies:

(a) On 2 June 2005, the Company acquired a 61% interest in Top Solar by unilateral capital injection. Top Solar is engaged in the research and development, manufacture, sale, import and export of solar energy, heating system, renewable energy and energy saving products. The purchase consideration for the acquisition was RMB100,000, 000 in cash paid on 22 July 2005.

(b) On 30 June 2005, the Group acquired the entire interest in CHISA, a company incorporated in South Africa. CHISA is engaged in the manufacture and distribution of welding consumables and equipment. The purchase consideration of RMB23,420,000 for the acquisition was net off against the receivable from CHISA's former shareholder.

(c) On 31 December 2005, the Group acquired an additional 21% interest in Anhui Wood. Anhui Wood was previously an associate of the Group and is engaged in the manufacture of artificial boards. The purchase consideration for the acquisition was RMB6,300,000 in cash paid on 21 December 2005.

The fair values of the identifiable assets and liabilities of Top Solar as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition *RMB'000*	Carrying amount *RMB'000*
Property, plant and equipment	14	29,377	29,377
Prepaid land premium/land lease payments	15	6,541	6,541
Non-current other financial assets		19,433	19,433
Inventories		16,837	16,837
Trade and other receivables		45,950	45,950
Cash and bank balances		103,307	103,307
Interest-bearing bank and other borrowings		(39,000)	(39,000)
Trade payables		(3,244)	(3,244)
Other current liabilities		(11,024)	(11,024)
Minority interests		(65,000)	(65,000)
		103,177	103,177
Excess over the cost of a business combination recognised in the income statement	5	(3,177)	
		100,000	
Satisfied by cash		100,000	

The fair values of the identifiable assets and liabilities of CHISA as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition	Carrying amount
		RMB'000	*RMB'000*
Property, plant and equipment	14	2,691	2,691
Inventories		3,886	3,886
Trade and other receivables		2,185	2,185
Cash and bank balances		4,659	4,659
Interest-bearing bank and other borrowings		(436)	(436)
Trade and other payables		(604)	(604)
		12,381	12,381
Goodwill on acquistion	16	11,039	
		23,420	
Offset by other receivables		23,420	

The fair values of the identifiable assets and liabilities of Anhui Wood as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Note	Fair value recognised on acquisition	Carrying amount
		RMB'000	*RMB'000*
Property, plant and equipment	14	66,226	66,226
Inventories		15,325	15,325
Trade and other receivables		12,014	12,014
Cash and bank balances		4,106	4,106
Interest-bearing bank and other borrowings		(5,000)	(5,000)
Trade and other payables		(60,502)	(60,502)
Tax payable		(312)	(312)
Minority interests		(12,617)	(12,617)
		19,240	19,240
Satisfied by cash		6,300	
Offset by an interest in an associate		12,940	
		19,240	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisitions of subsidiaries is as follows:

	RMB'000
Cash consideration	(106,300)
Cash and bank balances acquired	112,072
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	5,772

Since the acquisitions, these newly acquired subsidiaries contributed RMB161,363,000 to the Group's turnover and RMB6,503,000 to the consolidated profit for the year ended 31 December 2005.

Had the combination taken place at the beginning of the year, the revenue from operations of the Group and the profit of the Group for the year would have been RMB34,465,334,000 and RMB2,487,990,000, respectively.

43. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) The Group had no disposal of subsidiairies in the year ended 31 December 2005. The cash inflow in respect of disposal of subsidiaries of RMB41,577,000 in the current year represented the settlement of receivables from the disposal of subsidiaries occurred in the prior year.

(b) Major non-cash transactions

(i) During the year, the Group acquired the entire interest in CHISA. The purchase consideration of RMB23,420,000 for the acquisition was net off against the receivable from CHISA's former shareholder; and

(ii) During the year, the Group disposed of its 40% equity interest in an associate with a carrying amount of RMB8,661,000 for a cash consideration of USD5,800,000, equivalent to RMB46,951,000. The cash consideration was subsequently received in February 2006.

44. CONTINGENT LIABILITIES

(a) The Group's contingent liabilities as at the balance sheet dates are as follows:

	2005 *RMB'000*	**2004** *RMB'000*
Bills discounted with recourse	22,400	52,410

	2005	2004
	RMB'000	*RMB'000*
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- the ultimate holding company	28,139	28,139
- jointly-controlled entities	99,310	78,500
- associates	36,741	129,952
- SEC group companies	143,290	351,680
- third parties	1,993	-
	309,473	588,271

In respect of the bank guarantee given by the Group for the joint-controlled entities as disclosed above, the Group's share of bank loan balances of RMB132,004,000 and RMB118,201,000 have been recognised in the consolidated balance sheets as at 31 December 2004 and 2005, respectively.

In addition, the Group's share of the jointly-controlled entities' own contingent liabilities, which are not included in the above, is as follows:

	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- third parties	898	-

During the year ended 31 December 2003, a customer (the "plaintiff") of the Group's subsidiary filed a claim with a court in the United States for damages and related litigation costs totalling USD2.5 million arising from the allegedly defective products purchased from the subsidiary and/or negligence in repairs. The Group's subsidiary has denied the claim and requested the relevant court to set aside the claim. The plaintiff has not taken further action to date.

(b) The Company's contingent liabilities as at the balance sheet dates are as follows:

	2005	2004
	RMB'000	*RMB'000*
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
-SEC group companies	-	34,178

45. OPERATING LEASE ARRANGEMENTS

(a) The Group

(i) As lessor

The Group leases certain of its properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 25 years and those for plant and machinery negotiated for terms ranging from one to three years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2005	2004
	RMB'000	*RMB'000*
Within one year	34,353	21,949
In the second to fifth years, inclusive	71,916	66,674
After five years	174,104	110,027
	280,373	198,650

In addition, the Group's share of the jointly-controlled entities' own total future minimum lease receivables under non-cancellable operating leases, which are not included in the above, is as follows:

	2005	2004
	RMB'000	*RMB'000*
Within one year	332	332
In the second to fifth years, inclusive	1,083	1,327
After five years	-	259
	1,415	1,918

(ii) As lessee

The Group leases certain properties, plant and machinery and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years, those for plant and machinery are for terms ranging from two to three years and those for motor vehicles are for a period of one year.

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Within one year	51,969	31,241
In the second to fifth years, inclusive	82,534	44,236
After five years	169,336	47,286
	303,839	122,763

In addition, the Group's share of the jointly-controlled entities' own total future minimum lease payments under non-cancellable operating leases, which are not included in the above, is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Within one year	1,528	1,551
In the second to fifth years, inclusive	1,521	3,028
After five years	-	172
	3,049	4,751

(b) The Company

As at 31 December 2005, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Within one year	6,647	6,203
In the second to fifth years, inclusive	855	5,148
	7,502	11,351

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, the Group and the Company had the following capital commitments at the balance sheet date:

(a) The Group

	2005	**2004**
	RMB'000	RMB'000
Contracted, but not provided for		
In respect of the acquisition of:		
- land and buildings	753,123	137,055
- plant and machinery	1,800,087	230,513
- intangible assets	26,344	23,312
- others	-	990
In respect of capital contribution to:		
- jointly-controlled entities	-	10,180
- an associate	38,867	101,545
	2,618,421	503,595
Authorised, but not contracted for		
In respect of the acquisition of:		
- land and buildings	668,031	105,533
- plant and machinery	1,923,644	683,143
	2,591,675	788,676
	5,210,096	1,292,271

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are not included in the above, is as follows:

	2005	**2004**
	RMB'000	*RMB'000*
Contracted, but not provided for		
In respect of the acquisition of:		
- land and buildings	14,723	3,523
- plant and machinery	363	42
- intangible assets	46	-
	15,132	3,565
In respect of capital contribution to an associate	1,500	-
	16,632	3,565

(b) The Company

	2005	**2004**
	RMB'000	*RMB'000*
Contracted, but not provided for		
In respect of the acquisition of:		
- plant and machinery	14,854	-
In respect of capital contribution to:		
- an associate	38,867	101,545
	53,721	101,545

47. RELATED PARTY TRANSACTIONS

(1) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
Purchases of materials from:	(i)		
Jointly-controlled entities		8,853	6,882
Associates		616,649	475,546
SEC group companies		844,976	456,797
Other related companies		793,269	167,271
		2,263,747	1,106,496
Sale of goods to:	(i)		
Ultimate holding company		37,202	479,692
Jointly-controlled entities		5,304	-
Associates		253,972	402,327
SEC group companies		288,372	376,830
Other related companies		61,098	56,453
		645,948	1,315,302
Interest expenses:	(ii)		
Jointly-controlled entities		164	69
Associates		680	273
Other related companies		18	17,326
		862	17,668
Purchases of manpower services:	(i)		
Associates		42,741	21,497
Jointly-controlled entities		11,952	-
SEC group companies		12,223	-
Other related companies		11,532	14,604
		78,448	36,101
Rental income:	(iii)		
Ultimate holding company		485	-
Associates		15,850	9,357
SEC group companies		502	-
Other related companies		3,575	-
		20,412	9,357

	Notes	2005	2004
		RMB'000	*RMB'000*
			(Restated)
Rental fee:	(iii)		
Ultimate holding company		29,950	9,935
Associates		64	-
SEC group companies		2,883	4,424
Other related companies		-	628
		32,897	14,987
Interest income:	(ii)		
Jointly-controlled entities		3,526	2,029
Associates		3,180	13
Other related companies		-	19,679
		6,706	21,721
Sale of scraps and spare parts:	(i)		
Ultimate holding company		7,801	-
Jointly-controlled entities		1,131	-
Associates		50,000	13,182
SEC group companies		8,094	675
		67,026	13,857
Provision of manpower services:	(i)		
Ultimate holding company		12,730	16,970
Associates		53,234	46,422
SEC group companies		1,223	-
Other related companies		1,051	29,616
		68,238	93,008

Notes:

i. Sales and purchases were conducted in accordance with mutually agreed terms.

ii. Interest income and interest expenses were based on mutually agreed terms with reference to the market rates.

iii. Rental income and rental fee were based on mutually agreed terms with reference to the market rates.

During the year ended 31 December 2005, the Group effected the following non-recurring transactions:

(i) disposed of a property to SE Corporation for a cash consideration of RMB11,131,000;

(ii) disposed of certain properties to SE Corporation for a cash consideration of RMB32,914,000 which was determined with reference to valuation carried out by independent professional qualified valuer in Mainland China;

(iii) purchased a property from a subsidiary of SE Corporation for a cash consideration of approximately RMB33,896,000 which was determined with reference to valuation carried out by independent professional qualified valuers in Mainland China;

(iv) disposed of certain unlisted equity investments with carrying amout of RMB14,964,000 to subsidiaries of SE Corporation for a cash consideration of approximately RMB15,000,000; and

(v) entrusted to manage two subsidiaries of SE Corporation with annual management service fees of RMB8,000,000.

The Group entered into property transfer agreements on 17 November 2005 to dispose of two properties to a subsidiary of SE Corporation for a total cash consideration of RMB127,400,000. Pursuant to the agreements, the Group will hand over the properties to a subsidiary of SE Corporation by 31 December 2007. As such, the transaction was not completed as at 31 December 2005.

(2) Guarantees provided by/to related companies of the Group

As at 31 December 2005, the Group has provided corporate guarantees totalling RMB309,473,000 (2004: RMB588,271,000) to related companies (note 44(a)).

The Group's related companies have provided corporate guarantees, in connection with bank borrowings and guarantee letters, to the Group as follows:

	2005 *RMB'000*	**2004** *RMB'000* *(Restated)*
Guarantees provided to the Group by:		
- Ultimate holding company	20,295	773,541
- SEC group companies	-	38,687
- Other related companies	14,500	36,000
	34,795	848,228

(3) Balances due from/to related parties

The balance due from/to related parties mainly resulted from trading transactions, loans, customer deposits received, bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out under notes 21, 25, 27, 28, 31, 33 and 35 to the finacial statements.

(4) Interest income and expenses from/to the Finance Company

On 30 June 2004, the Group increased its equity interest in the Finance Company from 39.32% to 77.25% through further capital injection (the "Capital Injection") in the Finance Company, which became a subsidiary of the Group (the Group's equity interest in the Finance Company was further increased to 77.90% in October 2004.

Before the Capital Injection, the Finance Company was an associate of the Group. The Group's interest expense in connection with the loans from this associate amounted to RMB9,741,000 for the period from 1 January to 30 June 2004. The Group's interest income in connection with the deposits placed with the Finance Company amounted to RMB51,282,000 for the period from 1 January to 30 June 2004.

After the Capital Injection, the Finance Company became a subsidiary of the Group. The Group's interest expense in connection with the deposits placed by the ultimate holding company and SEC group companies with the Finance Company amounted to RMB4,264,000 and RMB2,379,000 for the period from 1 July to 31 December 2004 and the year ended 31 December 2005, respectively. The Group's interest income in connection with the loans by the Finance Company to the ultimate holding company and SEC group companies amounted to RMB68,428,000 and RMB12,930,000 for the period from 1 July to 31 December 2004 and the year ended 31 December 2005, respectively.

(5) Compensation of key management personnel of the Group:

	2005 *RMB'000*	**2004** *RMB'000*
Fees	550	-
Short term employee benefits	2,125	2,302
Post-employment benefits	96	70
Total compensation paid to key management personnel	2,771	2,372

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

The related party transactions with the ultimate holding company and SEC group companies and purchase of equipment and components from Siemens Aktiengesellschaft, a joint venture parties of certain subsidiaries of the Group, with a total amount of RMB725,128,000 also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, debentures, other interest-bearing loans, customer deposits and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The management meets periodically to analyse and formulate measurements to manage the Group's exposure to financial risk. Generally, the Group employs a conservative strategy regarding its risk management.

Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

(a) Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the Renminbi and other currencies in which the Group conducts business may affect its financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimizing its net foreign currency position.

(b) Price risk

The Group's price risk exposure at year end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices. They are principally available-for-sale investments and financial assets carried at fair value through profit or loss.

Such investments are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

(c) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table sets out the Group's financial instruments exposed to interest rate risk by maturity and effective interest rate:

Debts

	2005	2004	
	Held-to-maturity	Held-to-maturity	Held-for-trading
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	1,599,189	3,484,661	-
1 - 2 years	409,134	669,410	-
2 - 3 years	-	-	4,758
4 - 5 years	-	-	6,804
More than 5 years	102,700	-	38,987
Total	2,111,023	4,154,071	50,549
Effective interest rate (% per annum)	1.79-5.85	2.06-3.45	2.06-3.45

Other financial assets

	2005			
	Loans receivable	Entrusted assets management	Due from the central bank	Time deposits
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	83,395	701,939	670,945	6,284,340
1-2 years	980	-	-	-
4-5 years	11,167	-	-	-
Total	95,542	701,939	670,945	6,284,340
Effective interest rate (% per annum)	4.70-6.00	4.20-5.85	0.99-1.89	1.71-2.25

	2004			
	Loans receivable	**Entrusted assets management**	**Due from the central bank**	**Time deposits**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	846,906	1,488,248	727,118	4,446,741
2-3 years	980	-	-	-
More than 5 years	41,670	-	-	-
Total	889,556	1,488,248	727,118	4,446,741
Effective interest rate (% per annum)	4.54-6.12	4.5-5.85	1.62-1.89	1.71-2.25

Financial liabilities

	2005		
	Debentures	**Interest-bearing loans and other borrowings**	**Customer deposits**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	682,898	249,238	146,909
1-2 years	-	25,176	-
2-3 years	-	42,050	-
More than 5 years	-	2,273	-
Total	682,898	318,737	146,909
Effective interest rate (% per annum)	2.92	2.93-8.76	0.72-2.25

	2004		
	Securities sold under agreements to repurchase	**Interest-bearing loans and other borrowings**	**Customer deposits**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	1,503,800	649,853	749,436
1-2 years	-	22,091	-
2-3 years	-	114,250	-
More than 5 years	-	19,000	-
Total	1,503,800	805,194	749,436
Effective interest rate (% per annum)	2.06-3.45	4.78-7.56	0.72-1.95

Financial risk

(a) Credit risk

Credit risk is the risk of economic loss resulting from the failure of one of the Group's obligors to make any payment of principal or interest when due, in the case of fixed income investments or, in the case of an equity investment, the loss in value resulting from a corporate failure. The Group is exposed to credit risks primarily associated with its deposit arrangements with commercial banks, investments in bonds issued by PRC companies and Government. The Group mitigates credit risk by utilizing detailed credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits within its investment portfolio.

The carrying amount of trade receivables included in the consolidated balance sheets represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group does not have a significant concentration of credit risk in relation to the trade receivables as the trade receivables due from the five largest customers accounted for only 9.1% of the Group's trade receivables as at 31 December 2005.

The Group performs ongoing credit evaluations of its customers' financial conditions. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade receivables.

(b) Liquidity risk

Liquidity risk is the risk of not having access to sufficient funds to meet the Group's obligations as they become due. The Group seeks to manage its liquidity risk by matching to the extent possible the duration of its investment assets with the duration of its debts and customers deposits.

(c) Concentration risk

Concentration risk is the risk of incurring a major loss as a result of having a significant portion of the Group's investments concentrated in a single entity, group of related entities or an industry segment. The Group seeks to control concentration risk by limiting the amount of investment in any single entity or group of related entities.

Fair value

Set out below is a comparison by category of carrying amounts and estimated fair values of the Group's major financial instruments.

	Carrying amounts		**Estimated fair values**	
	2005	**2004**	**2005**	**2004**
	RMB Million	*RMB Million*	*RMB Million*	*RMB Million*
Financial assets				
Fixed maturity investments				
Bonds	2,111,023	3,295,327	2,141,382	3,305,161
PBOC Bills	-	909,293	-	921,639
Time deposits	6,284,340	4,446,741	6,284,340	4,446,741
Due from the central bank	670,945	727,118	670,945	727,118
Loans receivable	95,542	889,556	95,542	889,556
Entrusted assets management	701,939	1,488,248	701,939	1,499,796
Cash and cash equivalents	10,881,171	11,433,019	10,881,171	11,433,019
Investment funds	4,158,320	186,084	4,158,320	186,084
Equity investments	250,432	269,265	250,432	269,265
Financial liabilities				
Interest-bearing loans and other borrowings	318,737	805,194	318,737	805,194
Customer deposits	146,909	749,436	146,909	749,436
Securities sold under agreements to repurchase	-	1,503,800	-	1,503,800

The methods and assumptions used by the Group in estimating the fair values of the financial instruments are as follows:

(a) Fixed maturity investments: fair values are generally based upon quoted market prices. Where quoted market prices are not readily available, fair values are estimated using either prices observed in recent transactions or values obtained from discounted cash flow models using current market yield rate of comparable investments.

(b) Investment funds and equity securities: fair values are based on quoted market prices except, for certain unlisted investments, which are carried at cost as a reasonable estimate of their fair values.

(c) Other assets and liabilities as shown above: carrying amounts of these assets and liabilities approximate to their fair values.

49. POST BALANCE SHEET EVENTS

(a) On 24 January 2006, the Group entered into various equity and property purchase agreements with SE Corporation or its subsidiaries to acquire:

(i) a 50.88% interest in Shanghai Ship-use Crankshaft Co., Ltd., which is engaged in the manufacture of crankshaft used for large low-speed ship-use diesel engines. The purchase consideration of RMB71, 436,000 for the acquisition was in the form of cash and to be paid upon completion of the equity purchase agreement;

(ii) a 100% interest in Magine Machine Tool Co., Ltd., which is engaged in the production and manufacture of various kinds of cutting machine tools. The purchase consideration of RMB252,426,000 for the acquisition was in the form of cash and to be paid upon completion of the equity purchase agreement;

(iii) a 100% interest in Shanghai Relay Works Co., Ltd., which is engaged in the production of protective relaying equipment used in secondary control, protection and dispatching automation in power systems. The purchase consideration of RMB23,865,000 for the acquisition was in the form of cash and to be paid upon completion of the equity purchase agreement;

(iv) a 65% interest in Japan Ikegai Corporation, a machine tool producer in Japan, which is engaged in the production and servicing of machine tools, with a focus on the manufacture of various kinds of computer numerical controlled machine tools. The purchase consideration of RMB109,256,000 for the acquisition was in the form of cash and to be paid upon on completion of the equity purchase agreement;

(v) a 100% interest in SMAC Werkzeugamaschine GmbH, which is engaged in the production of computer numerical controlled machine tools. The purchase consideration of RMB8,866,000 for the acquisition was in the form of cash and to be paid upon completion of the equity purchase agreement;

(vi) a 100% interest in Shanghai Rail Traffic Equipment Railcar Engineering Co., Ltd., which is engaged in project management in relation to railcar equipment and electrical and mechanical equipment and it is licensed to act as a general contractor for this type of projects. The purchase consideration of RMB30,890,000 for the acquisition was in the form of cash and to be paid upon completion of the equity purchase agreement; and

(vii) two properties with a consideration of RMB32,620,000 and RMB27,380,000, respectively.

(b) On 13 March 2006, the board of directors of Shanghai Diesel passed the proposal in respect of the reform of its unlisted state-owned shares, representing 50.32% of the registered capital of Shanghai Diesel, all of which are held by the Company. Pursuant to the proposal, SE Corporation, as the ultimate holding company of Shanghai Diesel, will pay the compensation of RMB16 per 10 listed A shares in cash to A shareholders with a total consideration amounting to RMB32,560,000. Meanwhile, the Company committed not to sell its shares on the Shanghai Stock Exchange within 36 months from the effective date of the share reform. The proposal has been approved by vote in the special shareholders' meeting of Shanghai Diesel on 7 April 2006.

(c) On 19 April 2006, the board of directors of Shanghai Power Transmission and Distribution Co., Ltd. ("Shanghai Power Transmission") proposed the reform of its unlisted state-owned shares, representing 83.75% of the registered capital of Shanghai Power Transmission, all of which are held by the Company. Pursuant to the proposal, SE Corporation, as the ultimate holding company of Shanghai Power Transmission, will pay the compensation of RMB20 per 10 listed A shares in cash to A shareholders with a total consideration amounting to RMB102,000,000. Meanwhile, the Company committed not to sell or transfer its shares within 12 months from the effective date of the share reform. The proposal is pending for the approval by vote in the special shareholders' meeting of Shanghai Power Transmission.

50. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2006.