2007 Annual Report

Shanghai Electric Group Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

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Corporate Information

Executive Directors
Mr. Xu Jianguo
Mr. Huang Dinan
Mr. Yu Yingui

Non-executive Directors
Mr. Zhu Kelin
Ms. Yao Minfang
(Appointed with effect from 16 November 2007)

Independent Non-executive Directors
Dr. Yao Fusheng
Dr. Cheung Wai Bun
Mr. Lei Huai Chin

Supervisors
Mr. Cheng Zuomin
Mr. Xie Tonglun
Mr. Li Bin
(Appointed with effect from 16 November 2007)
Ms. Sun Wenzhu
(Appointed with effect from 16 November 2007)
Mr. Zhou Changsheng
(Appointed with effect from 16 November 2007)

Joint Company Secretaries
Mr. Yao Wenjun
Mr. Li Chung Kwong Andrew
(FCCA, FCPA, ACA, CIA)

Audit Committee
Dr. Cheung Wai Bun
Dr. Yao Fusheng
Mr. Lei Huai Chin

Remuneration Committee
Mr. Lei Huai Chin
Mr. Huang Dinan
(Appointed with effect from 16 November 2007)
Dr. Yao Fusheng

Authorized Representatives
Mr. Xu Jianguo
Mr. Huang Dinan

Alternative Authorized Representatives
Dr. Cheung Wai Bun
Mr. Li Chung Kwong Andrew
(FCCA, FCPA, ACA , CIA)

Qualified Accountant
Mr. Li Chung Kwong Andrew
(FCCA, FCPA, ACA , CIA)

International Auditors
Ernst & Young

Legal Advisers
As to PRC Law
Grandall Legal Group
As to Hong Kong law and U.S. law
Freshfields Bruckhaus Deringer
As to Japanese Law
Anderson Mori & Tomotsune

H Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Room 1712-16, 17/F,
Hopewell Center, 183 Queen's Road East, Wan Chai, Hong Kong

Investor and Media Relations Consultant
iPR Ogilvy Ltd.

Principal Bankers
Industrial & Commercial Bank of China
Bank of China

Registered Office
30/F, Maxdo Center,
No.8 Xingyi Road, Shanghai
The People's Republic of China
Zip Code: 200336

Principal Place of Business in Hong Kong
2901, 29th Floor
Tower One, Lippo Centre
89 Queensway Hong Kong

Stock Exchange on which H shares are listed
The Stock Exchange of Hong Kong Limited

Abbreviation of H Shares
SH Electric

Stock code of H Shares
2727

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5-year Financial Summary

	2003	2004	2005	2006	2007
RMB (Million)					
Revenue and Profit					
Revenue (Note)	17,426	25,644	36,202	44,051	56,437
Profit before tax	1,515	2,500	3,478	3,973	5,615
Tax	(265)	(573)	(1,003)	(1,041)	(1,320)
Profit for the year	1,250	1,927	2,475	2,932	4,295
Attributable to:					
Equity holders of the parent	561	1,089	1,672	2,049	2,815
Minority interests	689	838	803	883	1,480
Dividends	52	306	488	725	-
Earnings per Share attributable to ordinary equity holders of the parent					
Basic					
- For profit for the year (cents)	6.11	11.85	15.17	17.23	23.67
Assets and Liabilities					
Non-current Assets	7,640	9,930	11,302	14,585	16,996
Current assets	23,564	37,180	43,863	49,462	59,401
Current liabilities	(20,574)	(32,080)	(33,262)	(39,578)	(45,875)
Net current assets	2,990	5,100	10,601	9,884	13,526
Total assets less current liabilities	10,630	15,030	21,903	24,469	30,522
Non-current liabilities	(718)	(698)	(717)	(971)	(3,011)
Net assets	9,912	14,332	21,186	23,498	27,511
Equity attributable to equity holders of the parent	4,959	8,505	14,880	16,726	19,669
Minority interests	4,953	5,827	6,306	6,772	7,842

Note: 2003-2006 figures have been reclassified to conform with the presentations of year 2007.

Performance Highlights

- Revenue for 2007 reached RMB56.437 billion, representing an increase of 28.12% over the corresponding period in last year.
- Profit attributable to equity holders of the parent for 2007 was RMB2,815 million, representing an increase of 37.38% over the corresponding period in last year.
- Basic earnings per share for 2007 was RMB23.67 cents.

Successfully secured the following major contracts during 2007:

- 10 domestic contracts for the supply of 1,000 MW coal-fired power plant equipment and coal-fired power plant EPC projects, of a total value over RMB18.0 billion
- Various overseas contracts for supply of coal-fired power plant equipment, total value over RMB23.0 billion, total capacity over 6,600 MW
- Wind power equipment contracts for a total capacity of 323.75MW with a total value of RMB2.0 billion
- Contracts for the supply of coal-fired power plant and transmission and distribution equipment to Republic of Mauritius, total value USD133 million
- Overseas contracts for the supply of 121 ship-use crankshafts to South Korea
- Domestic contracts for the supply of 120 metropolitan railcars
- A contract in respect of Tianjin Dagang Oilfield circulating fluidized bed thermal power project with an installation capacity of 75MW, with a total value of RMB673 million

Xu Jianguo Chairman & CEO

Chairman's Report

Dear shareholders:

The board of Directors of Shanghai Electric Group Company Limited (the "Company") is pleased to announce the results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

In 2007, the revenue of the Company was RMB56,437 million (2006: RMB44,051 million), representing a growth of 28.12% over last year. Net profit attributable to equity holders of the parent was RMB2,815 million (2006: RMB2,049 million), representing an increase of 37.38% over last year. Basic earnings per share attributable to ordinary equity holders of the parent were RMB23.67 cents (2006: RMB17.23 cents).

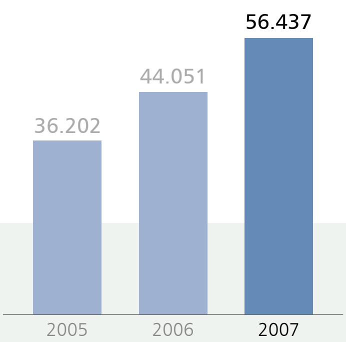
The above figures revealed the continued growth of the core business as well as the profitability of the Group.

During 2007, China's macro-economy continued to maintain its rapid development momentum, with an annual GDP growth rate of 11.4%. Demand for large scale manufacturing equipment from a number of primary industries including energy, infrastructure, property and transportation, remained strong. Such a strong demand created a favorable development environment for the power generation equipment, power transmission and distribution equipment, heavy machinery, elevators, machine tools and metropolitan rail transportation equipment businesses of the Group. In addition, the booming economies of Southeast Asian countries including India, Vietnam and Indonesia have created a strong demand for power equipment. With the continued enhancement in competitiveness and brand recognition of our products and the development of channels to tap into overseas markets, the Group achieved an encouraging result in overseas markets in 2007 and obtained overseas power generation equipment orders amounting to over RMB20 billion.

In 2007, various lines of business of the Group progressed well, through streamlining the management, raising the production capacity, developing new markets and conducting technological research. The newly secured orders for power generation equipment during the year exceeded RMB77.4 billion. At the end of 2007, outstanding orders for power generation equipment valued over RMB120 billion hit another record high. Heavy Machinery Group, which was established in early 2007, recorded new orders with a value of RMB8.8 billion, among which, contracts of a total of 176 ship-use crankshafts were secured during the year. The nuclear island equipment for nuclear power plant business has achieved a breakthrough by securing contracts for 6 sets of 1,000MW capacity nuclear power plant reactor

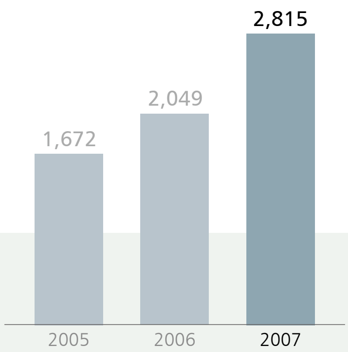
Revenue

(RMB billion)



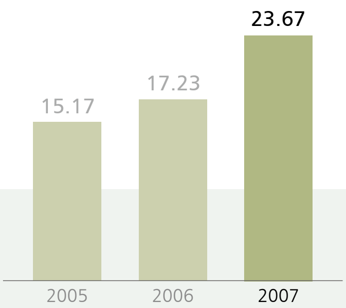
Profit attributable to equity holders of the parent

(RMB million)



Earnings per share

(RMB cents)



vessel internals and control rods drive mechanisms, and signing a letter of intent for supply of certain key equipment in respect of the CPR1000 nuclear island for Hongyanhe and Ningde projects. The Group maintained its leading position in China's elevator market. It has also accelerated the development of the elevator service business. Type A railcars, which were developed by the Group, were successfully completed in the second half of 2007 with 29 patents obtained.

Looking forward, the accelerated urbanization of China, the opening of 2010 Shanghai World Expo and the increasing demand from overseas markets will further accelerate the development of the Group's power equipment, heavy machinery, elevators and metropolitan rail transportation equipment businesses. Meanwhile, environmental issues arising from the rapid industrial development of China will become severe, which paves a way for the demand of high-efficiency, energy-saving and environmentally-friendly products. It is expected that such products will become dominant in the market in future, creating new development opportunities for our clean energy products, namely wind power equipment and nuclear power equipment, as well as desulphurization and denitration systems, solid waste incineration and waste water treatment businesses. We will further consolidate our leading position in the equipment manufacturing industry through improving strategic planning, optimizing resource allocation and enhancing technological innovation. The Group will strive to become a large-scale equipment manufacturing group with the capability of independent innovation and sustainable development in the global market.

Last but not least, I would like to take this opportunity to thank all shareholders for their continuous support to the Group. I would also like to express my heartfelt gratitude to the Directors, Supervisors, management and staff of the Group for their dedication and contribution to the Group during the past year.

Xu Jianguo
Chairman
Shanghai, PRC
16 April 2008

Management Discussion and Analysis

Operation overview of the Company for the reporting period

During the year under review, the Company proactively implemented its view of scientific development to achieve its target to be a leading domestic and international equipment provider with its own research and development capability as well as sustainability. The Company continued to enhance its core competitiveness and profitability by expanding its production capacity, strengthening its research efforts and business development. During the period under review, financial performance indicators of the Company such as revenue and profit reached their record high.

Revenue from operating activities continued to grow while consolidated gross profit margin declined slightly

During the year under review, revenue from the core business segments of the Company maintained their growth momentum. Revenue of power equipment division amounted to RMB33,440 million, representing a year-on-year growth of 26.31%. Revenue of electromechanical equipment division amounted to RMB12,706 million, representing a year-on-year growth of 26.15%. Revenue of heavy machinery division amounted to RMB3,008 million, representing an annual growth of 8.40%. Revenue of transportation equipment division amounted to RMB4,927 million, representing an annual growth of 36.52%. Revenue of environmental systems division amounted to RMB2,749 million, representing an annual growth of 43.78%. Power generation equipment business was one of the core drivers of the Company's sales growth. It was mainly due to an expanded scale of business for the Engineering-Procurement-Construction ("EPC") projects, which in turn brought a substantial increase in revenue over the corresponding period last year. The heavy machinery division was first established in early 2007 and the hot processing technology upgrading project has been completed by stages during the reporting period. In line with the sales growth, the gross profit margin was also improved by leveraging on its economies of scale and streamlined management flow. The transportation equipment division recorded an increase in its revenue over the corresponding period last year, which was mainly attributable to the on-schedule delivery of 152 more metropolitan railcars than the delivery made in 2006. During the reporting period, the gross profit margin declined by 1.1 percentage points over the corresponding period last year, mainly because of (1) higher raw material costs for materials such as steel and nonferrous metals and (2) a higher proportion of sales of new products such as 1,000MW thermal power generation units, and the EPC projects which are of a lower gross margin. As a result of improvement in profitability of the electromechanical equipment division and increase in return from financial investments, the Group's 2007 net profit achieved year-on-year growth of 37.38%.

Maintain the competitiveness of core business and continue to capture overseas market share

During the reporting period, the Company maintained the competitiveness of its core business. In respect of power generation equipment, new orders for power generation equipment in 2007 amounted to RMB77.4 billion, posting a 100% growth over 2006. Outstanding orders as at the end of the year exceeded RMB120 billion. Super-critical and ultra-super-critical high-end power generation equipment of a capacity of 600 MW or higher has become the mainstream products of the Company. The annual sales of thermal power generation equipment was 24,390MW (referring to turbine generators and excluding EPC sales), among which, 75.52% (in terms of MW capacity) were products of a capacity of 600MW or above. The Company also ranked the first in the world in terms of total production of an individual elevator plant. The construction for the high-end elevator production plant jointly invested by the Company and Mitsubishi Electric was completed on schedule and commenced operation in February 2008. The major products of the plant will be high-end elevators at a speed of 6 meters per second or faster. For nuclear power nuclear island equipment business, we successfully signed a letter of intent for the provision of major equipment of CPR1000 nuclear island for Hongyanhe and Ningde projects, together with an order for the provision of certain equipment for Fang Jia Shan CPR1000 projects. Capitalizing on its strong brand image and the excellent product quality, the Company successfully explored overseas markets and secured several major projects, including the Hisar project, the Rosa project, the Jindal project and the Jindal Steel & Power Ltd. project in India, as well as the Retu project in Indonesia, laying a solid foundation for the sustainable development of the Company.

Focus on technological development and achieved breakthrough to eliminate the development bottleneck of core business

Technological advancement and organic growth are the keys to the sustainable development of the Company. A number of core business developments of the Company recorded a breakthrough during the reporting period as a result of our enhanced research efforts. In respect of power generation equipment, the Company further strengthened its strategic partnership with Siemens and improved its product quality. World class new products such as 1,000MW ultra-super-critical thermal power generation units, E-class gas turbines, IGCC units, 600 MW W-flame boilers all achieved breakthrough advancement. The Company received orders for our proprietary 600 MW ultra-super-critical boilers. For wind power equipment business, we expedited the learning and absorption of the acquired technology. As a result, the technology transfer of wind power equipment of 1.25MW capacity was completed with product delivery made. The design of wind power equipment of 2MW capacity has been in good progress. Large-scale power transmission and distribution equipment plant project has commenced. Meanwhile, human and financial resources have been redeployed towards nuclear power equipment business and the production of major equipment

1000MW Tubine

for nuclear power nuclear island and conventional island has been underway. At the Lingang Base of the Company, the third generation nuclear power equipment plant with annual capacity of 2,500MW was completed; the nuclear reactor vessel internals and control rods drive mechanisms plant phase I project was completed; heavy duty crane systems for nuclear power production plant has been under construction; and the phase II project for ship-use crankshafts plant was also completed with the successful production of the "80" series of large-scale ship-use crankshafts. The research and development of large-scale type A metropolitan railcars was completed in the second half of 2007. The successful development of the railcars demonstrated our technological breakthrough in the overall design and system integration for metro-railcars production. We have successfully obtained 29 proprietary patents, filling the technological gap in system integration of large-scale type A metropolitan railcars in China.

Improve capability and escalate the development of service business

During the reporting period, the Company strengthened its construction of the manufacturing capability of high-end power generation equipment. The capacity of our power generation equipment products has been scaling up from 100MW-300MW to 600MW-1,000MW. By the end of the reporting period, the annual production capacity of thermal power generation equipment was increased to over 30,000MW. Overseas power plant owners tend to choose suppliers with the ability to undertake EPC projects as their partners. In this respect, the Company changed its business model by transforming from the "manufacturing" to "manufacturing + services" model. The Company also nurtured certain lines of business through enhancing its competitive advantages in undertaking EPC projects and providing complete sets of equipment. During the reporting period, the Company undertook RMB24 billion EPC projects for its power generation equipment business. The revenue from installation, repairs and maintenance of elevators increased by 17% over the corresponding period last year. The Company will continue to actively explore lines of business such as metropolitan rail transportation equipment, environmental protection equipment and electrical and mechanical design and develop new operation and profitability models to improve the overall competitiveness of the Group.

Improvement of management flow and reduce weaknesses in management system

The Company is of the view that modern management philosophy and advanced management controls can help improve the operation efficiency and lower the operation cost. During the reporting period, the Company continued to streamline its subsidiaries' management system, such as cost management and quality control. The information system of the Company has been further improved and Enterprise Resource Planning ("ERP") system of the power generation equipment business has been under the implementation stage. The introduction of Internet banking settlement and the centralization of procurement through a designated Internet platform has achieved satisfactory results. In addition, the Company was awarded the 2007 Top 10 Most Influential Emerging Brand Names in China and ranked 148th among the 225 largest international contractors according to Engineering News-Record, a renowned construction magazine in US.

Review of the Group's major business divisions during the reporting period

The revenue and operating profits of each business division are as follows:

RMB million	Revenue 2007	Revenue 2006	Operating profits 2007	Operating profits 2006
Power equipment	33,440	26,475	2,736	2,621
Percentage of the total	59.3%	60.1%	53.9%	72.9%
Electromechanical equipment	12,706	10,072	981	741
Percentage of the total	22.5%	22.9%	19.3%	20.6%
Heavy machinery	3,008	2,775	80	107
Percentage of the total	5.3%	6.3%	1.6%	3.0%
Transportation equipment	4,927	3,609	225	12
Percentage of the total	8.7%	8.2%	4.4%	0.3%
Environmental systems	2,749	1,912	41	41
Percentage of the total	4.9%	4.3%	0.8%	1.1%
Financial business	259	167	1,296	327
Percentage of the total	0.5%	0.4%	25.5%	9.1%
Other businesses	440	380	1,374*	823*
Percentage of the total	0.8%	0.9%	27.0%	22.9%
Adjustment and elimination upon consolidation	-1,092	-1,339	-1,653*	-1,077*
Percentage of the total	-2.0%	-3.1%	-32.5%	-29.9%
Total	56,437	44,051	5,080	3,595

Note: 2006 figures have been reclassified to conform with the presentations of year 2007.

* Included in operating profit of other businesses was dividend income of RMB1,493 million (2006: RMB958 million) from the Company's subsidiaries, which has been eliminated by consolidation adjustments.

Financial Business

During 2007, operating profits of the financial business increased by RMB969 million over the corresponding period last year, mainly due to an increase in investment income.

Share of Profits and Losses of Associates

For 2007, share of profits of associates increased by 39.22% from the corresponding period last year to RMB607 million (2006: RMB436 million).

Finance Costs

Finance costs for 2007 amounted to RMB72 million (2006: RMB58 million), an increase of 24.14% from the corresponding period last year, mainly due to a higher finance cost of a loan to supplement the working capital.

Profit Attributable to Equity Holders of the Parent

As a result of the foregoing, profit attributable to equity holders of the parent for 2007 increased by 37.38% from the corresponding period last year to RMB2,815 million (2006: RMB2,049 million). Earnings per share attributable to equity holders of the parent was RMB23.67 cents (2006: RMB17.23 cents).

Cash Flow

As at 31 December 2007, the Group had cash, bank deposits and deposits in central bank of RMB15,575 million (2006: RMB11,061 million), of which RMB1,184 million being restricted deposits (2006: RMB1,693 million), representing an increase of RMB4,514 million from the beginning of the year. It was mainly attributable to a faster turnover of accounts receivable and an increase of new orders during the year. In 2007, the Group had net cash inflow generated from the operating activities of RMB3,501 million (2006: net cash inflow: RMB117 million), net cash outflow from investing activities of RMB242 million (2006: net cash inflow RMB119 million), and net cash inflow from financing activities of RMB651 million (2006: net cash outflow RMB723 million).

Assets and Liabilities

As at 31 December 2007, the Group has total assets of RMB76,397 million (2006: RMB64,048 million), an increase of RMB12,349 million, or 19.28% compared to that of the beginning of the year. Total current assets increased by RMB9,939 million from the beginning of the year to RMB59,401 million (2006: RMB49,462 million), accounting for 77.75% of the total assets. Total non-current assets were RMB16,996 million (2006: RMB14,585 million), representing an increase of RMB2,411 million from the beginning of the year and accounting for 22.25% of the total assets.

As at 31 December 2007, total liabilities of the Group were RMB48,886 million (2006: RMB40,550 million), which represented an increase of 20.56% compared with the beginning of the year. Total current liabilities increased by 15.91% to RMB45,875 million (2006: RMB39,578 million) from the beginning of the year, while total non-current liabilities increased by 210.09% to RMB3,011 million (2006: RMB971 million) from the beginning of the year.

As at 31 December 2007, total net current assets of the Group was RMB13,526 million (2006: RMB9,884 million), representing an increase of RMB3,642 million from the beginning of the year. Current ratio increased from 1.25 to 1.29.

Source of funding and indebtedness

As at 31 December 2007, the Group had aggregate bank and other borrowings, bonds and debentures of RMB3,262 million (2006: RMB1,037 million), an increase of RMB2,225 million from the beginning of the year. Borrowings and debentures repayable within one year was RMB1,437 million which represented an increase of RMB507 million. Borrowings and debentures repayable after one year was RMB1,825 million, representing an increase of RMB1,718 million compared with the beginning of the year.

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As of 31 December 2007: (i) bank borrowings in the amount of RMB400,000,000 were subject to a floating interest rate equivalent to borrowing rate for loans of more than a 5-year period less 10%; (ii) bonds with a nominal value of RMB1 billion were subject to a floating interest rate equivalent to benchmark interest rate plus 135 basis points; (iii) all other borrowings were interest-bearing at fixed rates.

As at 31 December 2007, except for unsecured bank loans of US$9,420,000 (2006: US$300,000), equivalent to RMB68,809,000 (2006: RMB2,343,000), HKD48,000,000 (2006: HKD125,000,000), equivalent to RMB44,946,000 (2006: RMB125,584,000), JPY280,000,000 (2006: JPY230,000,000), equivalent to RMB17,938,000 (2006: RMB15,095,000), EURO490,000 (2006: Nil), equivalent to RMB5,227,000 (2006: Nil), and ZAR413,000 (2006: Nil), equivalent to RMB440,000 (2006: Nil), which are denominated in foreign currencies, all other borrowings are in Renminbi.

As at 31 December 2007, gearing ratio of the Group, which represents the ratio of total interest-bearing bank and other borrowings, debentures and bonds to the total equity plus interest-bearing bank and other borrowings plus bonds plus debentures was 10.6%, an increase from 4.2% at the beginning of the year.

Pledge of Assets

As at 31 December 2007, bank deposits of RMB1,184 million (2006: RMB1,693 million) of the Group have been pledged to banks. In addition, certain of the Group's bank loans are secured by mortgages over certain of the Group’s land use rights, buildings, machinery and motor vehicles, with an aggregate net book value of RMB128 million as at 31 December 2007 (2006: RMB142 million).

Contingent Liabilities

Please refer to note 49 to the consolidated financial statements for details.

Capital Commitment

Please refer to note 51 to the consolidated financial statements for details.

Foreign Exchange Risks

During the year, the Group exported certain products as well as imported equipment, spare parts and materials. The exports and imports substantially hedged the risks of transactions in foreign currencies. As at 31 December 2007, cash and bank balances of the Group included HK$161 million, US$24 million, JPY834 million and other foreign currencies equivalent to RMB73 million in total. Apart from this, the Group was not exposed to any material foreign exchange risks.

Future development and outlook of the Company

Looking ahead, the Company will further explore the international market by enhancing our competitiveness and profitability. The Company will also seek to maintain its growth momentum to generate higher returns so as to develop into a large-scale equipment manufacturing conglomerate and bring higher values to shareholders and the community.

Strengthening the operation to improve profitability

The Company will endeavour to improve its profitability by enhancing its marketing activities and optimising the allocation of resources. The Company will also closely liaise with its key customers and monitor major projects. Marketing campaigns for particular markets will be launched to effectively promote the products of the Company. The Company will seek to optimize its order mix by securing orders that will generate higher returns. The Company will increase investment in research and development to enhance the value of new products and our bargaining power and price level when undertaking new orders in future.

The Company will earmark sufficient funds for research and development in its budget. It will also conduct its business strictly in accordance with the budget. The Company will also prepare its budget in a scientific way and will closely monitor the budget so as to ensure the cost effectiveness and profitability. Various measures will be implemented to control the costs under a market-oriented target cost management system. The Company will expand the scale of online procurement and will select vendors by open tender for bulk purchase. The Company will seek to reduce finance costs by minimising its borrowings and to explore low-cost financing resources. Hedging arrangement will be adopted to minimize any possible loss resulting from exchange rate fluctuation.

The Company will strengthen the management of receivables and inventories by categorization. The storage of finished goods will be closely monitored and production schedule will be carefully devised and controlled so as to raise the turnover of inventories. The Company will strictly comply with the delivery schedule and quality standards, particularly the delivery schedule of equipment of nuclear power plant. External professionals will be retained to conduct quality control of our products, especially major projects and products such as nuclear power plant equipment. More quality control points will be set up for key procedures and key positions.

Enhancing the competitiveness by advanced technology

Technological advancement is the key to competitiveness. It is especially crucial for the equipment manufacturing industry. On one hand, the Company will keep focusing on industries with competitive advantages and will seek to improve capability and expand the scale of operation. On the other hand, it will build up the foundation for the growth of businesses of strategic value.

Operation bottleneck will be eliminated by technological improvement so as to enhance the design and system integration capability. It will also facilitate the Company to become a high-end manufacturer. For the nuclear power generation equipment business, the Company will strengthen control over its order execution process. Large-scale forging and casting pieces for 600 MW units and 1,000 MW low-pressure rotors will be completed in the first half of 2008. The 50,000 to 100,000 kilometre-operational test of Type A metro railcars will be conducted in 2008. Preparation work for commercial production will commence upon completion of the test.

Human resources deployment is equally important as the application of technology. The Company will further enhance its human resources, through recruitment of high calibre people and provision of training.

If there is any major technology that could not be developed independently in a reasonable timeframe, it will be acquired in accordance with the policy of the Company. Any acquired technology will be absorbed for new product development.

Strengthening the management to ensure a healthy and sustainable development

The Company will closely monitor its investments and will focus its investment in particular targets, i.e. core business and key products. Investment decision procedures will be systemized to emphasise on the analysis of market situations, development trend, competitors, investment returns and risk management. External professionals and intermediate institutions will be appointed to participate in project studies. Their views will be duly considered for maximizing the viability of projects. Proper monitoring and risk assessment mechanism shall be developed to evaluate the project performance in order to maximise project investment returns.

Information technology will be widely used in management and modernized management tools will be used together with conventional management methods. Information technology will be specially applied in the management of receivables and inventories. The Company will establish an information management platform. A standard hardware will be deployed to establish a network for the entire Group. Upon completion of the network development, the office automation system, e-mail system, accounting system and human resources system will be greatly enhanced. The Company will also expedite the installation of the ERP system of the power generation equipment business. More raw materials and components procurement will be conducted via a designated Internet platform and a higher proportion of online banking settlement system of the Company will be required.

To leverage the economies of scale of the Group, centralized platforms will be expanded to facilitate resources sharing within the group for cash management, legal affairs, brand promotion, proprietary knowledge and experiences, information technology, key accounts and overseas offices. Research and development findings will be more extensively shared by all members of the Group so that they can help enhance our productivity.

Biographical Details of Directors and Supervisors

Directors and Supervisors

Name	Position	Sex	Age
Xu Jianguo	Chairman, Chief Executive Officer and Executive Director	Male	56
Zhu Kelin	Vice Chairman and Non-executive Director	Male	45
Huang Dinan	Executive Director and President	Male	41
Yu Yingui	Executive Director and Financial Controller	Male	57
Yao Minfang	Non-executive Director	Female	40
Yao Fusheng	Independent Non-executive Director	Male	75
Cheung Wai Bun	Independent Non-executive Director	Male	71
Lei Huai Chin	Independent Non-executive Director	Male	43
Cheng Zuomin	Chairman of the Supervisory Committee	Male	59
Xie Tonglun	Supervisor	Male	51
Li Bin	Supervisor	Male	47
Sun Wenzhu	Supervisor	Female	51
Zhou Changsheng	Supervisor	Male	42

Executive Directors

Xu Jianguo, aged 56, joined us in September 2006 and is the chief executive officer, Chairman of the Board and an executive director of the Company. He is currently also the chairman of the Board of Shanghai Mechanical & Electrical Industry Company Limited and Shanghai Electric (Group) Corporation. Mr. Xu has over 30 years of experience in industrial business management. Prior to joining the Company, Mr. Xu had been the deputy manager of Shanghai Daily Used Chemical Industrial Company, assistant director of Shanghai Light Industry Bureau, deputy director of Shanghai Light Industry Bureau, secretary of the communist party of Shanghai Light Industry Bureau, deputy director of the Economic Committee of Shanghai, regional supervisor of Baoshan, Shanghai, regional supervisor of Huangpu, Shanghai, deputy secretary of the Peoples' Government of Shanghai, and director of the Economic Committee of Shanghai. Mr. Xu graduated from Shanghai University of Finance and Economics and was awarded a master degree in Economics.

Huang Dinan, aged 41, joined us in May 1999. Mr. Huang is an executive director and the president of the Company. He is also the chairman of the Board of Shanghai Power Transmission & Distribution Company Limited and a director and the president of Shanghai Electric (Group) Corporation. Mr. Huang has extensive experience in the power generation equipment industry. Since joining the parent group in 1989, Mr. Huang has held the positions of vice president of Shanghai Electric (Group) Corporation from 2002 to 2004, president of Shanghai Turbine Co., Ltd. from 1999 to 2002 and vice president of Shanghai Turbine Co., Ltd. from 1997 to 1999. Mr. Huang was appointed as the president of Shanghai Electric (Group) Corporation in January 2004. Mr. Huang graduated from Tsinghua University with a master's degree in engineering.

Yu Yingui, aged 57, joined us in August 1991 and is an executive director and the chief financial officer of the Company. Mr. Yu is also the chairman of the supervisory committee of Shanghai Mechanical & Electrical Industry Company Limited and a director of Shanghai Diesel Engine Co., Ltd. Mr. Yu has over 35 years of extensive experience in the diesel engine manufacturing industry. Mr. Yu has been a member of the senior management of Shanghai Diesel Engine Co., Ltd., one of our listed subsidiaries, since joining the parent group in 1991. Mr. Yu was the president of Shanghai Diesel Engine Co., Ltd. from 2000 to 2004 and the vice president of Shanghai Diesel Engine Co., Ltd. from 1991 to 2000. Mr. Yu graduated from the postgraduate program of the Shanghai University of Finance and Economics.

Non-executive Directors

Zhu Kelin, aged 45, joined the Company in March 2004 and is a vice chairman of the board and a non-executive director of the Company. Mr. Zhu has extensive experience in business administration and was the president of Guangdong Zhujiang Co., Ltd. from 1997 to 2003 and has been the chairman of the board of Guangdong Zhujiang Investment Co., Ltd from 2003 to 2007. Mr. Zhu has been the chairman of the board of Shenzhen Fengchi Investment Co. Ltd. since July 2007, and the chairman of the board of Guangdong Zhujiang Investment Co., Ltd since December 2007. Mr. Zhu graduated from University of Western Sydney with a master degree in business administration.

Yao Minfang, aged 40, joined the Company in December 2007 and is a non-executive director of the Company. She was the head and deputy manager for the investment department of Shenergy Company Limited from 2000 to 2006. Ms. Yao has been the deputy manager of the investment management department of Shenergy Group Co. Ltd as from September 2006. Ms. Yao graduated from University of Shanghai for Science and Technology with a master degree in dynamics and is a senior engineer.

Independent Non-executive Directors

Dr. Yao Fusheng, aged 75, joined the Company in November 2004 and is an independent non-executive director of the Company. Dr. Yao is an independent non-executive director of Shanghai Power Transmission and Distribution Company Limited. Dr. Yao is an honorary member of China Academy of Engineering, with over 40 years of experience in the power generator equipment manufacturing industry. Dr. Yao has been the chief engineer of Sichuan Dongfang Turbine Work and the Ministry of Electrics and Mechanics as well as the head of Power Engineering and Environmental Energy Institute of the University of Shanghai for Science and Technology. Dr. Yao is currently the Dean of Mechanics Faculty of University of Shanghai for Science and Technology, the President of the Shandong University of Technology as well as the Professor and Supervisor for Phd candidates of Beihang University. Dr. Yao has received numerous awards for his achievements in research, development and design of power generation equipment. Dr. Yao graduated from Shanghai Jiao Tong University with undergraduate degree and from Gdansk University in Poland with a doctorate degree in 1962.

Dr. Cheung Wai Bun, Charles, J.P., aged 71, joined the Company in November 2004 and is an independent non-executive Director of the Company. Dr. Cheung possesses the appropriate financial management expertise as required by the Listing Rules of the Hong Kong Stock Exchange, including experience in internal controls reviewing or analyzing audited financial statements. Dr. Cheung is presently Chairman of Joy Harvest International Limited, Hong Kong. He is also an independent non-executive director and chairman of the respective audit committees of K. Wah International Holdings Limited, Galaxy Entertainment Group Limited,

Pioneer Global Group Limited and Prime Investments Holdings Limited, all of which are companies listed on the main board of the Hong Kong Stock Exchange. Dr. Cheung is also a Senior Adviser of Metropolitan Bank & Trust Company, and a Council Member of the Hong Kong Institute of Directors. He has vast experience in the senior management of companies in different industries. He was a former director and advisor of the Tung Wah Group. He holds an honorary doctor's degree from John Dewey University and a master's degree in business administration and a bachelor of science degree in accounts and finance from New York University. He was awarded Listed Company Non-Executive Director Award at the Directors of the Years Awards 2002.

Lei Huai Chin, aged 43, joined the Company in November 2004 and is an independent non-executive Director of the Company. Mr. Lei holds directorships in various companies listed in Singapore, and is currently the managing director of GITI Tire (China) Investment Company Ltd. Mr. Lei holds a bachelor's degree in science from the London School of Economics and Political Science and a master's degree in business administration from the University of Southern California, US.

Supervisors

Cheng Zuomin, aged 59, joined the Company in January 2006 and is the chairman of the Supervisory Committee of the Company. Mr. Cheng joined Shanghai Electric (Group) Corporation in March 2005 and has since been the chairman of the supervisory committee of Shanghai Electric (Group) Corporation. Mr. Cheng used to be a deputy manager of Shanghai Supervisory Committee and a deputy head of Metallurgical Design Institute of Shanghai. Mr. Cheng graduated from China Textile University as a postgraduate student in management engineering.

Xie Tonglun, aged 51, joined the Company in March 2004. He is a supervisor of the Company and is the employee representative in our supervisory committee. Mr. Xie was the deputy secretary of the Commission for Discipline Inspection of Shanghai Electric (Group) Corporation from 2001 to 2004. He was also a deputy office manager of the administration office of Shanghai Electric (Group) Corporation from 1996 to 2001. Mr. Xie graduated with a degree in business administration from Shanghai Administration Institute.

Li Bin, aged 47, joined the Company in December 1980 and is the employee representative in our supervisory committee. Mr. Li is the head of the production line, head of product test team and senior technician of Shanghai Electric Hydraulic & Pneumatics Co., Ltd Hydraulic Pump Factory. Prior to that, Mr. Li was the worker of plant 2 of Shanghai Hydraulic Pump Factory, product test engineer, head of the product test team and senior technician of computerized numerical control in Shanghai Hydraulic Pump Factory. Mr. Li graduated from Shanghai Second Polytechnic University, majoring in electromechanical engineering. Mr. Li is a Senior Technician.

Zhou Changsheng, aged 42, joined the Company in November 2007. Mr. Zhou was the deputy head of finance department of Baosteel Group Shanghai Meishan Co. Ltd., the manager of the finance department of Shanghai Bailian (Group) Co. Ltd., the vice director and director of the finance department of Shenergy Company Ltd. and a director of Shanghai Metro Construction Corporation Ltd. Mr Zhou is currently the director assistant of the audit office of Shenergy Company Ltd, a member of the supervisory committee of [Shanghai Sheng Gang Energy Sources Investment Co. Ltd.] and an independent director of Shanghai Zhongxi Pharmaceutical Co., Ltd. Mr. Zhou holds a bachelor degree and a master degree. He is also a Senior Accountant and a Certified Public Accountant in the PRC.

Sun Wenzhu, aged 51, joined the Company in November 2007. Ms. Sun was the general manager of the finance department of Shanghai Lujiazui Finance and Trade Zone Development Co., Ltd from 1998 to 2004, and deputy general manager of asset management department of Shanghai Lujiazui (Group) Co., Ltd from 2004 to 2007. Ms. Sun has been the vice president of commercial real estate department of Hesheng Group from May 2007. Ms. Sun received a junior college degree in business management and is an Accountant.

Corporate Governance Report

Corporate Governance Practices

The Board of Directors of the Company firmly believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure its strict compliance with relevant regulatory requirements, a high level of transparency in corporate governance and an excellent performance in operation.

During the reporting period, the Board of Directors is of the view that the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Code") except for code provision A.2.1 concerning the requirements to separate the roles of the chairman and chief executive officer. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the senior management has been well maintained and there exists no problem of over-centralization of management power on one particular individual.

The Company will observe the latest development of corporate governance requirements and will review and update the existing practices as and when required.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Further to the Company's enquiry, all directors confirmed that they had complied with the Model Code throughout the year 2007.

The Board of Directors

As at the date of this report, the Board of Directors comprises eight directors, including executive directors namely Mr. Xu Jianguo, Mr. Huang Dinan, Mr. Yu Yingui; non-executive directors namely Mr. Zhu Kelin, Ms. Yao Minfang; and independent non-executive directors namely Dr. Yao Fusheng, Dr. Cheung Wai Bun and Mr. Lei Huai Chin. Mr. Li Songjian and Mr. Wang Minwen resigned as directors of the Company because of personal reasons and no longer carried out any duties of the directors starting from 7 February 2007 and 11 May 2007 respectively. Mr. Chen Longxing, Mr. Wang Qiang, Mr. Yao Qun, Mr. Lin Haitao and Mr. Shen Maosong retired as directors of the Company on 16 November 2007 upon expiration of their terms of office. Ms. Li Manping resigned as director of the Company with effect from 16 April 2008 due to job allocation.

All independent non-executive directors have confirmed their independence to the Company as required under Rule 3.13 of the Listing Rules of The Stock Exchange of Hong Kong Limited. The Company considered such directors to be independent during the year.

The Company has convened 12 board meetings during the year, the attendance record of each existing director is detailed as follows:

Directors	Number of Meetings	Actual Attendance
Mr. Xu Jiangguo	12	12
Mr. Huang Dinan	12	12
Mr. Yu Yingui	12	12
Mr. Zhu Kelin	12	12
Ms. Yao Minfang	2	2
Dr. Yao Fusheng	12	12
Dr. Cheung Wai Bun	12	12
Mr. Lei Huai Chin	12	12

The Board of Directors is responsible for the formulation of overall development strategy of the Group, monitoring of its financial performance and maintaining an effective supervision over the management team's work. The board members aim to maximize shareholders' value in the discharge of their duties and responsibilities. When determining the Group's business objectives and development direction, the Board of Directors takes into account the latest economic and market situations. Daily operations and management of the Company are entrusted to the management team.

Every board member has the right to inspect various documents and relevant materials of the Board of Directors, to consult the Company Secretary and the Secretary to the Board of Directors on regulatory and compliance matters and to seek external professional advice when necessary. The Company Secretary and the Secretary to the Board of Directors continuously advise all directors on continuing obligations under the Listing Rules and other applicable laws and regulations to ensure the Company's compliance with such requirements and to ensure an excellent corporate governance of the Company.

The board members have different industry backgrounds with expertise in various aspects such as enterprise management, technology development, finance and accounting, investment strategy and human resources management. Their biographies are set out on page 16.

Nomination of Directors

The Board of Directors has not established the Nomination Committee. Pursuant to the Company's Articles of Association, shareholders of the Company are entitled to propose candidates. The proposal for the appointment of directors should be submitted to the general meeting for approval. The intention for proposing director candidates and the acceptance of nomination by the candidates should be submitted in writing to the Company no earlier than the date of dispatch of general meeting notice and no later than commencement of the general meeting. Time limits for nomination and acceptance of nomination should not be less than 7 days.

Chairman and Chief Executive Officer

Pursuant to code provision A.2.1, roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. At present, Mr. Xu Jianguo is the Chairman of the Board and the Chief Executive Officer of the Company. However, Mr. Huang Dinan, an Executive Director and the President, is fully responsible for the day-to-day operations of the Company and execution of instructions from the Board of Directors. The Company is of the opinion that segregation of duties and responsibilities between the Board of Directors and the senior management has been well maintained and there exists no problem of over-centralization of management power on one particular individual.

Tenure of Non-executive Directors

All directors of the Company are elected at general meetings, with a tenure of three years, and can be re-elected and re-appointed with office tenure extended accordingly.

Audit Committee

Our Audit Committee, currently comprising Dr. Cheung Wai Bun, Dr. Yao Fusheng and Mr. Lei Huai Chin, is chaired by Dr. Cheung Wai Bun, a non-executive director of the Company. Four meetings of the Audit Committee were convened in January, April, August and October of 2007 and were attended by all committee members. The Audit Committee is mainly responsible for reviewing and overseeing the financial reporting procedures and internal controls of the Group, reporting the results of such review and recommendations for improvement, if any, to the Board of Directors. Our Audit Committee is also responsible for reviewing the interim and full year financial statements, the appointment of and remuneration for auditors.

Remuneration Committee

The Remuneration Committee comprises Mr. Lei Huai Chin, Mr. Huang Dinan and Dr. Yao Fusheng. Mr. Lei Huai Chin is the chairman of the Remuneration Committee. Mr. Wang Qiang ceased to be a member of the Remuneration Committee effective from 16 November 2007 upon retirement as director of the Company. A meeting of the Remuneration Committee has been convened in March 2007 during which all members of the committee were present. The Remuneration Committee is mainly responsible for making recommendations to the Board of Directors regarding the compensation policy and structure for board of directors and supervisory committee of the Company, and the formulation of proper remuneration procedures.

Auditors' Remuneration

In 2007, remuneration to Ernst & Young, international auditors of the Company, and Ernst & Young Dahua Certified Public Accountants Co., Ltd., domestic auditors of the Company, are summarized respectively as follows

Services provided	Amount paid/payable RMB'000
2007 Annual audit for the Group	14,028
Statutory audit for subsidiaries and jointly-controlled entities of the Group	6,631
Review of connected transactions	400
Assurance services for A Share listing	8,250
Specific audit for subsidiaries of the Group	1,050
Training	1,134
Total	31,493

Directors' and Auditors' Responsibilities for Accounts

The directors of the Company acknowledge their responsibilities for the preparation of accounts for each financial year which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that year. In preparing these accounts for the year ended 31 December 2007, the directors have selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the external auditors to the shareholders are set out on page 44 and 45.

Supervisory Committee

The Supervisory committee is a monitoring agency of the Company responsible for monitoring the Board of Directors and its members and senior management to avoid misuse of rights that may harm the legal interests of shareholders, the Company and staff of the Company.

As at the date of this report, the Supervisors of the Company are Mr. Cheng Zuomin, Mr. Xie Tonglun, Mr. Li Bin, Ms. Sun Wenzhu and Mr. Zhou Changsheng. Mr. Cheng Zuomin is the chairman of the Supervisory Committee. Mr. Zhang Jun resigned as supervisor of the Company on 22 January 2007 because of personal reasons. Mr. Zheng Weijian, Ms. Ling Feifei and Ms. Miu Xiufeng retired as supervisors of the Company on 16 November 2007 upon expiration of terms of office. The number of members and formation of the Supervisory Committee comply with the requirements of laws and regulations.

Internal Control

The Board of Directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such an internal control system was designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore, it can only provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial losses or fraud.

The management has been assisting, and will continue to assist, the Board of Directors in implementing the Board's policies and measures on risk management and internal controls, determining and evaluating the risks confronted, and participating in design, operation and supervision of appropriate internal control measures in order to mitigate and control such risks.

The Group has established major procedures to review the adequacy and completeness of the internal control system, including:

- Checks on internal control procedures of various enterprises within the Group at regular intervals
- Review of the applicability and implementation of such procedures to the relevant enterprises at regular intervals
- Examination of the effectiveness of such procedures at regular intervals
- Modifying or supplementing the internal control procedures in force (including procedures of relevant subsidiaries) as necessary
- Setting up standardized internal control system for the Group as a whole

During the year, the Company has conducted reviews on the effectiveness of the internal control system as required by paragraph C.2.1 to Appendix 14 of the Listing Rules. The reviews cover all material controls, including financial, operational and compliance controls and risk management functions. The Company has set up a task force to review the internal control system of the Company at regular intervals and address the shortcomings identified.

Risk Management

The directors of each of our subsidiaries are responsible for the monitoring of various risks of the relevant companies as well as the establishment and effective implementation of risk management policies, while internal audit department of the Group carries out routine internal check to ensure effective implementation of such policies. In addition, some of our Executive Directors and members of the senior management of the Group are also directors of some of our major operating subsidiaries hence we are able to enhance the management over various risks of relevant companies.

Disclosure of Information and Investor Relations

The Company recognizes the importance of good communications with its investors. Requests for meetings and factory visits from investors have been handled with great care by our investor relations team upon receipt. To help investors' further understanding of the Company's various strategies and plans for future development, we attend investment conferences and carry out non-deal overseas roadshows at regular intervals. The Company will continuously make great efforts in its investor relations work and to further enhance transparency of the enterprise.

Other Information

Share Capital Structure

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	8,918,736,000	75.00%
H Shares	2,972,912,000	25.00%
Total	11,891,648,000	100.00%

Disclosure of Interests

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2007, the following persons (other than the directors, supervisors and chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which having rights to exercise or control the exercise of 5% or more of the voting power at any general meetings of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO"):

Name of Substantial Shareholder	H/ Domestic ("D") Share	Capacity	Notes	No. of H/D Shares	Nature of Interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total number of Shares in issue (%)
Shanghai Electric (Group) Corporation	D	Beneficial Owner	1	7,409,088,498	Long position	83.07	62.30
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	D	Interest of controlled corporations	1	7,898,980,620	Long position	88.57	66.42
Shenzhen Fengchi Investment Co., Ltd.	D	Beneficial Owner	2	917,778,942	Long position	10.29	7.72
Shanghai Depeng Investment Co., Ltd	D	Interest of controlled corporations	2	917,778,942	Long position	10.29	7.72
Guangdong Zhujiang Investment Holding Group Co., Ltd	D	Interest of controlled corporations	2	917,778,942	Long position	10.29	7.72
Guangdong Hanjiang Asset Management Co., Ltd	D	Interest of controlled corporations	2	917,778,942	Long position	10.29	7.72
Guangdong Hanjiang Building and Installation Co., Ltd.	D	Interest of controlled corporations	2	917,778,942	Long position	10.29	7.72
Zhu Qingyi	D	Interest of controlled corporations	2	917,778,942	Long position	10.29	7.72
Shenergy Group	D	Beneficial Owner	1	489,892,122	Long position	5.49	4.12

Name of Substantial Shareholder	H/ Domestic ("D") Share	Capacity	Notes	No. of H/D Shares	Nature of Interest	Percentage of total number of H/D Shares in issue (%)	Percentage of total number of Shares in issue (%)
Deutsche Bank Aktiengesellschaft	H	Beneficial Owner		4,884,117	Long position	0.16	0.04
		Investment manager	3	177,224,218	Long position	5.96	1.49
		Person having a security interest in shares		54,220,000	Long position	1.82	0.46
		Total long position		236,328,335		7.95	1.99
		Beneficial Owner		11,475,881	Short position	0.39	0.10
		Person having a security interest in shares		22,120,000	Short position	0.74	0.19
		Total short position		33,595,881		1.13	0.28
Lloyd George Investment Management (Bermuda) Ltd	H	Investment manager		204,658,000	Long position	6.88	1.72
JPMorgan Chase & Co.	H	Beneficial Owner	4	51,254,600	Long position	1.72	0.43
		Custodian	4	133,407,524	Long position	4.49	1.12
		Total long position		184,662,124		6.21	1.55
		Beneficial Owner	4	9,291,768	Short position	0.31	0.08
State Street Corporation	H	Interest of controlled corporations	5	177,225,321	Lending pool	5.96	1.49
The Northern Trust Company (ALA)	H	Nil		167,281,000	Lending pool	5.63	1.41
Siemens International Holding B.V.	H	Beneficial Owner	6	148,646,000	Long position	5.00	1.25
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporations	6	148,646,000	Long position	5.00	1.25
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporations	6	148,646,000	Long position	5.00	1.25
Siemens Aktiengesellschaft	H	Interest of controlled corporations	6	148,646,000	Long position	5.00	1.25

NOTES

(1) Shanghai Electric (Group) Corporation and Shenergy Group were wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and their interests in 7,409,088,498 shares and 489,892,122 shares of the Company, were deemed to be the interests of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

(2) Shenzhen Fengchi Investment Co., Ltd. holding 917,778,942 shares of the Company, was owned as to 90% by Shanghai Depeng Investment Co., Ltd which in turn was wholly owned by Guangdong Zhujiang Investment Holding Group Co., Ltd ("Guangdong Zhujiang"). Guangdong Zhujiang was owned as to 75% by Guangdong Hanjiang Asset Management Co., Ltd ("Guangdong Hanjiang"). Guangdong Hanjiang was owned as to 80% by Guangdong Hanjiang Building and Installation Co., Ltd which in turn was owned as to 90% by Zhu Qingyi. The interest in 917,778,942 shares relates to the same block of shares in the Company.

(3) Deutsche Bank Aktiengesellschaft was interested in 176,434,998 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation(%)	No. of shares
Deutsche Asset Management International GmbH	100	1,600,000
Deutsche Asset Management Investmentgesellschaft mbH	100	2,146,940
DWS Investment GmbH	100	138,916,000
DWS Investment S.A., Luxemburg	100	26,620,000
Deutsche Bank International Limited	100	604,058
Deutsche Private Asset Management Limited	100	548,000
Deutsche Asset Management (Japan) Limited	100	6,000,000

Among the entire interests of Deutsche Bank Aktiengesellschaft in the Company, a short position in 2,352,000 shares were held through cash settled unlisted derivative instruments.

(4) JPMorgan Chase & Co. held a long position in 184,662,124 shares and a short position in 9,291,768 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation(%)	No. of shares
JPMorgan Chase Bank N.A.	100	133,407,524 (Long position)
J.P. Morgan Whitefriars Inc.	100	48,642,600 (Long position) 6,679,768 (Short position)
J.P. Morgan Securities Ltd.	100	2,612,000 (Long position) 2,612,000 (Short position)

The interests of JPMorgan Chase & Co. included a lending pool of 133,407,524 shares. Among the entire interests of JPMorgan Chase & Co. in the Company, a long position in 6,200,000 shares was held through physically settled unlisted derivative instruments and a short position in 6,679,768 shares were held through physically and cash settled unlisted derivative instruments.

(5) State Street Corporation held a lending pool in 177,225,321 shares of the Company by virtue of its control over State Street Bank & Trust Company.

(6) Siemens International Holding B.V., holding 148,646,000 shares of the Company, was wholly owned by Siemens Beteiligungsverwaltung GmbH & Co. OHG, which in turn was owned as to 99.99% and 0.01% by Siemens Aktiengesellschaft and Siemens Beteiligungen Management GmbH. The interest in 148,646,000 shares relates to the same block of shares in the Company.

Save as disclosed above, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Company, there was no other person who, as at 31 December 2007, had an interest or short position in the shares or underlying shares of the Company.

Directors' and Supervisors' Interests and Short Positions and Underlying Shares

As at 31 December 2007, Ms. Liu Shaoping, the spouse of Mr. Zhu Kelin, a non-executive director of the Company, held 30,000 shares of Shanghai Power Transmission and Distribution Company Limited, an associated corporation of the Company.

Save as disclosed above, none of the directors, supervisors or chief executives of the Company and their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified by the directors, supervisors or chief executives to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange. As at 31 December 2007, none of the directors, supervisors or chief executives of the Company or their respective associates were granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Employees of the Company

As at the end of this report, the Group had 33,847 employees (2006: approximately 32,000). The Group has short term and long term incentive programs to encourage employee performance and a range of training programs for the development of its staff.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

Principal activities

The principal activities of the Company are the design, manufacture and sale of products and the provision of related services in the power equipment, electro-mechanical equipment, heavy machinery equipment, transportation equipment and environmental protection industries. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 46 to 172.

Pursuant to the merger agreement the Company entered into with Shanghai Power Transmission and Distribution Co., Ltd. ("Shanghai Power Transmission"), prior to the closing of the merger transaction, both parties will not, for the time being, declare any dividends. Thus, the Board of Directors will discuss dividend payout issue after the closing of the merger.

Use of proceeds from the Company's initial public offering

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in April 2005, after deduction of related issuance expenses, amounted to approximately RMB4,678 million. Proceeds of RMB4,548 million have been applied by 31 December 2007 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- approximately RMB1,812 million was used in the power equipment division, comprising investments in technology improvement and capacity expansion of production facilities, new joint ventures and development of new products;
- approximately RMB1,635 million was used in the electromechanical equipment division (including heavy machinery division established in early 2007), comprising investments in technology improvement of production facilities and development of new products;
- approximately RMB350 million was used in the transportation equipment division, comprising investments in production expansion and enhancement in product design capability;
- approximately RMB321 million was used in the environmental systems division, comprising investments in solar cells business and sewage water treatment business; and
- approximately RMB430 million was applied as additional working capital of the Group.

Summary financial information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 3 of the annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

Share capital

There were no movements in either the Company's authorised or issued share capital during the year.

On 6 April 2007, Shanghai Electric (Group) Corporation ("SE Corporation"), the holding company of the Company, entered into a share transfer agreement with Shantou Municipal Mingguang Investment Co., Ltd. ("Mingguang"), a promoter and shareholder of the Company, pursuant to which Mingguang agreed to transfer 356,920,287 shares, representing approximately 3.00% of the entire issued share capital of the Company, to SE Corporation.

On 23 April 2007, the Board received a notification from SE Corporation, pursuant to which, Mingguang agrees to pledge 50,988,612 shares, representing approximately 0.43% of the entire issued share capital of the Company, to SE Corporation (the "Pledged Shares"). On 11 January 2008, the Board received a notification from SE Corporation, pursuant to which, SE Corporation and Mingguang have agreed to release the Pledged Shares.

On 15 June 2007, SE Corporation entered into a share transfer agreement with Fuxi Investment Holding Ltd. ("Fuxi"), a promoter and shareholder of the Company, pursuant to which, Fuxi agreed to transfer 917,780,877 shares, representing approximately 7.72% of the entire issued share capital of the Company, to SE Corporation.

Following the completion of the transfers above, SE Corporation holds 7,409,088,498 shares in the Company, representing approximately 62.30% of the entire issued share capital of the Company.

On 14 August 2007, the Company received a notification from Guangdong Zhujiang Investment Holding Group

Co., Ltd. ("Guangdong Zhujiang"), a promoter of the Company, pursuant to which Guangdong Zhujiang transferred 917,778,942 shares of the Company to Shenzhen Fengchi Investment Co. Ltd. ("Fengchi"), an indirectly wholly-owned subsidiary of Guangdong Zhujiang, effective on 10 August 2007. Upon the completion of such transfer, Fengchi directly holds 917,778,942 shares of the Company, representing approximately 7.72% of the entire issued share capital of the Company. The transfer has been completed as at 31 December 2007.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association or the laws of the People's Republic of China (the "PRC") which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 44(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB709,114,000. In addition, the Company's share premium account in the Company's statutory financial statements, in the amount of RMB1,950,078,000, 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 Hong Kong Financial Reporting Standards.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers also accounted for less than 30% of the total purchases for the year.

Charitable and other donations

During the year, the Group made charitable and other donations totalling RMB8.8 million.

Reactor Vessel Internals

Directors and supervisors

Please refer to page 16 for a list of directors and supervisors of the Company.

The non-executive directors, independent non-executive directors and supervisors are appointed for a period of three years.

The Company has received annual confirmations of independence from Dr. Yao Fusheng, Dr. Cheung Wai Bun and Mr. Lei Huai Chin, and as at the date of this report still considers them to be independent.

Directors' and supervisors' biographies

Biographical details of the directors and the supervisors of the Company are set out on pages 16 to 18 of the annual report.

Directors' service contracts

The Company did not enter into any service contracts, which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), with its directors.

Directors' remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

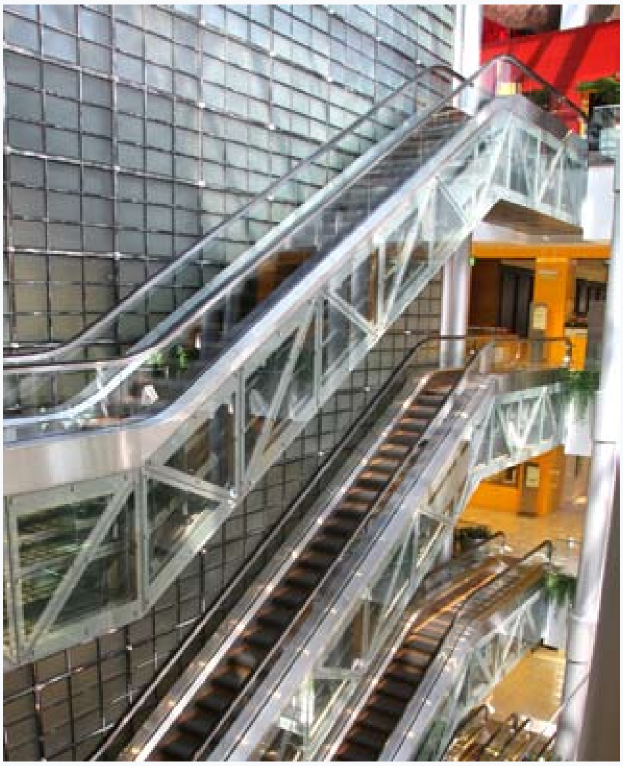
Directors' and supervisors' interests in contracts

No director or supervisor had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Management contracts

Pursuant to an agreement dated 28 March 2005 between the Company and SE Corporation, SE Corporation (either by itself or through its subsidiaries) provides various kinds of auxiliary services including labour secondment, property management, management of research centres and projects, water and electricity supply, auxiliary support, training and education, facility, security and maintenance services to the Group. The term of the agreement is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the present term.

On 13 April 2007, the Company entered into a supplemental framework integrated services agreement with SE Corporation to revise the annual caps for the total services value. During the year, the Group paid a management service fee of RMB17.48 million under this agreement.



Directors' interests and short positions in shares, underlying shares and debentures

Long position in shares of an associated corporation:

As at 31 December 2007, Ms. Liu Shaoping, the spouse of Mr. Zhu Kelin, the non-executive director of the Company beneficially owned 30,000 shares in Shanghai Power Transmission, the associated corporation of the Company. These shares accounted for about 0.006% of the associated corporation's issued share capital.

Save as disclosed above, as at 31 December 2007, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Contract of significance

During the year, the Company has entered into various contracts of significance with SE Corporation and other connected persons. Further details of the transactions are set out in the section headed "Connected transactions and continuing connected transactions" below.

Substantial shareholders' and other persons' interests in shares and underlying shares

At 31 December 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Type of Shares	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital(%)
SE Corporation	Domestic	Directly beneficially owned	7,409,088,498	62.30
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government #	Domestic	Through a controlled corporation	7,898,980,620	66.42
Fengchi*	Domestic	Directly beneficially owned	917,778,942	7.72
Shanghai Depeng Investment Co., Ltd.*	Domestic	Through a controlled corporation	917,778,942	7.72
Guangdong Zhujiang*	Domestic	Through a controlled corporation	917,778,942	7.72
Guangdong Hanjiang Asset Management Co., Ltd.	Domestic	Through a controlled corporation	917,778,942	7.72
Guangdong Hanjiang Building and Installation Co., Ltd.*	Domestic	Through a controlled corporation	917,778,942	7.72
Zhu Qingyi*	Domestic	Through a controlled corporation	917,778,942	7.72

\# SE Corporation and Shenergy Group Company Limited were wholly owned by State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government and their interests in 7,409,088,498 shares and 489,892,122 shares of the Company, were deemed to be the interests of State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government.

* Fengchi was owned as to 90% by Shanghai Depeng Investment Co., Ltd. ("Depeng Investment"), which in turn was wholly owned by Guangdong Zhujiang. Guangdong Zhujiang was owned as to 75% by Guangdong Hanjiang Asset Management Co., Ltd. ("Guangdong Hanjiang Asset Management"). Guangdong Hanjiang Asset Management was owned as to 80% by Guangdong Hanjiang Building and Installation Co., Ltd. ("Guangdong Hanjiang Building and Installation"), which in turn was owned as to 90% by Zhu Qingyi. The interests in 917,778,942 shares of the Company held by Fengchi have been recorded as through a controlled corporation by Depeng Investment, Guangdong Zhujiang, Guangdong Hanjiang Asset Management, Guangdong Hanjiang Building and Installation and Zhu Qingyi.

Save as disclosed above, as at 31 December 2007, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions and continuing connected transactions

During the year, the Company and the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

The Company entered into an equity purchase agreement with SE Corporation on 23 January 2007 to acquire a 97.24% equity interest in Shanghai Crane & Conveyor Works Co., Ltd. from SE Corporation for a cash consideration of RMB151.83 million, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The acquisition has been completed by 31 December 2007.

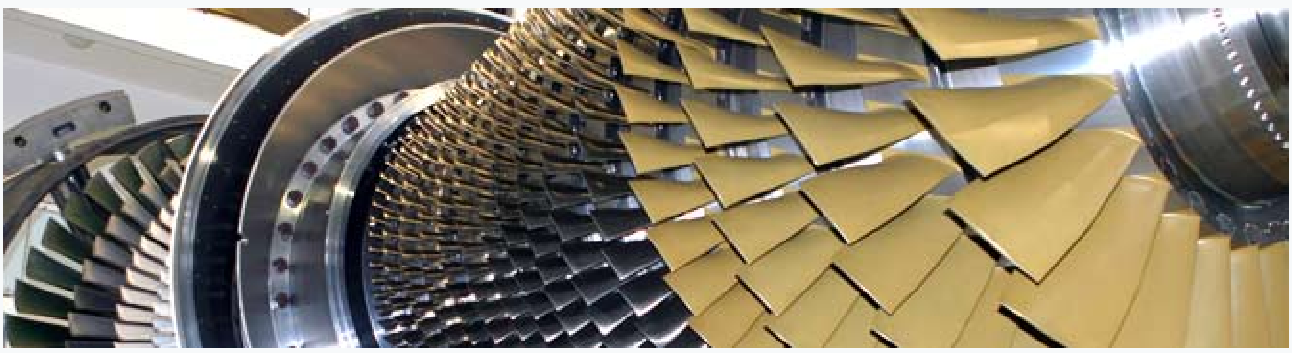
The Company entered into an equity transfer agreement with SE Corporation on 29 January 2007 to dispose of its 95% equity interest in Shanghai Electric Equipment Lease Co., Ltd. to SE Corporation for a cash consideration of RMB198.17 million, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The disposal has been completed by 31 December 2007.

Shanghai Electric Group Finance Co., Ltd. ("Finance Company"), a subsidiary of the Company with 73.38% direct interest and 6.14% indirect interest, entered into an equity transfer agreement with SE Corporation on 29 January 2007 to dispose of its 50% equity interest in Shanghai Electric Insurance Brokerage Co., Ltd. to SE Corporation for a cash consideration of RMB5.13 million, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The disposal has been completed by 31 December 2007.

The Company entered into an agreement with Siemens Ltd., China ("Siemens China") on 13 April 2007, pursuant to which the registered capital of Siemens Gas Turbine Parts Co., Ltd. ("Siemens Gas Turbine") would be increased from EURO18.4 million to EURO32.0 million ("Capital Increase"). The Capital Increase was contributed by the Company and Siemens China in accordance with their respective equity interests in the registered capital of Siemens Gas Turbine. Following the Capital Increase, the percentage of ownership of the Company and Siemens China in Siemens Gas Turbine remain unchanged at 49% and 51%, respectively.

The Company entered into an agreement with Shanghai Waigaoqiao Second Power Generation Company Limited ("Waigaoqiao Power Generation"), which was 40% owned by Shenergy Group Company Limited, one of the Company's promoters, on 20 July 2007, pursuant to which the Company would undertake the construction for Waigaoqiao Power Generation in respect of the desulphurisation project for its 2x900MW generating units and provide relevant equipment at a consideration of RMB190.0 million.

The Company entered into an equity transfer agreement with SE Corporation on 7 September 2007 to acquire



the entire registered capital of Shanghai Machinery Manufacturing and Design Institute Co., Ltd. from SE Corporation for a cash consideration of RMB163.96 million, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. By 31 December 2007, the acquisition has not been completed.

Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel"), a 50.32%-owned subsidiary of the Company, entered into an equity transfer agreement with SE Corporation on 28 September 2007 to:

(i) dispose of its 90% equity interest in Shanghai Pudong "EV" Fuel Injection Co., Ltd. to SE Corporation for a cash consideration of RMB239.4 million, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The disposal has not been completed by 31 December 2007.

(ii) dispose of its 50% equity interest in Shanghai Hino Diesel Engines Co., Ltd., a sino-foreign joint venture company equally owned by Shanghai Diesel and Hino Motors Ltd., to SE Corporation for a cash consideration of RMB57.4 million, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The disposal has not been completed by 31 December 2007.

Continuing Connected transactions

Framework land lease agreement

The Company entered into a framework land lease agreement dated 1 January 2005 with SE Corporation, pursuant to which SE Corporation agrees to lease (either by itself or through its subsidiaries) parcels of land with a total area of approximately 2,110,954 square metres to the Group. The term of each lease is either 20 years, or the remaining term of operation of the Group's joint venture that occupies the relevant premises in the event that the remaining term of operation of the relevant joint venture is less than 20 years. The rental payment due to SE Corporation is RMB29.95 million per year for the first three years of the agreement. Rental payment is to be reviewed every three years, taking into account market conditions, and should not be higher than the rent applicable to a third party tenant.

In the year ended 31 December 2007, the rental payment payable to SE Corporation was RMB29.95 million.

Framework sale agreement and supplemental framework sale agreement

The Company entered into a framework sale agreement dated 28 March 2005 with SE Corporation, pursuant to which the Group has agreed to sell, on a non-exclusive basis, certain products from its various business divisions, both finished and semi-finished, to SE Corporation and its connected persons (the "Parent Group").

On 13 April 2007, the Company entered into a supplemental framework sale agreement with SE Corporation, pursuant to which the approved annual caps for the sales of certain products to the Parent Group by the Group for each of the two years ending 31 December 2008 are revised to/determined to be RMB2,784 million and RMB2,998 million, respectively.

The framework sale agreement and the supplemental framework sale agreement are entered into in the ordinary course of business and are on normal commercial terms. The pricing basis shall be:

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices,
- prices not less than any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations,
- with reference to the market price; and if there is no market price for a particular product;
- an agreed price consisting of the actual or reasonable cost incurred by the Group in supplying the products plus a reasonable profit.

The term of the supplemental framework sale agreement is two years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

In the year ended 31 December 2007, the Group's sales to the Parent Group amounted to RMB629.34 million.

Framework purchase agreement and supplemental framework purchase agreement

The Company entered into a framework purchase agreement dated 28 March 2005 with SE Corporation, pursuant to which the Group has agreed to purchase (on a non-exclusive basis) raw materials and component parts from the Parent Group and the Parent Group has agreed to supply (on a non-exclusive basis) such raw materials and component parts to the Group. The framework purchase agreement is entered into in the ordinary course of business and is on normal commercial terms. The pricing basis shall be:

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations,
- with reference to the market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred by the Parent Group in supplying the products plus a reasonable profit.

On 29 June 2006, the Company entered into a supplemental framework purchase agreement with SE Corporation, pursuant to which the approved annual caps for the purchase of certain component parts, equipment and raw materials for each of the three years ending 31 December 2008 are revised to/determined to be RMB2,440 million, RMB2,084 million and RMB1,944 million, respectively.

The term of the supplemental framework purchase agreement is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

In the year ended 31 December 2007, the Group's purchases from the Parent Group amounted to RMB473.07 million.

Prime Machinery framework purchase agreement and supplemental framework purchase agreement

The Company entered into a framework purchase agreement dated 31 March 2006 with Shanghai Prime Machinery Company Limited ("Prime Machinery"), a subsidiary of SE Corporation, before the initial public offering of Prime Machinery on the main board of the Stock Exchange in April 2006, pursuant to which the Company agreed to purchase, on a non-exclusive basis, certain parts and products from Prime Machinery and its connected persons (the "Prime Machinery Group"). Previously, any continuing connected transaction, including the transaction contemplated under this framework purchase agreement, entered into between the Group and the Prime Machinery Group was covered under the relevant framework agreement entered into by the Company and SE Corporation.

The Company entered into a supplemental framework purchase agreement on 13 April 2007 with Prime Machinery, pursuant to which the approved annual

caps for the purchase of certain parts and products by the Group from the Prime Machinery Group for each of the two years ending 31 December 2008 are revised to/determined to be RMB321.8 million and RMB390.7 million, respectively.

The framework purchase agreement and supplemental framework purchase agreement are entered into in the ordinary course of business and are on normal commercial terms. The pricing basis shall be:

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations,
- with reference to the market price; and if there is no market price for a particular product;
- an agreed price consisting of the actual or reasonable cost incurred by Prime Machinery Group in supplying the products plus a reasonable profit.

The term of the supplemental framework purchase agreement is two years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

In the year ended 31 December 2007, the Group's purchases from Prime Machinery Group amounted to RMB208.85 million.

Framework financial services agreements

The Company entered into framework financial services agreements dated 29 June 2006 with SE Corporation, pursuant to which Finance Company will resume and/or commence the provision of certain financial services to the Parent Group. The term of the framework financial services agreements is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

The details of individual framework financial services agreement are as follows:

(i) Framework deposit agreement

Finance Company would provide deposit services to the Parent Group to allow the Parent Group to deposit funds. The approved annual caps, representing the maximum daily balance of funds (including interests) that may be so deposited, for each of the three years ending 31 December 2008 are RMB2,500 million, RMB3,000 million and RMB4,000 million, respectively. The interest rates offered by Finance Company for the deposits placed by the Parent Group shall be:

- subject to the relevant guidelines and regulations of the People's Bank of China ("PBOC"); and
- with reference to the relevant savings rates set by PBOC from time to time and are in line with the market rate.

During the year ended 31 December 2007, the maximum daily balance of funds (including interests) placed by the Parent Group did not exceed the approved annual cap. In addition, the interest for deposits placed by the Parent Group amounted to RMB1.70 million during the year ended 31 December 2007.

(ii) Framework loan agreement

Finance Company would provide loan services to the Parent Group and would pay the face value of bills presented by the Parent Group. The approved annual caps, representing the maximum daily outstanding balance of funds (including interests) and purchases of discounted bills, for each of the three years ending 31 December 2008 are all RMB2,500 million. The interest rates offered by Finance Company for all loan services and purchases of discounted bills provided to the Parent Group shall be:

- subject to the relevant guidelines and regulations of the PBOC; and
- with reference to the relevant rates set by PBOC from time to time and are in line with the market rate.

During the year ended 31 December 2007, the maximum daily outstanding balance of loans (including interests) and purchases of discounted bills did not exceed the approved annual cap. In addition, the interest for loans services and bills discounting amounted to RMB11.64 million during the year ended 31 December 2007.

(iii) Framework guarantee agreement and supplemental framework guarantee agreement

Finance Company entered into a framework guarantee agreement dated 28 March 2005 with SE Corporation before the listing of the Company, pursuant to which Finance Company decided not to provide any new guarantees in favour of the Parent Group except for the guarantees provided to the Parent Group prior to 30 January 2005 and which are still subsisting as at 28 April 2005.

The Company entered into a supplemental framework guarantee agreement with SE Corporation on 29 June 2006, pursuant to which Finance Company will provide corporate or credit guarantee for letters of credit, customer orders, project biddings, engineering projects and other liabilities of the Parent Group with a one-off service charge based on the guaranteed amount. The approved annual caps, representing the maximum daily balance for financial services provided by Finance Company to the Parent Group, for each of the three years ending 31 December 2008 are RMB800 million, RMB1,000 million and RMB1,200 million, respectively. A one-off service charge of about 0.1% is equivalent to that currently charged by other independent financial institutions for guarantee services of similar nature and is in line with the current market rate.

During the year ended 31 December 2007, the maximum daily balance for financial services provided to the Parent Group did not exceed the approved annual cap. In addition, the service charge for corporate or credit guarantee was less than RMB1 million during the year ended 31 December 2007.

(iv) Framework intermediary financial services agreement

Finance Company has provided intermediary financial services to the Parent Group, mainly including corporate financial advisory services and credit agency services. The intermediary financial services provided by Finance Company to the Parent Group do not involve the use of funds of Finance Company. The approved annual caps for the fee of provision of intermediary financial services under the framework intermediary financial services agreement for each of the three years ending 31 December 2008 are RMB3 million, RMB6 million and RMB9 million, respectively. A one-off service fee of approximately 0.6% of the loan amount provided by the credit agency is charged, which is equivalent to that charged by other independent financial institutions and is in line with the current market rate; and the fees for the provision of financial advisory services is charged by Finance Company based on the actual or reasonable cost incurred plus a reasonable profit margin, not less than 20% normally, based on the type and nature of individual transactions.

During the year ended 31 December 2007, the total fee charged by Finance Company for the provision of intermediary financial services did not exceed the approved annual cap. In addition, the service charge for financial advisory services and credit agency services was less than RMB1 million during the year ended 31 December 2007.

Continuing connected transactions with Siemens

The Group has had purchases of equipment, related components and technologies from Siemens Aktiengesellschaft ("Siemens"), who indirectly owns more than 10% of the registered capital in certain subsidiaries of the Company. Prior to the initial public offering of the Company, the Group had, in the ordinary course of business and on normal commercial terms, entered into several agreements with Siemens on an "ad hoc" and "need be" basis. The aggregate amounts of transactions approved according to those agreements which fell within the years 2006 and 2007 were

RMB1,450 million and RMB96 million, respectively. Due to the business expansion of the Group, the additional approved annual caps for continuing connected transactions for the purchases of equipment, related components and technologies from Siemens for each of the three years ending 31 December 2008 were RMB841 million, RMB1,274 million and RMB1,159 million, respectively. As a result, the total approved annual caps for the purchases of equipment, related components and technologies from Siemens for each of the three years ending 31 December 2008 were RMB2,291 million, RMB1,370 million and RMB1,159 million, respectively. The price of products to be sourced from Siemens is determined with reference to the then prevailing market price.

During the year ended 31 December 2007, the Group's purchases of equipment, related components, and technology from Siemens totalled RMB1,362.01 million.

Framework equipment lease agreement

The Company entered into a framework equipment lease agreement dated 29 June 2006 with SE Corporation, pursuant to which Shanghai Electric Equipment Lease Co., Ltd. (the "Lease Company"), a subsidiary of the Company, is allowed to provide both operating lease and finance lease services under its business license to the Parent Group. The equipment leased to the Parent Group should be purchased from the manufacturers and suppliers outside the Group and mainly include machine tools, grinders and machine centers. The approved annual caps of equipment leasing to the Parent Group for each of the three years ending 31 December 2008 are RMB50 million annually. The pricing basis of leasing services shall be:

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices,
- prices not lower than any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations,
- with reference to the market price; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost plus a reasonable profit.

The term of the framework equipment lease agreement is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

As the Company disposed of its equity interest in Lease Company on 19 July 2007, the transactions between Lease Company and the Parent Group are no longer connected transactions of the Group since then. The Group did not provide equipment lease to the Parent Group during the period from 1 January 2007 to 19 July 2007.

Continuing connected transactions with Ersol

On 30 January 2005, Shanghai Environment Protection Complete Engineering Co., Ltd. ("SEPCE"), a 100%-owned subsidiary of the Company, Ersol Solar

Energy AG ("Ersol") and Shanghai Silverstone Terry Investment Co., Ltd. ("Shanghai Silverstone") entered into a joint venture agreement (the "JV Agreement") for the establishment of Shanghai Electric Solar Energy Co., Ltd. (the "JV Company"). The JV Company is owned as to 55% by SEPCE, 35% by Ersol and 10% by Shanghai Silverstone.

Pursuant to the JV Agreement, parties to the JV Agreement agreed, as part of the terms in the establishment of the JV Company, inter alia, that: (i) Ersol will provide the required Photovoltaic ("PV") cells (a component used in the production of PV modules) to the JV Company based on production requirements from time to time; and (ii) the JV Company will sell certain percentage of finished products (PV modules) back to the Ersol Group. The approved annual caps, representing the aggregate amount of purchases/sales, for each of the three years ending 31 December 2008 are RMB176 million/RMB142 million, RMB235 million/RMB309 million and RMB293 million/RMB503 million, respectively. The prices of PV cells and PV modules are determined with reference to the then prevailing market price.

During the year ended 31 December 2007, the aggregate purchases of PV cells from Ersol and the sales of PV modules to the Ersol Group amounted to RMB52.44 million and RMB69.68 million, respectively.

Hudong framework sale agreement

On 29 June 2006, the Company entered into a framework sale agreement with Hudong Zhonghua Shipbuilding Co., Ltd. ("Hudong Zhonghua"), who owns 20.19% equity interest in Shanghai Ship-use Crankshaft Co., Ltd. ("Shanghai Ship-use Crankshaft"), pursuant to which Shanghai Ship-use Crankshaft has agreed to sell ship-use crankshafts to Hudong Zhonghua at a price determined with reference to the then prevailing market price. The approved annual caps for each of the three years ending 31 December 2008 are RMB80 million, RMB234 million and RMB272 million, respectively.

The term of the framework sale agreement is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

On 10 January 2007, the Company injected additional capital of RMB401.39 million to Shanghai Ship-use Crankshaft and the equity interest of Shanghai Ship-use Crankshaft owned by Hudong Zhonghua decreased to 5.45%. Since then, Hudong Zhonghua is no longer a connected party of the Group. The Group did not sell ship-use crankshafts to Hudong Zhonghua during the period from 1 January 2007 to 10 January 2007.

Continuting connected transactions with Alstom

Shanghai Alstom Transport Co., Ltd. ("Alstom Transport"), an indirectly held 60%-owned subsidiary of the Company, entered into a framework purchase agreement dated 29 June 2006 with Alstom (China) Investment Co., Ltd. ("Alstom Investment"), who owns a 40% equity interest in Altstom Transport, pursuant to which Alstom Transport has agreed to purchase certain equipment and related components from Alstom Investment for manufacturing metropolitan railcar equipment. The framework purchase agreement is entered into in the ordinary course of its business and is on normal commercial terms. The price of products purchased under the framework purchase agreement shall be determined on the basis of the then prevailing market price.

The term of the framework purchase agreement is three years, renewable at the option of Alstom Transport for another term of three years by giving three months' notice in writing prior to the expiry of the term.

On 13 April 2007, the approved annual caps for the purchase of equipment and related components from Alstom Investment for the two years ending 31 December 2008 were revised to RMB536 million and RMB340 million, respectively.

During the year ended 31 December 2007, the total purchases of products from Alstom Investment amounted to RMB109.5 million.

Guangdong Zhujiang framework sale agreement

The Company entered into a framework sale agreement dated 13 April 2007 with Guangdong Zhujiang, a promoter of the Company, pursuant to which the Company agreed to sell certain power generation equipment and products, to Guangdong Zhujiang and its connected persons (the "Guangdong Zhujiang Group"). The framework sale agreement is entered into in the ordinary course of business and is on normal commercial terms. The approved annual caps for each of the three years ending 31 December 2009 are RMB700 million, RMB2,200 million and RMB3,000 million, respectively. The pricing basis shall be:

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices,
- prices not less than any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations,
- with reference to the market prices; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred by the Group in supplying the products plus a reasonable profit.

PT&D-Instrument Transformer

The term of the framework sale agreement is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

In the year ended 31 December 2007, the Group's sales to the Guangdong Zhujiang Group amounted to RMB527.03 million.

Shanghai MWB framework loan agreement

Finance Company entered into a framework loan agreement dated 13 April 2007 with MWB Shanghai Instrument Transformer Co., Ltd. ("Shanghai MWB"), an indirectly 35%-owned associate of the Company, pursuant to which Finance Company would provide loan services to Shanghai MWB and would pay the face value of bills presented by Shanghai MWB. The approved annual caps, representing the maximum daily outstanding balance of funds (including interests) and purchases of discounted bills, for each of the two years ending 31 December 2008 are RMB100 million annually. The interest rates offered by Finance Company for all loan services and purchases of discounted bills provided to Shanghai MWB shall be:

- subject to the relevant guidelines and regulations of the PBOC; and
- with reference to the relevant rates set by PBOC from time to time and are in line with the market rate.

The term of the framework loan agreement is two years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

During the year ended 31 December 2007, the maximum daily outstanding balance of loans (including interests) and purchases of discounted bills did not exceed the approved annual cap. In addition, the interest for loans services and bills discounting was less than RMB1 million during the year ended 31 December 2007.

Framework integrated services agreement and supplemental framework integrated services agreement

The Company has entered into a framework integrated services agreement dated 28 March 2005 with SE Corporation as set out in the section headed "Management contracts" above. On 13 April 2007, the Company entered into a supplemental framework integrated services agreement with SE Corporation, pursuant to which the approved annual caps for the total services value provided by the Parent Group for the two years ending 31 December 2008 are revised/determined to be RMB49 million and RMB36 million, respectively. The pricing basis should be:

- prices as may be stipulated by the PRC Government (if any); and if there are no such stipulated prices,
- prices not exceeding any pricing guidelines or pricing recommendations set by the PRC Government (if any); and if there are no such pricing guidelines or recommendations,
- with reference to the market prices; and if there is no market price for a particular product,
- an agreed price consisting of the actual or reasonable cost incurred by the Parent Group in providing the products plus a reasonable profit.

The term of the supplemental framework integrated services agreement is two years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term.

During the year, the Group paid a management service fee of RMB17.48 million under this agreement.

Pursuant to its letter dated 12 April 2005, the Stock Exchange has granted the Company a waiver of compliance with Chapter 14A of the Listing Rules for the continuing connected transactions till 31 December 2007 in respect of the framework agreements entered into between the Group and SE Corporation prior to the listing of the Company.

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 52 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 23.75% of the Company's total issued share capital was held by the public as at the date of this report. Under the Listing Rules 8.08 (1) (d) of the given discretion, the Stock Exchange agreed the Company's minimum public float of shares issued to be 23.75%.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 55 to the financial statements.

Other matters

On 16 November 2007, an extraordinary general meeting was held and resolved that, the Company will apply to the relevant regulatory authorities for the allotment and issue of A Shares by way of a share exchange with the minority shareholders of Shanghai Power Transmission at the exchange ratio determined as 7.32 A shares for one Shanghai Power Transmission share through an initial public offering of A Shares to implement the merger proposal (the "Merger Proposal"). Such A Shares are proposed to be listed on the Shanghai Stock Exchange. The Company obtained the approval from the State-owned Assets Supervision and Administration Commission of the State Council on 13 November 2007. On 18 March 2008, the Company was notified that the approval from the Ministry of Commerce of the PRC, one of the conditions precedent to the Merger Proposal, has been obtained.

On 29 December 2007, the Company entered into a Share Sales Agreement with SAIC Motor Corporation Co., Ltd. ("SAIC Motor"), to dispose of its entire 50.32% equity interest in Shanghai Diesel for a cash consideration of RMB923.42 million (the "Disposal Proposal"). The transfer is pending for the necessary approvals from the State-owned Assets Supervision and Administration Authority and Foreign Investment Approval Commission and the waiver from China Securities Regulatory Commission for the general offer to be made by SAIC Motor to the existing shareholders of Shanghai Diesel. The transfer has not been completed as at 31 December 2007. On 8 April 2008, the Company was notified that the approval from the State-owned Assets Supervision and Administration Commission of the State Council, one of the conditions precedent to the Disposal Proposal, has been obtained.

Auditors

Ernst & Young retire and a resolution to appoint auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Xu Jianguo
Chairman
Shanghai, PRC
16 April 2008

Report of the Supervisory Committee

Dear shareholders:

During the reporting period, the Supervisory Committee convened Supervisory Committee meetings, participated in general meetings, attended Board meetings as non-voting delegates, conducted interviews with management members and carried out on-site inspection and investigation of companies. It also strengthened its supervision on the progress of the major investment projects, persisted in reviewing the resolutions of the Board and monitored the regularity and procedures of the decision-making process of the Board. The Supervisory Committee believes that the operation of the Board has complied with the relevant laws and regulations of the PRC and the provisions of the Hong Kong Stock Exchange during the reporting period.

Set out below are the independent opinions of the Supervisory Committee on the lawful operation of the Company:

The Company has been operating in accordance with laws and regulations, including the Company Laws and the Securities Laws, as well as the Articles of Association; decision-making procedures are in accordance with the laws; internal control system is adequate. All of the Directors, president and other senior management of the Company have protected the interests of the Company during their performance of duties and fulfilment of responsibilities in good faith and diligence. The Supervisory Committee was not aware of any violation of laws, regulations and the Articles of Association or act detrimental to the interests of the Company.

Set out below are the independent opinions of the Supervisory Committee on its financial review of the Company:

The Supervisory Committee carried out financial review during the reporting period by regularly reviewing and supervising the financial activities of the Company. The supervisors consider that the financial budget, final accounts, annual report and interim report of the Company are true and reliable and the reviewing procedures have been in compliance with the laws, regulations, the Articles of Association and the internal control system of the Company. The contents and the formats of the reports are in compliance with the rules of the stock exchange on which the shares of the Company are listed, and the information contained could truly reflect the operation, management and financial position of the Company during the reporting period in all aspects.

The Supervisory Committee has reviewed the financial system of the Company and considers that it has established a comprehensive internal control system in respect of cash management, purchase and payment system. By applying the system, the management was able to control various operational risks of the Company, thereby ensuring the smooth running of various activities of the Company.

Set out below are the independent opinions of the Supervisory Committee on the actual use of capital raised by the Company from the last capital raising exercise :

The capital raised by the Company from the last capital raising exercise was used on the projects as planned in accordance with the development plan of the Company. The Company has conducted serious research and analysis on the feasibility of the project, which is beneficial for the development of the core business of the Company and is in the interests of all shareholders.

Set out below are the independent opinions of the Supervisory Committee on the acquisition and disposal of assets by the Company:

During the reporting period, the acquisitions and the disposal of assets by the Company were in compliance with the relevant laws and regulations, including the Company Laws and the Securities Laws, as well as the Articles of Association. The transactions, which have passed the required reviewing procedures with fair and reasonable transaction prices, could accelerate the development of core business and optimize the resource allocation. The major investment projects were carried out in accordance with the resolutions of the Board in a regulated and orderly manner.

The connected transactions of the Company were carried out in compliance with the relevant laws and regulations, including the Company Laws and the Securities Laws, the listing rules of the stock exchange on which the shares of the Company are listed, and the Articles of Association. They have passed the required reviewing procedures and the transaction prices were fair and reasonable. The disclosure requirements of the connected transactions under the Listing Rules of the stock exchange on which the shares of the Company are listed were complied with with no detriment to the interests of the listed company.

The Supervisory Committee considers that, since the listing on the Hong Kong Stock Exchange, the Company has continuously improved its corporate governance structure and various internal control systems, which enhanced the operational efficiency and business development of the Company. In the upcoming year, the Supervisory Committee will continue to fulfill its monitoring duties, with an aim to protect the interests of the Company and all shareholders.

By order of the Supervisory Committee

Cheng Zuomin
Chairman
Shanghai, PRC
16 April 2008

Independent Auditors' Report

To the shareholders of Shanghai Electric Group Company Limited

(Established in the People's Republic of China as a joint stock company with limited liability)

We have audited the financial statements of Shanghai Electric Group Company Limited set out on pages 46 to 172, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants
Hong Kong
16 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	56,437,485	44,051,182
Cost of sales		(47,206,390)	(36,359,843)
Gross profit		9,231,095	7,691,339
Other income and gains	5	1,806,404	900,326
Selling and distribution costs		(1,440,332)	(1,061,873)
Administrative expenses		(3,550,474)	(3,085,827)
Other expenses		(966,639)	(848,940)
Finance costs	7	(72,183)	(58,182)
Share of profits and losses of associates		607,376	436,180
PROFIT BEFORE TAX	6	5,615,247	3,973,023
Tax	10	(1,320,270)	(1,041,285)
PROFIT FOR THE YEAR		4,294,977	2,931,738
Attributable to:			
Equity holders of the parent	11	2,814,552	2,048,890
Minority interests		1,480,425	882,848
		4,294,977	2,931,738
DIVIDEND	12		
Proposed final		-	725,391
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
- For profit for the year (RMB)		23.67 cents	17.23 cents

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	10,778,743	8,590,538
Prepaid land lease payments	15	1,376,934	1,236,598
Goodwill	16	211,181	183,440
Other intangible assets	17	394,421	360,004
Investments in associates	20	2,575,749	2,267,372
Loans receivable	21	6,673	153,248
Other investments	22	923,424	1,340,167
Other long term assets		113,004	60,061
Deferred tax assets	23	616,099	394,089
Total non-current assets		16,996,228	14,585,517
CURRENT ASSETS			
Inventories	24	16,494,559	15,012,619
Construction contracts	25	285,873	1,356,641
Trade receivables	26	9,936,956	8,497,762
Loans receivable	21	604,451	781,536
Discounted bills receivable	27	280,845	183,023
Bills receivable	28	2,120,699	1,559,901
Prepayments, deposits and other receivables	29	8,409,166	5,867,431
Investments	30	5,639,599	5,099,263
Derivative financial instruments	31	18,255	8,164
Due from the Central Bank	32	1,580,991	754,046
Restricted deposits	32	1,184,121	1,693,199
Cash and cash equivalents	32	12,809,930	8,614,165
		59,365,445	49,427,750
Non-current assets classified as held for sale	33	35,794	34,510
Total current assets		59,401,239	49,462,260
CURRENT LIABILITIES			
Trade payables	34	9,442,497	6,308,832
Bills payable	35	1,850,728	1,253,193
Other payables and accruals	36	30,060,535	28,986,969
Derivative financial instruments	31	-	986
Debentures	37	-	489,267
Customer deposits	38	471,486	260,023
Interest-bearing bank and other borrowings	39	1,437,295	440,675
Tax payable		1,857,472	1,228,079
Provisions	40	672,690	528,757
		45,792,703	39,496,781

Consolidated Balance Sheet (continued)

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CURRENT LIABILITIES (continued)		45,792,703	39,496,781
Liabilities directly associated with the non-current assets classified as held for sale	33	83,078	81,843
Total current liabilities		45,875,781	39,578,624
NET CURRENT ASSETS		13,525,458	9,883,636
TOTAL ASSETS LESS CURRENT LIABILITIES		30,521,686	24,469,153
NON-CURRENT LIABILITIES			
Bonds	41	1,000,000	-
Interest-bearing bank and other borrowings	39	824,304	107,390
Provisions	40	63,951	31,213
Government grants		118,544	126,992
Other long term payables	42	64,150	81,145
Deferred tax liabilities	23	939,687	624,811
Total non-current liabilities		3,010,636	971,551
Net assets		27,511,050	23,497,602
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	43	11,891,648	11,891,648
Reserves	44(a)	7,777,648	4,109,141
Proposed final dividend	12	-	725,391
		19,669,296	16,726,180
Minority interests		7,841,754	6,771,422
Total equity		27,511,050	23,497,602

Director: Mr. Xu Jianguo Director: Mr. Yu Yingui

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Notes	Attributable to equity holders of the parent										
		Issued capital RMB'000	Capital reserve RMB'000 (note 44(a))	Contributed surplus RMB'000 (note 44(a))	Surplus reserves RMB'000 (note 44(a))	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2006		11,891,648	3,901,726	(3,487,636)	1,550,926	3,497	(8,007)	540,295	487,558	14,880,007	6,306,275	21,186,282
Changes in fair value of available-for-sale investments		-	-	-	-	429,124	-	-	-	429,124	112,370	541,494
Deferred tax impact on changes in fair value of available-for-sale investments	23	-	-	-	-	(136,757)	-	-	-	(136,757)	(34,404)	(171,161)
Exchange realignment		-	-	-	-	-	(10,253)	-	-	(10,253)	(5,908)	(16,161)
Total income and expense for the year recognised directly in equity		-	-	-	-	292,367	(10,253)	-	-	282,114	72,058	354,172
Profit for the year		-	-	-	-	-	-	2,048,890	-	2,048,890	882,848	2,931,738
Total income and expense for the year		-	-	-	-	292,367	(10,253)	2,048,890	-	2,331,004	954,906	3,285,910
Refund of share issue expenses	43	-	6,264	-	-	-	-	-	-	6,264	-	6,264
Acquisition of subsidiaries	45(2)	-	-	-	-	-	-	-	-	-	142,780	142,780
Transfer to capital reserve		-	6,043	-	-	-	-	(6,043)	-	-	-	-
Appropriation to surplus reserves		-	-	-	494,515	-	-	(494,515)	-	-	-	-
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	(665,730)	(665,730)
Final 2005 dividend declared		-	-	-	-	-	-	-	(487,558)	(487,558)	-	(487,558)
Acquisition of minority interests	45(2)	-	-	-	-	-	-	-	-	-	(20,510)	(20,510)
Capital injection in subsidiaries		-	-	-	-	-	-	-	-	-	64,645	64,645
Proposed final 2006 dividend	12	-	-	-	-	-	-	(725,391)	725,391	-	-	-
Others		-	(1,093)	-	(2,444)	-	-	-	-	(3,537)	(10,944)	(14,481)
At 31 December 2006		11,891,648	3,912,940*	(3,487,636)*	2,042,997*	295,864*	(18,260)*	1,363,236*	725,391	16,726,180	6,771,422	23,497,602

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2007

	Notes	Issued capital RMB'000	Capital reserve RMB'000 (note 44(a))	Contributed surplus RMB'000 (note 44(a))	Surplus reserves RMB'000 (note 44(a))	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the parent										
At 1 January 2007		11,891,648	3,912,940	(3,487,636)	2,042,997	295,864	(18,260)	1,363,236	725,391	16,726,180	6,771,422	23,497,602
Changes in fair value of available-for-sale investments		-	-	-	-	1,054,574	-	-	-	1,054,574	300,842	1,355,416
Deferred tax impact on changes in fair value of available-for- sale investments	23	-	-	-	-	(242,484)	-	-	-	(242,484)	(70,780)	(313,264)
Effect of change in opening balance of deferred tax credited to equity	23	-	13,837	-	-	27,379	-	-	-	41,216	6,868	48,084
Exchange realignment		-	-	-	-	-	(585)	-	-	(585)	(3,636)	(4,221)
Total income and expense for the year recognised directly in equity		-	13,837	-	-	839,469	(585)	-	-	852,721	233,294	1,086,015
Profit for the year		-	-	-	-	-	-	2,814,552	-	2,814,552	1,480,425	4,294,977
Total income and expense for the year		-	13,837	-	-	839,469	(585)	2,814,552	-	3,667,273	1,713,719	5,380,992
Disposal of subsidiaries	46(1)	-	-	-	-	-	-	-	-	-	(53,996)	(53,996)
Transfer of surplus reserves	44(a)	-	-	-	(594,346)	-	-	594,346	-	-	-	-
Appropriation to surplus reserves		-	-	-	610,004	-	-	(610,004)	-	-	-	-
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	(633,404)	(633,404)
Final 2006 dividend declared		-	-	-	-	-	-	-	(725,391)	(725,391)	-	(725,391)
Acquisition of minority interests	45(1)	-	-	-	-	-	-	-	-	-	(35,086)	(35,086)
Capital injection in subsidiaries		-	-	-	-	-	-	-	-	-	82,778	82,778
Others		-	6,141	-	(118)	-	-	(4,789)	-	1,234	(3,679)	(2,445)
At 31 December 2007		11,891,648	3,932,918*	(3,487,636)*	2,058,537*	1,135,333*	(18,845)*	4,157,341*	-	19,669,296	7,841,754	27,511,050

* These reserve accounts constitute the consolidated reserves of RMB7,777,648,000 (2006: RMB4,109,141,000) on the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,615,247	3,973,023
Adjustments for:			
Finance Company:			
Interest income due from banks and other financial institutions	5	(109,549)	(58,126)
Interest income on loans receivable and discounted bills receivable	5	(47,442)	(41,202)
Interest income on bank balances and time deposits	5	(138,459)	(124,349)
Interest income on debt investments	5	(60,515)	(67,951)
Dividend income from equity investments and investment funds	5	(301,621)	(71,027)
Gain on disposal of items of property, plant and equipment	5	(9,681)	(25,085)
Unrealised fair value gains, net:			
Investments at fair value through profit or loss	5	(164,499)	(176,648)
Derivative financial instruments-transactions not qualifying as hedges:			
Unrealised fair value gains, net	5	(11,077)	(7,178)
Realised fair value gains, net	5	(11,173)	-
Gain on debt restructuring	5	(23,032)	(4,633)
Gain on disposal of subsidiaries	5	(7,667)	(18,453)
Gain on disposal of equity interest in a jointly-controlled entity	5	-	(10,190)
(Gain)/loss on disposal of associates	5	(1,653)	40,905
Realised gain on investments at fair value through profit or loss	5	(187,459)	(154,155)
Realised gain on available-for-sale investments (transfer from equity)	5	(742,369)	(4,489)
Gain on disposal of unquoted equity investments stated at cost	5	(15,222)	(106,622)
Gain on recovery of prepaid land lease payments	5	-	(78,247)
Excess over the cost of business combinations	5	(11,412)	(21,967)
Finance Company:			
Interest expense due to banks and other financial institutions	6	35,611	43,708
Interest expense on customer deposits	6	4,182	3,189
Interest expense on bonds	6	4,350	-
Depreciation	6	842,613	697,040
Recognition of prepaid land lease payments	6	38,293	26,522
Amortisation of other intangible assets	6	73,858	64,406
Early retirement benefits costs		64,265	27,908
Write-down of inventories to net realisable value	6	516,512	255,366
Share of profits and losses of associates		(607,376)	(436,180)
Impairment of accounts receivable and other receivables	6	161,710	339,084
Impairment of loans receivable	6	5,043	8,045
Impairment of discounted bills receivable	6	1,297	1,157
		4,912,775	4,073,851

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)		4,912,775	4,073,851
Impairment of unquoted equity investments stated at cost	6	-	12,940
Impairment of held-to-maturity debt investments	6	75,000	-
Impairment/(reversal of impairment) of items of property, plant and equipment	6	5,911	(804)
Impairment of goodwill	6	6,401	8,385
Impairment of investments in associates	6	2,478	3,057
Provision for product warranty	6	189,085	230,887
Provision for onerous contracts	6	457,603	84,412
Provision for late delivery	6	-	124,000
Finance costs	7	72,183	58,182
Exchange losses, net		47,045	55,392
Increase in inventories		(1,910,223)	(3,096,280)
Increase/(decrease) in construction contracts		1,070,768	(1,298,702)
Increase in trade receivables and other receivables		(4,330,718)	(3,786,500)
(Decrease)/increase in other long term assets		(56,856)	105,560
Increase in trade payables, bills payable, other payables and accruals		4,365,452	4,513,163
Utilisation of warranty provision and other provisions		(534,282)	(208,834)
Cash generated from operations		4,372,622	878,709
Taxes paid		(871,461)	(761,314)
Net cash inflow from operating activities		3,501,161	117,395
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		366,280	267,137
Dividends received from associates		354,648	315,511
Dividends received from investments		300,533	71,027
Purchases of items of property, plant and equipment		(3,035,318)	(2,597,037)
Realised fair value gains on derivative instruments		11,173	-
Prepaid land lease payments		(117,125)	(177,403)
Proceeds from disposal of items of property, plant and equipment		142,262	89,548
Recovery of prepaid land lease payments		-	113,621
Advances from recovery of prepaid land lease payments		-	36,363
Acquisition of subsidiaries	45	(138,060)	(195,358)
Disposal of subsidiaries	46	210,414	23,772
Disposal of equity interest in a jointly-controlled entity	47	-	(16,688)
Advances from disposal of a subsidiary	48	239,403	-
		(1,665,790)	(2,069,507)

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES (continued)		(1,665,790)	(2,069,507)
Advances form disposal of a jointly-controlled entity	48	57,367	-
Capital injection in associates		(97,603)	(192,355)
Acquisition of associates		(4,046)	(4,543)
Proceeds from disposal of associates		24,059	307,809
Purchases of non-current other investments		(241,932)	(958,218)
Proceeds from disposal of non-current other investments		1,195,568	142,261
Purchases of other intangible assets		(130,614)	(107,620)
Proceeds from disposal of other intangible assets		28,126	883
Acquisition of minority interests	45	(23,674)	(24,137)
Decrease/(increase) in restricted deposits		509,078	(276,526)
(Increase)/decrease in non-restricted time deposits with original maturity of over three months when acquired		(332,185)	1,724,480
Decrease/(increase) in loans receivable		53,064	(792,601)
Increase in discounted bills receivable		(99,119)	(115,633)
Increase in an amount due from the Central Bank	32	(826,945)	(83,101)
Decrease in current investments		1,312,805	2,567,518
Net cash (outflow)/ inflow from investing activities		(241,841)	118,710
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by minority interests		82,778	64,645
New bank and other loans		3,052,909	587,501
Repayments of bank and other loans		(1,462,040)	(454,183)
Repayment of debentures		(500,000)	(700,000)
Issue of bonds/debentures		1,000,000	481,600
Refund of share issue expenses	43	-	6,264
Dividends paid to minority shareholders		(804,741)	(291,227)
Dividends paid by the Company		(764,840)	(447,838)
Increase in customer deposits		174,522	113,114
Interest paid		(127,283)	(83,115)
Net cash inflow/(outflow) from financing activities		651,305	(723,239)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,910,625	(487,134)
Cash and cash equivalents at beginning of year		6,944,549	7,487,075
Effect of foreign exchange rate changes, net		(47,045)	(55,392)
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,808,129	6,944,549
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	12,809,930	8,614,165
Less: Non-restricted time deposits with original maturity of over three months when acquired		(2,001,801)	(1,669,616)
		10,808,129	6,944,549

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	305,159	304,775
Other intangible assets	17	4,290	3,796
Investments in subsidiaries	18	12,943,619	11,113,842
Investments in associates	20	164,350	93,394
Deferred tax assets	23	84,796	141,778
Total non-current assets		13,502,214	11,657,585
CURRENT ASSETS			
Inventories	24	39,838	56,865
Construction contracts	25	159,834	1,090,861
Trade receivables	26	2,997,646	1,528,062
Bills receivable	28	99,202	30,050
Loans receivable	21	-	285,467
Prepayments, deposits and other receivables	29	13,917,582	8,209,715
Investments	30	600,000	1,263,790
Restricted deposits	32	-	143,866
Cash and cash equivalents	32	4,049,920	2,232,058
Total current assets		21,864,022	14,840,734
CURRENT LIABILITIES			
Trade payables	34	4,203,839	1,773,926
Bills payable	35	25,640	153,278
Other payables and accruals	36	15,680,350	10,495,799
Interest-bearing bank and other borrowings	39	550,000	-
Tax payable		26,307	-
Provisions	40	124,000	124,000
Total current liabilities		20,610,136	12,547,003
NET CURRENT ASSETS		1,253,886	2,293,731
TOTAL ASSETS LESS CURRENT LIABILITIES		14,756,100	13,951,316
NON-CURRENT LIABILITIES			
Government grants		17,135	44,000
Other long term payables	42	31,000	13,924
Total non-current liabilities		48,135	57,924
Net assets		14,707,965	13,893,392

Balance Sheet (continued)

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
EQUITY			
Issued capital	43	11,891,648	11,891,648
Reserves	44(b)	2,816,317	1,276,353
Proposed final dividend	12	-	725,391
Total equity		14,707,965	13,893,392

Director: Mr. Xu Jianguo Director: Mr. Yu Yingui

31 December 2007

1. CORPORATE INFORMATION

Shanghai Electric Group Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (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 heavy machinery, nuclear electricity equipment and nuclear island 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 include all Hong Kong Financial Reporting Standards, 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 (collectively referred to as the "Group") for the year ended 31 December 2007. 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
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*

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: *Disclosures*

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

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

(b) Amendment to HKAS 1 - *Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 54 to the financial statements.

(c) HK(IFRIC) - Int 8 Scope of *HKFRS 2*

The interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued any equity instruments to its employees, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC) - Int 9 *Reassessment of Embedded Derivatives*

The interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC) - Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]

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

HK(IFRIC)-Int 11	*HKFRS 2-Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 14	*HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*[4]
HKFRS 2 Amendment	*Share-based Payments – Vesting Conditions and Cancellations*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosures of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

The revised HKAS 1 separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKAS 23 has been revised to require capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. The interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. The interpretation also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. The Group currently has certain public-to-private concession arrangements and is in the process of making an assessment of the impact of the interpretation upon initial application. So far, the Group does not expect the interpretation to have a significant impact on the Group's results of operations and financial position.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

HKFRS 2 Amendment restricts the defintion of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellations. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) must be applied prospectively and will affect future acquisitions with minority interests.

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 venture

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;

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

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. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. 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 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. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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. The Group performs its annual impairment test of goodwill as at 31 December. 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.

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

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.

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 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 is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but 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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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	10 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 the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 investment properties, 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)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives 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 with a finite useful life are reviewed at least at each balance sheet date.

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

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

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding ten years, commencing from the date when the products are put into commercial production.

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

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 less any allowance for impairment. 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. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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. Interest and dividends earned are reported as interest income and dividend income, respectively, in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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 by adjusting the allowance account. 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 and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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 delivery of 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.

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. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, bonds, 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 less 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 between 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

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

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 that are readily convertible into known amounts of cash, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

- in respect of taxable temporary differences associated with investments 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Government grants

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

Revenue recognition

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

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

(b) from 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 the exchange fluctuation reserve. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

The Group uses the percentage of completion method to account for its contract revenue from construction contracts where it is probable that contract costs are recoverable. The stage of completion is measured in accordance with the accounting policy stated in note 2.4. Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract cost and the recoverability of the contract costs. In making the judgement, the Group evaluates by relying on past experience and the work of the project management team. Revenue from construction contracts is disclosed in note 5 to the financial statements.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting period. Changes in estimate of contract revenue or contract costs, or changes in the estimated outcome of a contract could impact the amounts of revenue and expenses recognised in the income statement in the period in which the change is made and in subsequent periods. Such impact could potentially be significant.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2007 was RMB211,181,000 (2006: RMB183,440,000). More details are given in note 16 to the financial statements.

Income tax rates

A number of the Group companies are entitled to certain tax concessions. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due.

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 became 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%. The Group has made adjustments in accordance with the revised tax rate on those deductible and taxable temporary differences which are expected to realise after the New Corporate Income Tax Law became effective on 1 January 2008.

Due to the uncertainty of the future enacted tax rate applicable to certain subsidiaries and likely timing of the realisation of the temporary differences, the measurement of deferred tax assets and liabilities requires management's judgement and estimates.

Where the actual tax outcome of expectation in future is different from the initial estimate, such differences will impact the carrying value of deferred tax assets and liabilities and their re-measurement in the period in which such estimate has been changed.

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 2007 was RMB3,194,000 (2006: RMB9,241,000). The amount of unrecognised tax losses at 31 December 2007 was RMB318,569,000 (2006: RMB152,364,000). Further details are contained in note 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management takes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2007, no impairment losses have been recognised for available-for-sale assets (2006: Nil). The carrying amount of available-for-sale assets was RMB5,398,409,000 (2006: RMB2,692,323,000).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on assessment of the salability and net realisable value of inventories. The identification of write-down of inventories requires management's judgement and estimates. Where the actual outcome of expectation in future is different from the original estimate, such differences will impact the carrying value of the inventories and write-down loss/reversal of write-down in the period in which such estimate has been changed.

Impairment of trade receivables

Impairment of trade receivables is made based on assessment of the recoverability of trade receivables. The identification of impairment of trade receivables requires management's judgement and estimates. Where the actual outcome of expectation in future is different from the original estimate, such differences will impact the carrying value of the receivables and impairment loss/reversal of impairment in the period in which such estimate has been changed.

Provisions

The Group makes provisions for product warranty, onerous contract, staff early retirement and late delivery. Management estimates the related provisions based on contract terms, available knowledge and past experience. The Group recognises provisions to the extent that it has a present legal or constructive obligation as a result of past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and that the amount can be reliably estimated.

The carrying amount of the provisions was RMB736,641,000 (2006: RMB559,970,000) as at 31 December 2007. More details are disclosed in note 40 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

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 and machine tools;

(c) the heavy machinery segment is engaged in the production and sale of heavy machinery and nuclear electricity equipment and nuclear island equipment products;

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

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

(f) 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

(g) 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 prices.

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 2007 and 2006.

Year ended 31 December 2007	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue									
Sales to external customers	32,837,908	12,637,054	2,823,000	4,922,099	2,669,089	156,991	391,344	-	56,437,485
Intersegment sales	601,957	68,822	184,572	4,869	79,888	102,502	48,419	(1,091,029)	-
Total	33,439,865	12,705,876	3,007,572	4,926,968	2,748,977	259,493	439,763	(1,091,029)	56,437,485
Investment income*	-	-	-	-	-	1,363,049	-	-	1,363,049
Segment results	2,523,376	882,218	60,135	186,136	36,379	1,298,349	(553)	(7,468)	4,978,572
Interest and dividend income and other unallocated gains									234,822
Corporate and other unallocated expenses									(133,340)
Finance costs									(72,183)
Share of profits and losses of associates	313,426	275,174	914	17,535	327	-	-	-	607,376
Profit before tax									5,615,247
Tax									(1,320,270)
Profit for the year									4,294,977

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2007	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities									
Segment assets	38,940,622	12,249,692	9,778,717	4,938,107	2,943,021	18,456,394	430,932	(15,680,196)	72,057,289
Investments in associates	1,302,669	1,178,079	19,734	69,375	1,938	-	3,954	-	2,575,749
Corporate and other unallocated assets									1,764,429
Total assets									76,397,467
Segment liabilities	33,230,582	5,719,795	3,828,108	2,167,688	1,629,426	14,522,994	362,482	(15,943,731)	45,517,344
Corporate and other unallocated liabilities									3,369,073
Total liabilities									48,886,417
Other segment information									
Depreciation and amortisation	346,962	276,083	97,354	180,895	29,273	1,842	22,355	-	954,764
Capital expenditure	767,514	360,692	1,842,822	135,909	412,091	489	46,092	(37,980)	3,527,629
Impairment losses:									
Recognised in the income statement	3,570	515	-	10,824	-	-	-	-	14,909
Reversed in the income statement	(119)	-	-	-	-	-	-	-	(119)
Other non-cash expenses	292,789	53,728	14,793	51,408	13,354	87,387	759	245,344	759,562
Product warranty provision	79,800	31,633	5,208	72,291	115	-	38	-	189,085
Provision for onerous contracts	457,603	-	251,398	-	-	-	-	(251,398)	457,603

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2006	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue									
Sales to external customers	25,527,503	10,037,751	2,665,517	3,582,837	1,828,734	99,328	309,512	-	44,051,182
Intersegment sales	947,536	34,566	109,934	26,231	83,365	67,695	70,333	(1,339,660)	-
Total	26,475,039	10,072,317	2,775,451	3,609,068	1,912,099	167,023	379,845	(1,339,660)	44,051,182
Investment income *	-	-	-	-	-	437,964	-	-	437,964
Segment results	2,438,658	591,172	78,233	(44,452)	39,884	327,273	(67,146)	77,379	3,441,001
Interest and dividend income and other unallocated gains									237,700
Corporate and other unallocated expenses									(83,676)
Finance costs									(58,182)
Share of profits and losses of associates	218,659	207,363	376	9,955	(139)	-	(34)	-	436,180
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	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities									
Segment assets	33,613,170	10,377,656	5,859,643	4,309,441	1,651,340	13,469,261	409,940	(9,769,818)	59,920,633
Investments in associates	1,099,224	1,075,682	18,355	67,860	2,105	-	4,146	-	2,267,372
Corporate and other unallocated assets									1,859,772
Total assets									64,047,777
Segment liabilities	28,935,628	4,923,083	3,130,250	1,752,258	1,206,565	11,358,345	317,259	(12,436,568)	39,186,820
Corporate and other unallocated liabilities									1,363,355
Total liabilities									40,550,175
Other segment information									
Depreciation and amortisation	299,444	233,101	78,312	141,156	16,884	2,816	16,255	-	787,968
Capital expenditure	976,145	617,006	1,496,244	244,598	90,145	973	33,623	(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	67,396	12,212	27,586	25,663	9,197	717	-	616,592
Product warranty provision	108,490	25,725	34,353	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

* The investment income, as defined in note 5, arising from the financial business, is included in the segment result of the financial business. The investment income of the group's other segments is included in "interest and dividend income and other unallocated gains" in the above segment information.

5. REVENUE, OTHER INCOME AND GAINS

Revenue includes turnover and other revenue that arise in the Group's course of ordinary activities. The Group's turnover, which arises from the principal activities of the Group, 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:

	2007 RMB'000	2006 RMB'000
Revenue		
Turnover		
Sale of goods	47,182,265	39,550,929
Construction contracts	6,252,362	1,832,310
Rendering of services	1,588,628	1,278,679
	55,023,255	42,661,918
Other revenue		
Sales of raw materials, spare parts and semi-finished goods	980,778	1,111,904
Gross rental income	101,354	74,876
Finance Company:		
Interest income from banks and other financial institutions	109,549	58,126
Interest income on loans receivable and discounted bills receivable	47,442	41,202
Others	175,107	103,156
	1,414,230	1,389,264
	56,437,485	44,051,182
Other income		
Interest income on bank balances and time deposits	138,459	124,349
Interest income on debt investments*	60,515	67,951
	198,974	192,300
Dividend income from equity investments and investment funds*	301,621	71,027
Subsidy income	118,872	71,930
Forfeiture of purchase deposits from customers	1,658	8,066
Compensation income	10,915	28,602
Others	44,375	8,099
	676,415	380,024

5. REVENUE, OTHER INCOME AND GAINS (continued)

	Notes	2007 RMB'000	2006 RMB'000
Gains			
Gain on disposal of items of property, plant and equipment		9,681	25,085
Unrealised fair value gains, net:			
Investments at fair value through profit or loss*		164,499	176,648
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value gains, net*	31	11,077	7,178
Realised fair value gains, net*		11,173	-
Gain on debt restructuring		23,032	4,633
Gain on disposal of subsidiaries*	46	7,667	18,453
Gain on disposal of equity interest in a jointly-controlled entity*	47	-	10,190
Gain/(loss) on disposal of associates*		1,653	(40,905)
Realised gain on investments at fair value through profit or loss*		187,459	154,155
Realised gain on available-for-sale investments (transfer from equity)*		742,369	4,489
Gain on disposal of unquoted equity investments stated at cost*		15,222	106,622
Gain on recovery of prepaid land lease payments		-	78,247
Excess over the cost of business combinations*	45	11,412	21,967
Exchange losses, net		(55,255)	(46,460)
		1,129,989	520,302
		1,806,404	900,326

* These items are collectively referred to as "investment income".

6. PROFIT BEFORE TAX

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		38,885,586	32,730,206
Cost of construction contracts		5,636,040	1,761,822
Cost of services provided		1,314,294	1,028,243
Finance Company:			
Interest expense due to banks and other financial institutions		35,611	43,708
Interest expense on customer deposits		4,182	3,189
Interest expense on bonds		4,350	-
		44,143	46,897
Depreciation	14	842,613	697,040
Recognition of prepaid land lease payments**	15	38,293	26,522
Amortisation of patents and licences**	17	28,498	21,438
Amortisation of other intangible assets**	17	11,004	7,131
Research and development costs:**			
Amortisation of technology know-how	17	34,356	35,837
Current year expenditure*		563,803	259,084
		598,159	294,921
Minimum lease payments under operating leases:			
Land and buildings		76,807	74,315
Plant, machinery and motor vehicles		33,826	26,758
Auditors' remuneration		36,750	22,409
Staff costs (including directors' and supervisors' remuneration) (note 8):			
Wages and salaries		3,228,773	2,664,737
Defined contribution pension scheme (note i)		431,568	367,852
Early retirement benefits costs (note ii)	40	64,265	27,908
Staff severance costs		24,665	77,468
Medical benefits costs (note iii)		195,571	134,549
Housing fund		174,824	125,287
Cash housing subsidies costs		5,528	11,100
		4,125,194	3,408,901

6. PROFIT BEFORE TAX (continued)

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

	Notes	2007 RMB'000	2006 RMB'000
Write-down of inventories to net realisable value		516,512	255,366
Impairment of trade receivables and other receivables**	26, 29	161,710	339,084
Impairment of loans receivable**	21	5,043	8,045
Impairment of discounted bills receivable**	27	1,297	1,157
Impairment of unquoted equity investments stated at cost**		-	12,940
Impairment of held-to-maturity debt investments**		75,000	-
Impairment/(reversal of impairment) of			
items of property, plant and equipment**	14	5,911	(804)
Impairment of goodwill**	16	6,401	8,385
Impairment of investments in associates**		2,478	3,057
Product warranty provision:	40		
Additional provision		192,984	245,869
Reversal of unutilised provision		(3,899)	(14,982)
Onerous contract provision:	40		
Additional provision		457,603	84,412
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% (2006: 22.0%) 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.

6. PROFIT BEFORE TAX (continued)

Notes: (continued)

(i) Defined contribution pension scheme (continued)

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.

(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 RMB112,216,000 as at 31 December 2007 (2006: RMB105,653,000) 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

	2007 RMB'000	2006 RMB'000
Interest on bank loans and other loans wholly repayable within five years	91,598	36,218
Interest on debentures	10,733	24,769
Total interest expense on financial liabilities not at fair value through profit or loss	102,331	60,987
Less: Interest capitalised	(30,148)	(2,805)
	72,183	58,182

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007 RMB'000	2006 RMB'000
Directors		
Fees	650	592
Other emoluments:		
Salaries, allowances and benefits in kind	2,116	1,772
Pension scheme contributions	76	68
	2,842	2,432
Supervisors		
Fees	-	-
Other emoluments:		
Salaries, allowances and benefits in kind	276	233
Pension scheme contributions	19	17
	295	250
	3,137	2,682

(a) Independent non-executive directors

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

	2007 RMB'000	2006 RMB'000
Dr. Yao Fusheng	150	150
Dr. Cheung Wai Bun	250	250
Mr. Lei Huai Chin	250	192
	650	592

There were no other emoluments payable to the independent non-executive directors during the year (2006: 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 Companies Ordinance.

2007	Fees RMB'000	Salaries, housing benefits, other allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr. Huang Dinan	-	604	-	19	623
Mr. Wang Qiang *	-	504	-	19	523
Ms. Li Manping *	-	504	-	19	523
Mr. Yu Yingui *	-	504	-	19	523
	-	2,116	-	76	2,192
Supervisor					
Mr. Xie Tonglun *	-	276	-	19	295
	-	2,392	-	95	2,487

* Apart from the above, in February 2008, Mr. Wang Qiang, Ms. Li Manping, Mr. Yu Yingui and Mr. Xie Tonglun each received three-year term management bonuses for the years 2004-2006 of RMB100,000 per annum.

2006	Fees RMB'000	Salaries, housing benefits, other allowances and benefits 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

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 one (2006: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2006: five) non-director/non-supervisor, highest paid employees for the year are as follows:

	2007 RMB'000	2006 RMB'000
Salaries, housing benefits, other allowances and benefits in kind	2,940	3,813
Pension scheme contributions	57	52
	2,997	3,865

The number of non-director/non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2007	2006
Nil to HKD1,000,000	3	5
HKD1,000,001 to HKD1,500,000	1	-
	4	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:

- certain subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Pudong New Area, Shanghai;
- certain subsidiaries are subject to a corporate income tax rate of 27% as they are located in the coastal economic and technology development area and special economic region with foreign investments in production business in the old city area;
- certain subsidiaries are subject to a corporate income tax rate of 15% as they are registered in the Shanghai Minhang Economic and Technological Development Zone with foreign investments in production business; and
- certain subsidiaries are 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.

10. TAX (continued)

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.

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

	2007 RMB'000	2006 RMB'000
Group:		
Current - Mainland China		
Charge for the year	1,615,910	1,138,421
Overprovision in prior years	(117,526)	(44,357)
Current - Elsewhere		
Charge for the year	4,048	489
Overprovision in prior years	-	322
Deferred (note 23)	(182,162)	(53,590)
Total tax charge for the year	1,320,270	1,041,285

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:

	2007					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total RMB'000	%
Profit before tax	5,593,287		21,960		5,615,247	
Tax at the statutory tax rate	1,845,563	33.0	6,691	30.5	1,852,254	33.0
Lower tax rate for specific provinces/ districts or concessions	(359,251)	(6.4)	-	-	(359,251)	(6.4)
Effect of change in tax rate on the opening balance of deferred tax*	(98,123)	(1.8)	-	-	(98,123)	(1.8)
Adjustments in respect of current tax of previous periods	(117,526)	(2.1)	-	-	(117,526)	(2.1)
Profits and losses attributable to associates	(200,434)	(3.6)	-	-	(200,434)	(3.6)
Income not subject to tax	(100,561)	(1.8)	-	-	(100,561)	(1.8)
Expenses not deductible for tax	279,473	5.0	241	1.1	279,714	5.0
Tax incentives on eligible expenditures	(89,969)	(1.6)	(2,884)	(13.1)	(92,853)	(1.6)
Tax losses utilised from previous periods	(5,446)	(0.1)	-	-	(5,446)	(0.1)
Tax losses not recognised	52,595	0.9	-	-	52,595	0.9
Deductible temporary differences not recognised	109,901	2.0	-	-	109,901	2.0
Tax charge at the Group's effective rate	1,316,222	23.5	4,048	18.5	1,320,270	23.5

* Effect of change in tax rate on the opening balance of deferred tax is due to the impact of the New Corporate Income Tax Law becoming effective on 1 January 2008.

10. TAX (continued)

	2006					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total 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

The share of tax attributable to associates amounting to RMB102,492,000 (2006: RMB89,103,000) 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 2007 includes a profit of RMB1,539,964,000 (2006: RMB670,550,000) which has been dealt with in the financial statements of the Company (note 44(b)).

12. DIVIDEND

	2007 RMB'000	2006 RMB'000
Proposed final dividend per ordinary share (2006: RMB6.1 cents)	-	725,391

Pursuant to the merger agreement the Company entered into with Shanghai Power Transmission and Distribution Co., Ltd. ("Shanghai Power Transmission"), prior to the closing of the merger transaction, both parties will not, for the time being, declare any dividends. Thus, the Board of Directors will discuss dividend payout issue after the closing of the merger.

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

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.

No diluted earnings per share amounts have been presented for the years ended 31 December 2006 and 2007 as no diluting events occurred during these years.

The calculation of basic earnings per share is based on:

	2007 RMB'000	2006 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	2,814,552	2,048,890

	Number of shares	
	2007 '000	2006 '000
Shares		
Number of ordinary shares in issue during the year used in the basic earnings per share calculation	11,891,648	11,891,648

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2007	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 2007	4,154,571	6,939,097	483,318	524,426	2,603,763	14,705,175
Additions	67,945	175,553	28,162	141,851	2,732,527	3,146,038
Acquisition of a subsidiary (note 45(1))	48,758	51,216	6,901	10,274	1,325	118,474
Disposals	(98,826)	(177,721)	(27,103)	(93,942)	(4,880)	(402,472)
Disposal of subsidiaries (note 46(1))	(34,992)	(54,411)	(1,794)	(3,969)	(2,456)	(97,622)
Non-current assets classified as held for sale	(2,809)	-	-	-	-	(2,809)
Transfers	532,393	960,920	25,805	47,069	(1,566,187)	-
Exchange realignment	(14,786)	(19,528)	(178)	(10)	153	(34,349)
At 31 December 2007	4,652,254	7,875,126	515,111	625,699	3,764,245	17,432,435

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

31 December 2007 (continued)	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 31 December 2007	4,652,254	7,875,126	515,111	625,699	3,764,245	17,432,435
Accumulated depreciation and impairment:						
At 1 January 2007	1,949,819	3,599,526	267,603	289,157	8,532	6,114,637
Depreciation provided during the year	202,294	478,785	54,799	106,735	-	842,613
Impairment	-	2,341	-	-	3,570	5,911
Acquisition of a subsidiary (note 45(1))	6,229	35,533	5,684	6,530	-	53,976
Disposals	(73,011)	(134,599)	(25,088)	(35,468)	(2,834)	(271,000)
Disposal of subsidiaries (note 46(1))	(19,741)	(36,542)	(470)	(2,892)	-	(59,645)
Non-current assets classified as held for sale	(416)	-	-	-	-	(416)
Exchange realignment	(13,504)	(18,824)	(47)	(9)	-	(32,384)
At 31 December 2007	2,051,670	3,926,220	302,481	364,053	9,268	6,653,692
Net book value:						
At 31 December 2007	2,600,584	3,948,906	212,630	261,646	3,754,977	10,778,743

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
Acquisitions of subsidiaries (note 45(2))	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 46(2))	(3,674)	(3,823)	(2,281)	(447)	-	(10,225)
Disposal of equity interest in a jointly-controlled entity (note 47)	(24,512)	(51,316)	(497)	(13,518)	-	(89,843)
Non-current assets classified as held for sale	(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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

31 December 2006 (continued)	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 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)
Acquisitions of subsidiaries (note 45(2))	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 46(2))	(1,188)	(1,311)	(1,585)	(314)	-	(4,398)
Disposal of equity interest in a jointly-controlled entity (note 47)	(13,967)	(34,051)	(267)	(7,645)	-	(55,930)
Non-current assets classified as held for sale	(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

Company

31 December 2007	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 2007	52,685	14,336	4,668	20,416	232,342	324,447
Additions	-	17,384	1,804	40,796	8,843	68,827
Disposals	-	(35)	-	(25,366)	(28,053)	(53,454)
Transfers	-	1,088	-	2,322	(3,410)	-
At 31 December 2007	52,685	32,773	6,472	38,168	209,722	339,820

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

31 December 2007 (continued)	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 31 December 2007	52,685	32,773	6,472	38,168	209,722	339,820
Accumulated depreciation:						
At 1 January 2007	7,433	4,593	889	6,757	-	19,672
Depreciation provided during the year	3,022	7,154	1,013	10,681	-	21,870
Disposals	-	-	-	(6,881)	-	(6,881)
At 31 December 2007	10,455	11,747	1,902	10,557	-	34,661
Net book value:						
At 31 December 2007	42,230	21,026	4,570	27,611	209,722	305,159

31 December 2006						
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

As at 31 December 2007, certain buildings, machinery and motor vehicles of the Group with net book values of approximately RMB49,639,000 (2006: RMB78,810,000), RMB63,954,000 (2006: RMB56,472,000) and RMB274,000 (2006: Nil), respectively, were pledged to secure general banking facilities granted to the Group (note 39).

As at 31 December 2007, the Group had not obtained the real estate certificates for buildings with a total gross area of approximately 148 thousand m^2 (2006: 272 thousand m^2) and a net book value of RMB323,376,000 (2006: RMB261,458,000).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group was in the process of applying for the real estate certificates for buildings with a gross area of approximately 72 thousand m^2 and a net book value of approximately RMB243,357,000 as at 31 December 2007, which is included in the above net book value of RMB323,376,000.

The carrying amounts of the Group's leased assets by nature held under operating lease arrangements as at year end are:

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and moulds RMB'000	Total RMB'000
At 31 December 2007	175,113	20,622	8,572	1,859	206,166
At 31 December 2006	134,807	7,006	7,174	1,674	150,661

15. PREPAID LAND LEASE PAYMENTS

Group

	2007 RMB'000	2006 RMB'000
At cost:		
At 1 January	1,423,450	1,239,951
Additions	117,125	177,403
Acquisitions of subsidiaries (note 45)	66,030	105,763
Disposals	-	(46,370)
Disposal of subsidiaries (note 46)	(3,373)	(3,072)
Disposal of equity interest in a jointly-controlled entity (note 47)	-	(22,550)
Non-current assets classified as held for sale	-	(27,675)
At 31 December	1,603,232	1,423,450
Accumulated amortisation and impairment:		
At 1 January	159,987	149,673
Amortisation provided during the year	38,293	26,522
Acquisitions of subsidiaries (note 45)	2,463	273
Disposals	-	(10,996)
Disposal of subsidiaries (note 46)	(1,629)	(133)
Disposal of equity interest in a jointly-controlled entity (note 47)	-	(1,830)
Non-current assets classified as held for sale	-	(3,522)
At 31 December	199,114	159,987
Net book value:		
At 31 December	1,404,118	1,263,463

15. PREPAID LAND LEASE PAYMENTS (continued)

Group (continued)

	2007 RMB'000	2006 RMB'000
Of which:		
Current portion included in prepayments, deposits and other receivables (note 29)	27,184	26,865
Non-current portion	1,376,934	1,236,598
	1,404,118	1,263,463

Except for a parcel of leasehold land with cost of RMB22,970,500 (2006: RMB22,970,500), which is 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:

	2007 RMB'000	2006 RMB'000
At cost:		
Long term	27,071	27,071
Medium term	1,576,161	1,396,379
	1,603,232	1,423,450

As at 31 December 2007, certain of the Group's leasehold lands with a net book value of approximately RMB14,062,000 (2006: RMB6,587,000) were pledged to secure general banking facilities granted to the Group (note 39).

As at 31 December 2007, the Group had not obtained the real estate certificates for 2 (2006: 7) parcels of land with a total gross area of approximately 165 thousand m^2 (2006: 460 thousand m^2) and a net book value of RMB44,718,000 (2006: RMB164,071,000).

The Group was in the process of applying for the real estate certificates for the remaining two parcels of land as at 31 December 2007.

16. GOODWILL

Group

	2007 RMB'000	2006 RMB'000
At cost:		
At 1 January	210,751	149,662
Acquisitions of subsidiaries (note 45)	34,142	57,462
Acquisition of minority interests (note 45)	-	3,627
At 31 December	244,893	210,751
Accumulated impairment:		
At 1 January	27,311	18,926
Impairment	6,401	8,385
At 31 December	33,712	27,311
Net book value:		
At 31 December	211,181	183,440

Impairment testing of goodwill

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

		Carrying amount of goodwill	
Cash-generating unit	Segment	2007 RMB'000	2006 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	42,676
Heavy machinery	Heavy machinery	34,142	-
Transportation equipment	Transportation equipment	18,354	18,354
Others		26,473	32,874
		211,181	183,440

The recoverable amounts of the above cash-generating units have been determined based on their value in use calculation, using cash flow projections based on financial budgets covering a five-year period. The discount rate applied to the cash flow projections is 10% (2006: 10%) and cash flows beyond the five-year period are assumed to be stable.

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculation of the above cash-generating units for 31 December 2007 and 31 December 2006. 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 budget 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 2007	Patents and licences RMB'000	Technology know-how RMB'000	Others RMB'000	Total RMB'000
At cost:				
At 1 January 2007	351,133	231,824	69,222	652,179
Additions	42,324	62,163	26,127	130,614
Acquisition of a subsidiary (note 45(1))	5,298	-	1,373	6,671
Disposals	(3,360)	(81)	(28,176)	(31,617)
At 31 December 2007	395,395	293,906	68,546	757,847
Accumulated amortisation:				
At 1 January 2007	168,017	113,031	11,127	292,175
Amortisation provided during the year	28,498	34,356	11,004	73,858
Acquisition of a subsidiary (note 45(1))	12	-	872	884
Disposals	-	-	(3,491)	(3,491)
At 31 December 2007	196,527	147,387	19,512	363,426
Net book value:				
At 31 December 2007	198,868	146,519	49,034	394,421

17. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

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
Acquisitions of subsidiaries (note 45(2))	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
Acquisitions of subsidiaries (note 45(2))	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

Company

	2007 RMB'000	2006 RMB'000
At cost:		
At 1 January	4,388	-
Additions	2,247	4,388
At 31 December	6,635	4,388
Accumulated amortisation:		
At 1 January	592	-
Amortisation provided during the year	1,753	592
At 31 December	2,345	592
Net book value:		
At 31 December	4,290	3,796

18. INVESTMENTS IN SUBSIDIARIES

Company

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	9,667,543	7,837,766
Listed investments, at cost	3,276,076	3,276,076
	12,943,619	11,113,842

As at 31 December 2007, the Company had three listed subsidiaries, namely Shanghai Mechanical & Electrical Industry Co., Ltd. ("Shanghai Mechanical and Electrical"), Shanghai Power Transmission and Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel") 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 ended 31 December 2006, 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 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 share conversions of Shanghai Mechanical and Electrical, Shanghai Power Transmission and Shanghai Diesel were completed on 17 August 2006, 7 November 2006 and 15 May 2006, respectively. As at 31 December 2007, the fair market value of the listed shares of these three subsidiaries held by the Company amounted to RMB46,517,417,000 (2006: RMB12,157,403,000), which decreased to RMB28,517,521,000 at the date of approval of these financial statements.

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. 上海汽輪機廠有限公司	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. 上海電氣集團上海電機廠有限公司	PRC	RMB241,820	99.6%	0.4%	Production and sale of turbine generators and spare parts
Shanghai Boiler Works, Ltd. 上海鍋爐廠有限公司	PRC	RMB107,886	51%	41.04%	Sale of power station boilers, industry boilers and power station equipment

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (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 Boiler Works, Ltd. (SEC) 上海電氣集團上海鍋爐廠有限公司	PRC	RMB99,597	97.8%	2.2%	Production,installation and maintenance of boiler requipment
Shanghai Power Station Auxiliary Equipment Works Co., Ltd. 上海電站輔機廠有限公司	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. 上海輸配電股份有限公司 (note (i))	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. 上海電氣風電設備有限公司	PRC	RMB80,000	65%	-	Production and sale of wind power equipment, spare parts and provision of after-sales service
Shanghai Electric Engineering Design Co., Ltd. 上海電氣工程設計有限公司	PRC	RMB10,000	70%	-	Design, consulting and supervision of engineering workings
Shanghai Mechanical and Electrical Industry Co., Ltd. * ^ 上海機電股份有限公司	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. 上海重型機器廠有限公司	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. 上海機床廠有限公司	PRC	RMB518,733	99.43%	0.57%	Production and sale of machinery and spare parts
Japan Ikegai Corporation # 株式會社池貝	Japan	JPY490,000	65%	-	Production and servicing of machine tools
SMAC Werkzeugamaschine GmbH 四達機床有限公司	Germany	USD590	100%	-	Production of computer numerical controlled machine tools
Magine Machine Tool Co., Ltd. 上海明精機床有限公司	PRC	RMB340,662	100%	-	Manufacture of various kinds of cutting machine tools

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (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 No.1 Machine Tool Works Co., Ltd. 上海第一機床廠有限公司	PRC	RMB250,000	80%	17.49%	Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment
Shanghai Ship-use Crankshaft Co., Ltd. 上海船用曲軸有限公司	PRC	RMB550,000	86.73%	-	Production and sale of crankshaft used for large low-speed ship-use diesels engines
Shanghai Electric Nuclear Power Equipment Co., Ltd. 上海電氣核電設備有限公司	PRC	RMB250,000	100%	-	Production and sale of nuclear power equipment, spare parts and provision of after-sales service
Shanghai Crane & Conveyor Works Co., Ltd. 上海起重運輸機械廠有限公司 (note (ii))	PRC	RMB388,100	100%	-	Design, installation and service of crane and conveyor machineries
Shanghai Diesel Engine Co., Ltd. 上海柴油機股份有限公司 (note (iii))	PRC	RMB480,309	50.32%	-	Production and sale of diesel engines, oil pumps and spare parts
Shanghai Rail Traffic Equipment Development Co., Ltd. 上海軌道交通設備發展有限公司	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. 上海環保工程成套有限公司	PRC	RMB35,000	95.88%	4.12%	Environmental related technology research, imports and exports trading, and equipment installation
Shanghai Capital Numerical Control Co., Ltd. 上海開通數控有限公司	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. 上海電氣自動化設計研究所有限公司	PRC	RMB17,650	97.4%	2.6%	Design and installation of automatic apparatus

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (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 Institute of Mechanical and Electrical Engineering Co., Ltd. 上海市機電設計研究院有限公司	PRC	RMB21,656	99.2%	0.8%	Development of machinery for communal projects
Shanghai Centrifuge Institute Co., Ltd. 上海市離心機械研究所有限公司	PRC	RMB8,706	99.46%	0.54%	Development of technology for general purpose machinery
Shanghai Electric Group Finance Co., Ltd. 上海電氣集團財務有限公司	PRC	RMB800,000	73.38%	6.14%	Provision of financial services
Shanghai Electric Environment Protection Investment Co., Ltd. 上海電氣環保投資有限公司	PRC	RMB200,000	100%	-	Provision of environmental protection services
Shanghai Electric International Economic and Trading Co., Ltd. 上海電氣國際經濟貿易有限公司	PRC	RMB350,000	99%	1%	Import and export of products
SEC-IHI Power Generation Environment Protection Engineering Co., Ltd. 上海電氣石川島電站環保工程有限公司	PRC	RMB50,000	70%	-	Design, manufacture and sale of desulphurisation equipment
Shanghai Top Solar Green Energy Co., Ltd. 上海交大泰陽綠色能源有限公司	PRC	RMB313,000	61.35%	-	Production and sale of solar energy related products
Shanghai Electric Lingang Heavy Machinery Co., Ltd. 上海電氣臨港重型裝備有限公司	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. 濱海艾思伊環保有限公司	PRC	RMB16,080	60%	40%	Sewage treatment

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (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 Electronic Nan Tong Sewage Treatment Co., Ltd. 上海電氣南通水處理有限公司	PRC	RMB20,000	95%	5%	Provision of sewage treatment, water recycling and related services
Shanghai Turbine Co., Ltd. # 上海汽輪機有限公司 (note (iv))	PRC	USD134,375	-	68%	Manufacture and sale of power generators and related equipment
Shanghai Turbine Generator Co., Ltd. # 上海汽輪發電機有限公司 (note (iv))	PRC	USD60,000	-	60%	Design and production of electricity generators
Shanghai Power Equipment Co., Ltd. # 上海動力設備有限公司 (note (iv))	PRC	USD45,000	-	70%	Production and sale of auxiliary machinery
Shanghai Electric Power Generation Equipment Co., Ltd. # 上海電氣電站設備有限公司 (note (iv))	PRC	USD239,375	-	66.30%	Design, manufacture and sale of power generation equipment and auxiliary products
Shanghai Mitsubishi Elevator Co., Ltd. # * 上海三菱電梯有限公司	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. * 上海機電實業有限公司	PRC	RMB66,430	-	47.28%	Provision of labour and export services
Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd. * 上海電氣集團通用冷凍空調設備有限公司	PRC	RMB350,605	-	47.28%	Production and sale of refrigeration and air-conditioning equipment, provision of technical services and equipment construction services

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (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 Electric Group Printing & Packaging Machinery Co., Ltd. * 上海電氣集團印刷包裝機械有限公司	PRC	RMB262,349	-	47.28%	Production and sale of printing and packaging equipment, spare parts and raw materials
Shanghai Green Continent Investment Co., Ltd. * 上海綠洲實業有限公司	PRC	RMB190,000	-	47.28%	Investment and sale of wood-based panels
Shanghai Welding Equipment Co., Ltd.* 上海焊接器材有限公司	PRC	RMB100,714	-	47.28%	Production of welding rods, non-ferrous metal and welding materails
Shanghai Refrigerating Machine Co., Ltd. * 上海冷氣機廠有限公司	PRC	RMB70,129	-	47.28%	Manufacture and sale of air-conditioning equipment and provision of related engineering services
Shanghai Jintai Engineering Machinery Co., Ltd. 上海金泰工程機械有限公司	PRC	RMB287,797	-	50.03%	Manufacture and operation of engineering machinery and related equipment
Shanghai Electric Hydraulics Pneumatics Co., Ltd. * 上海電氣液壓氣動有限公司	PRC	RMB171,243	-	47.28%	Sale of pressurised pumps and related equipment
Shanghai Pudong "EV" Fuel Injection Co., Ltd. * 上海浦東伊維燃油噴射有限公司 (note (v))	PRC	RMB210,000	-	45.29%	Production and sale of fuel injection related products
Shanghai Alstom Transport Co., Ltd. # * 上海阿爾斯通交通設備有限公司	PRC	USD15,000	-	60%	Design and production of city-traffic testing equipment
Shanghai Electric Nantong Environment thermoelectricity Co., Ltd. 上海電氣環保熱電(南通)有限公司	PRC	USD15,000	75%	23.75%	Waste treament

\# Sino-foreign equity joint ventures

18. INVESTMENTS IN SUBSIDIARIES (continued)

^ Shanghai Mechanical and Electrical 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 control these entities .

(i) On 16 November 2007, an extraordinary general meeting was held and resolved that, the Company would apply to the relevant regulatory authorities for the allotment and issue of A Shares by way of a share exchange with the minority shareholder of Shanghai Power Transmission at the exchange ratio determined as 7.32 A shares for one Shanghai Power Transmission share through an initial public offering of A Shares to implement the merger proposal (the "Merger Proposal") . Such A Shares are proposed to be listed on the Shanghai Stock Exchange. The Company obtained the approval from the State-owned Assets Supervision and Administration Commission of the State Council on 13 November 2007. The merger has not been completed as at 31 December 2007.

(ii) During the year, the Group acquired a subsidiary namely Shanghai Crane & Conveyor Works Co., Ltd. ("Shanghai Crane & Conveyor"). Further details of the acquisition are included in note 45(1) to the financial statements.

(iii) On 29 December 2007, the Company entered into a share sales agreement with SAIC Motor Corporation Ltd. ("SAIC Motor") to dispose of its entire 50.32% equity interest in Shanghai Diesel for a cash consideration of RMB923,420,000 (the "Disposal Proposal"). The transfer is pending for the necessary approvals from the State-owned Assets Supervision and Administration Commission and Foreign Investment Approval Commission and the waiver from China Securities Regulatory Commission for the general offer to be made by SAIC Motor to the existing shareholders of Shanghai Diesel. The transfer has not been completed as at 31 December 2007.

(iv) On 23 June 2006, three joint ventures with Siemens, namely Shanghai Turbine Co., Ltd., Shanghai Turbine Turbine Generator Co., Ltd. and Shanghai Power Equipment Co., Ltd., entered into the merger agreement, pursuant to which the three companies would be dissolved and a new joint venture company, Shanghai Electric Power Generation Equipment Co., Ltd. (the "New Joint Venture"), would be established in the PRC to take over all the existing assets, liabilities, rights and obligations of the three joint-venture companies. As at 26 July 2007, the New Joint Venture obtained its business license. Since the merger has not been completed as at 31 December 2007 and the New Joint Venture will start its operation since year 2008, it has no significant impact on the consolidated financial statements of the Group as at 31 December 2007.

(v) On 28 September 2007, Shanghai Diesel entered into an equity transfer agreement with SE Corporation to dispose of its 90% equity interest in Shanghai Pudong "EV" Fuel Injection Co., Ltd. ("Shanghai Pudong EV") to SE Corporation for a cash consideration of RMB239,403,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The disposal has not been completed by 31 December 2007.

18. INVESTMENTS IN SUBSIDIARIES (continued)

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, discounted bills receivable, prepayments, deposits and other receivables, trade payables, other payables and accruals and customer deposits are disclosed in notes 21, 26, 27, 29, 34, 36 and 38 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. 上海紫光機械有限公司	PRC	50%	50%	50%	Design, production and repair of packaging machinery
Shanghai Hino Diesel Engines Co., Ltd. # 上海日野發動機有限公司 (note (i))	PRC	50%	50%	50%	Production and sale of generators
Shanghai Guanghua Printing Machinery Co., Ltd. # 上海光華印刷機械有限公司	PRC	50%	50%	50%	Production and sale of printing machinery

\# Sino-foreign equity joint ventures

(i) On 28 September 2007, Shanghai Diesel entered into an equity transfer agreement with SE Corporation to dispose of its 50% equity interest in Shanghai Hino Diesel Engines Co., Ltd. ("Shanghai Hino"), a sino-foreign joint venture company equally owned by Shanghai Diesel and Hino Motors Ltd., to SE Corporation for a cash consideration of RMB57,367,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China. The disposal has not been completed by 31 December 2007.

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

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

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	467,399	470,294
Non-current assets	259,752	286,433
Current liabilities	(411,804)	(418,162)
Non-current liabilities	(7,124)	(21,396)
Net assets	308,223	317,169

	2007 RMB'000	2006 RMB'000
Share of the jointly-controlled entities' results:		
Revenue	676,499	635,888
Other income	18,342	13,490
	694,841	649,378
Total expenses	(649,333)	(635,224)
Tax	(7,362)	(7,401)
Profit after tax	38,146	6,753

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Share of net assets	2,552,857	2,233,998	164,350	93,394
Goodwill on acquisition	37,200	45,204	-	-
	2,590,057	2,279,202	164,350	93,394
Provision for impairment	(14,308)	(11,830)	-	-
	2,575,749	2,267,372	164,350	93,394

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 payable, 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 Direct	Indirect	Principal activities
Siemens Gas Turbine Parts Co., Ltd. # 上海西門子燃氣輪機部件有限公司	PRC	49%	-	Production and sale of combustion chambers and burners
Shanghai Zhenfa Machinery Equipment Co., Ltd. 上海振發機電有限公司	PRC	33%	-	Production and sale of mechanical and electrical equipment and provision of technical services
Schneider Shanghai Power Distribution Electrical Apparatus Co., Ltd. # 上海施耐德配電電器有限公司	PRC	-	16.75%	Production and sale of low voltage air breakers and low voltage containers
Schneider Shanghai Industrial Control Co., Ltd. # 上海施耐德工業控制有限公司	PRC	-	16.75%	Production and sale of circuit breakers, thermal overload relays, contactors and industrial control components
Siemens Shanghai Switchgear Ltd. # 上海西門子開關有限公司	PRC	-	37.69%	Design, manufacture and sale of switchgears and related products
Shanghai Goss Graphic Systems Co., Ltd. # 上海高斯印刷設備有限公司	PRC	-	18.91%	Production and sale of printing machines, spare parts and provision of after-sales service
Yileng Carrier Air Conditioning Equipment Co., Ltd. # 上海一冷開利空調設備有限公司	PRC	-	18.91%	Production and sale of centralised air-conditioning systems
MWB Shanghai Instrument Transformer Co., Ltd. # 上海MWB互感器有限公司	PRC	-	29.31%	Production and sale of mutual inductors
Shanghai Marathon-Gexin Electric Co., Ltd. # 上海馬拉松革新電氣有限公司	PRC	-	45%	Production, repair and sale of electric machine and machine sets
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. # 三菱電機上海機電電梯有限公司	PRC	-	40%	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:

	2007 RMB'000	2006 RMB'000
Assets	15,837,049	13,731,576
Liabilities	9,082,560	8,006,648
Revenue	20,637,079	17,847,954
Profit	1,523,321	1,402,544

21. LOANS RECEIVABLE

Group

	2007			2006		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Loans to the ultimate holding company	250,000	(2,500)	247,500	500,000	(5,000)	495,000
Loans to SEC group companies*	271,000	(2,710)	268,290	50,000	(500)	49,500
Loans to jointly-controlled entities	56,250	(562)	55,688	114,984	(648)	114,336
Loans to associates	30,240	(325)	29,915	32,520	(325)	32,195
Loans to third parties	9,895	(164)	9,731	246,011	(2,258)	243,753
	617,385	(6,261)	611,124	943,515	(8,731)	934,784
Portion classified as current assets	610,645	(6,194)	604,451	788,198	(6,662)	781,536
Long term portion	6,740	(67)	6,673	155,317	(2,069)	153,248

Company

	2007			2006		
	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

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

21. LOANS RECEIVABLE (continued)

The movements in provision for impairment of loans receivable are as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	8,731	1,896
Impairment losses recognised	14,678	8,045
Amount written off as uncollectible	(7,513)	(1,210)
Impairment losses reversed	(9,635)	-
At 31 December	6,261	8,731

As at 31 December 2007, none (2006: Nil) of the Group's loans receivable are past due. The annual interest rates of loans provided to related parties range from 5.43% to 7.74% (2006: 4.06% - 6.14%). The Group does not hold any collateral or other credit enhancements over these balances.

22. OTHER INVESTMENTS (NON-CURRENT)

Group

	2007 RMB'000	2006 RMB'000
Equity investments:		
- Available-for-sale (unlisted), at cost and net of impairment	122,487	139,328
- Available-for-sale (listed), at fair value	247,030	121,573
	369,517	260,901
Debt investments:		
- Held-to-maturity (unlisted), at amortised cost	156,014	335,502
- Available-for-sale (unlisted), at fair value	397,893	295,904
	553,907	631,406
Investment funds:		
- Available-for-sale (unlisted), at fair value	-	447,860
	923,424	1,340,167

22. OTHER INVESTMENTS (NON-CURRENT) (continued)

During the year, the gross gain of the Group's non-current available-for-sale investments recognised directly in equity amounted to RMB272,589,000 (2006: RMB222,236,000). In addition, upon the disposals of certain non-current available-for-sale investments, cumulative gain of RMB185,724,000 (2006: Nil) was transferred from equity and recognised in the consolidated income statement.

As at 31 December 2007, listed available-for-sale equity investments of RMB247,030,000 (2006: RMB100,195,000) were restricted for trading over certain periods of less than one year.

As at 31 December 2007, certain unlisted available-for-sale equity investments with a carrying amount of RMB122,487,000 (2006: RMB139,328,000) 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. The Group does not intend to dispose of them in the near future.

23. DEFERRED TAX

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

Deferred tax assets

Group

	2007					
	Losses available for offset against future taxable profit RMB'000	Impairment of assets and provisions RMB'000	Early retirement benefits RMB'000	Eliminated profits resulting from intragroup transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007	9,241	483,625	23,754	14,520	85,830	616,970
Effect of change in tax rate on the opening balance credited/(charged) to the income statement (note 10)	(1,039)	28,228	517	-	(28,033)	(327)
Acquisition of a subsidiary (note 45(1))	-	6,672	-	-	-	6,672
Disposal of subsidiaries (note 46(1))	-	-	-	-	(278)	(278)
Deferred tax credited/(charged) to the income statement during the year (note 10)	(5,008)	80,974	(5,018)	(14,520)	64,331	120,759
Gross deferred tax assets at 31 December 2007	3,194	599,499	19,253	-	121,850	743,796
Offset by deferred tax liabilities*						(127,697)
Net deferred tax assets at 31 December 2007						616,099

23. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2007						
	Revaluation of properties RMB'000	Fair value 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 2007	(193,783)	(29,377)	(175,193)	(230,020)	(158,433)	(60,886)	(847,692)
Effect of change in tax rate on the opening balance credited/ (charged) to the income statement (note 10)	45,677	5,936	7,382	14,049	24,905	(685)	97,264
Effect of change in tax rate on opening balance credited to equity	-	-	-	34,247	-	13,837	48,084
Acquisition of a subsidiary (note 45(1))	-	(16,242)	-	-	-	-	(16,242)
Deferred tax credited/(charged) to the income statement during the year (note 10)	5,548	6,714	(34,701)	(22,603)	10,445	(937)	(35,534)
Deferred tax debited to equity during the year	-	-	-	(313,264)	-	-	(313,264)
Gross deferred tax liabilities at 31 December 2007	(142,558)	(32,969)	(202,512)	(517,591)	(123,083)	(48,671)	(1,067,384)
Offset by deferred tax assets*							127,697
Net deferred tax liabilities at 31 December 2007							(939,687)

23. DEFERRED TAX (continued)

Deferred tax assets

Group

	2006					
	Losses available for offset against future taxable profit RMB'000	Impairment of assets and provisions RMB'000	Early retirement benefits 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
Acquisitions of subsidiaries (note 45(2))	-	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

Deferred tax liabilities

Group

	2006						
	Revaluation of properties RMB'000	Fair value 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	(202,960)	-	(157,730)	(4,211)	-	(57,076)	(421,977)
Acquisitions of subsidiaries (note 45(2))	-	(36,351)	-	-	-	-	(36,351)
Deferred tax credited /(charged) to the income statement during the year (note 10)	9,177	6,974	(17,463)	(54,648)	(158,433)	(3,810)	(218,203)
Deferred tax debited to equity during the year	-	-	-	(171,161)	-	-	(171,161)
Gross deferred tax liabilities at 31 December 2006	(193,783)	(29,377)	(175,193)	(230,020)	(158,433)	(60,886)	(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

Company

	2007			2006		
	Impairment of assets and provisions RMB'000	Others RMB'000	Total RMB'000	Impairment of assets and provisions RMB'000	Others RMB'000	Total RMB'000
At 1 January	96,808	44,970	141,778	-	-	-
Deferred tax credited/(charged) to the income statement during the year	(47,048)	17,200	(29,848)	96,808	44,970	141,778
Effect of change in tax rate on opening balance charged to the income statement	(2,097)	(25,037)	(27,134)	-	-	-
At 31 December	47,663	37,133	84,796	96,808	44,970	141,778

* For the purpose of the balance sheet presentation, certain deferred tax assets and liabilities have been offset.

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Tax losses	318,569	152,364	-	-
Deductible temporary differences	563,190	184,846	-	-
	881,759	337,210	-	-

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 for the tax losses and deductible temporary differences arising from these subsidiaries with operating losses have not been recognised in respect of the above items as it may not be 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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Raw materials	3,708,282	3,138,647	493	484
Work in progress	10,254,325	9,669,193	29,692	56,381
Finished goods	2,531,952	2,204,779	9,653	-
	16,494,559	15,012,619	39,838	56,865

25. CONSTRUCTION CONTRACTS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Gross amount due from contract customers	285,873	1,356,641	159,834	1,090,861
Contract costs incurred plus recognised profits less losses to date	8,245,430	1,786,211	6,964,429	1,090,861
Less: Progress billings	(7,959,557)	(429,570)	(6,804,595)	-
	285,873	1,356,641	159,834	1,090,861

As at 31 December 2007, 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 RMB3,301,838,000 (2006: RMB632,023,000) and RMB3,241,728,000 (2006: RMB440,060,000), respectively.

26. TRADE RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade receivables	11,160,553	9,608,795	3,028,846	1,528,669
Impairment	(1,223,597)	(1,111,033)	(31,200)	(607)
	9,936,956	8,497,762	2,997,646	1,528,062

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.

26. TRADE RECEIVABLES (continued)

For the sale of other products, the Group's trading terms with its 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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	3,403,236	3,023,566	1,257,948	1,211,086
Over 3 months but within 6 months	1,558,225	1,046,855	602,756	164,791
Over 6 months but within 1 year	2,006,388	1,866,036	767,608	96,115
Over 1 year but within 2 years	2,288,807	1,965,277	367,384	56,070
Over 2 years but within 3 years	607,026	518,197	1,950	-
Over 3 years	73,274	77,831	-	-
	9,936,956	8,497,762	2,997,646	1,528,062

The movements in provision for impairment of trade receivables are as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
At 1 January	1,111,033	758,262	607	-
Acquisition of a subsidiary	26,008	17,477	-	-
Impairment losses recognised	312,302	393,418	30,593	607
Amount written off as uncollectible	(70,417)	(240)	-	-
Impairment losses reversed	(155,329)	(57,884)	-	-
	1,223,597	1,111,033	31,200	607

The above provision for impairment of trade receivables of the Group and the Company is provision for both individually and collectively impaired trade receivables with a carrying amount before impairment of RMB5,060,717,000 (2006: RMB4,734,414,000) and RMB433,996,000 (2006: RMB7,604,000), respectively. These impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

26. TRADE RECEIVABLES (continued)

The aging analysis of the trade receivables that are not considered to be impaired is as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Neither past due nor impaired	5,768,747	4,600,467	2,568,032	1,491,401
Less than 3 month past due	164,382	234,889	22,944	27,673
3 to 6 months past due	23,657	29,264	3,874	1,991
Over 6 months past due	143,050	9,761	-	-
	6,099,836	4,874,381	2,594,850	1,521,065

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
The ultimate holding company	192,288	194,383	-	-
Subsidiaries	-	-	30,885	54
Jointly-controlled entities	2,002	-	-	-
Associates	21,275	30,624	-	-
SEC group companies	96,882	111,694	-	236
Other related companies	65,409	106,900	-	-
	377,856	443,601	30,885	290

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:

	2007 RMB'000	2006 RMB'000
Within 3 months	283,761	112,796
Over 3 months but within 6 months	-	72,076
	283,761	184,872
Less: Provision for discounted bills receivable	(2,916)	(1,849)
	280,845	183,023

The movements in provision for impairment of discounted bills receivable are as follows:

	2007 RMB'000	2006 RMB'000
At 1 January	1,849	692
Impairment losses recognised	11,571	1,157
Amount written off as uncollectible	(230)	-
Impairment losses reversed	(10,274)	-
	2,916	1,849

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

	2007 RMB'000	2006 RMB'000
Associates	240,278	74,688
Jointly-controlled entities	27,078	-
SEC group companies	-	47,425
	267,356	122,113

The annual interest rates of discounting services provided to related parties range from 3.6% to 8.28% (2006: 2.8% to 4.65%).

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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	938,858	751,118	25,505	23,000
Over 3 months but within 6 months	1,181,841	808,783	73,697	7,050
	2,120,699	1,559,901	99,202	30,050

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Associates	3,442	6,376	-	-
SEC group companies	2,400	1,246	-	-
Other related companies	-	19,500	-	-
	5,842	27,122	-	-

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

Included in the year-end balance of bills receivable as at 31 December 2007, RMB420,727,000 (2006: RMB252,475,000) 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 2007.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Prepayments	6,602,089	3,816,170	1,120,109	744,052
Deposits and other receivables	727,163	614,919	208,009	80,108
Prepaid land lease payments (note 15)	27,184	26,865	-	-
Dividend receivables	82,188	60,661	617,426	91,701
Due from subsidiaries	-	-	11,815,049	7,098,757
Due from the ultimate holding company	22,702	93,814	9,985	51,797
Due from jointly-controlled entities	5,770	10,182	2,971	3,127
Due from associates	219,790	234,391	143,800	121,110
Due from SEC group companies	506,310	578,112	233	19,063
Due from other related companies	303,280	520,968	-	-
	8,496,476	5,956,082	13,917,582	8,209,715

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
	8,496,476	5,956,082	13,917,582	8,209,715
Less: Provision for deposits and other receivables	(87,310)	(88,651)	-	-
	8,409,166	5,867,431	13,917,582	8,209,715

As at 31 December 2007, the Group's and the Company's balances with related parties include prepayments of RMB853,548,000 (2006: RMB1,061,910,000) and RMB11,388,408,000 (2006: RMB6,765,293,000), respectively. The remaining balances of RMB204,304,000 (2006: RMB375,557,000) and RMB583,630,000 (2006: RMB528,561,000) are non-trade in nature and are unsecured, non-interest-bearing and repayable on demand or within one year.

The movements in provision for impairment of deposits and other receivables are as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
At 1 January	88,651	83,090	-	-
Acquisition of subsidiaries	26,148	9,144	-	-
Impairment losses recognised	8,539	10,215	-	-
Amount written off as uncollectible	(32,226)	(7,133)	-	-
Impairment losses reversed	(3,802)	(6,665)	-	-
	87,310	88,651	-	-

The above provision for impairment of deposits and other receivables is a provision for both individually and collectively impaired deposits and other receivables with a carrying amount (before impairment) of RMB182,210,000 (2006: RMB152,125,000). These impaired deposits and other receivables relate to parties that were in default or delinquency in payments and only a portion of the deposits and other receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Receivables of the Group and the Company that were not impaired amounting to RMB916,959,000 (2006: RMB806,842,000) and RMB791,640,000 (2006: RMB608,388,000), respectively, mainly relates to deposits, advances to employees and other operation receivables which are without a fixed due date. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as these balances are considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

30. INVESTMENTS (CURRENT)

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Equity investments:				
- At fair value through profit or loss (listed)	256,812	281,736	-	-
- Available-for-sale (listed), at fair value	2,529,893	645,410	-	-
- Available-for-sale (unlisted), at fair value	574	-	-	-
	2,787,279	927,146	-	-
Debt investments:				
- At fair value through profit or loss (listed)	42,941	7,742	-	-
- Available-for-sale (unlisted), at fair value	196,760	-	-	-
- Held-to-maturity (listed), at amortised cost	332,109	-	-	-
- Held-to-maturity (unlisted), at amortised cost	172,133	2,047,544	-	-
	743,943	2,055,286	-	-
Investment funds:				
- At fair value through profit or loss (listed)	44,821	24,194	-	-
- At fair value through profit or loss (unlisted)	51,073	722,055	-	-
- Available-for-sale (listed), at fair value	-	18,000	-	-
- Available-for-sale (unlisted), at fair value	1,903,772	1,024,248	-	-
	1,999,666	1,788,497	-	-
Entrusted assets management:				
- At fair value through profit or loss (unlisted)	33,711	24,842	-	-
- Held-to-maturity (unlisted), at amortised cost	150,000	303,492	600,000	1,263,790
	183,711	328,334	600,000	1,263,790
Less: Provision for held-to-maturity entrusted assets management	75,000	-	-	-
	5,639,599	5,099,263	600,000	1,263,790

30. INVESTMENTS (CURRENT) (continued)

During the year, the gross gain on the Group's current available-for-sale investments recognised directly in equity amounted to RMB1,825,196,000 (2006: RMB323,747,000). In addition, upon the disposals of certain current available-for-sale investments, culmulative gain of RMB556,645,000 (2006: RMB4,489,000) was transferred from equity and recognised in the income statement.

As at the date of approval of the financial statements, certain available-for-sale listed equity investments and available-for-sale unlisted investment funds of the Group have been disposed of with gains of RMB101,806,000 and RMB145,812,000, respectively, transferred out from the available-for-sale investment revaluation reserve subsequent to the balance sheet date. Decreases in the fair values of the remaining available-for-sale listed equity investments and available-for-sale unlisted investment funds resulted in the decreases of RMB997,173,000 and RMB308,136,000, respectively, in the unrealised gains as recorded in the available-for-sale investment revaluation reserve subsequent to the balance sheet date.

As at 31 December 2007, the Company's investments of RMB600,000,000 (2006: RMB1,263,790,000) represented entrusted assets management with Finance Company.

31. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2007		2006	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	18,255	-	8,164	986

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

The Group has entered into five 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 RMB11,077,000 (2006: RMB7,178,000) were charged to the consolidated income statement during the year. The above transactions involving derivative financial instrument are with China Construction Bank of BBB+ credit rating.

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Cash and bank balances	11,236,573	7,693,881	3,734,984	2,373,798
Time deposits	2,757,478	2,613,483	314,936	2,126
	13,994,051	10,307,364	4,049,920	2,375,924
Less: Restricted deposits	(1,184,121)	(1,693,199)	-	(143,866)
Cash and cash equivalents	12,809,930	8,614,165	4,049,920	2,232,058

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

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Cash and cash equivalents (continued)	12,809,930	8,614,165	4,049,920	2,232,058
Due from the Central Bank	1,580,991	754,046	-	-
Total	14,390,921	9,368,211	4,049,920	2,232,058

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

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
Pledged deposits secured for:				
Bank loans (note 39)	7,020	-	-	-
Credit facilities	1,177,101	1,693,199	-	143,866
	1,184,121	1,693,199	-	143,866

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

	2007 Foreign currency in'000	2007 RMB equivalent RMB'000	2006 Foreign currency in'000	2006 RMB equivalent RMB'000
Cash and bank balances:				
USD	18,593	135,814	19,954	155,815
JPY	833,752	53,413	955,536	62,712
HKD	136,859	128,152	330,501	332,044
EUR	6,546	69,826	4,931	50,624
Swiss Franc	259	1,692	1	6
South Africa Rand	1,245	1,325	2,372	2,567
Time deposits:				
HKD	23,953	22,430	322,631	324,138
USD	5,606	40,950	2,410	8,819

Company

	2007 Foreign currency in'000	2007 RMB equivalent RMB'000	2006 Foreign currency in'000	2006 RMB equivalent RMB'000
Cash and bank balances:				
USD	-	-	3,545	27,682
HKD	23,953	22,430	72,764	73,104

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

The amount due from the Central Bank as at 31 December 2007 was a deposit of RMB1,580,991,000 (2006: RMB754,046,000) with the People's Bank of China (the "Central Bank"), including a statutory reserve of 14.5% (2006: 9%) 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. 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 RMB3,371,853,000 (2006: RMB1,677,851,000) and time deposits of RMB314,936,000 (2006: RMB2,126,000) 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

	2007 RMB'000	2006 RMB'000
Property, plant and equipment	12,194	10,357
Prepaid land lease payments	23,600	24,153
Non-current assets classified as held for sale	35,794	34,510
Liabilities directly associated with the non-current assets classified as held for sale	(83,078)	(81,843)

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 would hand over the properties to the subsidiary of SE Corporation by 31 December 2007. The Group entered into another agreement to postpone the transfer date to 30 June 2008. As at 31 December 2007, the carrying amount of the properties of RMB35,794,000 was recorded as non-current assets classified as held for sale and the proceeds received in advance after deducting the disposal expenditures with a net amount of RMB83,078,000 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 2007.

34. TRADE PAYABLES

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	7,236,973	5,342,869	4,048,261	1,761,549
Over 3 months but within 6 months	1,016,811	323,977	69,184	6,245
Over 6 months but within 1 year	734,462	252,373	76,729	6,132
Over 1 year but within 2 years	273,883	265,284	8,564	-
Over 2 years but within 3 years	92,409	34,201	1,101	-
Over 3 years	87,959	90,128	-	-
	9,442,497	6,308,832	4,203,839	1,773,926

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
The ultimate holding company	-	2,603	-	-
Subsidiaries	-	-	3,147,464	1,358,342
Jointly-controlled entities	2,958	-	-	-
Associates	148,664	60,246	4,564	-
SEC group companies	164,848	190,035	-	-
Other related companies	33,534	162,258	-	-
	350,004	415,142	3,152,028	1,358,342

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	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 3 months	953,989	951,190	25,640	-
Over 3 months but within 6 months	896,739	302,003	-	153,278
	1,850,728	1,253,193	25,640	153,278

35. BILLS PAYABLE (continued)

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Subsidiaries	-	-	25,640	153,278
Associates	6,861	-	-	-
SEC group companies	19,352	38,421	-	-
Other related companies	-	9,712	-	-
	26,213	48,133	25,640	153,278

Bills payable are non-interest-bearing.

36. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Advances from customers	23,759,765	23,333,465	14,457,056	9,180,016
Other payables	1,836,831	2,297,871	168,582	185,644
Dividend payable to minority shareholders	210,456	389,973	-	-
Dividend payable to shareholders	271	39,720	-	39,720
Accruals	3,087,238	1,594,055	66,827	194,693
Due to subsidiaries	-	-	393,532	126,904
Due to the ultimate holding company	409,060	495,403	8,273	192,324
Due to associates	34,971	38,225	-	25,118
Due to jointly-controlled entities	-	2,204	-	-
Due to SEC group companies	44,516	124,394	2,737	1,380
Due to other related companies	677,427	671,659	583,343	550,000
	30,060,535	28,986,969	15,680,350	10,495,799

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 RMB488,515,000 (2006: RMB440,806,000) and RMB321,932,000 (2006: RMB129,281,000) as at 31 December 2007 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2007 all related to purchase deposits received by the Group. Such trade related balances are to be settled in accordance with the trading terms. Other payables are non-interest bearing and have an average term of no more than 12 months.

37. DEBENTURES

On 3 August 2006, Shanghai 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 Shanghai Power Transmission amounted to RMB481,600,000. As at 31 December 2006, the amortised cost of the debentures was approximately RMB489,267,000. The debentures have been redeemed during the year.

38. CUSTOMER DEPOSITS

Group

	2007 RMB'000	2006 RMB'000
Deposits from the ultimate holding company	220,346	59,369
Deposits from associates	93,532	48,868
Deposits from jointly-controlled entities	33,808	40,966
Deposits from SEC group companies	41,113	49,496
Deposits from other related companies	82,687	61,324
	471,486	260,023
Repayable:		
On demand	229,720	207,723
Within 3 months	220,000	20,000
Over 3 months but within 1 year	21,766	32,300
	471,486	260,023

The annual interest rates of customer deposits provided to related parties range from 2.88% to 4.14% (2006: 0.72% - 2.52%).

39. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2007			2006		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- secured	5.33 - 7.02	2008	92,750	5.58 - 8.57	2007	94,050
- unsecured	1.88 - 10.98	2008	1,344,545	2.55 - 10.98	2007	342,944
			1,437,295			436,994

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

Group (continued)

	2007			2006		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current (continued)						
Bank loans			1,437,295			436,994
Other loans						
- unsecured			-	3.24 - 6.40	2007	3,681
			1,437,295			440,675
Non-current						
Bank loans						
- unsecured	2.55	2009 - 2015	3,182	2.55	2008 - 2015	3,636
- unsecured	5.85 - 7.83	2009 - 2017	819,929	2.55 - 9.00	2008 - 2010	95,387
			823,111			99,023
Other loans						
- unsecured	9.00	2011	1,193	2.55 - 6.12	2008 - 2011	8,367
			824,304			107,390
			2,261,599			548,065

	2007 RMB'000	2006 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	1,437,295	436,994
In the second year	84,341	11,909
In the third to fifth years, inclusive	197,365	63,964
Beyond five years	541,405	23,150
	2,260,406	536,017
Other loans repayable:		
Within one year or on demand	-	3,681
In the second year	-	600
In the third to fifth years, inclusive	237	-
Beyond five years	956	7,767
	2,261,599	548,065

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

Group (continued)

All borrowings are denominated in RMB, except for the following unsecured bank loans:

	2007		2006	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Foreign currency borrowing balance:				
USD	9,420	68,809	300	2,343
JPY	280,000	17,938	230,000	15,095
HKD	48,000	44,946	125,000	125,584
EUR	490	5,227	-	-
ZAR	413	440	-	-

Certain of the Group's bank loans are secured by mortgages over certain of the Group's land use rights, buildings, machinery and motor vehicles which had net book values of approximately RMB14,062,000 (2006: RMB6,587,000), RMB49,639,000 (2006: RMB78,810,000), RMB63,954,000 (2006: RMB56,472,000) and RMB274,000 (2006: Nil) (notes 15 and 14), respectively. In addition, as at 31 December 2007, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB7,020,000 (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:

	2007 RMB'000	2006 RMB'000
Guaranteed by:		
The ultimate holding company	468,313	51,701
SEC group companies	19,000	41,600
Other related companies	22,347	9,000
Third parties	-	1,548
Total	509,660	103,849

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

Company

	2007			2006		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	4.77-5.49	2008	550,000			-

	2007 RMB'000	2006 RMB'000
Analysed into:		
Bank loans repayable		
Within one year or on demand	550,000	-

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 2007	245,905	84,412	105,653	124,000	559,970
Additional provisions (note 6)	192,984	457,603	64,265	-	714,852
Amounts utilised during the year	(186,947)	(289,633)	(57,702)	-	(534,282)
Reversal of unutilised amounts (note 6)	(3,899)	-	-	-	(3,899)
At 31 December 2007	248,043	252,382	112,216	124,000	736,641
Portion classified as current liabilities	248,043	252,382	48,265	124,000	672,690
Non-current portion	-	-	63,951	-	63,951

Company

	Late delivery RMB'000
As at 1 January 2007 and 31 December 2007	124,000

40. PROVISIONS

Group (continued)

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 and nuclear 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 2007. Provision has been made for such onerous contracts based on the estimated 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 contracts in respect of power equipment in which the Company committed to contractual obligations for late delivery. Provision has been made for late delivery based on the contract terms.

41. BONDS

On 30 November 2007, Finance Company issued five-year floating rate bonds with a nominal value of RMB1 billion in the PRC inter-bark bond market (the "Bonds"). The Bonds were issued at par value with a coupon rate of benchmark interest rate plus interest 135 basis points. SE Corporation provides an unconditional and irrevocable joint liability guarantee in respect of the Bonds.

42. OTHER LONG TERM PAYABLES

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Due to the ultimate holding company	1,691	1,691	-	-

43. SHARE CAPITAL

Shares

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each, currently not listed:		
- state-owned shares	7,898,981	6,624,279
- other legal person shares	1,019,755	2,294,457
H shares of RMB1.00 each	2,972,912	2,972,912
Total	11,891,648	11,891,648

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 6 April 2007, SE Corporation entered into a share transfer agreement with Shantou Municipal Mingguang Investment Co., Ltd. ("Mingguang"), a promoter and shareholder of the Company, pursuant to which Mingguang agreed to transfer 356,920,287 shares, representing approximately 3.00% of the entire issued share capital of the Company, to SE Corporation.

On 23 April 2007, the Company received a notification from SE Corporation. According to the notification, SE Corporation entered into a share pledge agreement with Mingguang, pursuant to which Mingguang agrees to pledge 50,988,612 shares (the "Pledged Shares"), representing approximately 0.43% of the entire issued share capital of the Company, to SE Corporation. Refer to note 55 for details of the Company's Pledged Shares subsequent to the balance sheet date.

On 15 June 2007, SE Corporation entered into a share transfer agreement with Fuxi Investment Holding Ltd. ("Fuxi"), a promoter and shareholder of the Company, pursuant to which Fuxi agreed to transfer 917,780,877 shares, representing approximately 7.72% of the entire issued share capital of the Company, to SE Corporation.

Following the completion of the transfers above, SE Corporation holds 7,409,088,498 shares in the Company, representing approximately 62.30% of the entire issued share capital of the Company.

On 14 August 2007, the Company received a notification from Guangdong Zhujiang Investment Holding Group Co., Ltd. ("Guangdong Zhujiang"), a promoter of the Company, pursuant to which Guangdong Zhujiang transferred 917,778,942 shares of the Company to Shenzhen Fengchi Investment Co., Ltd. ("Fengchi"), a wholly-owned subsidiary indirectly held by Guangdong Zhujiang, effective on 10 August 2007. Upon the completion of such transfer, Fengchi directly holds 917,778,942 shares of the Company, representing approximately 7.72% of the entire issued share capital of the Company.

43. 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 RMB'000	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 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 and 31 December 2007	11,891,648	11,891,648	1,981,651	13,873,299

In the year ended 31 December 2006, the Company received a refund of share issue expenses amounting to RMB6,264,000 based on the final settlement with the sponsors of the global offering.

44. 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.

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.

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.

44. RESERVES (continued)

(a) Group (continued)

Surplus reserves (continued)

During the year, because of the adoption of the new PRC Accounting Standards which became effective from 1 January 2007, the Group transferred surplus reserves of RMB594,346,000 to retained earnings.

Distributable reserves

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB709,114,000 (2006: RMB190,094,000), In addition, the Company's share premium account in the Company's statutory financial statements, in the amount of RMB1,950,078,000 (2006: RMB2,032,946,000), 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. During the year, because of the adoption of the new PRC Accounting Standards, the Group and the Company restated the comparative figures in their statutory financial statements for the year ended 31 December 2007.

(b) Company

	Notes	Capital reserve RMB'000	Surplus reserves RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
As at 1 January 2006		1,858,703	284,105	(817,878)	1,324,930
Refund of share issue expenses		6,264	-	-	6,264
Appropriation to statutory surplus reserves		-	170,931	(170,931)	-
Profit for the year	11	-	-	670,550	670,550
Proposed final 2006 dividend	12	-	-	(725,391)	(725,391)
As at 31 December 2006 and 1 January 2007		1,864,967	455,036	(1,043,650)	1,276,353
Transfer of surplus reserves*		-	(372,616)	372,616	-
Appropriation to statutory surplus reserve		-	152,039	(152,039)	-
Profit for the year	11	-	-	1,539,964	1,539,964
As at 31 December 2007		1,864,967	234,459	716,891	2,816,317

* During the year, because of the adoption of the new PRC Accounting Standards which became effective from 1 January 2007, the Group transferred surplus reserves of RMB372,616,000 to retained earnings.

The capital reserve account balance as at 31 December 2007 included the Company's share premium of RMB1,981,651,000 (2006: RMB1,981,651,000) (note 43).

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

(1) Acquisitions in 2007

Acquisition of a subsidiary

During the year ended 31 December 2007, the Group acquired the following company:

On 19 July 2007, the Group acquired a 97.24% equity interest in Shanghai Crane & Conveyor, which is mainly engaged in the manufacture and installation of cranes and convyors, from SE Corporation for a cash consideration of RMB151,830,000. 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. Prior to the acquisition, the Group held 2.76% equity interest in Shanghai Crane & Conveyor through unlisted equity investment stated at cost with a carrying amount of RMB3,810,000.

The aggregate of fair values of the identifiable assets and liabilities of Shanghai Crane & Conveyor as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	14	64,498	50,189
Prepaid land lease payments	15	63,567	31,127
Other intangible assets	17	5,787	545
Non-current other investments		10,935	4,663
Deferred tax assets	23	6,672	6,672
Inventories		100,956	94,251
Trade and other receivables		391,889	391,889
Bills receivable		11,146	11,146
Cash and bank balances		15,258	15,258
Trade and other payables		(361,288)	(361,288)
Bills payable		(300)	(300)
Interest-bearing bank and other borrowings		(175,400)	(175,400)
Tax payable		(1,256)	(1,256)
Deferred tax liabilities	23	(16,242)	-
		116,222	67,496
Goodwill on acquisition	16	34,142	
		150,364	
Satisfied by:			
Cash		151,830	
Due from SE Corporation		(5,276)	
Unlisted equity investment, stated at cost		3,810	
		150,364	

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (continued)

(1) Acquisitions in 2007 (continued)

Acquisitions of a subsidiary (continued)

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

	RMB'000
Cash consideration	(151,830)
Cash and cash equivalents deposited with Finance Company	(1,488)
Cash and bank balances acquired	15,258
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(138,060)

Since the acquisition, the newly acquired subsidiary contributed RMB213,851,000 to the Group's turnover and RMB40,913,000 to the consolidated profit for the year ended 31 December 2007.

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 RMB56,687,788,000 and RMB4,286,020,000, respectively.

Acquisition of minority interests

On 9 November 2007 the Group acquired, for a cash consideration of RMB23,674,000, an additional 1% equity interest in Finance Company. The book value of the net assets of Finance Company was RMB3,508,605,000 on the acquisition date. The difference of RMB11,412,000 between the consideration of RMB23,674,000 and the book value of the net assets attributed to the 1% equity interest acquired of RMB35,086,000 has been recognised as excess over the cost of business combinations recognised in the income statement (note 5).

(2) Acquisitions in 2006

Acquisitions of subsidiaries

During the year ended 31 December 2006, the Group acquired the following companies:

(a) On 29 March 2006, the Group acquired a 50.88% equity 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% equity 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;

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (continued)

(2) Acquisitions in 2006 (continued)

Acquisitions of subsidiaries (continued)

(c) On 10 May 2006, the Group acquired a 65% equity 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% equity 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% equity 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% equity 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.

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (continued)

(2) Acquisitions in 2006 (continued)

Acquisitions of subsidiaries (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 recognised 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
Trade and other payables		(591,991)	(591,991)
Interest-bearing bank and other borrowings		(103,588)	(103,588)
Tax payable		(10,306)	(10,306)
Provisions		(4,598)	(4,598)
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	

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (continued)

(2) Acquisitions in 2006 (continued)

Acquisitions of subsidiaries (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 acquisitions 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 RMB44,333,120,000 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 on the acquisition 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).

46. DISPOSAL OF SUBSIDIARIES

(1) Disposal in 2007

During the year, the Group disposed of the following companies:

On 28 February 2007, the Group disposed of a 49% equity interest in Shanghai Diesel Engine Molin Machinery Manufacturing Factory ("Molin Machinery") and dividend receivable of RMB883,000 due from Molin Machinery for the settlement of a trade payable of RMB13,576,000 due to the other shareholder of Molin Machinery . Upon completion of the disposal, the Group holds 19% equity interest with an amount of RMB4,740,000 in Molin Machinery, which is accounted for as unlisted equity investment stated at cost.

On 19 July 2007, the Group disposed of a 95% equity interest in Shanghai Electric Equipment Lease Co., Ltd. to SE Corporation for a cash consideration of RMB198,170,000.

46. DISPOSAL OF SUBSIDIARIES

(1) Disposal in 2007 (continued)

On 18 July 2007, the Group entered into an equity transfer agreement with SE Corporation to dispose of its 50% equity interest in Shanghai Electric Insurance Company Brokerage Co., Ltd. to SE Corporation for a cash consideration of RMB5,130,000.

On 1 October 2007, the Group entered into an equity transfer agreement to dispose of its 51% equity interest in Shanghai Ningsong Boiler Equipment Co., Ltd. for a cash consideration of RMB21,664,000.

On 26 November 2007, the Group entered into an equity transfer agreement to dispose of its 51% equity interest in Hubei Green Continent Wood- based Panel Co., Ltd. for a cash consideration of RMB13,737,000.

The carrying amounts of the assets and liabilities of the above disposed companies as at the dates of disposal were as follows:

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	37,977
Prepaid land lease payments	15	1,744
Deferred tax assets	23	278
Other non-current assets		3,913
Held-to-maturity financial assets		5,492
Loans receivable		417,553
Inventories		12,726
Trade and other receivables		48,495
Bills receivable		4,050
Cash and bank balances		66,716
Trade and other payables		(54,964)
Interest-bearing bank and other borrowings		(209,000)
Tax payable		(2,834)
Other long term payable		(29,683)
Minority interest		(53,996)
		248,467
Gain on disposal of subsidiaries	5	7,667
Unlisted equity investment, stated at cost		(4,740)
		251,394
Satisfied by:		
Cash	5	238,701
Other receivables		(883)
Trade payables		13,576
		251,394

46. DISPOSAL OF SUBSIDIARIES (continued)

(1) Disposal in 2007 (continued)

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

	RMB'000
Cash consideration	238,701
Cash and cash equivalents deposited with Finance Company	38,429
Cash and bank balances disposed of	(66,716)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	210,414

(2) Disposal in 2006

On 17 January 2006, the Group disposed of a 100% equity 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
Trade and other payables		(28,873)
Interest-bearing bank and other borrowings		(5,300)
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

46. DISPOSAL OF SUBSIDIARIES (continued)

(2) Disposal in 2006 (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries 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

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

On 20 April 2006, the Group disposed of a 10% equity interest in a jointly-controlled entity, Shanghai Riyong-Jea Gate Electric Co., Ltd. ("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

47. DISPOSAL OF EQUITY INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of equity interest in a jointly-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 2007, the Group had no disposal of equity interest in a jointly controlled entity.

48. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The cash inflow in respect of advances from the disposal of a subsidiary and of a jointly-controlled entity, amounting to RMB239,403,000 and RMB57,367,000, respectively, relates to proceeds received from SE Corporation in relation to the disposal of Shanghai Pudong EV and Shanghai Hino by the Group during the year (note 18(v) and note 19(i)). These disposals have not been completed by 31 December 2007.

49. CONTINGENT LIABILITIES

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Guarantees given to banks in connection with facilities granted to:				
- the ultimate holding company	-	29,000	-	-
- subsidiaries	-	-	1,565,620	1,606,188
- associates	219,591	205,919	-	-
- SEC group companies	6,000	-	-	-
	225,591	234,919	1,565,620	1,606,188

49. CONTINGENT LIABILITIES (continued)

(a) (continued)

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
In which,				
Guarantees given to banks in connection with facilities utilised by:				
- the ultimate holding company	-	29,000	-	-
- subsidiaries	-	-	1,210,840	886,589
- associates	159,108	147,549	-	-
- SEC group companies	6,000	-	-	-
- third parties	-	-	-	-
	165,108	176,549	1,210,840	886,589
Non-financial guarantee letters issued on behalf of:				
- the ultimate holding company	28,139	28,139	-	-
- associates	7,439	13,268	-	-
- SEC group companies	12,326	22,542	-	-
- third parties	41,130	61,806	-	-
	89,034	125,755	-	-

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

	2007 RMB'000	2006 RMB'000
Guarantees given to banks in connection with banking facilities granted to and utilised by:		
- third parties	-	743

(b) On 15 September 2003, an American customer (the "Plantiff") of Shanghai Yawa Printing Machinery Co., Ltd.("Yawa"), a subsidiary of the Group, filed a lawsuit with a court in the United States of America (the "Court") against Yawa. The Plantiff sued Yawa for negligence and/or quality warranty of the products of Yawa and claimed damages of USD2,500,000 and relevant charges and expenses. Yawa has appointed a legal counsel, demanded a rejection of the claim of the Plantiff and filed the request of evidence. Yawa is assisting the legal counsel and providing the relevant equipment technical specification to minimize the loss incurred by the lawsuit. As at the balance sheet date, the directors are of the opinion that it is premature to conclude on the final outcome, and the lawsuit is not expected to have any significant financial impact on the Group at this stage.

50. 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 20 years and those for plant and machinery negotiated for terms ranging from 1 to 10 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 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	37,797	31,126
In the second to fifth years, inclusive	102,168	56,097
After five years	101,605	159,786
	241,570	247,009

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:

	2007 RMB'000	2006 RMB'000
Within one year	8,612	8,425
In the second to fifth years, inclusive	34,448	36,307
After five years	76,807	51,857
	119,867	96,589

(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 50 years, while those for plant and machinery are for terms ranging from 1 to 20 years and those for motor vehicles are for a period of one year.

50. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within one year	66,964	60,241	1,546	4,250
In the second to fifth years, inclusive	158,565	105,612	1,021	15
After five years	282,908	306,869	-	-
	508,437	472,722	2,567	4,265

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:

	2007 RMB'000	2006 RMB'000
Within one year	4,234	5,229
In the second to fifth years, inclusive	19,413	18,677
After five years	64,176	42,539
	87,823	66,445

51. COMMITMENTS

In addition to the operating lease commitments detailed in note 50(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Contracted, but not provided for				
In respect of the acquisition of:				
- land and buildings	467,586	765,908	30,974	14,360
- plant and machinery	1,575,473	1,784,762	-	14,613
- intangible assets	129,152	18,173	115,105	17,643

51. COMMITMENTS (continued)

	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
In respect of capital contribution to:				
- subsidiaries	-	-	-	933,600
- an associate	12,000	4,760	12,000	4,760
- companies to be established/acquired	181,810	231,850	181,810	231,850
	2,366,021	2,805,453	339,889	1,216,826
Authorised, but not contracted for				
In respect of the acquisition of:				
- land and buildings	957,771	726,605	-	182,419
- plant and machinery	368,594	1,194,482	-	-
	1,326,365	1,921,087	-	182,419
	3,692,386	4,726,540	339,889	1,399,245

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

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for		
In respect of the acquisition of:		
- land and buildings	-	11,716
- plant and machinery	3,421	27,259
	3,421	38,975

52. 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	2007 RMB'000	2006 RMB'000
Purchase of materials from:	(i)		
Jointly-controlled entities		78,930	76,228
Associates		1,009,363	663,393
SEC group companies		612,050	729,463
Other related companies		1,216,941	1,905,151
		2,917,284	3,374,235

52. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

	Notes	2007 RMB'000	2006 RMB'000
Sale of goods to:	(i)		
The ultimate holding company		261,377	485,678
Jointly-controlled entities		32,643	7,301
Associates		216,012	193,259
SEC group companies		299,770	219,731
Other related companies		127,131	133,022
		936,933	1,038,991
Construction contract from:	(i)		
Other related company		527,025	-
Sale of scraps and spare parts to:	(i)		
The ultimate holding company		15,600	15,600
Associates		1,135	1,715
SEC group companies		8,581	-
Other related companies		57,722	33,574
		83,038	50,889
Purchases of manpower services from:	(i)		
The ultimate holding company		-	5,830
Associates		30,225	55,939
SEC group companies		17,483	1,137
Other related companies		100,103	43,711
		147,811	106,617
Provision of manpower services to:	(i)		
The ultimate holding company		2,130	-
Associates		73,143	43,893
SEC group companies		3,822	-
Other related companies		-	1,579
		79,095	45,472
Purchases of equipment from:			
SEC group companies	(i)	1,412	64,393
Rental income from:	(ii)		
Associates		16,497	13,822
Other related companies		-	30
		16,497	13,852

52. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

	Notes	2007 RMB'000	2006 RMB'000
Rental fee to:	(ii)		
The ultimate holding company		29,950	29,950
Associates		990	990
SEC group companies		19,243	-
Other related companies		2,028	-
		52,211	30,940

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.

During the year ended 31 December 2007, the Group effected the following non-recurring transactions:

(a) acquired a 97.24% equity interest in Shanghai Crane & Conveyor from SE Corporation for a cash consideration of RMB151,830,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China (note 45(1));

(b) disposed of two subsidiaries to SE Corporation for an aggregate cash consideration of RMB203,300,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China (note 46(1));

(c) entered into a compensation agreement with SE Corporation, pursuant to which SE Corporation compensated Shanghai Diesel, for acquiring two parcels of land on Jungong Road and Yinxing Road, the development costs of which were originally paid by Shanghai Diesel. The compensation was made in form of certain tangible assets with the value of RMB15,737,000, which was determined with reference to a valuation carried out by independent professional qualified valuers in Mainland China.

In addition, Shanghai Diesel contracted with SE Corporation to lease the above mentioned two parcels of land with the term starting from year 2005 to year 2024. Rental is mutually agreed to be RMB6,480,000 per annum and chargeable commencing from the second half year in 2008. The rental fee may be adjusted once every three years.

52. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

Notes: (continued)

(d) entrusted SE Corporation to negotiate and sign contracts on behalf of the Company with Vietnam Quang Ninh Thermal Power Joint-Stock Company ("Vietnam Quang Ninh"), and respective suppliers as well as constructors regarding the construction of Phase I and Phase II of coal-fired power plant (the "Project"). SE Corporation would not charge any fee in relation to the entrusted agreements apart from a reimbursement of reasonable costs incurred. Total contract sum of Phase I and Phase II of the Project are USD 452,240,000 and USD418,580,000, respectively. Revenue of RMB355,796,000 was recognised for Phase I of the Project during the year. In addition, purchases of RMB320,918,000 and agent fee of RMB35,287,000 were incurred through SE Corporation during the year. As at 31 December 2007, the Company recorded balances of advance from customers of RMB612,456,000 and prepayments of RMB51,634,000 in connection with the Project.

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

As at 31 December 2007, the Group has provided corporate guarantees in connection with facilities totalling RMB225,591,000 (2006: RMB234,919,000) to related parties, out of which RMB165,108,000 (2006: RMB176,549,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB47,904,000 (2006: RMB63,949,000) (note 49(a)).

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

	2007 RMB'000	2006 RMB'000
Guarantees provided to the Group by:		
The ultimate holding company	468,313	51,701
SEC group companies	19,000	41,600
Other related companies	22,347	9,000
	509,660	102,301

As at 31 December 2007, SE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Bonds of RMB 1 billion (note 41).

52. RELATED PARTY TRANSACTIONS (continued)

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

	2007 RMB'000	2006 RMB'000
Interest expenses for customer deposits:		
The ultimate holding company	1,053	2,717
Associates	861	622
Jointly-controlled entities	572	262
SEC group companies	645	79
Other related companies	412	862
	3,543	4,542
Interest income for loans and bills discounting:		
The ultimate holding company	4,011	143
Associates	8,873	4,487
Jointly-controlled entities	9,227	3,727
SEC group companies	7,627	195
Other related companies	1,360	1,016
	31,098	9,568

Interests 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 42 to the financial statements.

(5) Compensation of key management personnel of the Group

	2007 RMB'000	2006 RMB'000
Fees	650	592
Short term employee benefits	2,392	2,005
Post-employment benefits	95	85
	3,137	2,682

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

52. 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, which have been disclosed and included in the total sum of transactions with other related companies in the above tables, constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules:

	2007 RMB'000	2006 RMB'000
Purchases of equipment, components and technology from other related companies:		
Siemens Aktiengesellschaft	1,362,012	1,466,648
Alstom (China) Investment Co., Ltd.	109,496	71,287
Ersol Solar Energy AG ("Ersol")	52,440	41,423
Sales of goods to:		
Ersol	69,680	41,100
Hudong Zhonghua Shipbuilding Co., Ltd.	-	36,657
Construction contract from other related company:		
Yangxi Haibing Power Development Co., Ltd.	527,025	-
Interest income for loans and bills discounting:		
MWB Shanghai Instrument Transformer Co., Ltd.	842	-

53. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the balance sheet date are as follows:

Financial assets

Group

	2007				
	Financial assets at fair value through profit or loss RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Loans receivable	-	-	611,124	-	611,124
Equity investments	256,812	-	-	2,899,984	3,156,796
Debt investments	42,941	660,256	-	594,653	1,297,850
Investment funds	95,894	-	-	1,903,772	1,999,666
Entrusted assets management	33,711	75,000	-	-	108,711
Trade receivables	-	-	9,936,956	-	9,936,956
Discounted bills receivable	-	-	280,845	-	280,845
Bills receivable	-	-	2,120,699	-	2,120,699
Financial assets included in prepayments, deposits and other receivables	-	-	926,345	-	926,345
Derivative financial instruments	18,255	-	-	-	18,255
Due from the Central Bank	-	-	1,580,991	-	1,580,991
Restricted deposits	-	-	1,184,121	-	1,184,121
Cash and cash equivalents	-	-	12,809,930	-	12,809,930
	447,613	735,256	29,451,011	5,398,409	36,032,289

Financial liabilities

Group

	2007
	Financial liabilities at amortised cost RMB'000
Trade payables	9,442,497
Bills payable	1,850,728
Financial liabilities included in other payables and accruals	5,547,824
Customer deposits	471,486
Bonds	1,000,000
Interest-bearing bank and other borrowings	2,261,599
Other long term payables	64,150
	20,638,284

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

Group

	2006				
	Financial assets at fair value through profit or loss RMB'000	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Loans receivable	-	-	934,784	-	934,784
Equity investments	281,736	-	-	906,311	1,188,047
Debt investments	7,742	2,383,046	-	295,904	2,686,692
Investment funds	746,249	-	-	1,490,108	2,236,357
Entrusted assets management	24,842	303,492	-	-	328,334
Trade receivables	-	-	8,497,762	-	8,497,762
Discounted bills receivable	-	-	183,023	-	183,023
Bills receivable	-	-	1,559,901	-	1,559,901
Financial assets included in prepayments, deposits and other receivables	-	-	962,486	-	962,486
Derivative financial instruments	8,164	-	-	-	8,164
Due from the Central Bank	-	-	754,046	-	754,046
Restricted deposits	-	-	1,693,199	-	1,693,199
Cash and cash equivalents	-	-	8,614,165	-	8,614,165
	1,068,733	2,686,538	23,199,366	2,692,323	29,646,960

Financial liabilities

Group

	2006		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liability at amortised cost RMB'000	Total RMB'000
Trade payables	-	6,308,832	6,308,832
Bills payable	-	1,253,193	1,253,193
Financial liabilities included in other payables and accruals	-	4,690,183	4,690,183
Derivative financial instruments	986	-	986
Debentures	-	489,267	489,267
Customer deposits	-	260,023	260,023
Interest-bearing bank and other borrowings	-	548,065	548,065
Other long term payables	-	81,145	81,145
	986	13,630,708	13,631,694

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

Company

	2007		
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Entrusted assets management	600,000	-	600,000
Trade receivables	-	2,997,646	2,997,646
Bills receivable	-	99,202	99,202
Financial assets included in prepayments, deposits and other receivables	-	1,409,065	1,409,065
Cash and cash equivalents	-	4,049,920	4,049,920
	600,000	8,555,833	9,155,833

Financial liabilities

Company

	2007
	Financial liability at amortised cost RMB'000
Trade payables	4,203,839
Bills payable	25,640
Financial liabilities included in other payables and accruals	556,132
Interest-bearing bank and other borrowings	550,000
	5,335,611

53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

Company

	2006		
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Loans receivable	-	285,467	285,467
Entrusted assets management	1,263,790	-	1,263,790
Trade receivables	-	1,528,062	1,528,062
Bills receivable	-	30,050	30,050
Financial assets included in prepayments, deposits and other receivables	-	700,370	700,370
Restricted deposits	-	143,866	143,866
Cash and cash equivalents	-	2,232,058	2,232,058
	1,263,790	4,919,873	6,183,663

Financial liabilities

Company

	2006
	Financial liabilities at amortised cost RMB'000
Trade payables	1,773,926
Bills payable	153,278
Financial liabilities included in other payables and accruals	549,161
	2,476,365

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, debentures/bonds, 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.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are market risk and financial risk. The Group's policies for managing each of these risks 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), equity market prices (equity 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.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar/Euro/Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

Group

	Increase/(decrease) in USD/EUR/HKD rate %	Increase/(decrease) in profit before tax RMB'000
2007		
If RMB weakens against USD	5	27,346
If RMB strengthens against USD	(5)	(27,346)
If RMB weakens against EUR	5	26,291
If RMB strengthens against EUR	(5)	(26,291)
If RMB weakens against HKD	5	3,179
If RMB strengthens against HKD	(5)	(3,179)
2006		
If RMB weakens against USD	5	39,449
If RMB strengthens against USD	(5)	(39,449)
If RMB weakens against EUR	5	16,646
If RMB strengthens against EUR	(5)	(16,646)
If RMB weakens against HKD	5	5,837
If RMB strengthens against HKD	(5)	(5,837)

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(b) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as investments at fair value through profit or loss and available-for-sale investments (note 22 and note 30) as at 31 December 2007. The Group's listed equity investments are listed on the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchanges ("SHSE") and are valued at quoted market prices at the balance sheet date.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	2007			2006		
	31 December	High	low	31 December	High	low
SZSE Component Index	17,700.62	19,600.02	6,585.06	6,647.13	6,687.27	2,873.53
SHSE Composite Index	5,261.56	6,092.06	2,612.54	2,675.47	2,675.47	1,180.96

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

		Carrying amount RMB'000	Increase/ decrease in profit before tax RMB'000	Increase/ decrease in equity RMB'000
2007				
Equity investments listed in:				
Shenzhen	– Available-for-sale	123,504	-	6,175
	– At fair value through profit or loss	6,043	302	-
Shanghai	– Available-for-sale	2,653,419	-	132,671
	– At fair value through profit or loss	250,769	12,538	-
2006				
Equity investments listed in:				
Shenzhen	– Available-for-sale	11,637	-	582
	– At fair value through profit or loss	18,040	902	-
Shanghai	– Available-for-sale	755,346	-	37,767
	– At fair value through profit or loss	263,696	13,185	-

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(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 and the Company's financial instruments exposed to interest rate risk by maturity and effective interest rate:

Debt investments

Group

	2007		
	At fair value through profit or loss RMB'000	Available-for-sale RMB'000	Held-to-maturity RMB'000
Within 1 year	42,941	196,760	504,242
1 to 2 years	-	38,920	156,014
2 to 3 years	-	118,238	-
More than 3 years	-	240,735	-
Total	42,941	594,653	660,256
Effective interest rate (% per annum)	0.8 - 2.7	1.65 - 5.03	1.80 - 3.04

Group

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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

Group

	2007			
	Loans receivable RMB'000	Entrusted assets management RMB'000	Due from the Central Bank RMB'000	Time deposits RMB'000
Within 1 year	604,451	108,711	1,580,991	2,744,006
1 to 2 years	6,673	-	-	13,472
Total	611,124	108,711	1,580,991	2,757,478
Effective interest rate (% per annum)	5.42 - 7.74	3.9 - 5.5	1.72	1.62 - 4.91

Group

	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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Financial liabilities

Group

	2007		
	Bonds RMB'000	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	-	1,437,295	471,486
1 to 2 years	-	66,326	-
2 to 3 years	-	19,560	-
More than 3 years	1,000,000	738,418	-
Total	1,000,000	2,261,599	471,486
Effective interest rate (% per annum)	5.22	1.88 - 10.98	2.88 - 4.14

Group

	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

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

Company

	2007	2006	
	Entrusted assets management RMB'000	Loans receivable RMB'000	Entrusted assets management RMB'000
Within 1 year	600,000	285,467	1,263,790
Total	600,000	285,467	1,263,790
Effective interest rate (% per annum)	3.9 - 5.5	-	5.37 - 5.50

Financial liabilities

Company

	2007	2006
	Interest-bearing bank and other borrowings RMB'000	Interest-bearing bank and other borrowings RMB'000
Within 1 year	550,000	-
Total	550,000	-
Effective interest rate (% per annum)	4.77 - 5.49	-

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings and bonds).

	Increase/ (decrease) in basis points	Increase/(decrease) in profit before tax RMB'000
2007		
RMB	15	(2,100)
RMB	(15)	2,100

The Group had no floating rate borrowings and bonds during the year ended 31 December 2006.

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 Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 49(a) to the financial statements.

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% (2006: 9.9%) of the Group's trade receivables as at 31 December 2007.

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk (continued)

(a) Credit risk (continued)

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.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

(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 matcing to the extent possible the duration of its investment assets with the duration of its debts and customer deposits.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, is as follows:

Group

	2007					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	> 5 years RMB'000	Total RMB'000
Trade payables	4,388,007	4,026,389	1,028,101	-	-	9,442,497
Bills payable	-	953,989	896,739	-	-	1,850,728
Financial liabilities included in other payables and accruals	2,276,476	977,486	2,289,513	-	-	5,543,475
Customer deposits	229,720	220,000	21,766	-	-	471,486
Bonds	-	-	-	1,000,000	-	1,000,000
Interest-bearing bank and other borrowings	4,718	102,841	1,329,736	281,943	542,361	2,261,599
Other long term payables	-	-	-	64,150	-	64,150
	6,898,921	6,280,705	5,565,855	1,346,093	542,361	20,633,935

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risk (continued)

(b) Liquidity risk (continued)

Group (continued)

	2006					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	> 5 years RMB'000	Total RMB'000
Trade payables	2,405,923	3,309,885	593,024	-	-	6,308,832
Bills payable	-	951,190	302,003	-	-	1,253,193
Financial liabilities included in other payables and accruals	2,350,148	1,095,562	1,244,474	-	-	4,690,184
Derivative financial instruments	986	-	-	-	-	986
Debentures	-	-	489,267	-	-	489,267
Customer deposits	207,723	20,000	32,300	-	-	260,023
Interest-bearing bank and other borrowings	5,278	45,040	390,357	76,474	30,916	548,065
Other long term payables	-	-	-	81,145	-	81,145
	4,970,058	5,421,677	3,051,425	157,619	30,916	13,631,695

Company

	2007			2006		
	On demand RMB'000	3 to less than 12 months RMB'000	Total RMB'000	On demand RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	4,203,839	-	4,203,839	1,773,926	-	1,773,926
Bills payable	-	25,640	25,640	-	153,278	153,278
Financial liabilities included in other payables and accruals	556,132	-	556,132	549,161	-	549,161
Interest-bearing bank and other borrowings	-	550,000	550,000	-	-	-
	4,759,971	575,640	5,335,611	2,323,087	153,278	2,476,365

54. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes interest-bearing bank and other borrowings, debentures and bonds.

The gearing ratios as at the balance sheet dates were as follows:

Group

	2007 RMB'000	2006 RMB'000
Interest-bearing bank and other borrowings	2,261,599	548,065
Debentures/bonds	1,000,000	489,267
Net debt	3,261,599	1,037,332
Total equity	27,511,050	23,497,602
Total equity and net debt	30,772,649	24,534,934
Gearing ratio	10.6%	4.2%

55. POST BALANCE SHEET EVENTS

(a) On 11 January 2008, the Company received a notification from SE Corporation, according to which SE Corporation and Mingguang have agreed to release the Pledged Shares (note 43).

(b) On 18 March 2008, the Company was notified that the approval from the Ministry of Commerce of the PRC, one of the conditions precedent to the Merger Proposal (note 18(i)), has been obtained.

(c) On 8 April 2008, the Company was notified that the approval from the State-owned Assets and Administration Commission of the State Council, one of the conditions precedent to the Disposal Proposal (note 18(iii)), has been obtained.

56. COMPARATIVE AMOUNTS

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

57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2008.