NOTES TO FINANCIAL STATEMENTS

31 December 2006

1. CORPORATE INFORMATION

Shanghai Electric Group Company Limited is a joint stock 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 engaged 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 industry 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 stated-owned enterprise established in the PRC.

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 and derivative financial instruments, which have been measured at fair value. Non-current assets and disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries 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. 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 identifiable 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 not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) HKAS 39 *Financial Instruments: Recognition and Measurement* (continued)

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

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

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. The standard will supersede HKAS14 *Segment Reporting.*

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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 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/Company has unilateral control, directly or indirectly, over the joint venture;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint ventures (continued)

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

(c) an associate, if the Group/Company 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/Company 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 investments 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. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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' profits or losses in the period in which the investments are acquired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets, goodwill and non-current assets/a disposal group classified as held for sale), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill (continued)

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 in those expense categories consistent with the function of the impaired asset.

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 and certain financial assets 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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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 iem of property, plant and equipment is derecongnised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recongnised 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, whih 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.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. When the Group is a lessor under finance leases, the amounts due under the leases, after deduction of unearned charges, are included in loans receivable. Finance income receivable is recognised over the periods of the leases so as to give a constant rate of return on the investment.

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 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

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 and 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell 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 at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as 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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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. Held-to-maturity investments 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. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Available-for-sale financial assets (continued)
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 other valuation models.

Impairment of financial assets

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 the income statement.

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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 or on a derivative asset that is linked to and must be settled by such an unquoted equity instruments 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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 the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

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

Derecognition of financial assets

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 them 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.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including trade payables, bills payable, other payables, debentures, customer deposits and interest-bearing bank and other borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

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 the income statement.

Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis or 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.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the completion of a physical portion of the contract work or the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (continued)

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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 in subsidiaries, jointly-controlled entities and associates, 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 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

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

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

(e) 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

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

Employee benefits

Pension scheme
The Group and its 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 the income statement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries 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 subsidiaries 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 subsidiaries 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 2006 was RMB183,440,000 (2005: RMB130,736,000). More details are given in note 16 to the financial statements.

Deferred tax assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses at 31 December 2006 was RMB9,241,000 (2005: Nil). The amount of unrecognised tax losses at 31 December 2006 was RMB152,364,000 (2005: RMB343,541,000). Further details are contained in note 23 to the financial statements.

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. ("Finance Company"); and

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

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

4. SEGMENT INFORMATION (CONTINUED)

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 2006 and 2005.

Year ended 31 December 2006	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Trans-portation equipment RMB'000	Environ-mental systems RMB'000	Financial business RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	24,854,397	12,215,769	3,408,102	1,829,670	-	353,980		-	42,661,918
Intersegment sales	852,123	134,878	26,231	77,346	-	21,828		(1,112,406)	-
Other revenue	235,494	192,343	162,972	6,421	592,375	8,598		(274,004)	924,199
Total	25,942,014	12,542,990	3,597,305	1,913,437	592,375	384,406		(1,386,410)	43,586,117
Segment results	2,479,302	745,879	(21,220)	40,036	327,273	(67,146)		(93,342)	3,410,782
Interest and dividend income and unallocated gains							264,822	49,994	314,816
Corporate and other unallocated expenses							(80,619)		(80,619)
Finance costs							(133,840)	28,761	(105,079)
Share of profits and losses of associates	218,659	207,739	9,955	(139)	-	(34)		-	436,180
Impairment of investments in associates	(2,808)	-	(200)	-	-	(49)		-	(3,057)
Profit before tax									3,973,023
Tax									(1,041,285)
Profit for the year									2,931,738

4. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

Year ended 31 December 2006	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Trans-portation equipment RMB'000	Environ-mental 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	34,449,510	16,435,795	4,373,647	1,669,334	13,469,261	423,685		(10,262,947)	60,558,285
Investments in associates	1,099,224	1,094,037	67,860	2,105	-	4,146		-	2,267,372
Corporate and other unallocated assets							3,730,967	(2,322,346)	1,408,621
Total assets									64,234,278
Segment liabilities	29,122,129	8,053,333	1,752,258	1,206,565	11,358,345	317,259		(12,436,568)	39,373,321
Corporate and other unallocated liabilities							1,464,419	(101,064)	1,363,355
Total liabilities									40,736,676
Other segment information:									
Depreciation and amortisation	299,444	311,413	141,156	16,884	2,816	7,428	8,827	-	787,968
Capital expenditure	976,145	2,113,250	244,598	90,145	973	4,758	28,865	(16,948)	3,441,786
Impairment losses:									
Recognised in the income statement	15,452	-	63	-	-	49	-	2,607	18,171
Reversed in the income statement	(235)	(4,456)	(2,842)	-	-	-	-	-	(7,533)
Other non-cash expenses	473,821	79,608	27,586	25,663	9,197	717	-	-	616,592
Product warranty provision	108,490	60,078	61,472	448	-	399	-	-	230,887
Provision for onerous contracts	2,866	-	76,410	5,136	-	-	-	-	84,412
Provision for late delivery	124,000	-	-	-	-	-	-	-	124,000

4. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

Year ended 31 December 2005	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Trans-portation equipment RMB'000	Environ-mental systems RMB'000	Financial business RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	19,073,357	10,953,844	3,142,955	947,109	-	282,859		-	34,400,124
Intersegment 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 associates	(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

4. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

Year ended 31 December 2005	Power equipment	Electro-mechanical equipment	Trans-portation equipment	Environ-mental 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
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

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; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; net of sale taxes and surcharges.

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

	2006 RMB'000	2005 RMB'000
Revenue		
Sale of goods	39,550,929	33,188,803
Construction contracts	1,832,310	96,365
Rendering of services	1,278,679	1,114,956
	42,661,918	34,400,124
Other income		
Interest income on bank balances and time deposits	182,475	254,856
Interest income on loans receivable and discounted bills receivable	17,856	23,628
Interest income on debt investments	67,951	75,903
	268,282	354,387
Dividends income from investments	71,027	27,372
Gross rental income	74,876	56,385
Profit from the sale of raw materials, spare parts and semi-finished goods	53,999	100,381
Subsidy income	71,930	53,169
Forfeiture of purchase deposits from customers	8,066	17,027
Compensation income	61,350	47,710
Other financial service income	23,346	8,183
Others	85,837	64,559
	718,713	729,173

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

	Notes	2006 RMB'000	2005 RMB'000
Gains			
Gain on disposal of items of property, plant and equipment		25,085	62,711
Unrealised fair value gains, net:			
Investments at fair value through profit or loss		176,648	49,383
Derivative instruments - transactions not qualifying as hedges	31	7,178	-
Gain on debt restructuring		4,633	2,076
Gain on disposal of a subsidiary	45	18,453	-
Gain on disposal of equity interest in a jointly-controlled entity	46	10,190	-
(Loss)/gain on disposal of associates		(40,905)	39,663
Realised gain on investments at fair value through profit or loss*		154,155	114,173
Realised gain on available-for-sale investments (transfer from equity)		4,489	-
Gain/(loss) on disposal of unquoted investments stated at cost		106,622	(87)
Gain on recovery of prepaid land lease payments		78,247	-
Excess over the cost of business combinations	44	21,967	3,177
Exchange losses, net**		(46,460)	(106,284)
		520,302	164,812
		1,239,015	893,985

* Included in the total amount of the realised gain on investments at fair value through profit or loss, RMB13,160,000 related to overseas investments. The overseas investments represented assets management agreements with a total amount of HKD597 million entered into with a 40%-owned associate of a company, which is 49% indirectly owned by SE Corporation, during the year. The overseas investments had a return rate of 10% and the Group has received the investment income and the principal thereof as of 31 December 2006.

** The exchange losses have been included in the same item disclosed in note 6 to the financial statements.

6. PROFIT BEFORE TAX

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

	Notes	2006 RMB'000	2005 RMB'000
Cost of inventories sold		31,741,239	26,239,360
Cost of construction contracts		1,761,822	78,758
Cost of services provided		1,028,243	888,966
Depreciation	14	697,040	796,445
Recognition of prepaid land lease payments**	15	26,522	31,577
Amortisation of patents and licences**	17	21,438	25,023
Amortisation of other intangible assets**	17	7,131	2,985
Research and development costs:**			
Amortisation of technology know-how	17	35,837	26,252
Current year expenditure*		259,084	162,931
		294,921	189,183
Minimum lease payments under operating leases:			
Land and buildings		74,315	83,431
Plant, machinery and motor vehicles		26,758	10,239
Auditors' remuneration		22,409	28,955
Staff costs (including directors' and supervisors' remuneration - note 8 below):			
Wages and salaries		2,664,737	2,430,884
Defined contribution pension scheme (note i)		367,852	364,417
Early retirement benefits costs (note ii)	40	27,908	14,650
Staff severance costs		77,468	71,467
Medical benefits costs (note iii)		134,549	115,888
Housing fund		125,287	102,533
Cash housing subsidies costs		11,100	4,736
		3,408,901	3,104,575
Exchange losses, net		46,460	186,594
Write-down of inventories to net realisable value		255,366	262,370
Impairment of account receivables and other receivables**		339,084	159,677
Impairment/(reversal of impairment) for loans receivable**		8,045	(47,806)

6. PROFIT BEFORE TAX (CONTINUED)

	Notes	2006 RMB'000	2005 RMB'000
Impairment/(reversal of impairment) for discounted bills receivable**	27	1,157	(776)
Impairment of unquoted investments stated at cost**		12,940	4,146
(Reversal of impairment)/impairment of items of property, plant and equipment**	14	(804)	77,424
Impairment of goodwill**	16	8,385	18,926
Impairment of investments in associates		3,057	72,090
Product warranty provision:	40		
Additional provision		245,869	233,971
Reversal of unutilised provision		(14,982)	(28,874)
Onerous contract provision:			
Additional provision	40	84,412	19,239
Late delivery provision:			
Additional provision	40	124,000	-

* 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 22.0% (2005: 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 service and salary level on the date of retirement of the respective employee. 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.

6. PROFIT BEFORE TAX (CONTINUED)

(ii) Early retirement benefits

The Group implements 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 service 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 RMB105,653,000 as at 31 December 2006 (2005: RMB115,008,000) and the full amount has been accrued for. The costs of the early retirement benefits were recognised in the period when employees opted for early retirement. The provision for early retirement benefits was not assessed by any independent actuary. Where the effect of discounting is material, the amount recognised for the 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 costs 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

	2006 RMB'000	2005 RMB'000
Interest on bank loans and other loans wholly repayable within five years	79,197	58,254
Interest on debentures	24,769	5,627
Interest on customer deposits	3,918	3,612
Total interest	107,884	67,493
Less: Interest capitalised	(2,805)	(751)
	105,079	66,742

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2006 RMB'000	2005 RMB'000
Fees	592	550
Other emoluments:		
Salaries, allowances and benefits in kind	2,005	2,125
Pension scheme contributions	85	96
	2,090	2,221
	2,682	2,771

(a) Independent non-executive directors

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

	2006 RMB'000	2005 RMB'000
Dr. Yao Fusheng	150	150
Dr. Cheung Wai Bun	250	250
Mr. Lei Huai Chin	192	150
	592	550

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

Save as disclosed below, none of the executive directors, non-executive directors and supervisors of the Company received any remuneration for the year that are required to be disclosed in the financial statements pursuant to the Listing Rules and Section 161 of the Hong Kong Campanies Ordinance.

2006	Fees RMB'000	Salaries,housing benefits,other allowances benefits and in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Huang Dinan	-	503	-	17	520
Mr. Wang Qiang	-	423	-	17	440
Ms. Li Manping	-	423	-	17	440
Mr. Yu Yingui	-	423	-	17	440
	-	1,772	-	68	1,840
Supervisor					
Mr. Xie Tonglun	-	233	-	17	250
	-	2,005	-	85	2,090

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

2005	Fees RMB'000	Salaries,housing benefits,other allowances benefits and in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Chen Longxing	-	340	-	16	356
Mr. Huang Dinan	-	459	-	16	475
Mr. Wang Qiang	-	369	-	16	385
Ms. Li Manping	-	369	-	16	385
Mr. Yu Yingui	-	369	-	16	385
	-	1,906	-	80	1,986
Supervisor					
Mr. Xie Tonglun	-	219	-	16	235
	-	2,125	-	96	2,221

Save as disclosed above, none of the executive directors, non-executive directors and supervisors of the Company received any remuneration for the year that are required to be disclosed in the financial statements pursuant to the Listing Rules and Section 161 of the Hong Kong Campanies Ordinance.

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 (2005: Nil). Details of the remuneration of the five highest paid employees for the year are as follows:

	2006 RMB'000	2005 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	3,813	3,821
Pension scheme contributions	52	47
	3,865	3,868

The number of highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2006	2005
Nil to HKD1,000,000	5	5

10. TAX

The Company and all its subsidiaries that operate in Mainland China are 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 were subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai;
- four subsidiaries were 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 investments in production business in the old city area;
- one subsidiary was subject to a corporate income tax rate of 15% as it is registered in the Shanghai Minhang Economic and Technological Development Zone with foreign investments in production business; and
- two subsidiaries were entitled to full exemption of corporate income tax as they are established as local research institutes.

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 companies" are entitled to an extended period of tax deduction. During the year, certain of the Group companies were entitled to such tax concessions.

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

10. TAX (CONTINUED)

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

	2006 RMB'000	2005 RMB'000
Group:		
Current - Mainland China		
Charge for the year	1,129,026	994,875
Overprovision in prior years	(44,357)	(45,138)
Current - Elsewhere		
Charge for the year	489	-
Overprovision in prior years	322	-
Deferred (note 23)	(44,195)	53,119
Total tax charge for the year	1,041,285	1,002,856

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries/jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates and a reconciliation of the applicable rates (i.e. the statutory tax rates) are as follows:

	2006					
	Mainland China		Elsewhere		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	3,953,870		19,153		3,973,023	
Tax at the statutory tax rate	1,304,777	33.0	5,746	30.0	1,310,523	33.0
Lower tax rate for specific provinces/ districts or concessions	(139,974)	(3.5)	-	-	(139,974)	(3.5)
Adjustments in respect of current tax of previous periods	(44,357)	(1.1)	322	1.7	(44,035)	(1.1)
Profits and losses attributable to associates	(144,056)	(3.7)	-	-	(144,056)	(3.6)
Income not subject to tax	(54,407)	(1.4)	-	-	(54,407)	(1.4)
Expenses not deductible for tax	193,126	4.9	132	0.7	193,258	4.9
Tax incentives on eligible expenditures	(76,137)	(1.9)	(5,711)	(29.8)	(81,848)	(2.1)
Tax losses utilised from previous periods	(26,039)	(0.7)	-	-	(26,039)	(0.7)
Tax losses not recognised	24,248	0.6	-	-	24,248	0.6
Deductible temporary differences not recognised	3,615	0.1	-	-	3,615	0.1
Tax charge at the Group's effective rate	1,040,796	26.3	489	2.6	1,041,285	26.2

10. TAX (CONTINUED)

	2005	
	Mainland China RMB'000	%
Profit before tax	3,478,018	
Tax at the statutory tax rate	1,147,746	33.0
Lower tax rate for specific provinces/districts or concessions	(142,544)	(4.1)
Adjustments in respect of current tax of previous periods	(45,138)	(1.3)
Profits and losses attributable to associates	(79,799)	(2.3)
Income not subject to tax	(43,369)	(1.2)
Expenses not deductible for tax	141,782	4.1
Tax incentives on eligible expenditures	(37,596)	(1.1)
Tax losses utilised from previous periods	(9,611)	(0.3)
Tax losses not recognised	71,385	2.0
Tax charge at the Group's effective rate	1,002,856	28.8

The share of tax attributable to associates amounting to RMB89,103,000 (2005: RMB94,744,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2006 includes a profit of RMB670,550,000 (2005: RMB263,129,000) which has been dealt with in the financial statements of the Company (note 43(b)).

12. DIVIDEND

	2006 RMB'000	**2005** RMB'000
Proposed final-RMB 6.1 cents (2005: RMB4.1 cents) per ordinary share	725,391	487,558

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

For the year ended 31 December 2006, the calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the number of ordinary shares in issue during the year. For the year ended 31 December 2005, the calculation of basic earnings per share amount is based on the 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 2005 and 2006 as no diluting events occurred during these years.

The calculation of basic earnings per share is based on:

	2006 RMB'000	**2005** RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	2,048,890	1,672,212

	Number of shares	
	2006	**2005**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	11,891,648,000	11,025,319,737

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2006	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
At cost:						
At 1 January 2006	3,452,998	5,619,080	425,086	422,371	1,633,151	11,552,686
Additions	44,171	32,152	31,520	43,880	2,562,362	2,714,085
Acquisition of subsidiaries(note 44(1))	267,786	553,686	12,190	11,397	18,025	863,084
Disposals	(43,046)	(166,696)	(39,488)	(18,102)	(2,370)	(269,702)
Disposal of a subsidiary (note 45)	(3,674)	(3,823)	(2,281)	(447)	-	(10,225)
Disposal of equity interest in a jointly-controlled entity (note 46)	(24,512)	(51,316)	(497)	(13,518)	-	(89,843)
Non-current assets classified as held for sale (note 33)	(27,898)	-	-	-	-	(27,898)
Transfers	500,147	970,473	57,090	78,946	(1,606,656)	-
Exchange realignment	(11,401)	(14,459)	(302)	(101)	(749)	(27,012)
At 31 December 2006	4,154,571	6,939,097	483,318	524,426	2,603,763	14,705,175
Accumulated depreciation and impairment:						
At 1 January 2006	1,684,683	3,010,375	251,313	246,006	9,597	5,201,974
Depreciation provided during the year	182,065	411,385	44,867	58,723	-	697,040
Impairment	(799)	433	(258)	(43)	(137)	(804)
Acquisition of subsidiaries (note 44(1))	159,743	356,456	5,692	6,234	-	528,125
Disposals	(34,328)	(130,496)	(31,947)	(13,735)	(928)	(211,434)
Disposal of a subsidiary (note 45)	(1,188)	(1,311)	(1,585)	(314)	-	(4,398)
Disposal of equity interest in a jointly-controlled entity (note 46)	(13,967)	(34,051)	(267)	(7,645)	-	(55,930)
Non-current assets classified as held for sale (note 33)	(17,541)	-	-	-	-	(17,541)
Exchange realignment	(8,849)	(13,265)	(212)	(69)	-	(22,395)
At 31 December 2006	1,949,819	3,599,526	267,603	289,157	8,532	6,114,637
Net book value:						
At 31 December 2006	2,204,752	3,339,571	215,715	235,269	2,595,231	8,590,538

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

31 December 2005	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
At cost:						
At 1 January 2005	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 44(2))	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	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 44(2))	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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

31 December 2006	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
At cost:						
At 1 January 2006	52,685	4,227	3,396	17,171	189,680	267,159
Additions	-	6,904	1,272	4,022	45,921	58,119
Disposals	-	-	-	(779)	(52)	(831)
Transfers	-	3,205	-	2	(3,207)	-
At 31 December 2006	52,685	14,336	4,668	20,416	232,342	324,447
Accumulated depreciation:						
At 1 January 2006	4,057	794	218	3,351	-	8,420
Depreciation provided during the year	3,376	3,799	671	3,722	-	11,568
Disposals	-	-	-	(316)	-	(316)
At 31 December 2006	7,433	4,593	889	6,757	-	19,672
Net book value:						
At 31 December 2006	45,252	9,743	3,779	13,659	232,342	304,775
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

As at 31 December 2006, certain buildings and machinery of the Group with net book values of approximately RMB78,810,000 (2005: RMB61,660,000) and RMB56,472,000 (2005: RMB68,285,000), respectively, were pledged to secure general banking facilities granted to the Group (note 39).

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2006, the Group had not obtained the real estate certificates for 188 (2005: 186) buildings with a total gross area of approximately 272 (2005: 248) thousand m^2 and a net book value of RMB261,458,000 (2005: RMB195,578,000).

The Group was in the process of applying for the real estate certificates for 28 buildings with a gross area of approximately 33 thousand m^2 and a net book value of approximately RMB61,085,000 as at 31 December 2006, which is included in the above net book value of RMB261,458,000.

15. PREPAID LAND LEASE PAYMENTS

Group

	2006 RMB'000	2005 RMB'000
At cost:		
At 1 January	1,239,951	1,154,551
Additions	177,403	89,857
Acquisition of subsidiaries (note 44)	105,763	6,910
Disposals	(46,370)	(11,367)
Disposal of a subsidiary (note 45)	(3,072)	-
Disposal of equity interest in a jointly-controlled entity (note 46)	(22,550)	-
Non-current assets classified as held for sale (note 33)	(27,675)	-
At 31 December	1,423,450	1,239,951
Accumulated amortisation and impairment:		
At 1 January	149,673	118,911
Amortisation provided during the year	26,522	31,577
Acquisition of subsidiaries (note 44)	273	369
Disposals	(10,996)	(1,184)
Disposal of a subsidiary (note 45)	(133)	-
Disposal of equity interest in a jointly-controlled entity (note 46)	(1,830)	-
Non-current assets classified as held for sale (note 33)	(3,522)	-
At 31 December	159,987	149,673

15. PREPAID LAND LEASE PAYMENTS (CONTINUED)

Group (continued)

	2006 RMB'000	2005 RMB'000
Net book value:		
At 31 December	1,263,463	1,090,278
Of which:		
Current portion included in prepayments, deposits and other receivables (note 29)	26,865	33,946
Non-current portion	1,236,598	1,056,332
	1,263,463	1,090,278

Except for one parcel of leasehold land with a net book value of RMB22,970,500 (2005: Nil) situated in Japan, the Group's leasehold lands are all situated in Mainland China. The Group's leasehold lands are held under the following lease terms:

	2006 RMB'000	2005 RMB'000
At cost:		
Long term	27,071	19,769
Medium term	1,396,379	1,220,182
	1,423,450	1,239,951

As at 31 December 2006, certain of the Group's leasehold lands with a net book value of approximately RMB6,587,000 (2005: RMB23,373,000) were pledged to secure general banking facilities granted to the Group (note 39).

As at 31 December 2006, the Group had not obtained the real estate certificates for 7 (2005: 11) parcels of land with a total gross area of approximately 460 (2005: 293) thousand m^2 and a net book value of RMB164,071,000 (2005: RMB80,285,000).

The Group was in the process of applying for the real estate certificates for 5 parcels of land with a gross area of approximately 404 thousand m^2 and a net book value of approximately RMB151,862,000 as at 31 December 2006, which is included in the above net book value of RMB164,071,000.

16. GOODWILL

Group

	2006 RMB'000	2005 RMB'000
At cost:		
At 1 January	149,662	135,637
Acquisitions of subsidiaries (note 44)	57,462	11,039
Acquisition of minority interests (note 44)	3,627	2,986
At 31 December	210,751	149,662
Accumulated impairment:		
At 1 January	18,926	-
Impairment	8,385	18,926
At 31 December	27,311	18,926
Net book value:		
At 31 December	183,440	130,736

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

Cash-generating unit	Segment	Carrying amount of goodwill 2006 RMB'000	2005 RMB'000
Printing and packing machinery	Electromechanical equipment	23,198	23,198
Engineering machinery	Electromechanical equipment	26,579	26,579
Hydraulic pressure	Electromechanical equipment	39,759	39,759
Machinery tools	Electromechanical equipment	42,676	-
Transportation equipment	Transportation equipment	18,354	18,354
Others		32,874	22,846
		183,440	130,736

16. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

The recoverable amounts of the above cash-generating units are determined based on their value in use, using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10% (2005: 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 above cash-generating units for 31 December 2006 and 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

Group

31 December 2006	Patents and licences RMB'000	Technology know-how RMB'000	Others RMB'000	Total RMB'000
At cost:				
At 1 January 2006	346,350	168,461	33,462	548,273
Additions	3,292	63,363	40,965	107,620
Acquisition of subsidiaries (note 44(1))	3,000	-	172	3,172
Disposals	(1,509)	-	(5,377)	(6,886)
At 31 December 2006	351,133	231,824	69,222	652,179
Accumulated amortisation:				
At 1 January 2006	146,578	77,194	9,057	232,829
Amortisation provided during the year	21,438	35,837	7,131	64,406
Acquisition of subsidiaries (note 44(1))	938	-	5	943
Disposals	(937)	-	(5,066)	(6,003)
At 31 December 2006	168,017	113,031	11,127	292,175
Net book value:				
At 31 December 2006	183,116	118,793	58,095	360,004

17. OTHER INTANGIBLE ASSETS (CONTINUED)

Group (continued)

31 December 2005	Patents and licences RMB'000	Technology know-how RMB'000	Others RMB'000	Total RMB'000
At cost:				
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:				
At 1 January 2005	121,555	50,942	6,072	178,569
Amortisation provided during the year	25,023	26,252	2,985	54,260
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

Company

	2006 RMB'000	2005 RMB'000
At cost:		
At 1 January	-	-
Additions	4,388	-
At 31 December	4,388	-
Accumulated amortisation:		
At 1 January	-	-
Amortisation provided during the year	592	-
At 31 December	592	-
Net book value:		
At 31 December	3,796	-

18. INVESTMENTS IN SUBSIDIARIES

Company

	2006 RMB'000	2005 RMB'000
Unlisted investments, at cost	7,837,766	10,043,967
Listed investments, at cost	3,276,076	-
	11,113,842	10,043,967

As at 31 December 2006, the Company had three listed subsidiaries, namely Shanghai Mechanical & Electrical Industry Co., Ltd. ("Mechanical and Electrical"), Shanghai Power Transmission and Distribution Co., Ltd. ("Power Transmission") and Shanghai Diesel Engine Co., Ltd. ("Diesel Engine") with carrying amounts of RMB1,465,478,000, RMB900,973,000 and RMB909,625,000, respectively. All these three subsidiaries are listed on the Shanghai Stock Exchange.

During the year, the three listed subsidiaries launched and completed share restructuring to convert all unlisted state-owned shares into tradable shares on the stock exchange in accordance with the relevant regulations. The details of the share restructuring processes are as follows:

Mechanical and Electrical

On 21 July 2006, the shareholders of Mechanical and Electrical passed the resolution in respect of the conversion of non-tradable state-owned shares, representing 47.28% of the issued capital of Mechanical and Electrical, all of which are held by the Company, to tradable A shares. Pursuant to the resolution, SE Corporation, as the ultimate holding company of Mechanical and Electrical, paid a cash consideration of RMB5 for every 10 tradable A shares held by the public shareholders totalling approximately RMB134,577,000. The Company undertook not to sell the converted shares on the Shanghai Stock Exchange for a period of 36 months from the date of completion of the conversion. The conversion was completed on 17 August 2006.

Power Transmission

On 30 October 2006, the shareholders of Power Transmission passed the resolution in respect of the conversion of non-tradable state-owned shares, representing 83.75% of the issued capital of Power Transmission, all of which are held by the Company, to tradable A shares. Pursuant to the resolution, SE Corporation, as the ultimate holding company of Power Transmission, paid a cash consideration of RMB35 for every 10 tradable A shares held by the public shareholders totalling approximately RMB178,500,000. The Company undertook not to sell the converted shares on the Shanghai Stock Exchange for a period of 36 months from the date of completion of the conversion. The conversion was completed on 7 November 2006.

Diesel Engine

On 7 April 2006, the shareholders of Diesel Engine passed the resolution in respect of the conversion of non-tradable state-owned shares, representing 50.32% of the issued capital of Diesel Engine, all of which are held by the Company, to tradable A shares. Pursuant to the resolution, SE Corporation, as the ultimate holding company of Diesel Engine, paid a cash consideration of RMB16 for every 10 tradable A shares held by the public shareholders totalling approximately RMB34,560,000. The Company undertook not to sell the converted shares on the Shanghai Stock Exchange for a period of 36 months from the date of completion of the conversion. The conversion was completed on 15 May 2006.

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Upon the completion of the share restructuring processes, the Company classified the investments in these three subsidiaries from unlisted investments to listed investments. As at 31 December 2006, the fair market value of the listed shares of these three subsidiaries held by the Company amounted to RMB12,157,403,000.

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Turbine Works Co., Ltd.	PRC	RMB246,675	99.5%	0.5%	Production and sale of turbines, ancillary appliances and spare parts
Shanghai Electric Group Shanghai Electric Machinery Co., Ltd.	PRC	RMB241,820	99.6%	0.4%	Production and sale of turbine generators and spare parts
Shanghai Boiler Works, Ltd.	PRC	RMB107,886	51%	41.04%	Sale of power station boilers, industry boilers and power station equipment
Shanghai Boiler Works, Ltd. (SEC)	PRC	RMB99,597	97.8%	2.2%	Production,installation and maintenance of boiler equipment
Shanghai Power Station Auxiliary Equipment Works Co., Ltd.	PRC	RMB62,480	99.1%	0.9%	Design and production of turbo-ancillary appliances and ancillary boiler appliances
Shanghai Power Transmission and Distribution Co., Ltd.	PRC	RMB517,965	83.75%	-	Production and sale of complete equipment for power stations; construction of large and medium scale infrastructure projects
Shanghai Electric Wind Power Equipment Co., Ltd.	PRC	RMB80,000	65%	-	Production and sale of wind power equipment, spare parts and provision of after-sales service
Shanghai Mechanical and Electrical Industry Co., Ltd. * ^	PRC	RMB852,283	47.28%	-	Production and sale of elevators, printing and packing machinery, artificial boards, air-conditioners, welding materials and engineering machinery
Shanghai Heavy Machinery Plant Co., Ltd.	PRC	RMB1,205,514	99.77%	0.23%	Sale of metallurgy materials, spare parts, power station equipment and anti-pressure containers
Shanghai Machine Tool Works Ltd.	PRC	RMB518,733	99.43%	0.57%	Production and sale of machinery and spare parts
Japan Ikegai Corporation #	Japan	JPY490,000	65%	-	Production and servicing of machine tools
SMAC Werkzeugamaschine GmbH	Germany	USD590	100%	-	Production of computer numerical controlled machine tools
Magine Machine Tool Co., Ltd.	PRC	RMB340,662	100%	-	Manufacture of various kinds of cutting machine tools
Shanghai No.1 Machine Tool Works Co. Ltd.	PRC	RMB250,000	80%	17.49%	Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment
Shanghai Ship-use Crankshaft Co., Ltd.	PRC	RMB148,610	50.88%	-	Production and sale of crankshaft used for large low-speed ship- use diesels engines
Shanghai Electric Nuclear Power Equipment Co., Ltd.	PRC	RMB250,000	100%	-	Production and sale of nuclear power equipment, spare parts and provision of after-sales service

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Shanghai Diesel Engine Co., Ltd.	PRC	RMB480,309	50.32%	-	Production and sale of diesel engines, oil pumps and spare parts
Shanghai Rail Traffic Equipment Development Co., Ltd.	PRC	RMB600,000	83.33%	-	Production, sale, maintenance and technology development of city rail-traffic equipment and provision of consultancy services
Shanghai Environment Protection Complete Engineering Co., Ltd.	PRC	RMB35,000	90%	10%	Environmental related technology research,imports and exports trading, and equipment installation
Shanghai Capital Numerical Control Co., Ltd.	PRC	RMB26,235	95%	-	Development, design, sale,leasing and maintenance of numerical control software systems, driving systems and industrial automation systems
Shanghai Electrical Automation D&R Institute Co., Ltd.	PRC	RMB17,650	97.4%	2.6%	Design and installation of automatic apparatus
Shanghai Institute of Mechanical and Electrical Engineering Co., Ltd.	PRC	RMB21,656	99.2%	0.8%	Development of machinery for communal projects
Shanghai Centrifuge Institute Co., Ltd.	PRC	RMB8,706	97.5%	2.5%	Development of technology for general purpose machinery
Shanghai Electric Group Finance Co., Ltd.	PRC	RMB800,000	71.13%	6.77%	Provision of financial services
Shanghai Electric Equipment Lease Co., Ltd.	PRC	RMB200,000	95%	-	Leasing
Shanghai Electric International Economic and Trading Co., Ltd.	PRC	RMB350,000	99%	1%	Import and export of products
SEC-IHI Power Generation Environment Protection Engineering Co., Ltd.	PRC	RMB50,000	70%	-	Design, manufacture and sale of desulphurisation equipment
Shanghai Top Solar Green Energy Co., Ltd.	PRC	RMB313,000	61.35%	-	Production and sale of solar energy related products
Shanghai Electric Lingang Heavy Machinery Co., Ltd.	PRC	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	RMB16,080	60%	40%	Sewage treatment
Shanghai Electronic Nan Tong Sewage Treatment Co., Ltd.	PRC	RMB20,000	95%	5%	Provision of sewage treatment, water recycling and related services
Shanghai Turbine Co., Ltd. #	PRC	USD134,375	-	68%	Manufacture and sale of power generators and related equipment
Shanghai Turbine Generator Co., Ltd. #	PRC	USD60,000	-	60%	Design and production of electricity generators

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Power Equipment Co., Ltd. #	PRC	USD45,000	-	70%	Production and sale of auxiliary machinery
Shanghai Mitsubishi Elevator Co., Ltd. # *	PRC	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	RMB66,430	-	47.28%	Provision of labour and export services
Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd. *	PRC	RMB350,605	-	47.28%	Production and sale of refrigeration and air-conditioning equipment, provision of technical services and equipment construction services
Shanghai Electric Group Printing & Packaging Machinery Co., Ltd. *	PRC	RMB262,349	-	47.28%	Production and sale of printing and packaging equipment, spare parts and raw materials
Shanghai Green Continent Investment Co., Ltd. *	PRC	RMB190,000	-	47.28%	Investment and sale of wood-based panels
Shanghai Welding Equipment Co., Ltd.*	PRC	RMB100,714	-	47.28%	Production of welding rods, non-ferrous metal and welding materails
Shanghai Refrigerating Machine Co., Ltd.*	PRC	RMB70,129	-	47.28%	Manufacture and sale of air-conditioning equipment and provision of related engineering services
Shanghai Jintai Engineering Machinery Co., Ltd.	PRC	RMB287,797	-	50.03%	Manufacture and operation of engineering machinery and related equipment
Shanghai Electric Hydraulics Pneumatics Co., Ltd. *	PRC	RMB171,243	-	47.28%	Sale of pressurised pumps and related equipment
Shanghai Pudong "EV" Fuel Injection Co., Ltd. *	PRC	RMB210,000	-	45.29%	Production and sale of fuel injection related products
Shanghai Alstom Transport Co., Ltd. # *	PRC	USD15,000	-	36%	Design and production of city-traffic testing equipment

Sino-foreign equity joint ventures

^ 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's subsidiaries controlled these entities.

During the year, the Group acquired seven subsidiaries, namely Japan Ikegai Corporation, SMAC Werkzeugamaschine GmbH, Magine Machine Tool Co., Ltd., Shanghai Ship-use Crankshaft Co., Ltd.. Shanghai Relay Works Co., Ltd., Shanghai Rail Traffic Equipment Railcar Engineering Co., Ltd. and Shanghai Ying Da Xin Auto Electronic Co., Ltd.. Further details of these acquisitions are included in note 44(1) to the financial statements.

The above table lists the subsidiaries 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 subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

The Group's balances with jointly-controlled entities in respect of loans receivable, trade receivables, prepayments, deposits and other receivables, trade payables, other payables and accruals, customer deposits and other long term payables are disclosed in notes 21, 26, 29, 34, 36, 38 and 41 to the financial statements, respectively.

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

Company name	Place of incorporation/ registration and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shanghai Pulux Machinery Co., Ltd.	PRC	50%	50%	50%	Design, production and repair of packaging machinery
Shanghai Hino Diesel Engines Co., Ltd. #	PRC	50%	50%	50%	Production and sale of generators
Shanghai Guanghua Printing Machinery Co., Ltd. #	PRC	50%	50%	50%	Production and sale of printing machinery

Sino-foreign equity joint ventures

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

During the year, the Group disposed of its 10% equity interest in a jointly-controlled entity, Shanghai Riyong-Jea Gate Electric Co., Ltd. ("Shanghai Riyong"). After the disposal, Shanghai Riyong became an associate of the Group. Further details of the disposal of equity interest are included in note 46 to the financial statements.

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:

	2006 RMB'000	2005 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	470,294	497,189
Non-current assets	286,433	389,329
Current liabilities	(418,162)	(334,219)
Non-current liabilities	(21,396)	(16,196)
Net assets	317,169	536,103

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

	2006 RMB'000	2005 RMB'000
Share of the jointly-controlled entities' results:		
Turnover	635,888	556,822
Other revenue	13,490	4,458
Total revenue	649,378	561,280
Total expenses	(635,224)	(541,285)
Tax	(7,401)	(6,394)
Profit after tax	6,753	13,601

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Share of net assets	2,233,998	2,116,233	93,394	49,413
Goodwill on acquisition	45,204	191,067	-	-
	2,279,202	2,307,300	93,394	49,413
Provision for impairment	(11,830)	(73,150)	-	-
	2,267,372	2,234,150	93,394	49,413

During the year, the Group disposed of its 24% equity interest in an associate, Shanghai Novel Color Tube Corporation Ltd. ("Shanghai Novel"), with a carrying amount of RMB305,067,000, for a cash consideration of RMB268,656,000. The impairment with an amount of RMB64,377,000 provided for the goodwill of RMB146,232,000 on acquisition of the associate was disposed of accordingly. The loss on disposal of the associate amounted to RMB36,411,000.

The Group's balances with the associates in respect of loans receivable, trade receivables, discounted bills receivable, bills receivable, prepayments, deposits and other receivables, trade payables, bills payables, other payables and accruals and customer deposits are disclosed in notes 21, 26, 27, 28, 29, 34, 35, 36 and 38 to the financial statements, respectively.

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the principal associates are as follows:

Company name	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
		Direct	Indirect	
Siemens Gas Turbine Parts Co., Ltd. #	PRC	49%	-	Production and sale of combustion chambers and burners
Shanghai Zhenfa Machinery Equipment Co., Ltd.	PRC	33%	-	Production and sale of mechanical and electrical equipment and provision of technical services
Schneider Shanghai Power Distribution Electrical Apparatus Co., Ltd. #	PRC	-	16.75%	Production and sale of low voltage air breakers and low voltage containers
Schneider Shanghai Industrial Control Co., Ltd. #	PRC	-	16.75%	Production and sale of circuit breakers, thermal overload relays, contactors and industrial control components
Siemens Shanghai Switchgear Ltd. #	PRC	-	37.69%	Design, manufacture and sale of switchgears and related products
Shanghai Goss Graphic Systems Co., Ltd. #	PRC	-	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	-	18.91%	Production and sale of centralised air-conditioning systems
MWB Shanghai Instrument Transformer Co., Ltd. #	PRC	-	29.31%	Production and sale of mutual inductors
Shanghai Marathon-Gexin Electric Co., Ltd. #	PRC	-	45%	Production, repair and sale of electric machine and machine sets
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. (previously named as Shanghai Mitsubishi Elevator Engineering & Technology Co., Ltd.)#	PRC	-	18.91%	Research and development, manufacture and sale of the major components of elevators, escalators and automatic sidewalks

#Sino-foreign equity joint ventures

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.

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	2006 RMB'000	2005 RMB'000
Assets	13,731,576	15,032,831
Liabilities	8,006,648	9,438,035
Revenues	17,847,954	16,546,404
Profit	1,402,544	634,912

21. LOANS RECEIVABLE

Group

	2006			2005		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Loans to the ultimate holding company	500,000	(5,000)	495,000	-	-	-
Loans to SEC group companies*	50,000	(500)	49,500	-	-	-
Loans to jointly-controlled entities	114,984	(648)	114,336	66,250	(663)	65,587
Loans to associates	32,520	(325)	32,195	24,800	(248)	24,552
Loans to third parties	246,011	(2,258)	243,753	37,728	(985)	36,743
	943,515	(8,731)	934,784	128,778	(1,896)	126,882
Portion classified as current assets	788,198	(6,662)	781,536	110,494	(1,521)	108,973
Long term portion	155,317	(2,069)	153,248	18,284	(375)	17,909

Company

	2006			2005		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
A loan to a subsidiary	185,000	-	185,000	-	-	-
A loan to a jointly-controlled entity	100,467	-	100,467	-	-	-
Classified as current assets	285,467	-	285,467	-	-	-

21. LOANS RECEIVABLE (CONTINUED)

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

The annual interest rates of loans provided to related parties range from 4.06% to 6.14% (2005: 4.96% - 5.85%).

The Company's loans to a subsidiary and a jointly-controlled entity are unsecured and repayable within one year. The loan to a subsidiary is interest-free and the loan to a jointly-controlled entity bears an annual interest rate of 4.06%.

22. OTHER INVESTMENTS (NON-CURRENT)

Group

	2006 RMB'000	**2005** RMB'000
Equity investments:		
- Available-for-sale (unlisted), at cost and net of impairment	139,328	209,483
- Available-for-sale (listed), at fair value	121,573	-
	260,901	209,483
Debt investments:		
- Held-to-maturity (unlisted), at amortised cost	335,502	511,834
- Available-for-sale (listed), at fair value	295,904	-
	631,406	511,834
Investment funds:		
- Available-for-sale (unlisted), at fair value	447,860	-
	1,340,167	721,317

During the year, the gross gain of the Group's non-current available-for-sale investments recognised directly in equity amounted to RMB222,236,000 (2005: Nil).

As at 31 December 2006, listed available-for-sale equity investments of RMB100,195,000 (2005: Nil) were restricted for trading over certain periods of less than one year.

As at 31 December 2006, certain unlisted available-for-sale equity investments with a carrying amount of RMB139,328,000 (2005: RMB209,483,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably.

23. DEFERRED TAX

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

Deferred tax assets

Group

	2006					
	Losses available for offset against future taxable profit RMB'000	Impairment of assets and provisions RMB'000	Unrealised gain on investments RMB'000	Eliminated profits resulting from intragroup transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	-	279,563	28,835	-	30,377	338,775
Acquisition of subsidiaries (note 44(1))	-	6,402	-	-	-	6,402
Deferred tax credited/(charged) to the income statement during the year (note 10)	9,241	197,660	(5,081)	14,520	55,453	271,793
Gross deferred tax assets at 31 December 2006	9,241	483,625	23,754	14,520	85,830	616,970
Offset by deferred tax liabilities						(222,881)
Net deferred tax assets at 31 December 2006						394,089

23. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

Group

	2006						
	Revaluation of properties RMB'000	Fair valve adjustments arising from acquisitions of subsidiaries RMB'000	Unremitted earnings RMB'000	Unrealised gain on investments RMB'000	Eliminated losses resulting from intragroup transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2006	(260,036)	-	(157,730)	(4,211)	-	-	(421,977)
Acquisition of subsidiaries (note 44(1))	-	(36,351)	-	-	-	-	(36,351)
Deferred tax credited /(charged) to the income statement during the year (note 10)	(218)	6,974	(17,463)	(54,648)	(158,433)	(3,810)	(227,598)
Deferred tax debited to equity during the year	-	-	-	(171,161)	-	-	(171,161)
Deferred tax utilised during the year	9,395	-	-	-	-	-	9,395
Gross deferred tax liabilities at 31 December 2006	(250,859)	(29,377)	(175,193)	(230,020)	(158,433)	(3,810)	(847,692)
Offset by deferred tax assets							222,881
Net deferred tax liabilities at 31 December 2006							(624,811)

23. DEFERRED TAX (CONTINUED)

Deferred tax assets

Group

	2005				
	Losses available for offset against future taxable profit	Impairment of assets and provisions	Early retirement benefits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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 (note 10)	(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

Group

	2005			
	Revaluation of properties	Unremitted earnings	Unrealised gain on investments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2005	(277,006)	(13,746)	(6,379)	(297,131)
Deferred tax credited/(charged) to the income statement during the year (note 10)	-	(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)

23. DEFERRED TAX (CONTINUED)

Deferred tax assets

Company

	2006		
	Impairment of assets and provisions RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2006	-	-	-
Deferred tax credited to the income statement during the year	96,808	44,970	141,778
At 31 December 2006	96,808	44,970	141,778

The Company has no deferred tax assets as at 31 December 2005.

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
Tax losses	152,364	343,541	-	-
Deductible temporary differences	9,020	5,405	-	-
	161,384	348,946	-	-

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose for a period of five years. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. INVENTORIES

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
Raw materials	3,138,647	3,559,789	484	109,411
Work in progress	9,669,193	6,432,463	56,381	2,904
Finished goods	2,204,779	2,003,018	-	-
	15,012,619	11,995,270	56,865	112,315

25. CONSTRUCTION CONTRACTS

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Gross amount due from contract customers	1,356,641	57,939	1,090,861	-
Contract costs incurred plus recognised profits less recognised losses to date	1,786,211	96,365	1,090,861	-
Less: Progress billings	(429,570)	(38,426)	-	-
	1,356,641	57,939	1,090,861	-

As at 31 December 2006, advances received from customers for contract works included in the Group's and the Company's balances of other payables and accruals amounted to approximately RMB632,023,000 (2005: RMB122,631,000) and RMB440,060,000 (2005: Nil), respectively.

26. TRADE RECEIVABLES

For sale 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, with retention periods of one to two years.

For the sale of other products, the Group's trading terms with customers are mainly on credit except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally three months and may extend to six months for key customers. 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 as at the balance sheet date, based on the invoice date and net of provision for bad and doubtful debts, is as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within 3 months	3,023,566	2,140,213	1,211,086	295,751
Over 3 months but within 6 months	1,046,855	1,056,252	164,791	500
Over 6 months but within 1 year	1,866,036	1,215,414	96,115	-
Over 1 year but within 2 years	1,965,277	1,197,674	56,070	-
Over 2 years but within 3 years	518,197	245,885	-	-
Over 3 years	77,831	130,962	-	-
	8,497,762	5,986,400	1,528,062	296,251

26. TRADE RECEIVABLES (CONTINUED)

The amounts due from related parties included above are analysed as follows:

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
The ultimate holding company	194,383	138,162	-	-
Jointly-controlled entities	-	576	-	-
Associates	30,624	35,247	-	-
SEC group companies	111,694	176,152	236	54,104
Other related companies	106,900	92,333	-	-
	443,601	442,470	236	54,104

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

27. DISCOUNTED BILLS RECEIVABLE

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

	2006 RMB'000	**2005** RMB'000
Within 3 months	112,796	43,126
Over 3 months but within 6 months	72,076	26,113
	184,872	69,239
Less: Provision for discounted bills receivable	(1,849)	(692)
	183,023	68,547

27. DISCOUNTED BILLS RECEIVABLE (CONTINUED)

Discounted bills receivable due from related parties included above are analysed as follows:

	2006 RMB'000	2005 RMB'000
Associates	74,688	59,643
SEC group companies	47,425	-
	122,113	59,643

The annual interest rates of discounting services provided to related parties range from 2.8% to 4.65% (2005: 2.8% - 3.3%).

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

28. BILLS RECEIVABLE

The maturity profile of the bills receivable is as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within 3 months	751,118	289,223	23,000	-
Over 3 months but within 6 months	808,783	636,542	7,050	300
	1,559,901	925,765	30,050	300

28. BILLS RECEIVABLE (CONTINUED)

The bills issued by related parties included above can be analysed as follows:

	Group		Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Associates	6,376	1,957	-	-
SEC group companies	1,246	14,067	-	-
Other related companies	19,500	1,617	-	300
	27,122	17,641	-	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 2006, RMB252,475,000 (2005: RMB55,865,000) related to bills receivable discounted by the Group companies with Finance Company. The balance was thus reclassified as bills receivable in the Group's consolidated balance sheet at 31 December 2006.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	3,816,170	2,671,392	744,052	119,872
Deposits and other receivables	530,028	522,334	80,108	44,895
Prepaid land lease payments (note 15)	26,865	33,946	-	-
Dividend receivables	60,661	44,220	91,701	54,604
Due from subsidiaries	-	-	7,098,757	3,673,111
Due from the ultimate holding company	93,814	82,043	51,797	39,669
Due from jointly-controlled entities	10,182	10,951	3,127	3,127
Due from associates	233,736	231,073	121,110	68,836
Due from SEC group companies	577,812	505,508	19,063	5,000
Due from other related companies	518,163	1,149,226	-	2,970
	5,867,431	5,250,693	8,209,715	4,012,084

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2006, the Group's and the Company's balances with related parties include prepayments of RMB1,061,910,000 (2005: RMB1,685,659,000) and RMB6,765,292,000 (2005: RMB3,319,597,000), respectively. The remaining balances of RMB371,797,000 (2005: RMB293,142,000) and RMB528,562,000 (2005: RMB473,116,000) are non-trade in nature and are unsecured, non-interest-bearing and repayable on demand or within one year.

30. INVESTMENTS (CURRENT)

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Equity investments:				
- At fair value through profit or loss (listed)	281,736	40,949	-	-
- Available-for-sale (listed), at fair value	645,410	-	-	-
	927,146	40,949	-	-
Debt investments:				
- At fair value through profit or loss (listed)	7,742	-	-	-
- Held-to-maturity (unlisted), at amortised cost	2,047,544	1,599,189	-	-
	2,055,286	1,599,189	-	-
Investment funds:				
- At fair value through profit or loss (listed)	24,194	12,382	-	-
- At fair value through profit or loss (unlisted)	722,055	4,145,938	-	-
- Available-for-sale (listed), at fair value	18,000	-	-	-
- Available-for-sale (unlisted), at fair value	1,024,248	-	-	-
	1,788,497	4,158,320	-	-

30. INVESTMENTS (CURRENT) (CONTINUED)

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Entrusted assets management:				
- At fair value through profit or loss (unlisted)	24,842	-	-	-
- Available-for-sale (unlisted), at fair value	-	104,489	-	-
- Available-for-sale (unlisted), at cost and net of impairment	-	145,000	-	-
- Held-to-maturity (unlisted), at amortised cost	303,492	452,450	1,263,790	-
	328,334	701,939	1,263,790	-
	5,099,263	6,500,397	1,263,790	-

During the year, the gross gain on the Group's current available-for-sale investments recognised directly in equity amounted to RMB323,747,000 (2005: RMB4,489,000).

As at 31 December 2006, the Company's investments of RMB1,263,790,000 (2005: Nil) represented entrusted assets management with Finance Company.

31. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2006		2005	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	8,164	986	-	-

The carrying amounts of forward currency contracts are the same as their fair values.

The Group has entered into four forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to RMB7,178,000 (2005: Nil) were charged to the income statement during the year.

32. DUE FROM THE CENTRAL BANK, RESTRICTED DEPOSITS AND CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cash and bank balances	7,693,881	6,013,504	2,373,798	1,816,003
Time deposits	2,613,483	6,284,340	2,126	2,423,460
	10,307,364	12,297,844	2,375,924	4,239,463
Less: Restricted deposits	(1,693,199)	(1,416,673)	(143,866)	(104,030)
Cash and cash equivalents	8,614,165	10,881,171	2,232,058	4,135,433
Due from the central bank	754,046	670,945	-	-
Total	9,368,211	11,552,116	2,232,058	4,135,433

32. DUE FROM THE CENTRAL BANK, RESTRICTED DEPOSITS AND CASH AND CASH EQUIVALENTS (CONTINUED)

Pledged deposits, classified as restricted deposits, are analysed as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Pledged deposits secured for:				
Bank loans (note 39)	-	26,357	-	-
Credit facilities	1,391,505	1,390,316	143,866	104,030
	1,391,505	1,416,673	143,866	104,030

The Group's and the Company's cash and bank balances and time deposits are denominated in RMB at each balance sheet date, except for the following:

Group

	2006		2005	
	Foreign currency in'000	**RMB equivalent** RMB'000	**Foreign currency** in'000	**RMB equivalent** RMB'000
Cash and bank balances:				
USD	19,954	155,815	25,219	203,527
JPY	955,536	62,712	132,636	9,114
HKD	330,501	332,044	165,732	172,411
EUR	4,931	50,624	3,801	36,413
Swiss Franc	1	6	752	4,618
South Africa Rand	2,372	2,567	2,999	3,842
Time deposits:				
HKD	322,631	324,138	1,993,268	2,073,597
USD	2,410	18,819	3,000	24,213

32. DUE FROM THE CENTRAL BANK, RESTRICTED DEPOSITS AND CASH AND CASH EQUIVALENTS (CONTINUED)

Company

	2006		2005	
	Foreign currency in'000	**RMB equivalent** RMB'000	**Foreign currency** in'000	**RMB equivalent** RMB'000
Cash and bank balances:				
USD	3,545	27,682	420	3,389
HKD	72,764	73,104	100,104	104,208
EUR	-	-	344	3,295
Time deposits:				
HKD	-	-	2,059,945	2,144,403

The amount due from the central bank as at 31 December 2006 was a deposit of RMB754,046,000 (2005: RMB670,945,000) with the People's Bank of China, including a statutory reserve of 9% (2005: 7.5%) on customer deposits denominated in RMB held by Finance Company.

Cash at banks earns interest at floating rates based on daily bank deposit 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 balances of RMB1,677,851,000 (2005: RMB849,312,000) and time deposits of RMB2,126,000 (2005: RMB1,414,569,000) were deposited with Finance Company according to the prevailing market conditions.

33. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Group

	Notes	2006 RMB'000	2005 RMB'000
Property, plant and equipment	14	10,357	-
Prepaid land lease payments	15	24,153	-
Non-current assets classified as held for sale		34,510	-
Liabilities directly associated with the non-current assets classified as held for sale		(81,843)	-

33. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES DIRECTLY ASSOCIATED WITH THE NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

On 17 November 2005, the Group entered into property transfer agreements to dispose of two properties to a subsidiary of SE Corporation for a total cash consideration of RMB127,400,000. Pursuant to the agreement, the Group will hand over the properties to the subsidiary of SE Corporation by 31 December 2007. As at 31 December 2006, the carrying amounts of the properties of RMB34,510,000 was recorded as non-current assets classified as held for sale and the proceeds after deducting the disposal expenditures with a net amount of RMB81,843,000 were recorded as liabilities directly associated with the non-current assets classified as held for sale. In the opinion of the directors, no impairment provision is considered necessary to write down the assets to fair value less costs to sell as of 31 December 2006.

34. 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	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	6,221,461	4,508,946	1,761,549	225,183
Over 3 months but within 6 months	323,977	290,462	6,245	69,602
Over 6 months but within 1 year	252,373	142,982	6,132	14,426
Over 1 year but within 2 years	265,284	98,766	-	-
Over 2 years but within 3 years	34,201	27,964	-	-
Over 3 years	90,128	72,544	-	-
	7,187,424	5,141,664	1,773,926	309,211

The amounts due to related parties included above are analysed as follows:

	Group		Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
The ultimate holding company	2,603	135	-	-
Subsidiaries	-	-	1,358,342	-
Jointly-controlled entities	-	1,018	-	-
Associates	60,246	119,281	-	-
SEC group companies	190,035	67,712	-	278,605
Other related companies	162,258	227,003	-	-
	415,142	415,149	1,358,342	278,605

The trade payables are non-interest-bearing and are normally settled on 60-day terms. The amounts due to related parties are negotiated on credit terms similar to those offered by the major suppliers of the Group.

35. BILLS PAYABLE

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

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
Within 3 months	951,190	167,425	-	300
Over 3 months but within 6 months	302,003	189,955	153,278	-
	1,253,193	357,380	153,278	300

The amounts due to related parties included above are analysed as follows:

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
Subsidiaries	-	-	153,278	-
Associates	-	11,105	-	300
SEC group companies	38,421	4,954	-	-
Other related companies	9,712	-	-	-
	48,133	16,059	153,278	300

Bills payable are non-interest-bearing.

36. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Advances from customers	23,333,465	22,798,867	9,730,016	4,790,338
Other payables	2,313,365	2,032,348	185,644	114,739
Dividend payable to minority shareholders	389,973	17,216	-	-
Dividend payable to shareholders	39,720	-	39,720	-
Accruals	699,969	546,325	194,693	-
Due to subsidiaries	-	-	126,904	55,674
Due to the ultimate holding company	495,403	109,479	192,324	6,589
Due to associates	38,225	8,109	25,118	188
Due to jointly-controlled entities	2,204	3,627	-	-
Due to SEC group companies	124,394	22,770	1,380	1,331
Due to other related companies	671,659	42,117	-	-
	28,108,377	25,580,858	10,495,799	4,968,859

The Group's and the Company's balances with related parties are unsecured, non-interest-bearing and repayable on demand or within one year.

Except for amounts due to related parties of RMB440,806,000 (2005: RMB128,314,000) and RMB129,281,000 (2005: RMB63,734,000) as at 31 December 2006 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2006 all relate to purchase deposits received by the Group. Such trade related balances are to be settled in accordance with the trading terms.

37. DEBENTURES

On 3 August 2006, Power Transmission issued debentures with face value of RMB500 million due in 365 days. The debentures were issued at a discount with an effective interest rate of 3.68% per annum. The proceeds received by Power Transmission amounted to RMB481,600,000. As at 31 December 2006, the amortised cost of the debentures was approximately RMB489,267,000.

On 1 November 2005, Diesel Engine 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 proceeds received by Shanghai Diesel amounted to RMB680,120,000. As at 31 December 2005, the amortised cost of the debentures was approximately RMB682,898,000. The debentures of RMB700 million were fully redeemed during the year ended 31 December 2006.

38. CUSTOMER DEPOSITS

Group

	2006 RMB'000	2005 RMB'000
Deposits from the ultimate holding company	59,369	1,211
Deposits from associates	48,868	42,209
Deposits from jointly-controlled entities	40,966	17,738
Deposits from SEC group companies	49,496	37,787
Deposits from other related companies	61,324	47,964
	260,023	146,909
Repayable:		
On demand	207,723	130,335
Within 3 months	20,000	384
Over 3 months but within 1 year	32,300	16,190
	260,023	146,909

The annual interest rates of customer deposits provided to related parties range from 0.72% to 2.52% (2005: 0.72% - 2.25%).

39. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2006					
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- secured	5.58-8.57	2007	94,050	5.1-8.76	2006	95,809
- EUR2,400,000, secured			-	2.93	2006	22,992
- unsecured	2.55-10.98	2007	342,944	4.7-6.14	2006	124,959
			436,994			243,760

39. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2006					
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Other loans						
- unsecured	3.24-6.4	2007	3,681	5.00	2006	5,478
Current			440,675			249,238
Non-current						
Bank loans						
- secured			-	5.94	2007-2008	29,500
- unsecured	2.55	2008-2015	3,636	2.55	2007-2015	4,091
- unsecured	2.55-9.0	2008-2010	95,387	5.49-5.85	2007-2010	35,908
			99,023			69,499
Other loans						
- unsecured	2.55-6.12	2008-2011	8,367			-
			107,390			69,499
			548,065			318,737

	2006 RMB'000	**2005** RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	436,994	243,760
In the second year	11,909	25,176
In the third to fifth years, inclusive	63,964	42,050
Beyond five years	23,150	2,273
	536,017	313,259
Other loans repayable:		
Within one year or on demand	3,681	5,478
In the second year	600	-
Beyond five years	7,767	-
	548,065	318,737

39. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Except for unsecured bank loans of USD300,000 (2005: Nil), equivalent to RMB2,343,000 (2005: Nil), HKD125,000,000 (2005: Nil), equivalent to RMB125,584,000 (2005: Nil) and JPY230,000,000 (2005: Nil), equivalent to RMB15,095,000 (2005: Nil), all borrowings are denominated in Renminbi. In addition, as at 31 December 2005, secured bank loans of USD409,000, equivalent to RMB3,309,000, and EUR2,400,000, equivalent to RMB22,992,000, were also denominated in foreign currencies.

Certain of the Group's bank loans are secured by mortgages over certain of the Group's land use rights, buildings and machinery, which had net book values of approximately RMB6,587,000 (2005: RMB23,373,000), RMB78,810,000 (2005: RMB61,660,000) and RMB56,472,000 (2005: RMB68,285,000) (notes 15 and 14), respectively. In addition, as at 31 December 2005, certain of the Group's bank loans were secured by the pledge of certain of the Group's time deposits amounting to RMB26,357,000 (note 32).

The balance of unsecured bank loans which were outstanding at the balance sheet date and were guaranteed by related parties and third parties is analysed as follows:

	2006 RMB'000	2005 RMB'000
Guaranteed by:		
The ultimate holding company	51,701	20,295
SEC group companies	41,600	-
Other related companies	9,000	14,500
Third parties	1,548	-
Total	103,849	34,795

40. PROVISIONS

Group

	Product warranty RMB'000	Onerous contracts RMB'000	Early retirement benefits RMB'000	Late delivery RMB'000	Total RMB'000
At 1 January 2006	162,752	19,239	115,008	-	296,999
Additional provisions (note 6)	245,869	84,412	27,908	124,000	482,189
Acquisition of subsidiaries (note 44(1))	4,598	-	-	-	4,598
Amounts utilised during the year	(152,332)	(19,239)	(37,263)	-	(208,834)
Reversal of unutilised amounts (note 6)	(14,982)	-	-	-	(14,982)

40. PROVISIONS (CONTINUED)

Group (continued)

	Product warranty RMB'000	Onerous contracts RMB'000	Early retirement benefits RMB'000	Late delivery RMB'000	Total RMB'000
At 31 December 2006	245,905	84,412	105,653	124,000	559,970
Portion classified as current liabilities	245,905	84,412	74,440	124,000	528,757
Non-current portion	-	-	31,213	-	31,213

Company

	Late delivery RMB'000
At 1 January 2006	-
Additional provisions	124,000
At 31 December 2006	124,000
Portion classified as current liabilities	(124,000)
Non-current portion	-

Warranty provision

The Group provides warranties ranging from one to two 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

The Group entered into several contracts in respect of the sale of power equipment. Under these contracts, the unavoidable costs of meeting the obligations have exceeded the economic benefits expected to be received as at 31 December 2006. 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.

Late delivery

The Company entered into several construction contracts of power stations in which the Company committed to contractual obligations for late delivery. Provision has been made for late delivery based on the contract terms.

41. OTHER LONG TERM PAYABLES

Included in other long term payables are the following balances with related parties:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Due to the ultimate holding company	1,691	6,667	-	-
Due to jointly-controlled entities	-	582	-	-
Total	1,691	7,249	-	-

42. SHARE CAPITAL

Shares

	2006 RMB'000	2005 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each, currently not listed:		
- state-owned shares	6,624,279	6,624,279
- other legal person shares	2,294,457	2,294,457
H shares of RMB1.00 each	2,972,912	2,972,912
Total	11,891,648	11,891,648

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.

On 3 August 2006, the Company received a notification from Shanghai No.1 Intermediary People's Court that the 968,768,703 shares held by Fuxi Investment Holdings Co., Ltd. ("Fuxi"), representing 8.15% of the entire issued capital of the Company, were judicially frozen with effect from 3 August 2006. Pursuant to the notice, any dividends in respect of the frozen shares should be withheld and no transfer of the frozen shares may be effected.

Refer to note 53 for details of the Company's frozen shares subsequent to the balance sheet date.

42. SHARE CAPITAL (CONTINUED)

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

	Number of shares in issue RMB000	Issued capital RMB'000	Share premium account RMB000	Total RMB'000
At 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 and 1 January 2006	11,891,648	11,891,648	1,975,387	13,867,035
Refund of share issue expenses	-	-	6,264	6,264
At 31 December 2006	11,891,648	11,891,648	1,981,651	13,873,299

During the year, the Company received a refund of share issue expenses amounting to RMB6,264,000 (note 43(b)) based on the final statement with the sponsor of the global offering.

43. 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 of the financial statements.

Capital reserve

The capital reserve of the Group includes the Company's share premium of RMB1,981,651,000 and the non-distributable reserves of the Company and its subsidiaries created in accordance with the accounting and financial regulations of the PRC.

Contributed surplus

The Group's contributed surplus represents the difference between (i) the Company's cost of investments in the then subsidiaries and an associate acquired from SE Corporation as part of the Group reorganisation, and (ii) the aggregate amount of the paid-up capital of those subsidiaries attributable to the Group and the then carrying value of the Group's investment in the associate upon the establishment of the Company.

43. RESERVES (CONTINUED)

(a) Group (continued)

Surplus reserves

In accordance with the PRC Company Law and the articles of association of the relevant companies, the Company, its subsidiaries and jointly-controlled entities are required to appropriate certain percentage of their net profits after tax to the surplus reserves comprising statutory surplus reserve and discretionary surplus reserve. Subject to certain restrictions set out in the relevant PRC regulations and in the Group companies' articles of association, the statutory surplus reserve may be used either to offset losses, or to be converted to increase share capital; and the discretionary surplus reserve is set aside to cover losses. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

Distributable reserves

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB2,660,747,000 (2005: RMB1,609,928,000), of which RMB725,391,000 (2005: 487,558,000) has been proposed as a final dividend for the year (note 12). In addition, the Company's share premium account, in the amount of RMB1,981,651,000 (2005: RMB1,975,387,000), may be distributed in the form of fully paid bonus shares.

The amount for which the Company can legally distribute by way of a dividend is determined based on the lower of the retained profits determined in accordance with the generally accepted accounting principles in the PRC and the HKFRSs.

(b) Company

	Notes	Capital reserve RMB'000	Surplus reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2005		(115,409)	64,279	(373,623)	(424,753)
Issue of shares	42	2,196,875	-	-	2,196,875
Share issue expenses	42	(221,488)	-	-	(221,488)
Transfer/appropriation to surplus reserves		-	219,826	(219,826)	-
Profit for the year	11	-	-	263,129	263,129
Proposed final 2005 dividend	12	-	-	(487,558)	(487,558)
Others		(1,275)	-	-	(1,275)
At 31 December 2005 and 1 January 2006		1,858,703	284,105	(817,878)	1,324,930
Refund of share issue expenses	42	6,264	-	-	6,264
Transfer/appropriation to statutory surplus reserve		-	170,931	(170,931)	-
Profit for the year	11	-	-	670,550	670,550
Proposed final 2006 dividend	12	-	-	(725,391)	(725,391)
At 31 December 2006		1,864,967	455,036	(1,043,650)	1,276,353

The capital reserve account balance as at 31 December 2006 included the Company's share premium of RMB1,981,651,000 (2005: RMB1,975,387,000) (note 42).

44. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

(1) Acquisitions in 2006

Acquisitions of subsidiaries

During the year, the Group acquired the following companies:

(a) On 29 March 2006, the Group acquired a 50.88% interest in Shanghai Ship-use Crankshaft Co., Ltd., which is engaged in the manufacture of crankshafts used for large low-speed ship-use diesel engines. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB71,436,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;

(b) On 29 March 2006, the Group acquired a 100% interest in Magine Machine Tool Co., Ltd., which is engaged in the manufacture of various kinds of cutting machine tools. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB252,426,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;

(c) On 10 May 2006, the Group acquired a 65% interest in Japan Ikegai Corporation, which is a company incorporated in Japan and 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 for the acquisition, which was determined with reference to valuation, was RMB109,256,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;

(d) On 20 April 2006, the Group acquired a 100% interest in SMAC Werkzeugamaschine GmbH, which is a company incorporated in Germany and is engaged in the production of computer numerical controlled machine tools. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB8,866,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;

(e) On 27 March 2006, the Group acquired a 100% interest in Shanghai Mass Transit Vehicle & Engineering Equipment 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 for the acquisition, which was determined with reference to valuation, was RMB30,890,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date;

(f) On 28 March 2006, the Group acquired 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 for the acquisition, which was determined with reference to valuation, was RMB23,865,000 in cash. Pursuant to the equity transfer agreement, the original investor is to take up the operating profit/loss for the period from the asset valuation date to the acquisition date; and

(g) On 12 January 2006, the Group acquired a 70% interest in Shanghai Ying Da Xin Auto Electronic Co., Ltd., which is engaged in the production of auto speed-change devices and electronic control mechanism. The purchase consideration for the acquisition, which was determined with reference to valuation, was RMB11,000,000 in cash.

44. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (CONTINUED)

(1) Acquisitions in 2006 (continued)

The aggregate of fair values of the identifiable assets and liabilities of the above acquired companies as at the dates of acquisitions and the corresponding carrying amounts immediately before the acquisitions were as follows:

	Notes	Fair value recongnised on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	14	334,959	276,139
Prepaid land lease payments	15	105,490	61,907
Goodwill		-	43,323
Other intangible assets	17	2,229	2,229
Non-current other investments		6,024	6,024
Deferred tax assets	23	6,402	6,402
Inventories		230,231	221,639
Trade and other receivables		310,224	310,224
Bills receivable		60,250	60,250
Cash and bank balances		307,090	307,090
Interest-bearing bank and other borrowings		(103,588)	(103,588)
Trade and other payables		(591,991)	(591,991)
Provisions	40	(4,598)	(4,598)
Tax payable		(10,306)	(10,306)
Deferred tax liabilities	23	(36,351)	-
Minority interests		(142,780)	(142,780)
		473,285	441,964
Excess over the cost of business combinations recognised in the income statement	5	(21,967)	
Goodwill on acquisitions	16	57,462	
		508,780	
Satisfied by cash		502,448	
Due to SE group companies		8,844	
Due from SE Corporation		(2,512)	
		508,780	

44. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (CONTINUED)

(1) Acquisitions in 2006 (continued)

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

	RMB'000
Cash consideration	(502,448)
Cash and bank balances acquired	307,090
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(195,358)

Since the acquisitions, these newly acquired subsidiaries contributed RMB753,975,000 to the Group's turnover and RMB8,991,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB42,943,856,000 and RMB2,931,920,000, respectively.

Acquisition of minority interests

On 31 May 2006, the Group acquired an additional 20% equity interest in Jiangxi Green Continent Wood-based Panel Co., Ltd. ("Jiangxi Green Continent"), which became a wholly-owned subsidiary of the Group since then. Cash consideration of RMB24,137,000 was paid. The book value of the net assets of Jiangxi Green Continent at this date was RMB102,550,000 and the book value of the additional 20% equity interest acquired was RMB20,510,000. The difference of RMB3,627,000 between the consideration and the book value of the 20% equity interest acquired has been recognised as goodwill (note 16).

(2) Acquisition in 2005

During the year ended 31 December 2005, the Group acquired the following companies:

(a) On 2 June 2005, the Company acquired a 61% interest in Shanghai Top Solar Green Energy Co., Ltd. ("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 Welding Consumables (Proprietary) Ltd. ("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 Green Continent Wood-base Panel Co., Ltd. ("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.

44. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (CONTINUED)

(2) Acquisition in 2005 (continued)

The aggregate of fair values of the identifiable assets and liabilities of the above acquisitions as at the dates of acquisitions and the corresponding carrying amounts immediately before the acquisitions were as follows:

	Notes	Fair value recongnised on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	14	98,294	98,294
Prepaid land lease payments	15	6,541	6,541
Non-current other investments		19,433	19,433
Inventories		36,048	36,048
Trade and other receivables		60,149	60,149
Cash and bank balances		112,072	112,072
Interest-bearing bank and other borrowings		(44,436)	(44,436)
Trade and other payables		(75,374)	(75,374)
Tax payable		(312)	(312)
Minority interests		(77,617)	(77,617)
		134,798	134,798
Excess over the cost of business combinations recognised in the income statement	5	(3,177)	
Goodwill on acquisition	16	11,039	
		142,660	
Satisfied by cash		106,300	
Offset by an interest in an associate		12,940	
Offset by other receivables		23,420	
		142,660	

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 acquisitions of subsidiaries	5,772

45. DISPOSAL OF A SUBSIDIARY

On 17 January 2006, the Group disposed of a 100% interest in Shanghai Electric Machinery Manufacturing Works Motor Branch Factory ("SEMMW") for a cash consideration of approximately RMB29,996,000.

The carrying amounts of the assets and liabilities of SEMMW as at the date of disposal were as follows:

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	5,827
Prepaid land lease payments	15	2,939
Non-current other investments		300
Other long term assets		280
Inventories		21,485
Trade and other receivables		9,949
Cash and bank balances		6,224
Interest-bearing bank and other borrowings		(5,300)
Trade and other payables		(28,873)
Tax payable		(964)
Other long term payables		(324)
		11,543
Gain on disposal of a subsidiary	5	18,453
		29,996
Satisfied by:		
Cash		29,996

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration	29,996
Cash and bank balances disposed of	(6,224)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	23,772

During the year ended 31 December 2005, the Group had no disposal of subsidiary.

46. DISPOSAL OF EQUITY INTEREST IN A JOINTLY-CONTROLLED ENTITY

On 20 April 2006, the Group disposed of a 10% interest in a jointly-controlled entity, Shanghai Riyong, for a cash consideration of RMB39,000,000. After the disposal, Shanghai Riyong became an associate of the Group.

The carrying amounts of the Group's share of the assets and liabilities in Shanghai Riyong as at the date of the disposal of equity interest were as follows:

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	33,913
Prepaid land lease payments	15	20,720
Other long term assets		450
Inventories		32,311
Trade and other receivables		39,612
Cash and bank balances		55,688
Trade and other payables		(37,902)
Tax payable		(741)
		144,051
Gain on disposal of equity interest in a jointly-controlled entity	5	10,190
		154,241
Satisfied by:		
Cash		39,000
Investment in an associate		115,241
		154,241

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of equity interest in a joint-controlled entity is as follows:

	RMB'000
Cash consideration	39,000
Cash and bank balances disposed of	(55,688)
Net outflow of cash and cash equivalents in respect of the disposal of equity interest in a jointly-controlled entity	(16,688)

During the year ended 31 December 2005, the Group had no disposal of equity interest in jointly-controlled entities.

47. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The Group had no disposal of subsidiaries in the year ended 31 December 2005. The cash inflow in respect of disposal of subsidiaries of RMB41,577,000 in the year ended 31 December 2005 represented the settlement of receivables from the disposal of subsidiaries occurred in the year ended 31 December 2004.

48. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
Guarantees given to banks in connection with facilities granted to:				
- the ultimate holding company	29,000	-	-	-
- subsidiaries	-	-	1,606,188	454,888
- jointly-controlled entities	-	99,310	-	-
- associates	205,919	21,817	-	-
- third parties	-	1,993	-	-
	234,919	123,120	1,606,188	454,888
In which, Guarantees given to banks in connection with facilities utilised by:				
- the ultimate holding company	29,000	-	-	-
- subsidiaries	-	-	886,589	402,354
- jointly-controlled entities	-	99,310	-	-
- associates	147,549	21,817	-	-
- third parties	-	1,993	-	-
	176,549	123,120	886,589	402,354
Non-financial guarantee letters issued on behalf of:				
- the ultimate holding company	28,139	28,139	-	-
- associates	13,268	14,924	-	-
- SEC group companies	22,542	143,290	-	-
- third parties	61,806	-	-	-
	125,755	186,353	-	-

48. CONTINGENT LIABILITIES (CONTINUED)

(a) (continued)

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

	2006 RMB'000	2005 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- third parties	743	898

(b) 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.

49. OPERATING LEASE ARRANGEMENTS

(a) 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 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006 RMB'000	2005 RMB'000
Within one year	31,126	34,353
In the second to fifth years, inclusive	56,097	71,916
After five years	159,786	174,104
	247,009	280,373

49. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(a) As lessor (continued)

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

	2006 RMB'000	2005 RMB'000
Within one year	8,425	332
In the second to fifth years, inclusive	36,307	1,083
After five years	51,857	-
	96,589	1,415

(b) 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, while 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 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within one year	60,241	51,969	4,250	6,647
In the second to fifth years, inclusive	105,612	82,534	15	855
After five years	306,869	169,336	-	-
	472,722	303,839	4,265	7,502

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

	2006 RMB'000	2005 RMB'000
Within one year	5,229	1,528
In the second to fifth years, inclusive	18,677	1,521
After five years	42,539	-
	66,445	3,049

50. COMMITMENTS

In addition to the operating lease commitments detailed in note 49(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2006 RMB'000	**2005** RMB'000	**2006** RMB'000	**2005** RMB'000
Contracted, but not provided for				
In respect of the acquisition of:				
- land and buildings	765,908	753,123	14,360	14,854
- plant and machinery	1,784,762	1,800,087	14,613	-
- intangible assets	18,173	26,344	17,643	-
In respect of capital contribution to:				
- subsidiaries	-	-	933,600	-
- an associate	4,760	38,867	4,760	38,867
- companies to be established	231,850	-	231,850	-
	2,805,453	2,618,421	1,216,826	53,721
Authorised, but not contracted for				
In respect of the acquisition of:				
- land and buildings	726,605	668,031	182,419	-
- plant and machinery	1,194,482	1,923,644	-	-
	1,921,087	2,591,675	182,419	-
	4,726,540	5,210,096	1,399,245	53,721

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

	2006 RMB'000	**2005** RMB'000
Contracted, but not provided for		
In respect of the acquisition of:		
- land and buildings	11,716	14,723
- plant and machinery	27,259	363
- intangible assets	-	46
In respect of capital contribution to an associate	-	1,500
	38,975	16,632

51. 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	2006 RMB'000	2005 RMB'000
Purchase of materials from:	(i)		
Jointly-controlled entities		76,228	8,853
Associates		663,393	616,649
SEC group companies		729,463	844,976
Other related companies		1,905,151	793,269
		3,374,235	2,263,747
Sale of goods to:	(i)		
The ultimate holding company		485,678	37,202
Jointly-controlled entities		7,301	5,304
Associates		193,259	253,972
SEC group companies		219,731	288,372
Other related companies		133,022	61,098
		1,038,991	645,948
Sale of scraps and spare parts to:	(i)		
The ultimate holding company		15,600	7,801
Jointly-controlled entities		-	1,131
Associates		1,715	50,000
SEC group companies		-	8,094
Other related companies		33,574	-
		50,889	67,026
Purchases of manpower services from:	(i)		
The ultimate holding company		5,830	-
Jointly-controlled entities		-	11,952
Associates		55,939	42,741
SEC group companies		1,137	12,223
Other related companies		43,711	11,532
		106,617	78,448

51. RELATED PARTY TRANSACTIONS (CONTINUED)

(1) (continued)

	Notes	2006 RMB'000	2005 RMB'000
Provision of manpower services to:	(i)		
The ultimate holding company		-	12,730
Associates		43,893	53,234
SEC group companies		-	1,223
Other related companies		1,579	1,051
		45,472	68,238
Purchases of equipment from:			
SEC group companies		64,393	-
Rental income from:	(ii)		
The ultimate holding company		-	485
Associates		13,822	15,850
SEC group companies		-	502
Other related companies		30	3,575
		13,852	20,412
Rental fee to:	(ii)		
The ultimate holding company		29,950	29,950
Associates		990	64
SEC group companies		-	2,883
		30,940	32,897

Notes:

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

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

51. RELATED PARTY TRANSACTIONS (CONTINUED)

(1) (continued)

During the year ended 31 December 2006, the Group effected the following non-recurring transactions:

(a) acquired six subsidiaries from SE Corporation for an aggregate consideration of RMB496,739,000, which was determined with reference to valuations carried out by independent professional qualified valuers in Mainland China (note 44(1));

(b) disposed of a 24% equity interest in an associate, Shanghai Novel, to SE Corporation for a cash consideration of RMB268,656,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China (note 20); and

(c) purchased two properties from certain subsidiaries of SE Corporation for a cash consideration of RMB60,000,000, which was determined, with reference to a valuation carried out by independent professional qualified valuers in Mainland China.

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

As at 31 December 2006, the Group has provided corporate guarantees in connection with facilities totalling RMB234,919,000 (2005: RMB121,127,000) to related parties, out of which RMB176,549,000 (2005: RMB121,127,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB63,949,000 (2005: RMB186,353,000) (note 48(a)).

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

	2006 RMB'000	2005 RMB'000
Guarantees provided to the Group by:		
The ultimate holding company	51,701	20,295
SEC group companies	41,600	-
Other related companies	9,000	14,500
	102,301	34,795

(3) Interests for deposit and loan services provided to related parties by Finance Company

	2006 RMB'000	2005 RMB'000
Interest expenses for customer deposits:		
The ultimate holding company	2,717	742
Associates	622	680
Jointly-controlled entities	262	164
SEC group companies	79	1,637
Other related companies	862	18
	4,542	3,241

51. RELATED PARTY TRANSACTIONS (CONTINUED)

(3) Interests for deposit and loan services provided to related parties by Finance Company (continued)

	2006 RMB'000	2005 RMB'000
Interest income for loans and bills discounting:		
The ultimate holding company	143	65
Associates	4,487	3,180
Jointly-controlled entities	3,727	3,526
SEC group companies	195	12,865
Other related companies	1,016	-
	9,568	19,636

Interest for customer deposits, loans and bills discounting were based on mutually agreed terms with reference to the market rates.

(4) Balances due from/to related parties

The balances due from/to related parties mainly resulted from trading transactions, loans, customer deposits, discounted bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in notes 21, 26, 27, 28, 29, 34, 35, 36, 38 and 41 to the financial statements.

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

	2006 RMB'000	2005 RMB'000
Fees	592	550
Short term employee benefits	2,005	2,125
Post-employment benefits	85	96
	2,682	2,771

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

51. RELATED PARTY TRANSACTIONS (CONTINUED)

In addition to the related party transactions with SE Corporation and SEC group companies disclosed above and elsewhere in these financial statements, the following related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules:

	2006 RMB'000	2005 RMB'000
Purchases of equipment, components and technology from other related companies:		
Siemens Aktiengesellschaft	1,466,648	725,128
Alstom (China) Investment Co., Ltd.	71,287	-
Ersol Solar Energy AG ("Ersol")	41,423	-
Sales of goods to other related companies:		
Hudong Zhonghua Shipbuilding Co., Ltd.	36,657	-
Ersol	41,100	-

52. 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 Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are market risk and financial risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Market risk

Market risk is the risk of change in the fair value of financial instruments due to fluctuations in foreign exchange rates (foreign currency risk), market prices (price risk) and market interest rates (interest rate 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 minimising its net foreign currency position.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(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 the 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

	2006			2005
	At fair value through profit or loss RMB'000	**Available-for-sale** RMB'000	**Held-to-maturity** RMB'000	**Held-to-maturity** RMB'000
Within 1 year	7,742	-	2,047,544	1,599,189
1 to 2 years	-	-	175,448	409,134
2 to 3 years	-	39,844	160,054	-
More than 3 years	-	256,060	-	102,700
Total	7,742	295,904	2,383,046	2,111,023
Effective interest rate (% per annum)	1.00-1.52	2.25-4.72	1.02-2.35	1.79-5.85

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

	2006			
	Loans receivable RMB'000	Entrusted assets management RMB'000	Due from the central bank RMB'000	Time deposits RMB'000
Within 1 year	781,536	328,334	754,046	2,368,867
1 to 2 years	103,601	-	-	244,616
2 to 3 years	41,101	-	-	-
More than 3 years	8,546	-	-	-
Total	934,784	328,334	754,046	2,613,483
Effective interest rate (% per annum)	4.06-12.88	5.37-5.50	0.99-1.89	1.62-5.20

	2005			
	Loans receivable RMB'000	Entrusted assets management RMB'000	Due from the central bank RMB'000	Time deposits RMB'000
Within 1 year	108,973	701,939	670,945	6,284,340
1 to 2 years	6,742	-	-	-
More than 3 years	11,167	-	-	-
Total	126,882	701,939	670,945	6,284,340
Effective interest rate (% per annum)	4.70-11.56	4.20-5.85	0.99-1.89	1.71-2.25

Financial liabilities

	2006		
	Debentures RMB'000	Interest bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	489,267	440,675	260,023
1 to 2 years	-	12,509	-
2 to 3 years	-	53,055	-
More than 3 years	-	41,826	-
Total	489,267	548,065	260,023
Effective interest rate (% per annum)	3.68	2.55-10.98	0.72-2.52

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk（continued）

(c) Interest rate risk (continued)

Financial liabilities（continued）

	2005		
	Debentures RMB'000	Interest bearing bank andother borrowings RMB'000	Customer deposits RMB'000
Within 1 year	682,898	249,238	146,909
1 to 2 years	-	25,176	-
2 to 3 years	-	42,050	-
More than 3 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

Financial risks

(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 the principal or interest when due, in the case of a fixed income investment, 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 the PRC companies and Government. The Group mitigates credit risk by utilising detailed credit control policies, undertaking credit analysis on potential investments, and imposing aggregate counterparty exposure limits within its investment portfolio.

The carrying amount of the trade receivables included in the consolidated balance sheet 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 9.9% (2005: 9.1%) of the Group's trade receivables as at 31 December 2006.

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.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Financial risks (continued)

(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 customer 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, a group of related entities or an industry segment. The Group seeks to control concentration risk by limiting the amount of investments in any single entity or any group of related entities.

Fair value

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

	Carrying amounts		Estimated fair values	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Financial assets				
Fixed maturity investments				
Bonds	2,686,692	2,111,023	2,680,142	2,141,382
Time deposits	2,613,483	6,284,340	2,613,483	6,284,340
Due from the central bank	754,046	670,945	754,046	670,945
Loans receivable	934,784	95,542	934,784	95,542
Entrusted assets management	328,334	701,939	328,334	701,939
Cash and cash equivalents	8,614,165	10,881,171	8,614,165	10,881,171
Derivative financial instruments	8,164	-	8,164	-
Investment funds	2,236,357	4,158,320	2,236,357	4,158,320
Equity investments	1,188,047	250,432	1,188,047	250,432
Financial liabilities				
Interest-bearing bank and other borrowings	548,065	318,737	548,065	318,737
Customer deposits	260,023	146,909	260,023	146,909
Debentures	489,267	682,898	489,267	682,898
Derivative financial instruments	986	-	986	-

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair value（continued）

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 the prices observed in recent transactions or the values obtained from discounted cash flow models using the 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 investment, which are carried at cost as a reasonable estimate of their fair values.

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

53. POST BALANCE SHEET EVENTS

(a) On 23 January 2007, the Group entered into an equity purchase agreement with SE Corporation to acquire a 97.24% interest in Shanghai Crane & Conveyor Works Co., Ltd., which is mainly engaged in the manufacture and installation of cranes and conveyors. The purchase consideration of RMB151,831,000 for the acquisition, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China, was in the form of cash and was to be paid upon completion of the equity purchase.

(b) On 29 January 2007, the Group entered into equity disposal agreements with SE Corporation to dispose of:

(i) its 95% interest in Shanghai Electric Equipment Lease Co., Ltd., a subsidiary of the Group, which is engaged in various leasing operations, for a cash consideration of RMB198,170,000. The cash consideration was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China; and

(ii) its 50% interest in Shanghai Electric Insurance Company Brokerage Co., Ltd., a subsidiary of the Group, which is engaged in insurance brokerage, for a cash consideration of RMB5,130,000. The cash consideration was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China.

(c) On 6 February 2007, the Company received a notification from Shanghai No. 1 Intermediary People's Court, pursuant to which the previously frozen shares held by Fuxi (note 42) have been released. In addition, the shares of the Company respectively held by Fuxi and Shantou Municipal Mingguang Investment Co., Ltd. ("Mingguang") were judicially frozen with effect from 6 February 2007, as a result of certain contractual disputes brought against Fuxi and the controlling shareholder of Mingguang by SE Corporation and its subsidiaries.

53. POST BALANCE SHEET EVENTS (CONTINUED)

(c) (continued)

On 21 March 2007, the Company received another notification from Shanghai No. 1 Intermediary People's Court, pursuant to which the Company was required to reduce the number of frozen shares held by Mingguang from 407,908,899 to 356,920,287 with immediate effect. As a result, 968,768,703 and 356,920,287 shares held by Fuxi and Mingguang, representing approximately 8.15% and 3.00% of the entire issued share capital of the Company, respectively, were judicially frozen.

Pursuant to the above notices from the court, any dividends in respect of the frozen shares should be withheld and no transfer of the frozen shares may be effected.

On 9 April 2007, the Company received a notification from SE Corporation. According to the notification, SE corporation has entered into a share transfer agreement with Mingguang, pursuant to which Mingguang agrees to transfer the 356,920,287 shares to SE Corporation. The completion of the said share transfer is expected to take place as soon as practicable. Upon the completion of the said share transfer, Mingguang will own 50,988,612 shares in the Company, representing approximately 0.43% of the entire issued capital of the Company. The shareholding by SE Corporation in the Company will increase from approximately 51.59% to approximately 54.58% of the issued share capital of the Company, as a result of the said transfer.

On 12 April 2007, the Company received a notification from Shanghai No.1 Intermediary People's Court, pursuant to which the previously frozen 356,920,287 shares held by Mingguang were released.

(d) On 5 March 2007, the board of directors of Power Transmission unanimously agreed on the intention to establish a new joint venture company (the "Joint Venture Company"), Shanghai Electric Xantrex Power Electronics Co., Ltd., with Xantrex Technology Inc., a company incorporated in Canada. The Joint Venture Company shall be engaged in the business of design, research, development, production, distribution and marketing of the inverter and control-monitoring system for use with wind power turbines and photovoltaic products. The total amount of investments in the Joint Venture Company shall be USD20 million, and the registered capital of the Joint Venture Company shall be USD10 million. Power Transmission shall contribute USD5.1 million, representing a 51% equity interest in the Joint Venture Company. The establishment of the Joint Venture Company is subject to the approval of Shanghai Foreign Economic Relation & Trade Commission.

(e) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

54. COMPARATIVE AMOUNTS

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

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 April 2007.