2008 Annual Report

Shanghai Electric Group Company Limited

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Corporate Information

- **Legal name of the Company (Chinese):**
上海電氣集團股份有限公司
Abbreviated name (Chinese): 上海電氣
Legal name of the Company (English):
Shanghai Electric Group Company Limited
Abbreviated name (English): Shanghai Electric

- **Company's legal representative:** Xu Jianguo
Company's authorized representatives:
Xu Jianguo, Huang Dinan
Company's alternative authorized representatives:
Cheung Wai Bun, Li Chung Kwong Andrew (FCCA, FCPA, ACA, CIA)
Company Secretary:
Li Chung Kwong Andrew (FCCA, FCPA, ACA, CIA)

- **Secretary to the Board of Directors of the Company:**
Fu Rong
Telephone: +86(21)52082266
Fax: +86(21)52082103
E-mail: ir@shanghai-electric.com
Correspondence address:
30/F, Maxdo Center, No.8 Xingyi Road, Shanghai

- **Company registered address:**
30/F, Maxdo Center, No.8 Xingyi Road, Shanghai
Company business address:
30/F, Maxdo Center, No.8 Xingyi Road, Shanghai
Zip code: 200336
Company website: http://www.shanghai-electric.com
Company e-mail: office@shanghai-electric.com

- **Company's designated newspapers for information disclosure:**
China Securities Daily, Shanghai Securities Daily, Securities Times Daily

- **Place of A Shares listing:** The Shanghai Stock Exchange
Abbreviation of A Shares: 上海電氣
Stock code of A Shares: 601727
Place of H Shares listing:
The Stock Exchange of Hong Kong Limited
Abbreviation of H Shares: SH Electric
Stock code of H Shares: 02727

- **Other related information**
Date of incorporation: 1 March 2004
Place of incorporation: Shanghai, PRC
Change of registration date:
27 October 2004, 4 February 2005, 26 September 2006, 18 December 2007
Place of change of registration: Shanghai, PRC
Legal person business licence registration number:
310000000086691
Tax registration number: 310105759565082
Organization code: 75956508-2
PRC auditors: Ernst & Young Hua Ming
Address of PRC auditors:
Level 16, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Ave, Dong Cheng District, Beijing
International auditors: Ernst & Young
Address of International auditors:
18/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Legal advisers as to PRC Law:
Grandall Legal Group (Shanghai)
Legal advisers as to Hong Kong law and U.S. law:
Freshfields Bruckhaus Deringer
Legal advisers as to Japanese Law:
Anderson Mori & Tomotsune

Registrar and Transfer Office:
A Shares: Shanghai Branch of China Securities Depository and Clearing Corporation Limited
H Shares:
Computershare Hong Kong Investor Services Limited
Place for inspection of Annual Report of the Company:
Office of the Secretary to the Board of Directors of the Company
Website designated for publishing Annual Report required by China Securities Regulatory Commission:
www.sse.com.cn

5-year Financial Summary

(according to Hong Kong Financial Reporting Standards)

	2004[1]	2005[1]	2006[1]	2007[1]	2008
RMB (Million)					
Revenue and Profit					
Revenue	25,075	35,799	43,480	55,929	**58,907**
Profit before tax	2,485	3,467	3,970	5,605	**4,035**
Tax	-558	-992	-1,035	-1,313	**-395**
Profit for the year	1,927	2,475	2,935	4,292	**3,640**
Attributable to:					
Equity holders of the parent	1,089	1,672	2,052	2,811	**2,534**
Non-controlling interests	838	803	883	1,481	**1,106**
Dividends	306	488	725	-	**1,463**[2]
Earnings per Share attributable to ordinary equity holders of the parent					
Basic					
- Profit for the year (cents)	11.85	15.17	17.26	23.64	**21.21**
Assets and Liabilities					
Non-current Assets	10,029	11,356	14,620	17,052	**18,274**
Current assets	36,824	43,500	49,057	58,969	**63,737**
Current liabilities	-31,832	-32,969	-39,225	-45,507	**-50,624**
Net current assets	4,992	10,531	9,832	13,462	**13,113**
Total assets less current liabilities	15,021	21,887	24,452	30,514	**31,387**
Non-current liabilities	-689	-701	-951	-3,003	**-3,230**
Net assets	14,332	21,186	23,501	27,511	**28,157**
Equity attributable to equity holders of the parent	8,505	14,880	16,729	19,669	**21,599**
Non-controlling interest	5,827	6,306	6,772	7,842	**6,558**

Note1: 2004-2007 figures have been restated in accordance with Hong Kong Financial Reporting Standards.

Note2: The final dividend of RMB700 million declared for the year ended 31 December 2007 was approved by the Company's shareholders at the extraordinary general meeting held on 24 March 2009.

The final dividend of RMB763 million proposed for the year ended 31 December 2008 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Chairman's Report

Dear shareholders,

In 2008, China experienced massive snowstorms and a severe earthquake; on the other hand, the global economy suffered from the surging price of raw materials, devaluation of US dollar and EUR, coupled with the financial tsunami. Such extreme circumstances imposed many challenges on the operations and development of Shanghai Electric Group Company Limited (the "Company") and its subsidiaries (collectively the "Group"). Despite the tremendous and rapid changes of the operating environment, the board of directors of the Company (the "Board of Directors" or "Board") and management team of the Group maintained a proactive spirit and focused on the growth of the Group's core businesses, which are in line with the national strategy. The Group also focused on its technological advancement and enhanced the Group's core equipment production capacity. In 2008, all business segments of the Group continued to maintain a steady performance and achieved the objectives formulated at the beginning of the year and the Group got closer to its mid- to long-term development goals as planned.

During the reporting period, the Group not only maintained its leading position in various lines of business, including thermal power equipment, nuclear power equipment, heavy machinery and elevator, but also achieved breakthroughs. As at the end of 2008, the orders on hand of power generation equipment business hit the historical height of over RMB160 billion. The thermal power equipment business recorded a remarkable achievement, with a record high revenue of EPC projects of over RMB10 billion. With respect to the nuclear power equipment business, the Group was awarded an order for six sets of 1,000MW nuclear power conventional island equipment from Yangjiang. This was the largest nuclear power conventional island equipment order in history in China. For the wind power equipment business, the Group realised the commercialisation of wind power equipment of 1.25MW. The development and production of wind power equipment of 2MW was also successful. With regard to the heavy machinery business, the Group successfully manufactured a 16,500MT oil hydraulic press, which laid a solid foundation for the Group to strengthen the production capability of large scale casting and forging parts. Shanghai Mitsubishi Elevator Co., Ltd., a subsidiary of the Group, became the world's first company that has achieved an annual production and sales of 30,000 units of elevators and aggregate sales volume of 200,000 units of elevators for a single factory. The percentage of revenue attributable to elevator installation and maintenance services is increasing.

During the period under review, the Company's share exchange and merger with Shanghai Power Transmission & Distribution Company Limited was launched and the A shares of the Company were successfully listed on the Shanghai Stock Exchange on 5 December 2008. The listing of A shares of the Company broadened the Company's financing platform, helped to further consolidate the Company's resources, and laid a solid foundation for the enhancement of synergy and operation efficiency of the Group.

The global economy in 2009 will continue to be challenging. The adverse impact on enterprises of China as a result of the financial crisis may come up further. The Group will proactively optimise its operating structure and implement further cost control measures to improve its efficiency. The Group will strengthen the control on trade receivables and inventories, as well as maintain sufficient cash flow to cope with unprecedented changes in the macroeconomic environment. Looking forward, it is believed that the urbanisation process in China will continue its growth momentum. In addition, the Chinese government's RMB4 trillion stimulus package for boosting domestic demand and the revitalisation scheme for ten major industries will be a strong driving force to facilitate its economic development. Against this backdrop, our business segments in clean energy equipment, high/ultra-high voltage power transmission and distribution equipment, heavy machinery and metropolitan rail transportation equipment are expected to enjoy a faster development pace. The Group will seize opportunities to further enhance its technological innovation as well as to reinforce its production capability. While enjoying direct benefits from the government's favourable policies towards the nuclear power, wind power, power transmission and distribution, and metropolitan rail transportation, the Group will continue to consolidate its leading position in the power equipment, heavy machinery and elevator businesses. Meanwhile, the Group will also establish world-class production plants with an aim to become an international heavy equipment manufacturer with self-innovative capability and development sustainability.

Xu Jianguo Chairman & CEO

Last but not least, I would like to take this opportunity to thank all shareholders for their continuous support to the Group despite the challenging economy last year. I would also like to express my heartfelt gratitude to our directors, supervisors, management and staff members for their dedication and contribution to the Group.

Xu Jianguo
Chairman
Shanghai, PRC
24 April 2009

Major Financial Data and Indicators

Major financial data for the reporting period

Currency: RMB million

Item	Based on the PRC GAAP
Operating profit	3,975
Profit before tax	4,193
Net profit attributable to shareholders of the listed company	2,622
Net profit attributable to shareholders of the listed company, net of non-recurring profit or loss	2,228
Net cash inflow generated from operating activities	3,030

Differences between domestic and overseas accounting principles

Currency: RMB million

Item	Net Profit		Net Assets	
	Current period	Previous period	At the beginning of the period	At the end of the period
Under the PRC GAAP	2,622	2,895	19,350	21,322
Under the HKFRSs	2,534	2,811	19,669	21,599

The differences mainly arise from the different accounting treatments regarding the business combinations under common control and the staff bonus and welfare fund.

Non-recurring profit or loss items and amounts to be deducted (according to the PRC GAAP)

Currency: RMB million

Non-recurring Profit or Loss Items	Amount
Gain on disposal of non-current assets	254
Reversal of tax provision for previous years	321
Non-recurring government grants	109
Gain or loss on entrusted investment	18
Restructuring expenses	(37)
Effect of change in tax rate on the opening balance of deferred tax assets / liabilities	(185)
Reversal of provisions for impairment of accounts receivables under individual impairment assessments	60
Fair value change and disposal gain or loss of financial assets and liabilities	30
Other non-operating net income and expenses apart from the above items	41
Effects of income tax of non-recurring profit or loss	(70)
Non-recurring profit or loss attributable to minority interests	(147)
Total	**394**

Major accounting data and financial indicators of the Company for the three years before the end of reporting period (according to the PRC GAAP)

Currency: RMB

	2008	2007		Year-on-year change (%)	2006	
		Before adjustments	After adjustments		Before adjustments	After adjustments
Revenue (RMB million)	58,909	56,834	56,098	5.0	44,194	43,622
Profit before tax (RMB million)	4,193	5,756	5,746	-27.0	4,085	4,085
Net profit attributable to shareholders of the listed company (RMB million)	2,622	2,898	2,895	-9.4	2,087	2,087
Net profit attributable to shareholders of the listed company, net of non-recurring profit or loss (RMB million)	2,228	2,710	2,552	-12.7	1,849	1,841
Basic earnings per share (RMB/share)	0.22	0.24	0.24	-8.3	0.18	0.18
Diluted earnings per share (RMB/share)	0.22	0.24	0.24	-8.3	0.18	0.18
Basic earnings per share, net of non-recurring profit or loss (RMB/share)	0.19	0.23	0.21	-9.5	0.16	0.15
Total assets (RMB million)	81,658	76,006	75,629	8.0	63,720	63,405
Interests attributable to shareholders of the listed company (RMB million)	21,332	19,350	19,350	10.2	16,457	16,457
Net assets per share attributable to shareholders of the listed company (RMB)	1.70	1.63	1.63	4.3	1.38	1.38
Fully diluted net assets earning ratio (%)	12.30	14.98	14.96	Decreased by 2.66 percentage points	12.68	12.68
Weighted average net assets earning ratio (%)	13.81	16.19	16.17	Decreased by 2.36 percentage points	13.39	13.39
Fully diluted net assets earning ratio, net of non-recurring profit or loss (%)	10.45	14.01	13.19	Decreased by 2.74 percentage points	11.23	11.19
Weighted average net assets earning ratio, net of non-recurring profit or loss(%)	11.74	15.14	14.25	Decreased by 2.51 percentage points	11.86	11.81
Net cash inflow generated from operating activities (RMB million)	3,030	3,627	3,548	-14.6	265	246
Net cash inflow per share generated from operating activities (RMB/share)	0.25	0.31	0.30	-16.7	0.02	0.02

Shareholding Structure and Disclosure of Interests

Share Capital Structure

	Number of Shares	Approximate percentage of issued share capital
A shares		
Shares subject to lock-up period	8,918,736,000	71.31%
Shares not subject to lock-up period	616,038,405	4.92%
H shares	2,972,912,000	23.77%
Total	12,507,686,405	100.00%

Disclosure of Interests

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

As at 31 December 2008, 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 have 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/A Share	Capacity	Notes	No. of A/H Shares	Nature of Interest	Percentage of total number of A/H Shares in issue (%)	Percentage of total number of Shares in issue (%)
Shanghai Electric (Group) Corporation	A	Beneficial Owner	1	7,409,088,498	Long position	77.71	59.24
		Person having a security interest in shares	1	450,000,000	Long position	4.72	3.60
		Total long position		7,859,088,498		82.43	62.83
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	A	Interest of controlled corporations	1	8,348,980,620	Long position	87.56	66.75
Shenzhen Fengchi Investment Co., Ltd.	A	Beneficial Owner	2	917,778,942	Long position	9.63	7.34
Shenergy Group	A	Beneficial Owner	1	489,892,122	Long position	5.14	3.92
Artisan Partners Limited Partnership	H	Investment manager	3	238,108,400	Long position	8.01	1.90
ZFIC, Inc.	H	Beneficial Owner	3	238,108,400	Long position	8.01	1.90
Lloyd George Investment Management (Bermuda) Ltd.	H	Investment manager		174,073,000	Long position	5.86	1.39
The Northern Trust Company (ALA)	H	Nil		151,085,851	Lending pool	5.08	1.21

Name of Substantial Shareholder	H/A Share	Capacity	Notes	No. of H/A Shares	Nature of Interest	Percentage of total number of H/A Shares in issue (%)	Percentage of total number of Shares in issue (%)
JPMorgan Chase & Co.	H	Beneficial Owner	4	16,834,249	Long position	0.57	0.13
		Custodian	4	132,532,745	Long position	4.46	1.06
		Total long position		149,366,994		5.02	1.19
		Beneficial Owner	4	11,843,508	Short position	0.40	0.09
Government of Singapore Investment Corporation Pte Ltd.	H	Investment manager		148,787,999	Long position	5.00	1.19
Siemens International Holding B.V.	H	Beneficial Owner	5	148,646,000	Long position	5.00	1.19
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporations	5	148,646,000	Long position	5.00	1.19
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporations	5	148,646,000	Long position	5.00	1.19
Siemens Aktiengesellschaft	H	Interest of controlled corporations	5	148,646,000	Long position	5.00	1.19

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 7,859,088,498 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) Artisan Partners Limited Partnership holding 238,108,400 shares of the Company, was wholly owned by Artisan Investment Corporation which in turn was wholly owned by ZFIC, Inc. The aforesaid corporation, or their directors, are accustomed or obliged to act in accordance with the directions or instructions of Mr. Andrew A. Ziegler and Ms. Carfene M. Ziegler. The interest in 238,108,400 shares relates to the same block of shares in the Company.

Yuhuan Power Plant

(4) JPMorgan Chase & Co. held a long position in 149,366,994 shares and a short position in 11,843,508 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 (%)	Number of shares
JP Morgan Chase Bank, N.A.	100	132,532,745 (Long position)
J.P. Morgan Whitefriars Inc.	100	14,660,627 (Long position)
		31,508 (Short position)
J.P. Morgan Structured Products B.V.	100	11,812,000 (Short position)
J.P. Morgan Securities Ltd.	98.95	2,173,622 (Long position)

The interests of JPMorgan Chase & Co. included a lending pool of 132,532,745 shares. Among the entire interests of JPMorgan Chase & Co. in the Company, a short position in 11,812,000 shares was held through cash-settled listed derivative instruments and a short position in 31,508 shares were held through physically settled unlisted derivative instruments.

(5) 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 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 2008, had an interest or short position in the shares or underlying shares of the Company.

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

As at 31 December 2008, 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 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 of Hong Kong Limited (the "Listing Rules"). As at 31 December 2008, none of the directors, supervisors or chief executives of the Company or their respective associates was granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Directors, Supervisors, Senior Management and Staff

Directors, Supervisors and Senior Management

Name	Position	Sex	Age	Commencement of term	End of term	Number of Shares held at the beginning of the year	Number of Shares held at the end of the year	Number of share options of the Company held	Number of restricted Shares granted	Change in the number of Shares	Reasons for changes	Total remunerations received from the Company during the reporting period (RMB ten thousand) (before tax)	Incentive options granted during the reporting period: Share options exercisable	Share options exercised	Exercise price	Share price at the end of the period	Receive any remunerations and allowances from shareholding entities or other associates
Xu Jianguo (Note 1)	Chairman and Chief Executive Officer	Male	57	16 November 2007	15 November 2010	/	/	/	/	/	/	/	/	/	/	/	Yes
Zhu Kelin	Vice Chairman and Non-executive Director	Male	46	16 November 2007	15 November 2010	/	/	/	/	/	/	/	/	/	/	/	Yes
Huang Dinan (Note 2)	Executive Director and President	Male	42	16 November 2007	15 November 2010	/	/	/	/	/	/	58.6	/	/	/	/	No
Zhang Suxin	Executive Director	Male	44	30 June 2008	15 November 2010	/	/	/	/	/	/	48.6	/	/	/	/	No
Yu Yingui (Note 3)	Executive Director and Chief Financial Officer	Male	58	16 November 2007	15 November 2010	/	/	/	/	/	/	48.6	/	/	/	/	No
Yao Minfang	Non-executive Director	Female	41	16 November 2007	15 November 2010	/	/	/	/	/	/	/	/	/	/	/	Yes
Zhu Sendi	Independent Non-executive Director	Male	68	3 November 2008	15 November 2010	/	/	/	/	/	/	4.17	/	/	/	/	No
Cheung Wai Bun	Independent Non-executive Director	Male	72	16 November 2007	15 November 2010	/	/	/	/	/	/	25	/	/	/	/	No
Lei Huai Chin	Independent Non-executive Director	Male	44	16 November 2007	15 November 2010	/	/	/	/	/	/	25	/	/	/	/	No
Xie Tonglun	Supervisor	Male	52	16 November 2007	15 November 2010	/	/	/	/	/	/	28.2	/	/	/	/	No
Li Bin	Supervisor	Male	48	16 November 2007	15 November 2010	/	/	/	/	/	/	/	/	/	/	/	No
Sun Wenzhu	Supervisor	Female	52	16 November 2007	15 November 2010	/	/	/	/	/	/	/	/	/	/	/	Yes
Zhou Changsheng	Supervisor	Male	43	16 November 2007	15 November 2010	/	/	/	/	/	/	/	/	/	/	/	Yes
Li Chung Kwong Andrew	Company Secretary	Male	49	30 June 2006		/	/	/	/	/	/	110	/	/	/	/	No
Fu Rong	Secretary to the Board	Female	38	June 2005		/	/	/	/	/	/	28.2	/	/	/	/	No

Note 1: Mr. Xu Jianguo has been the chief executive officer of the Company since 12 September 2006.

Note 2: Mr. Huang Dinan has been the president of the Company since 28 September 2004.

Note 3: Mr. Yu Yingui has been the chief financial officer of the Company since 28 September 2004.

Note 4: The remunerations during the reporting period are the remunerations of directors, supervisors and senior management. Their remunerations are calculated by reference to the period that they held office.

Major working experiences of directors, supervisors and senior management in the past 5 years:

Executive Directors

Xu Jianguo, aged 57, joined the Company in September 2006 and is the chief executive officer, chairman of the board and an executive director of the Company. He is also the chairman of the board of 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 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 with a master degree in Economics.

Huang Dinan, aged 42, joined the Company in March 2004 and is an executive director and the president of the Company. He is also 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 president of Shanghai Turbine Co., Ltd. from 1999 to 2002, vice president of Shanghai Turbine Co., Ltd. from 1997 to 1999 and vice president of Shanghai Electric (Group) Corporation from 2002 to 2004. Mr. Huang was appointed as the president of Shanghai Electric (Group) Corporation in January 2004. Mr. Huang graduated from Tsinghua University with a master degree in engineering. He is a senior engineer of professor level.

Zhang Suxin, aged 44, joined the Company in May 2007 and is an executive director of the Company and the vice president of Shanghai Electric (Group) Corporation. Mr. Zhang has extensive experience in the power equipment industry and energy strategy research. Mr. Zhang served as a designer of the designing Department, director of research institute, vice general engineer, assistant to the president and vice president of Shanghai Turbine Co., Ltd. from 1986 to 2002, and as the president of Shanghai Turbine Co., Ltd. from 2002 to 2004. Mr. Zhang had been the executive vice president of Shanghai Electric Power

Generation Group, the assistant to the president of the Company and head of business development department of the Company from 2004 to 2008. Mr. Zhang graduated from Tsinghua University with a bachelor's degree in engineering science. Mr. Zhang is a senior engineer of professor level.

Yu Yingui, aged 58, joined the Company in March 2004 and is an executive director and the chief financial officer of the Company. 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., formerly one of the Company's listed subsidiaries, since joining the parent group in 1991. Mr. Yu was the vice president of Shanghai Diesel Engine Co., Ltd. from 1991 to 2000 and the president of Shanghai Diesel Engine Co., Ltd. from 2000 to 2004. Mr. Yu holds a master degree of Business Administration of the Shanghai University of Finance and Economics.

Non-executive Directors

Zhu Kelin, aged 46, 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 Investment Co., Ltd. from 1997 to 2003 and 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, the chairman of the board of Guangdong Zhujiang Investment Joint Stock Co., Ltd. from December 2007 to February 2009 and the vice chairman of Guangdong Zhujiang Investment Holding Group Co., Ltd. since February 2008. Mr. Zhu graduated from University of Western Sydney with a master degree in business administration.

Yao Minfang, aged 41, 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 since 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

Zhu Sendi, aged 68, joined the Company in November 2008 and is an independent non-executive director of the Company. He is the executive vice-chairman and director of experts committee of China Machinery Industry Federation, a member of Advisory Committee for State Informatization, a consultant of Chinese Mechanical Engineering Society, a member of experts committee of China Federation of Logistics & Purchasing and the honorable chairman of China Association for Mechatronics Technology & Application. Mr. Zhu also serves as an independent director of Taiyuan Heavy Machinery (Group) Co., Ltd.. Prior to these positions, Mr. Zhu successively worked as the deputy director and the director of office of China Academy of Machinery Science and Technology. He then successively served as the deputy director and the director of science and technology department, the director of comprehensive planning department, the director of industry development department, a member of the party committee and the chief engineer of the Ministry of Machinery Industry of the PRC. Mr. Zhu also worked as the chairman of the board of directors and president of China National Machinery & Equipment (Group) Corporation, the general manager of China National Machinery & Equipment Import & Export Corporation, and the administrative deputy director of the Machinery Industry Planning & Review Committee. Mr. Zhu graduated from Anhui University with a major in physics. Mr. Zhu is a senior engineer of professor level.

Dr. Cheung Wai Bun, Charles, J.P., aged 72, 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, including experience in internal controls reviewing or analyzing audited financial statements. Dr. Cheung is presently chairman of Joy Harvest International Limited, Hong Kong and an independent non-executive director and chairman of the respective audit committees of Pioneer Global Group Limited and Prime Investments Holdings Limited, the latter two are companies listed on the main board of the Stock Exchange. Dr. Cheung is also 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 independent non-executive director and chairman of the audit committees of K. Wah International Holdings Limited, Galaxy Entertainment Group Limited, both of which are companies listed on the main board of the Stock Exchange, the former group chief executive and executive deputy chairman of Mission Hills Group, Hong Kong, and a former director and advisor of the Tung Wah Group. He has held senior management positions in various companies of different industries and possessed extensive experiences. Dr. Cheung holds an honorary doctor's degree from John Dewey University of USA and a master 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 44, 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 degree in business administration from the University of Southern California, US.

Supervisors

Xie Tonglun, aged 52, joined the Company in March 2004. He is the employee representative and acting chairman, commencing from 6 August 2008 until a new chairman of supervisory committee is elected, in the supervisory committee of the Company. He is also the communist party office manager and vice chairman of labour union of Shanghai Electric Group Company Limited. He was the deputy manager of the administration office of Shanghai Electric (Group) Corporation from 1996 to 2001 and the deputy secretary of the Commission for Discipline Inspection of Shanghai Electric (Group) Corporation from 2001 to 2004. Mr. Xie graduated with a degree in business administration from Shanghai Administration Institute.

Li Bin, aged 48, joined the Company in November 2007 and is an employee representative of supervisory committee of the Company and the head of the production line, head of product test team and senior technician of Shanghai Electric Hydraulic & Pneumatics Co., Ltd. Hydraulic Pump Factory. Since 1980, Mr. Li was the worker of plant 2 of Shanghai Hydraulic Pump Factory, product test engineer and head of the product test team of computer 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 43, joined the Company in November 2007, is a supervisor of the Company, deputy head of the audit office of Shenergy Group, the supervisor of Shanghai Shenggang Energy Sources Investment Co., Ltd. and the chief auditor of Anhui Wuhu Nuclear Power Co., Ltd.. Mr. Zhou had been the deputy head of the 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 Group, the director of Shanghai Metro Construction Corporation Ltd. and the independent director of Shanghai Zhongxi Pharmaceutical Co., Ltd. Mr. Zhou holds a master degree. He is also a Senior Accountant and a Certified Public Accountant in PRC.

Sun Wenzhu, aged 52, joined the Company in November 2007 and is a supervisor of the Company and the vice president of the commercial real estate department of Hesheng Group. 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 Wenzhu holds a junior college degree in business management and is an Accountant.

Senior Management

Li Chung Kwong, Andrew, aged 49, joined the Company in April 2005 and is the company secretary and the assistant to the president of the Company. Mr. Li has been the chief financial officer of Oriental Juice Investments Ltd. from 2002 to 2004 and a Certified Public Accountant (Practising) (Hong Kong) from 1996 to 2002 and a partner at Chu and Chu, Certified Public Accountants from 1996 to 2002. Mr. Li graduated from Hong Kong Polytechnic University and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, as well as a member of the Institute of Chartered Accountants and the Institute of Internal Auditors.

Fu Rong, aged 38, joined the Company in June 2005, and is the secretary to the board of directors of the Company, director of secretariat office of the board of directors and the deputy office manager of the Group. She was the representative of security affairs of Shanghai Power Transmission and Distribution Co., Ltd., head of marketing department of low voltage product division of ABB (China) Ltd. and the secretary of the board of directors of Shanghai Power Transmission and Distribution Co., Ltd. prior to joining the Company. Ms. Fu holds a bachelor degree in management and is an Economist.

Positions in shareholding entities

Name	Name of shareholding entities	Position	Commencement of term	End of term	Receive any remunerations and allowances
Xu Jianguo	Shanghai Electric (Group) Corporation	Chairman of the board	August 2006		Yes
Huang Dinan	Shanghai Electric (Group) Corporation	Director and the President	January 2004		No
Zhang Suxin	Shanghai Electric (Group) Corporation	Vice President	April 2008		No
Zhu Kelin	Shenzhen Fengchi Investment Co., Ltd.	Chairman of the Board	December 2007		No
Yao Minfang	Shenergy Company Ltd	Deputy manager for Investment Department	September 2006		Yes
Zhou Changsheng	Shenergy Company Ltd	Deputy Director of the Audit Office	2009		Yes

Positions in other entities

Name	Name of other entities	Position	Commencement of term	End of term	Receive any remunerations and allowances
Xu Jianguo	Shanghai Mechanical & Electrical Industry Company Limited	Chairman of the Board	September 2006	May 2009	No
Zhu Kelin	Guangdong Zhujiang Investment Holding Group Co., Ltd.	Vice Chairman of the Board	February 2008		Yes
Yu Yingui	Shanghai Mechanical & Electrical Industry Company Limited	Chairman of Supervisory Committee	May 2006	May 2009	No
	Shanghai 3F New Materials Company Limited	Independent Director	March 2008	March 2010	Yes
Zhu Sendi	China Machinery Industry Federation	Executive Vice-chairman	March 2004	May 2009	Yes
	China Machinery Industry Federation Experts Committee	Director	March 2004	May 2009	No
	Advisory Committee for State Informatization	Member	April 2004	2009	No
	Chinese Mechanical Engineering Society	Consultant	2006	2011	No
	China Federation of Logistics & Purchasing	Member of Experts Committee	November 2007	November 2011	No
	China Association for Mechatronics Technology & Application	Honorable Chairman	November 2007	November 2011	No
	Taiyuan Heavy Machinery (Group) Co., Ltd.	Independent Director	June 2008	June 2011	Yes
Cheung Wai Bun	Joy Harvest International Limited	Chairman	12 March 2004	Indefinite	Yes
	K. Wah International Holdings Limited	Independent Non-executive Director	1995	27 May 2008	Yes
	Galaxy Entertainment Group Limited	Independent Non-executive Director	31 March 1998	19 June 2008	Yes
	Pioneer Global Group Limited	Independent Non-executive Director	23 June 1999	September 2010	Yes
	Prime Investments Holdings Limited	Independent Non-executive Director	3 March 2001	November 2010	Yes
Lei Huai Chin	GITI Tire (China) Investment Company Ltd.	Managing Director	June 2003		Yes
Li Bin	Shanghai Electric Hydraulic & Pneumatics Co., Ltd	Head of the Production Line, Head of Product Test Team and	December 1980		Yes
Zhou Changsheng	Shanghai Shenggang Energy Sources Investment Co., Ltd.	Supervisor	2004		No
	Shanghai Zhongxi Pharmaceutical Co., Ltd.	Independent Director	2005	2008	Yes
	Anhui Wuhu Nuclear Power Co., Ltd.	Chief Auditor	2008		No
Sun Wenzhu	Commercial real estate department of Hesheng Group	Vice President	April 2007		Yes

Remunerations of Directors, Supervisors and Senior Management

1. Procedures to determine the remunerations of directors, supervisors and senior management: the remunerations of directors and supervisors (non-employee representatives) of the Company are determined by general meetings, while the remunerations of senior management are determined by the Board of the Company.

2. Basis for determining the remunerations of directors, supervisors and senior management: the remunerations of directors and supervisors (non-employee representatives) of the Company are determined based on a number of factors, such as the operating results of the Company, their responsibilities, performance and market conditions. The remunerations of employee representatives and senior management are determined based on their responsibilities and achievements according to the annual plans.

3. Directors and Supervisors not receiving remunerations from the Company:

Name of Directors and Supervisors not receiving remunerations and allowances from the Company	Receive any remunerations and allowances from shareholding entities or other associates
Xu Jianguo, Zhu Kelin, Yao Minfang, Zhou Changsheng, Sun Wenzhu	Yes

4. Directors' and supervisors' 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 or supervisors.

5. 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.

6. Share option arrangement
   The Company does not currently have any share option arrangement.

Change of Directors, Supervisors and Senior Management of the Company

Name	Position held	Reason for Resignation
Li Manping	Executive Director and Vice President	Work arrangement
the late Yao Fusheng	Independent Non-executive Director	Deceased
Cheng Zuomin	Chairman of the Supervisory Committee	Work arrangement

The Company convened the 10th meeting of the second board on 14 July 2008 and approved the resignation of Mr. Yao Wenjun as joint company secretary due to other work arrangements.

The Company convened the 2008 extraordinary general meeting on 3 November 2008 and approved the appointment of Mr. Zhu Sendi as an independent non-executive director of the Company.

Employees of the Company

1. Headcount Structure by Expertise

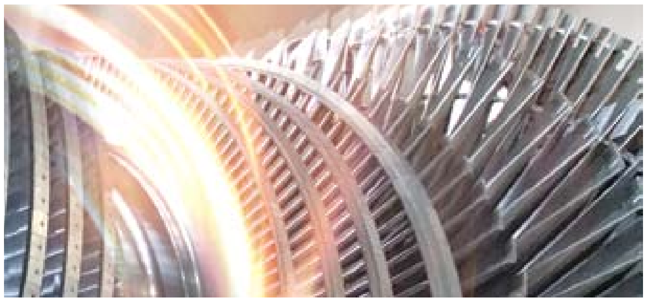
Expertise	Number of employees
Production personnel	17,975
Sales personnel	1,313
Technical personnel	6,683
Financial personnel	625
Administration personnel	4,727
Total	31,323

As at the end of the reporting period, the Company has 31,323 employees. The Company is responsible for the retirement benefits of 327 retired employees.

2. Education Level

	Number of employees
Postgraduate and above	864
Undergraduate	6,322
Tertiary education	5,968
Secondary education or below	18,169

Corporate Governance



Corporate Governance

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 (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") 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.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules. Further to the Company's enquiry, all directors confirmed that they had complied with the Model Code throughout the year 2008.

Board of Directors

The Board of Directors comprises nine directors, including three independent non-executive directors. The number of independent non-executive directors represents one-third of the total number of directors.

The Board members have different professional backgrounds with expertise in various aspects such as corporate management, technology development, financial management, strategic investment and human resources management. Their particulars are set out in the "Directors, Supervisors, Senior Management and staff" section of the annual report.

All independent non-executive directors of the Company are aware of the rights and obligations of directors and independent non-executive directors of listed companies. During the reporting period, independent non-executive directors attended Board meetings in prudent, responsible, proactive and earnest manner. Utilizing their experiences and specialization, they contributed efforts in improving corporate management and making major decisions and producing relevant and objective opinions on major events and connected transactions of the Company, enhancing the scientific development and standardisation of the Board's decision process and safeguarding interests of the Company and shareholders effectively.

All independent non-executive directors have confirmed their independence from the Company as required under Rule 3.13 of the Listing Rules. The Company considered such directors to be independent during the year 2008.

During the reporting period, the attendance of each existing independent non-executive director is as follows:
(number of attendance in person/number of board meetings requiring attendance)

Name of Director	Attendance
the late Yao Fusheng	6/7
Zhu Sendi	1/1
Cheung Wai Bun	14/14
Lei Huai Chin	10/14

Independent non-executive directors who were unable to attend the Board meetings in person had authorised other independent non-executive directors to act as their proxies.

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

Installation of high pressure rotor for nuclear power equipment

Steam generator No. 3B for Qinshan Nuclear Power Plant Plase II Extension project

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.

Nomination of Directors

The Board of Directors has not established the Nomination Committee. Pursuant to the Company's articles of association (the "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 seven days.

Chairman and Chief Executive Officer

Pursuant to code provision A.2.1 of the Code, 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 term of three years, and can be re-elected and re-appointed with office tenure extended accordingly.

Audit Committee

The audit committee of the Company (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. The Audit Committee is also responsible for reviewing the interim and full year financial statements, the appointment of and remuneration for auditors. The Audit Committee held a meeting in April 2009 and amended the terms of reference of Audit Committee by including the duty of reviewing the Company's quarterly financial reports. The Audit Committee, currently comprising Dr. Cheung Wai Bun, Mr. Zhu Sendi (appointed on 6 January 2009), Mr. Lei Huai Chin and Ms. Yao Minfang (appointed on 11 August 2008), is chaired by Dr. Cheung Wai Bun, an independent non-executive director of the Company. The late Dr. Yao Fusheng, a former member of the Audit Committee, passed away on 11 July 2008 due to illness.

Five meetings of the Audit Committee were convened on 15 April, 24 April, 27 May, 21 August and 5 November of 2008 respectively. The Audit Committee has reviewed and overseen the financial reporting procedures and internal controls of the Group, reported the results of such review and recommendations for improvement to the Board of Directors. Our Audit Committee has also reviewed the periodic financial reports, profit distribution plan, the appointment of and remuneration for auditors.

Remuneration Committee

The Remuneration Committee of the Company (the "Remuneration Committee") is mainly responsible for making recommendations to the Board of Directors regarding the formulation of a proper and transparent compensation policy and structure for directors and senior management of the Company.

The Remuneration Committee comprises Mr. Lei Huai Chin, Mr. Huang Dinan and Mr. Zhu Sendi (appointed on 6 January 2009). Mr. Lei Huai Chin is the chairman of the Remuneration Committee. The late Dr. Yao Fusheng, a former member of the Remuneration Committee, passed away on 11 July 2008 due to illness.

A meeting of the Remuneration Committee was held on 10 April 2008 at which the Remuneration Committee made recommendations to the Board of Directors regarding the compensation policy and structure for Board of Directors and supervisory committee of the Company, and formulated proper remuneration procedures.

The Company convened 14 board meetings during the year.

During the reporting period, attendance record of Board Meetings and Board Committees is as follows:
(number of attendance in person/number of meetings requiring attendance)

Directors	Second session Board Meetings	Audit Committee	Remuneration Committee
Xu Jianguo	14/14		
Zhu Kelin	13/14		
Huang Dinan	14/14		1/1
Zhang Suxin	8/8		
Yu Yingui	14/14		
Li Manping	0/2		
Yao Minfang	14/14	2/2	
the late Yao Fusheng	6/7	3/3	1/1
Zhu Sendi	1/1		
Cheung Wai Bun	14/14	5/5	
Lei Huai Chin	10/14	4/5	1/1

All directors who were unable to attend in person had authorized other directors to act as their proxies.

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 the financial report for the year ended 31 December 2008, 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 ultimately responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

Supervisory Committee

The supervisory committee of the Company ("Supervisory Committee") is a monitoring agency of the Company responsible for monitoring the Board of Directors and its members and senior management to avoid abuse of rights that may harm the legal interests of shareholders, the Company and staff of the Company. The number of members and formation of the Supervisory Committee comply with the requirements of the relevant laws and regulations in the PRC.

During the reporting period, attendance of Supervisory Committee Meetings is as follows:
(number of attendance in person/number of meetings requiring attendance)

Name	Second Session of Supervisory Committee
Cheng Zuomin	3/3
Xie Tonglun	4/4
Li Bin	4/4
Sun Wenzhu	2/4
Zhou Changsheng	4/4

The supervisor who was not able to attend in person had authorised other supervisors to act as her proxies.

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 misstatements 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:

- Random sample checks on internal control procedures of major 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 standardised 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 covered 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.

In addition, according to the requirements of relevant PRC laws, rules and regulations, such as "Basic Standards of Internal Controls for Enterprises" jointly issued by certain authorities including the Ministry of Finance and China Securities Regulatory Commission and "Guidelines on Internal Controls of Listed Companies" of the Shanghai Stock Exchange, the Board of Directors, Audit Committee and internal audit department of the Company have conducted comprehensive inspections on internal controls and operations of the Company and concluded a "2008 Self Assessment Report of Internal Controls of the Company".

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.

General Meetings

The General Meeting is the highest authority of the Company which performs its duties according to laws and makes decisions on major issues of the Company. Annual general meetings and extraordinary general meetings are direct communication channels between the Board and the shareholders of the Company. Therefore, the Company attaches great importance on general meetings and encourages all shareholders to attend and express their opinions at the meetings.

Controlling Shareholder

The Company's controlling shareholder is Shanghai Electric (Group) Corporation ("the SE Corporation"). The independence in terms of operations, staff, assets, structure and finance of the Company from its controlling shareholder is as follows:

1. Operation Independence

The Company has an independent chain of operation in respect of supply, production and marketing. There is

Steam turbine island for Yuhuan Power Plant

Testing for turbine rotor

Aerial shot of Daya Bay Nuclear Power Plant

no business competition between the Company and its controlling shareholder. The Company has entered into a few continuing connected transactions with the controlling shareholder and its subsidiaries. However, such connected transactions have not affected the operation independence of the Company.

2. Assets Independence

The assets owned by the Company and its subsidiaries are being held in the Company's or its subsidiaries' own capacity fully independent from the controlling shareholder of the Company.

3. Staff Independence

The Company's staff are independently employed by the Company. The directors, supervisors, president, chief financial officer, company secretary, secretary to the Board are appointed strictly in accordance with the relevant provisions of the PRC Company Law and the Articles of Association. Except for Huang Dinan, president of the Company , who also serves as president of the controlling shareholder, the chief financial officer, company secretary, and secretary to the Board do not have any position in the controlling shareholder or other companies under its control (except the Company and its subsidiaries). The president, chief finance officer, company secretary and secretary to the Board have not received any remuneration from the controlling shareholder or any companies under its control (except the Company and its subsidiaries).

Besides the working relationships in the Company, there was no financial, business, family relationship or other material relationships among the directors, supervisors and senior management.

4. Structure Independence

The Company has an independent and comprehensive corporate structure. The Company has formulated its general meetings, Board of Directors and Supervisory Committee as required for a legal person. The Company has progressively established independent functional divisions in response to requirements of corporate development and market competitions. All functional departments operate under the centralised management of the Company and have no overlapping of functions or hierarchical relationships with its controlling shareholder.

5. Financial Independence

The Company has established an independent accounting department with designated personnel to handle accounting affairs. The Company has in place an independent auditing system and financial control system to facilitate independent operation and financial decisions. Controlling shareholder cannot interfere with the investments and application of funds of the Company. Except for Shanghai Electric Group Finance Co., Ltd. (a non-bank financial institution operating in compliance with laws of PRC), a subsidiary in which the Company holds a controlling interest, which provides SE Corporation, its subsidiaries and the associates of which SE Corporation holds interests of not less than 20%, with financial services such as deposits, loans and non-financing guarantees in its normal business and in compliance with the relevant laws and market practices, the Company has not provided guarantees or back-to-back loans to the controlling shareholder or its subsidiaries.

Disclosure of Information and Investor Relations

The Company recognizes the importance of good communications with its investors. Our investor relations team had arranged interviews and site visits etc. for investors from time to time. The team had also attended investor relationship forum and conducted overseas roadshows at regular intervals to introduce to investors our strategies and plans for future development. The Company will continue to make great efforts in its investor relations work to further enhance its transparency.

Summary of General Meetings

Annual General Meeting

The annual general meeting of 2007 was convened on 30 June 2008. An announcement of the results of the annual general meeting is available on the website of the Hong Kong Stock Exchange.

Extraordinary General Meeting

The extraordinary general meeting of 2008 was convened on 12 November 2008. An announcement of the results of the extraordinary general meeting is available on the website of the Hong Kong Stock Exchange.

Wind Power projects

Report of the Directors

Operations review

During the period under review, the Company enhanced its competitiveness and profitability, as well as its sustainable and healthy operation level, and optimised its management systems. In particular, the Company managed to maintain its growth momentum by adopting appropriate measures to tackle the global financial crisis. During the reporting period, the Company recorded a steady growth in revenue and attained a satisfactory level for its financial indicators. Core businesses achieved a series of breakthroughs.

Operation revenue maintained a steady growth and outstanding orders hit a record high

During the period under review, the revenue from core business segments of the Company maintained a growth trend. However, the growth rate was slowed down due to the impact of global financial crisis. According to our financial statements prepared under the Hong Kong Financial Reporting Standards ("HKFRSs"), the operating revenue for the year amounted to RMB58.9 billion, representing a year-on-year growth of 5.3%. According to our financial statements prepared under Chinese Accounting Standards for Business Enterprises ("PRC GAPP"), operating revenue for the year amounted to RMB58.9 billion, posting a year-on-year growth of 5.0%. Among all divisions, power equipment division, electromechanical equipment division, heavy machinery division and environmental systems division realized an annual growth in revenue. The revenue of the transportation equipment division recorded a slight decline over the corresponding period of 2007, which was attributable to the delivery schedule arrangement of railcars. As at the end of 2008, the Company's outstanding orders of its core businesses hit a record high. Outstanding orders of power equipment division and heavy machinery division amounted to more than RMB160 billion and RMB17 billion respectively.

In line with national strategies to be internationalized

The Company formulated its strategy according to the national strategies, with an aim to be developed into an international conglomerate. During the period under review, the Company allocated more resources to the development of its core business. The Company continued to adjust its business structure from a pure equipment manufacturer to an integrated equipment manufacturer and service provider. The Company has successfully developed the overseas market and our competitiveness has been further enhanced. According to the 2007 ENR report published by McGraw-Hill, the Company was ranked 148 among the Top 225 global contractors.

As the Company's traditional core competence business segment, the power equipment division steadily enhanced its competitiveness. During the period under review, the production of our three major equipments, namely turbine generators, turbines and boilers, were 28,680 MW, 27,030 MW and 24,860 MW respectively. The Engineering, Procurement & Construction (the "EPC") business maintained its rapid development and recorded a revenue of more than RMB10 billion during the period under review. With its improved competitiveness in overseas markets, the Company secured overseas power equipment orders of more than RMB20 billion. The Company also completed the construction of 200 units of wind power equipment and successfully launched its first unit with 2MW capacity. A large-scale wind power equipment production base was planned to be built in Lingang in Shanghai. Phase I of the construction was on schedule. The planned annual production capacity of Phase I of the production base is 600 units of wind power equipment of 1.25-2 MW capacity each. Shanghai Lingang nuclear power conventional island production base with an annual production capacity of 2.5 sets of 1,000 MW nuclear power conventional island equipment commenced its operation. During the period under review, the Company has established a strategic alliance with Areva Group in France, in respect of the transformer business. The construction of Lingang large-scale transformer production base was in good progress. Upon completion of the production base, the Group's competitiveness in high voltage and ultra-high voltage large-scale transformer production will be enhanced.

In 2008, electromechanical equipment division also enjoyed a steady growth as a whole. In particular, the Company maintained its leading position in the PRC elevator market. During the period under review, Shanghai Mitsubishi Elevator Co., Ltd. (the "SMEC"), a subsidiary of the Company, achieved a global breakthrough with an annual production and sales record of 30,000 elevators, with which the cumulative units sold reached 200,000. It was the highest annual production of a single elevator production plant in the world. During the reporting period, the export volume of complete sets of SMEC elevators recorded a year-on-year growth of more than 30%, marking a milestone of the elevator export business. In addition, the revenue from the elevator installation, maintenance and repairs business of SMEC for the year continued to grow, maintaining highest number of installation units, highest number of units under maintenance and repair contracts in the domestic elevator market.

Coupled with the continuous investment and construction in recent years, the heavy machinery division of the Company has entered a fast-growing phase. During the period under review, the revenue from heavy machinery division amounted to RMB5 billion, posting a year-on-year growth of more than 70%. Through a joint venture with KSB of Germany, the Company has successfully entered the market of nuclear power pumps and valves and formed a production chain of nuclear power nuclear island equipments. The Company's market competitiveness was further strengthened. During the reporting period, the Company secured all the orders of reactor vessel internals and control rods drive mechanisms nuclear equipment in the domestic market. The Company also secured orders of 1,000 MW level steam generators, pressure vessels and pressurizers from Hongyanhe, Ningde, Fang Jia Shan, Yangjiang and Haiyang. In addition, the Company had also secured an order of pressure vessels for high-temperature air-cool reactor project in Shidaowan, which is the first of its kind in China. During the period under review, the Company successfully produced "8K80MC-C", "8K90MC-C" and "8RT-FLEY68D" ship-use crankshafts and achieved a series of "No.1 in China". Upon completion of the production facilities in Lingang base, the production capacity of the Company in extra-large, heavy and extreme capacity equipments will be enhanced.

Regarding the transportation equipment division, the sales volume of metropolitan railcars of the Company was 148 units during the reporting period, reaching around 27% market share in Shanghai. The Company also secured orders of electrical and mechanical projects of urban mass transit system in Chongqing and Shenzhen and will further explore other markets in China. During the period under review, the Company completed the disposal of an equity stake of 50.32% in Shanghai Diesel Engine Co., Ltd., and the proceeds from the sale of shares will be used to develop the core business of the Company.

For the environmental systems division, the Company proactively reorganised the business structure and enhanced its competitiveness to counter the adverse impact of the financial crisis. The company continued to develop its capability in respect of refuse incineration and sewage discharge business.

Upgrade its business by innovation and technology advancement

The Company continued to invest in technology development. During the reporting period, the Company and its subsidiaries applied for 330 patents, including 169 patents of innovation, 154 patents of new application and 7 patents of design. The approval for 145 patents were awarded, including 28 patents of innovation, 98 patents of new application and 19 patents of design.

During the reporting period, the Company successfully exported its self-manufactured super-critical thermal power generator with a capacity of 600 MW. In addition, the Company also planned to launch another self-manufactured super-critical thermal power generator with a capacity of 800 MW. Its self-manufactured wind power equipment with a capacity of 2 MW was completed, while the development of its offshore wind power equipment unit with a capacity of 3.6 MW entered into the second design phase. Progresses have also been made in the development of technology used in desalination of sea water, IGCC (Integrated Gasification Combined Cycle), air-cooling and residual heat boilers. Six technology improvement projects in heavy machinery division were completed. The self-manufactured hydraulic press of 16,500 tonnes of the Company commenced operation, which further enhanced the Company's processing capability of super large forging and casting pieces. Significant progress was made in the self-manufactured Type A metro railcars of the Company. Traction systems, braking systems, car doors and dynamic systems of the railcars had passed tests and the railcars have now been put on trial run.

During the reporting period, the Company's power transmission and distribution technology centre was accredited as a state technology centre. The Company's project of hybrid harmonic and reactive power compensation system of APF and SVC in mid-voltage system was recognised as an 863 technological innovative project by the Ministry of Science and Technology of China.

The Company's projects of simulation techniques of wind power generation units and research on the quality and technique of MW integrated electricity were accredited as major specialist works of Shanghai.

Enhancement of operation structure and upgrading the management standards of the Company

A well-organised corporate structure and management control system can facilitate the synergy between different business divisions of the Company and enhance its operational efficiency. During the reporting period, the Company further restructured its headquarter organisation by forming a 3-layer hierarchy comprising the headquarter, business segments and production plants. Such moves enhanced the Group's resources allocation. The synergy was created by sharing the upstream and downstream resources of power equipment division and heavy machinery division. The Company continued to invest in information system and establishment of the Lingang information centre. The KOA system at the headquarters had been in operation and the ERP system of the power station group was further enhanced. In the fifth session of "500 Most Valuable Brands in China" published by the World Brand Lab, Shanghai Electric was ranked 57th overall and 2nd among the machinery industry in China with a brand value of RMB11,335 million.

Successful A-share listing and expansion of financing platform

During the reporting period, the Company launched the absorption merger with Shanghai Power Transmission & Distribution Company Limited through a share exchange and public offering of 616,038,405 A shares. The Company's A shares were successfully listed on the Shanghai Stock Exchange on 5 December 2008 and the Company has become an "A + H" listed company. By returning to the A-share market, the Group gains access to a new capital raising platform, and will be able to better allocate its resources and achieve synergy.

Principal activities and operation review of the Company

1. **Review of the Company's major business divisions during the reporting period in accordance with Hong Kong Financial Reporting Standards**

RMB million

	Revenue		Operating profits	
	2008	2007	2008	2007
Power equipment	**33,968**	33,440	**2,206**	2,736
Percentage of the total	**57.7%**	59.8%	**60.3%**	54.3%
Electromechanical equipment	**13,036**	12,135	**953**	935
Percentage of the total	**22.1%**	21.7%	**26.0%**	18.6%
Heavy machinery	**5,133**	3,008	**277**	80
Percentage of the total	**8.7%**	5.4%	**7.6%**	1.6%
Transportation equipment	**4,471**	4,772	**131**	232
Percentage of the total	**7.6%**	8.5%	**3.6%**	4.6%
Environmental systems	**3,222**	2,966	**-28**	38
Percentage of the total	**5.5%**	5.3%	**-0.8%**	0.8%
Financial business	**431**	259	**441**	1,298
Percentage of the total	**0.7%**	0.5%	**12.0%**	25.8%
Other businesses	**412**	440	**927**	1,316
Percentage of the total	**0.7%**	0.8%	**25.3%**	26.1%
Adjustment and elimination upon consolidation	**-1,766**	-1,091	**-1,247**	-1,597
Percentage of the total	**-3.0%**	-2.0%	**-34.0%**	-31.7%
Total	**58,907**	55,929	**3,660**	5,038

*2007 figures have been restated in accordance with Hong Kong Financial Reporting Standards.

2. Review of principal activities analysed by industries and products in accordance with the generally accepted accounting principles in the PRC

RMB million

2008	Revenue	Operation cost	Gross profit margin	Year-on-year change of revenue	Year-on-year change of operation cost	Year-on-year change of gross profit margin
Power equipment	34,004	27,664	18.6%	1.5%	-1.2%	2.3%
Electromechanical equipment	13,072	10,594	19.0%	7.5%	9.2%	-1.3%
Heavy machinery	5,143	4,427	13.9%	57.2%	61.9%	-2.5%
Transportation equipment	4,478	3,742	16.4%	-6.3%	-4.6%	-1.5%
Environmental systems	3,111	2,932	5.8%	13.2%	13.2%	0.0%
Financial business	444	242	45.5%	61.5%	38.3%	9.1%
Other businesses	423	337	20.3%	-6.2%	-4.0%	-1.8%
Elimination	-1,766	-1,779	-	-	-	-
After consolidation	58,909	48,159	18.2%	5.0%	4.4%	0.5%

3. Review of principal activities analysed by geographical areas in accordance with the generally accepted accounting principles in the PRC

RMB million

Region	Revenue	Year-on-year change of revenue (%)
Domestic	50,023	-2.8%
Overseas	8,886	92.5%
Total:	58,909	5.0%

Note: Total purchases from the five largest suppliers of the Company accounted for 8.9% of the total purchases of the year and total sales to the five largest customers accounted for 11.3% of the total sales of the Group.

4. Disclosures pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

(1) Financial Business

In 2008, operating profits of the financial business decreased by RMB857 million over the corresponding period last year, mainly due to a decrease in investment income.

(2) Share of Profits and Losses of Associates/Jointly-controlled entities

In 2008, share of profits of associates/Jointly- controlled entities decreased by 28.59% from the corresponding period last year to RMB447 million (2007: RMB626 million).

(3) Finance Costs

Finance costs for 2008 amounted to RMB73 million (2007: RMB59 million), an increase of 23.73% from the corresponding period last year, mainly due to the constituent change in interest-bearing bank loans.

(4) Profit Attributable to Equity Holders of the Parent

As a result of the foregoing, profit attributable to equity holders of the parent for 2008 decreased by 9.85% from the corresponding period last year to RMB2,534 million (2007: RMB2,811 million). Earnings per share attributable to equity holders of the parent were RMB21.21 cents (2007: RMB23.64 cents).

(5) Cash Flow

As at 31 December 2008, the Group had cash, bank deposits and deposits in the People's Bank of China (the "PBOC") of RMB 15,331 million (2007: RMB15,534 million), of which RMB2,664 million being restricted deposits and deposits in the PBOC (2007: RMB2,761 million), representing a decrease of RMB203 million from the beginning of the year. During the year, the Group had net cash inflow generated from the operating activities of RMB3,077 million (2007: net cash inflow of RMB3,566 million), net cash outflow from investing activities of RMB2,660 million (2007: net cash outflow RMB355 million) and net cash outflow from financing activities of RMB679 million (2007: net cash inflow of RMB752 million).

(6) Assets and Liabilities

As at 31 December 2008, the Group has total assets of RMB82,011 million (2007: RMB76,021 million), an increase of RMB5,990 million, or 7.88%, compared to that at the beginning of the year. Total current assets increased by RMB4,768 million from the beginning of the year to RMB63,737 million (2007: RMB58,969 million), accounting for 77.72% of the total assets. Total non-current assets were RMB18,274 million (2007: RMB17,052 million), representing an increase of RMB1,222 million from the beginning of the year and accounting for 22.28% of the total assets.

As at 31 December 2008, total liabilities of the Group were RMB53,854 million (2007: RMB48,510 million), representing an increase of 11.02% from the beginning of the year. Total current liabilities increased by 11.24% to RMB50,624 million (2007: RMB45,507 million) from the beginning of the year, while total non-current liabilities increased by 7.56% to RMB3,230 million (2007: RMB3,003 million) from the beginning of the year.

As at 31 December 2008, total net current assets of the Group was RMB13,113 million (2007: RMB13,462million), representing a decrease of RMB349 million from the beginning of the year. Current ratio decreased from 1.30 to 1.26.

(7) Source of Funding and Indebtedness

As at 31 December 2008, the Group had aggregate bank and other borrowings and bonds of RMB3,204 million (2007: RMB3,102 million), an increase of RMB102 million from the beginning of the year. Borrowings repayable within one year were RMB667 million, representing a decrease of RMB611 million. Borrowings and debentures repayable after one year were RMB2,537 million, representing an increase of RMB713 million compared with the beginning of the year.

As of 31 December 2008, except for unsecured bank loans of US$833,000 (2007: US$9,420,000) in aggregate, which were equivalent to RMB5,844,000 (2007: RMB68,809,000); of HKD50,000,000 (2007: HKD48,000,000) in aggregate, which were equivalent to RMB44,095,000 (2007: RMB44,946,000); of EUR4,362,000 (2007: EUR490,000) in aggregate, which were equivalent to RMB46,342,000 (2007: RMB5,227,000); of ZAR100,000 (2007: ZAR413,000) in aggregate, which were equivalent to RMB81,000 (2007: RMB440,000), and of JPY622,000,000 (2007: JPY280,000,000) in aggregate, which were equivalent to RMB46,171,000 (2007: RMB17,938,000), all other borrowings are denominated in Renminbi.

As at 31 December 2008, gearing ratio of the Group, which represents the ratio of total interest-bearing bank and other borrowings and bonds to the total equity plus interest-bearing bank and other borrowings plus bonds was 10.2%, an increase from 10.1% at the beginning of the year.

(8) Pledge of Assets

As at 31 December 2008, bank deposits of RMB1,403 million (2007: RMB1,180 million) of the Group have been pledged to banks for bank borrowings or facilities. In addition, certain of the Group's bank loans are secured by mortgages over certain of the Group's land use rights, buildings and machinery, with an aggregate net book value of RMB59 million as at 31 December 2008 (2007: RMB68 million).

(9) Contingent Liabilities

Please refer to note 47 to the consolidated financial statements prepared according to the Hong Kong Financial Reporting Standards for details.

(10) Capital Commitment

Please refer to note 49 to the consolidated financial statements prepared according to the Hong Kong Financial Reporting Standards for details.

Future development and outlook of the Company

1. Outlook and development plans

The impact of the financial crisis in 2008 has spread across the world. It is expected that its impacts on the economy will further emerge in the year ahead. In view of this, the Company will proactively strengthen its management and upgrade its technology, in order to better prepare for a rapid growth when the economy recovers in the future.

Looking ahead, despite the supply and demand of the power market in the PRC tend to reach an equilibrium, there are still opportunities for the power equipment business of the Company, including: 1) replacement of small capacity power generation units which will provide room for developing large capacity, high efficiency and clean power generation units; 2) promising development opportunities for the new energy power generating equipment markets such as nuclear power and wind power; 3) overseas expansion opportunities for EPC projects; and 4) potential transfer of orders from developed countries to China. There are growing opportunities for the Company's large-scale forging and casting business as well as the nuclear power nuclear island equipment business. These opportunities were generated by the stimulus package while the Chinese government accelerates the development of the nuclear power generation. The prospect of elevator sector is closely linked to the prospect of the market condition of residential and commercial properties. Despite the weakening property market in China at the beginning of 2009, we are confident that China will continue its urbanization process in the long run, which maintains the market demand for elevators.

The Company will continue to analyse the macro-economic conditions so as to improve the operating performance, reduce risk factors, enhance the quality of assets and ensure healthy financial performance indicators being maintained. Furthermore, the Company will strengthen the competitiveness of its core business segments such as power equipment, heavy machinery and elevator to boost sales performance. Regarding the emerging business segments including nuclear power, wind power and metropolitan rail transportation equipment, the Company will enhance their competitiveness in terms of technology and operations. In 2009, the Company will emphasize on the following aspects:

(1) Sustain cash flow and strengthen cost management

Adhering to the objective of "Cash is King", the Company will strengthen its management over trade receivables, inventories and retention money, as well as enhance the inventory turnover. The Company will tighten control over selling and distribution costs and administrative expenses with business operation being conducted in an economical way. A stringent control on administrative expenses will be deployed in enterprises with expenditures which exceeded the budgeted amounts. The Company will also adjust its investment strategy regularly, control the scale of investment and adjust the structure of investment, so as to focus its investment on particular targets. We will reduce expenditure and make a better use of capital on our key technology and equipment development.

(2) Develop our research and development capability and optimise corporate structure

The Company will increase its investment in technology with an aim to focus on high end products. The technological investment in its core and key business segments will also be increased, in order to meet the challenges of the cutting edge business technology in the international arena. The Company sees technology a driving force of its production capability improvement, which will uplift our competitiveness and profitability. By promoting the automation in industrial development, the Company will increase the application of automation technology on its products and extend the automation technology to cover the entire product line. The Company will facilitate the operation and interaction between the production bases of Lingang and Minhang and strengthen the management system of the production plants. The Company will also model on leading international enterprises with an aim to establish itself as a world-class production plant.

(3) Establish management systems to enhance capabilities for the entire operation

The Company will establish an international, scientific and modern management system to enhance the capabilities of management control at the headquarter. In addition, the Company will also enhance its decision making process, management capabilities and innovative capacities. Redundant management positions will be eliminated to further reduce cost and enhance efficiency. The Company will work with international concept, strengthen its brand equity and enhance the popularity and influence of its brand name. The Company will also strengthen the application of information technology and facilitate the computerized design in the production plants in Lingang. Computerized design, manufacturing and management will be adopted in the Lingang Data Centre as a reform for the traditional mode of operations of the plants. The Company will also optimise the production process, enhance labour productivity and upgrade managerial standards of the plants with an aim to be a world class production plant.

2. Capital utilisation plan

In view of new economic situation and market changes, the Company will continue to maintain investment momentum, control investment scale at appropriate level and make focused investment in 2009 to further accelerate the Company's business restructuring and product upgrade.

3. Operational risks and strategies

(1) The global financial crisis will bring challenges to the future operation and development of the Company

Strategies: The Company will continue to study and analyse the further possible impact of the financial crisis on its operations. The Company will formulate various timely measures to cope with the challenges brought by the changing conditions in both domestic and international markets. Meanwhile, the Company will grasp market opportunities by leveraging the favourable national strategies and endeavour to enhance its profitability and core competence.

(2) Intensified market competitions in certain products induce challenges to the Company

Strategies: The Group will continue to increase the investment in technological development and enhance the innovative capabilities. The self-developed products of the Company will facilitate the reduction in production cost. Hence, the market competitiveness can be enhanced. In addition, the Company will adjust its product mix on a regular basis and eliminate business segments with a low level of technology and lack of market competitiveness. On the other hand, the Group will enhance the research and

Large-scale ship-use crankshafts

production of clean, efficient and environmentally friendly products to meet the market demand.
The foreign exchange fluctuation increases the risks towards the operation of overseas business and certain assets of the Company

(3) During the reporting period, certain business operations and assets of the Group were subject to foreign exchange risks in the following major aspects:

- The Group has both the export of products and import of equipment, spare parts and raw materials from time to time, which are mainly denominated in USD and EUR. Hedging of foreign exchange risks among some of the imports and some of the exports could be carried out which in effect reduced the overall exchange risks of the Group. The Group is however still subject to foreign exchange risks in respect of exports and imports where the aforementioned hedging could not be arranged among such transactions;
- As at 31 December 2008, cash, bank balances and restricted deposits of the Group included HKD23 million, USD13 million, JPY847 million, EUR16 million, ETB200 million and other foreign currencies equivalent to RMB3 million in total. These cash, bank balances and restricted deposits in foreign currencies are subject to foreign exchange risks;
- Apart from this, the expanding overseas business of the Company generated an increasing amount of overseas orders, while the fluctuating foreign exchange and increasing cost of foreign exchange transactions will impose risks on the Company's profitability.

Strategies: The Company will proactively formulate measures to cope with the risk from foreign exchange fluctuation. On one hand, a foreign exchange cash pool will be set up for the Group for centralizing its subsidiaries' foreign currencies for better utilization. The Group has also obtained necessary approval for direct purchases and sales of foreign currencies to reduce the cost from foreign exchange transactions. On the other hand, the Company will seek to minimise its foreign exchange exposure from its overseas orders and hedge any adverse impact from the fluctuation of foreign exchange rates by forward exchange contracts.

Investment of the Company

1. Use of proceeds

The following table sets out the use of proceeds during the reporting period:

Currency: RMB

Year	Fund raising method	Amount of proceeds raised	Amount of proceeds utilised during the reporting period	Aggregate amount of proceeds utilised	Unutilised proceeds	Intended use and status of unutilised proceeds
2005	Initial public offering	4,678 million	100 million	4,648 million	Nil	N/A

Note: The proceeds are denominated in HKD as the public offering of H Shares of the Company and its listing in 2005 were carried out in Hong Kong. HKD4,451 million was raised and the difference between the amount of proceeds raised and the aggregate amount of proceeds utilised is due to exchange difference.

Currency: RMB

Project	Alteration of project	Proposed investment amount	Actual investment amount	On schedule	Progress	Estimated income	Income accrued
Wind power equipment production plant construction project	No	100 million	Total investment amounting to 472.7 million, of which 100 million from the proceeds	Yes	Under construction	Scheduled to attain designed operation capacity in 2012	Nil

2. Major projects not involving the use of proceeds

During the reporting period, major project investments of the Company not involving the use of proceeds are as follows:

Project	Amount (RMB)	Progress
Ultra-high voltage power transmission and distribution equipment plant project	Total investment amounting to 854,380,000, of which 695,150,000 is fixed asset investment	Infrastructure construction is basically completed with most equipment purchased
Acquisition of 2.5% interests in AREVA Shanghai Transformer Co., Ltd. from Shanghai Qilian (Group) Co., Ltd.	38,500,000	In progress
Capital injection into AREVA Shanghai Transformer Co., Ltd., the Company will hold 50% interests in AREVA Shanghai Transformer Co., Ltd. upon completion of the capital injection	RMB equivalent to USD7,052,000	In progress
Formation of a joint venture, Shanghai Electric Areva Lingang Transformer Co., Ltd.	RMB equivalent to EUR14 million	In progress
Acquisition of 25% interests in AREVA Wuhan Transformer Co., Ltd. from AREVA T&D Holdings Ltd.	RMB equivalent to EUR5 million	In progress

Reasons for and impact resulted from changes in accounting policies and accounting estimates and correction of material accounting errors

(1) Change in accounting policy for investments in jointly-controlled entities

Investments in jointly-controlled entities presented in financial statements of previous years prepared in accordance with HKFRSs and in three-year financial statements prepared for IPO of A shares are accounted for using the proportionate consolidation method. However, based on the resolution approved by Board of Directors on 6 January 2009, the accounting for investments in jointly-controlled entities shall adopt the equity method from annual periods beginning on or after 1 January 2008 and the opening balances have been adjusted retrospectively.

After retrospective adjustments, as at 31 December 2007, total assets decreased by RMB380 million and total revenue decreased by RMB730 million for the year ended 31 December 2007, with no effect on net assets and net profit of the Group.

(2) Accounting for service concession arrangements

In accordance with relevant provisions of the PRC GAAP / HKFRSs, the infrastructure constructed under service concession arrangements shall not be accounted for as property, plant and equipment of the project company and the company shall recognise revenue and costs of construction services provided based on relevant terms of construction contracts during the construction period. Upon the completion of the infrastructure, the company shall recognise revenue related to subsequent operating services. Revenue of construction contracts shall be measured at fair values of consideration received or receivable and the Company shall determine to recognise financial assets or intangible assets when recognising revenue under the above circumstances.

Since both the sewage treatment and solid waste incineration and power generation plants in Nantong under environmental systems segment of the Group are regarded as businesses under service concession arrangements, the implementation of new standards has given rise to changes in the accounting policy adopted in annual financial statements for 2008 with retrospective adjustments applied to the data of 2007. As a result of such changes in the accounting policy, total assets decreased by RMB58,000, total revenue increased by RMB217 million and net profit decreased by RMB3 million in 2007.

(3) Early adoption of the revised HKFRS 3 and HKAS 27

The Group has early adopted HKFRS 3 Business Combinations (Revised) and HKAS 27 Consolidated and Separate Financial Statements (Revised), which have been issued but not yet effective, for preparation of its 2008 financial statements in accordance with the HKFRSs. These two revised standards will become effective for annual periods beginning on or after 1 July 2009 and earlier application is permitted.

The Group's acquisitions of "non-controlling interests" in prior years were 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 was recognised as goodwill. As a result of the early adoption of HKAS 27 (Revised) , a change in the ownership of "non-controlling

Provision of engineering services

interests" is accounted for as an equity transaction, whereby the difference between the investment costs incurred from acquisitions of "non-controlling interests" and the share of identifiable net assets on pro rata basis is recognised through equity.

The early adoption of these two revised standards affects the accounting for the acquisitions of "non-controlling interests" in 2008, resulting in a respective decrease of RMB3,828 million in both the goodwill and capital reserve in the balance sheet as at 31 December 2008.

Except for the acquisitions of "non-controlling interests", the early adoption of these two revised standards has had no material effect on the financial statements for 2008.

Proposals for profit distribution or appropriation from capital reserve to share capital

As audited by Ernst & Young Hua Ming, the net profit of the Company set out in the financial statements prepared in accordance with the PRC GAAP amounted to RMB1,006,422,000 and the retained earnings in prior years amounted to RMB709,114,000. After transfer to surplus reserve for 2008 and dividends for 2007, profit attributable to equity holders amounted to RMB914,464,000. As audited by Ernst & Young Hua Ming, the net profit of the Group set out in the consolidated financial statements prepared in accordance with the PRC GAAP amounted to RMB2,622,214,000. As audited by Ernst & Young, the net profit of the Group set out in the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards amounted to RMB2,533,605,000.

Proposed profit appropriation for 2008 in accordance with the Articles of Association and relevant requirements of the PRC: Cash dividend of RMB0.061 (tax inclusive) per share. Based on the total 12,507,686,405 shares of the Company, a total of RMB762,969,000 will be paid out as dividends.

Other information

Pre-emptive rights

According to the Articles of Association and the Company Law in the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their sharholdings.

Purchase, sale and redemption of the Company's listed securities

No purchase, sale or redemption of the Company's listed securities has been made by the Company or any of its subsidiaries during the year.

Reserve

Details of the movements in the reserves of the Company and the Group during the year were set out in note 43(b) to the financial statements prepared under the Hong Kong Financial Reporting Standards and the consolidated statement of change in equity.

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Company and the Group during the year were set out in note 14 to the financial statements prepared under the Hong Kong Financial Reporting Standards.

The right of Directors, supervisors and senior managements to acquire shares or debentures

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable its directors, supervisors or senior management to acquire benefits by means of the acquisition of shares in, or debendtures of, the Company or any other body corporate.

Sufficiency of Public float

Based on publicly available information and to the best knowledge of the Directors, the Directors confirm that the Company has a 27.50% public float as at the date of this report.

Report of the Supervisory Committee

During the reporting period, the supervisory committee of the Company (the "Supervisory Committee") performed its duties in accordance with the regulations of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Shanghai Stock Exchange Listing Rules and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the duties stated in the Articles of Association to protect the interests of the shareholders and the Company.

During the reporting period, the Supervisory Committee strengthened its supervision on the progress of the major investment projects through various means, including participating in general meetings, attending Board meetings as non-voting delegates and conducting interviews with management members, based on the characteristics of the industry in which the Company operates and the management practice of the Company. During the reporting period, the Supervisory Committee reviewed certain material 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 listing rules of the places where the Company's securities are listed during the reporting period.

Supervisory Committee Meetings convened during the reporting period

During the reporting period, the Company convened four Supervisory Committee meetings, the details of which are as follows:

1. The second meeting of the second session of the Supervisory Committee was held on 1 February 2008 and the issues considered and approved in the meeting were as follows: (1) the implementation of the investment budgets in assets and capital of Shanghai Electric Group Company Limited for 2007; (2) the proposal of investment budgets in capital, assets and technological research and development of Shanghai Electric Group Company Limited for 2008; (3) the proposal of write-off of certain inventories of Shanghai Mechanical & Electrical Industry Co., Ltd.; (4) the proposal of write-off of certain long-term investments of Shanghai Jintai Engineering Machinery Co., Ltd.; (5) the proposal of transfer and increase of registered share capital of Shanghai Electric Group Finance Co., Ltd.; (6) the proposal of continuing connected transactions between the Company and China Huadian Corporation; and (7) certain suggestions related to the duties of the new Supervisory Committee.

2. The third meeting of the second session of the Supervisory Committee was held on 15 April 2008 and the issues considered and approved in the meeting were as follows: (1) the report of the Supervisory Committee of the Company for 2007; (2) the financial statements and the report of the auditors of the Company for 2007 in accordance with the PRC Accounting Standards for Business Enterprises and the Hong Kong Financial Reporting Standards; (3) the report of the management of the Company for 2007; (4) the final accounts of the Company in 2007; (5) the proposal of profit allocation of the Company for 2007; (6) the report of the Directors of the Company for 2007; (7) the corporate governance report of the Company for 2007; and (8) the annual report of the Company for 2007. The resolution to authorise the Board of Directors to approve the remunerations of directors and supervisors was considered and approved.

3. The fourth meeting of the second session of the Supervisory Committee was held on 24 April 2008. The resolution in respect of the provision of guarantee for its subsidiaries by the Company and cross-guarantees among subsidiaries of the Company was passed in the meeting.

4. The fifth meeting of the second session of the Supervisory Committee was held on 21 August 2008. The resolution on the interim report of 2008 of the Company was considered and passed in the meeting.

Independent opinions of the Supervisory Committee on the lawful operation of the Company:

The Supervisory Committee believes that the Company's decision-making procedures of material events have been in accordance with the Articles of Association and internal control system has been established as required. The Board and all of its members and senior management of the Company have complied with various provisions of the listing rules of the places where the Company's securities are listed during their performance of duties and fulfilment of responsibilities in good faith and diligence. The Supervisory Committee was not aware of any acts in violation of laws, regulations and the Articles of Association or detrimental to the interests of the Company, its shareholders and staff. The Supervisory Committee has monitored major investment projects and is of the view that the Company has operated the major investment projects based on the resolutions of Board meetings in compliance with relevant regulations in an orderly manner.

Independent opinions of the Supervisory Committee on its financial review of the Company:

In 2008, the Supervisory Committee focused on the implementation of the financial management system of the Company. Through its initiatives such as interviews with the management and review of the relevant information, the committee recognised the Company's commitment in various aspects such as the reinforcement of basic financial management, the optimisation of accounting regulations and systems, the establishment of budget analysis systems at various levels and the regulation on compliance practices of listed companies. Moreover, the Supervisory Committee has made suggestions to strengthen the management of the Company's receivables, inventories and large sum of fund for which the Company has high regard. In addition, the supervisors have reviewed the financial reports of the Company and considered that the financial budget, final accounts, annual report and interim report of the Company are true and reliable.

Independent opinions of the Supervisory Committee on the actual use of capital raised by the Company:

The Supervisory Committee is of the view that the capital raised by the Company from the last capital raising exercise has been used on the projects as planned in accordance with the development plan of the Company.

Independent opinions of the Supervisory Committee on the acquisition and disposal of assets by the Company:

The Supervisory Committee believes that the decision-making and execution of the acquisition and disposal of assets are in compliance with relevant procedures and transaction prices are reasonable. The Supervisory Committee is not aware of any insider dealing, infringement on interests of shareholders or asset loss.

Independent opinions of the Supervisory Committee on connected transactions of the Company:

The Supervisory Committee has monitored the connected transactions and believes that the connected transactions conducted during the reporting period were fair and impartial. The Supervisory Committee is not aware of any acts detrimental to the interests of the Company and its shareholders. All connected transactions are in compliance with relevant disclosure obligations under the listing rules of the places where the Company's securities are listed.

The Supervisory Committee considers that, since the listing on the Stock Exchange, the Company has continuously improved its corporate governance structure, enhanced various internal control systems and upgraded production capacity of the Company. After the listing of the A shares of the Company on the Shanghai Stock Exchange in December 2008, the Company's internal control system and corporate development will be further enhanced. In the upcoming year, the Supervisory Committee will continue to fulfill its monitoring duties and endeavour to protect the interests of the Company and all shareholders.

By order of the Supervisory Committee
Xie Tonglun
Supervisor
Shanghai, PRC
24 April 2009

Significant Events

Material Litigations

SE Corporation transferred the rights in respect of its owned registered trademarks with registration numbers of 1581772, 1606450, 1578195 and 1581869 and certain pending trademarks applications including the one under application number of 39962630, to the Company in 2006. The Company has obtained the Authorized Trademark Transfer Certification from the State Administration for Industry and Commerce of the PRC.

Prior to the transfer of the said registered trademarks to the Company, SE Corporation noted that the trademarks owned by 上海衛廚電器有限公司, was identical to the said trademarks owned by SE Corporation, while上海衛廚電器有限公司 obtained the exclusive rights to use the registered trademarks (registration number: 1546226) in March 2001. Meanwhile, SE Corporation understood that the use of the relevant trademarks by 上海衛廚電器有限公司 was authorized by a natural person, Chen Shaoqing. In this regard, SE Corporation filed a lawsuit against Chen Shaoqing in the Shanghai No. 2 Intermediate People's Court in March 2006 (Case no: (2006) Hu Er Zhong Min Wu (Zhi) Chu Zi No. 125), seeking an injunction against the infringement by Chen Shaoqing over the copyrights of all images owned by SE Corporation, an apology notice published on Jiefang Daily and a compensation for the reasonable expenses of RMB45,000 incurred from restraining the infringement. During the hearing of the Court, Chen Shaoqing filed a notice of appeal (Case no: (2006) Hu Er Zhong Min Wu (Zhi) Chu Zi No. 184) and requested for the affirmation by the Court for his ownership over the copyrights of the subject images since the date of completion of his design on 18 September 1983 and sought for an injunction against the infringement by SE Corporation over the copyrights of the images owned by Chen Shaoqing, an apology notice published on Jiefang Daily, and a withdrawal of the trademark registration certifications (including the ones with registration numbers of 1581772, 1606450, 1578195, 1581869 and 3996230) of SE Corporation involving the said images, which are the subjects in dispute. According to the Civil Ruling (2006) Hu Er Zhong Min Wu (Zhi) Chu Zi No. 184 issued by Shanghai No. 2 Intermediate People's Court, the Court decided to withdraw the case of (2006) Hu Er Zhong Min Wu (Zhi) Chu Zi No. 184 and incorporated the dispute issue into the case (2006) Hu Er Zhong Min Wu (Zhi) Chu Zi No. 125 and continued the proceeding. In June 2008, Shanghai No. 2 Intermediate People's Court ruled in favour of SE Corporation and requested for a stop of infringement and an apology from Chen Shaoqing. Chen Shaoqing then appealed to the Shanghai Municipal Higher People's Court against such ruling. In September 2008, Shanghai Municipal Higher People's Court turned down the appeal and upheld the original decision.

Solid waste incineration plant

Equity interests in other listed companies

Stock code	Stock abbreviation	Initial investment (RMB 000')	Number of shares held (10,000 shares)	Total number of shares issued (10,000 shares)	Percentage of shareholding	Book value as at the end of the period (RMB 000')	Equity increase (decrease) during the reporting period (RMB 000')	Accounting classification	Source of the shares
600000	SPDB	768	136.31	566,134.75	0.02%	18,061	-37,301	Financial assets available for sale	Purchase
600082	Tianjin Hi-Tech Development Co., Ltd.	270	17.55	32,305.79	0.05%	883	-1,922	Financial assets available for sale	Purchase
600610	SST China Textile Machinery Co., Ltd	760	34.32	35,709.15	0.10%	2,248	-2,996	Financial assets available for sale	Purchase
600618	SCAC	2,266	56.87	115,640.00	0.05%	1,786	-2,610	Financial assets available for sale	Purchase
600622	Shanghai Jiabao Industry & Commerce (Group) Co., Ltd.	1,820	74.88	51,430.38	0.15%	2,958	-6,290	Financial assets available for sale	Purchase
600633	*Shanghai Whitecat Shareholding Co., Ltd.	8,028	233.64	15,205.08	1.54%	11,682	-16,705	Financial assets available for sale	Purchase
600642	Shenergy	2,800	180.00	288,963.17	0.06%	10,782	-20,916	Financial assets available for sale	Purchase
600643	Shanghai AJ Corporation	70	2.80	82,040.45	0.00%	158	-638	Financial assets available for sale	Purchase
600649	SHCT	291	12.65	229,809.50	0.01%	1,042	-1,502	Financial assets available for sale	Purchase
600665	Tande Co., Ltd.	1,400	66.00	72,010.21	0.09%	1,901	-5,363	Financial assets available for sale	Purchase
600845	Baosight	4,909	135.00	26,224.41	0.51%	20,763	-25,340	Financial assets available for sale	Purchase
601328	BOCOM	5,894	478.38	4,899,438.37	0.01%	22,675	-29,290	Financial assets available for sale	Purchase
000501	Wu Han Department Store Group Co. Ltd.	353	14.92	50,724.86	0.03%	749	-2,034	Financial assets available for sale	Purchase
Total		29,629				95,688	-153,180		

Purchases and Sales of Assets

1. Sales of Assets

(1) On 29 December 2007, the Board considered and approved the proposal of entering into a Share Sales Agreement between the Company and SAIC Motor Corporation Co., Ltd. Pursuant to the Share Sales Agreement, the Company disposed of its entire 50.32% equity interests in Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel") for a consideration of RMB923.42 million. Upon the transfer, the Company would no longer be interested in any shares of Shanghai Diesel. On 29 December 2008, the registration of the equity transfer was completed.

(2) On 16 June 2008, the Board considered and approved the transfer of 10% equity interests in Yileng Carrier Air Conditioning Equipment Co., Ltd and 9% equity interests in Carrier Air Conditioning Sales & Service (Shanghai) Co., Ltd. ("Carrier Shanghai") by its subsidiary Shanghai Mechanical and Electrical Industry Co., Ltd. ("Mechanical & Electrical") to Carrier Asia Co., Ltd. at a consideration of RMB 230 million. The registration of the equity transfer has already been completed.

(3) On 24 December 2008, the Company entered into an equity transfer agreement with Yancheng Dongtou New Energy Equipment Co.,Ltd.（鹽城市東投新能源設備有限公司） to transfer 36% of the equity in Shanghai Topsolar Green Energy Co., Ltd. held by the Company at a consideration of RMB138,600,600. According to the agreement, net operating profit or loss of Shanghai Topsolar Green Energy Co., Ltd. from 30 September 2007, the reference date of the transaction, to the date of completion of transaction shall attribute to the Company. On 30 December 2008, Shanghai Topsolar Green Energy Co., Ltd. completed the change of registration with the Industry and Commerce Administration Bureau.

Transformer

As at the date of the approval of the financial statements, Yancheng Dongtou New Energy Equipment Co.,Ltd.（鹽城市東投新能源設備有限公司）has failed to pay the second installment of equity transfer consideration amounting RMB 97,020,000 within 20 business days after the effective date of the agreement.

As at the date of approval of the financial statements, the major terms of the aforementioned equity transfer agreement have not been fulfilled and most of the equity transfer consideration has not been paid by Yancheng Dongtou New Energy Equipment Co., Ltd.（鹽城市東投新能源設備有限公司）in accordance with the agreement, the Company is of the view that it still has the effective control over the operations of Shanghai Topsolar Green Energy Co., Ltd. and accordingly the consolidated financial statements of the Company included the financial statements of Shanghai Topsolar Green Energy Co., Ltd. 31 December 2008.

2. Purchases of Assets

On 12 September 2008, the Board of the Company considered and approved the acquisition of 2.5% equity interests in AREVA Shanghai Transformer Co., Ltd. from Shanghai Qilian (Group) Co., Ltd. by the Company at a consideration of RMB38.5 million. The transfer of equity interests has been completed and the Company is currently processing the relevant registration.

On 12 September 2008, the Board of the Company considered and approved the acquisition of 25% equity interests in AREVA Wuhan Transformer Co. Ltd from AREVA T&D Holdings Ltd. by the Company at a consideration in RMB equivalent to EUR5 million. Valuation over the equity interests is in the process and the Company will process the relevant registration for the transfer.

3. Merger

Upon the approval by the 2007 extraordinary general meeting of the Company, the Company made a public offering of 616,038,405 ordinary shares denominated in RMB ("A Shares") through the implementation of a merger proposal by way of share exchange with Shanghai Power Transmission and Distribution Co., Ltd. ("Shanghai Power Transmission") at an issue price of RMB4.78 per share. Under this merger proposal by way of share exchange, the exchange price for the shares of Shanghai Power Transmission ("Shanghai Power Transmission Shares") was RMB28.05 per share. Taking into account the risks arising out of the share price fluctuation and the compensation made in connection with relevant risk exposure, the merger proposal offerred a 24.78% premium for transfer of the Shanghai Power Transmission Shares. The effective exchange price for Shanghai Power Transmission Shares was RMB 35.00 per share. The exchange ratio was 7.32 Shanghai Electric A Shares issued for one Shanghai Power Transmission Share. Upon the approval under the Securities Approval 2008 No.1223 and Securities Approval 2008 No. 1262 issued by the CSRC, and the document Shang Zheng Shang Zi 2008 No.114 issued by Shanghai Stock Exchange, A Shares of the Company commenced listing and trading on the Shanghai Stock Exchange on 5 December 2008 with a stock abbreviation of "上海電氣" and a stock code of "601727". As at the date of this report, cancellation of Shanghai Power Transmission Shares is well underway.

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.

Connected Transactions and Continuing Connected Transactions

According to the Listing Rules, the details of the connected transaction and continuing connected transactions between the Company and its subsidiaries (the "Group') and the connected persons during the year ended 31 December 2008 are set out as follows:

Connected transaction:

On 8 August 2008, Shanghai Mechanical and Electrical Industry Co., Ltd. (the "Shanghai Mechanical"), a then 47.28% owned subsidiary of the Company, entered into a deed of guarantee for the benefit of Mitsubishi Electric Finance Europe (the "MEFE"), a subsidiary of Mitsubishi Electric Corporation which is a connected person of the Company.

Under the deed, Shanghai Mechanical undertook to pay ownership ratio, then at 40%, of the JPY3.9 billion (equivalent to approximately HK$278 million) loan to MEFE in the event of default by Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.

Continuing connected transactions:

Framework land lease agreement

On 1 January 2005, the Company entered into a framework land lease agreement with SE Corporation, pursuant to which SE Corporation agreed to lease (by itself or through its subsidiaries) parcels of land with a total area of approximately 2,110,954 sq. m. to the Group. The term of each lease is 20 years or, if the remaining term of operation of the relevant joint ventures occupying the relevant premises is less than 20 years, the remaining term of operation of such joint ventures. The annual rental payable to SE Corporation was RMB29.95 million for the first three years and was subject to review with reference to the market conditions every three years afterwards. Nonetheless, the rental should not be higher than that offered to a third party tenant.

For the year ended 31 December 2008, the rental paid or payable to SE Corporation was RMB29.84 million.

Framework sales agreements and supplemental framework sales agreement

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

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

On 25 April 2008, the Company entered into a framework sales agreement with SE Corporation, pursuant to which the Group agreed to sell, on a non-exclusive basis, certain components, equipment and raw materials to the Parent Group. This framework sales agreement has extended the term of the supplemental framework sales agreement entered into between the Company and SE Corporation on 13 April 2007 to 31 December 2010. Both parties agreed that the approved sales annual caps for each of the two years ending 31 December 2010 were RMB3,200 million and RMB3,600 million, respectively.

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

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

The term of the framework sales 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.

For the year ended 31 December 2008, the Group's sales to SE corporation and its subsidiaries (the "Parent Group") amounted to RMB667.25 million.

Framework purchase agreements and supplemental framework purchase agreement

On 28 March 2005, the Company entered into a framework purchase agreement with SE Corporation, pursuant to which the Group agreed to purchase, on a non-exclusive basis, raw materials and components from the Parent Group and the Parent Group agreed to supply, on a non-exclusive basis, such raw materials and components to the Group. The framework purchase agreement was entered into in the ordinary course of business on normal commercial terms.

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 components, equipment and raw materials for each of the three years ending 31 December 2008 were RMB2,440 million, RMB2,084 million and RMB1,944 million, respectively.

On 25 April 2008, the Company entered into a framework purchase agreement with SE Corporation, pursuant to which the Company agreed to purchase, on a non-exclusive basis, certain components, such as coupling, AC motor and emergency trip control cabinet, equipment and raw materials (including copper wires and insulation materials) from the Parent Group. The Framework Purchase Agreement extended the existing supplemental framework purchase agreement entered into between the Company and SE Corporation on 29 June 2006 to 31 December 2010.

Both parties agreed that the approved annual caps for the purchase for each of the two years ending 31 December 2010 are RMB2,430 million and 2,670 million respectively.

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

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

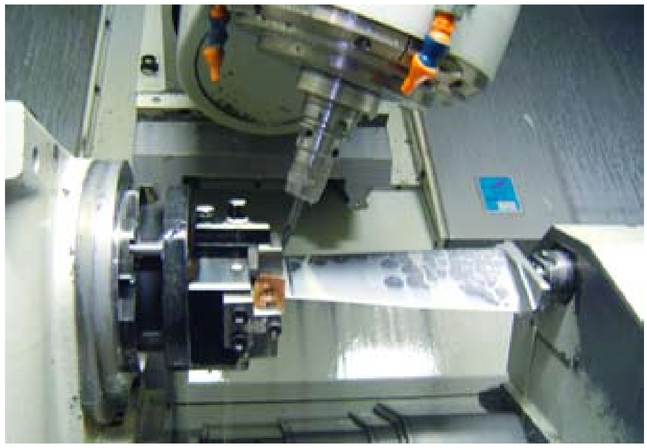
The terms of the Framework Purchase Agreement are two years, which are renewable at the option of the Company for another term of two years by giving three months' notice in writing prior to the expiry of the term. The agreements shall be terminated by either party by giving three months' notice in writing to the other party,

For the year ended 31 December 2008, the Group's purchases from the Parent Group amounted to RMB1,366.19 million.

Prime Machinery framework purchase agreement and supplemental framework purchase agreement

On 31 March 2006, the Company entered into a framework purchase agreement 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 associates (the "Prime Machinery Group"). Previously, the continuing connected transactions, including the transactions contemplated under this framework purchase agreement, entered into between the Group and the Prime Machinery Group, were covered by the relevant framework agreements entered into between the Company and SE Corporation.

On 13 April 2007, the Company entered into a supplemental framework purchase agreement 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 were RMB321.8 million and RMB390.7 million, respectively.



Production of turbine blades

On 25 April 2008, the Company entered into a framework purchase agreement with Prime Machinery for the purchase of turbine blades, mechanical components and related equipment by the Group and its connected persons from the Prime Machinery Group, pursuant to which the approved purchase annual caps for each of the three years ending 31 December 2011 were revised to/determined to be RMB417 million and RMB535 million and RMB656 million, respectively.

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

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

The terms of the framework purchase agreements are three years, which are 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 agreement shall be terminated by either party by giving three months' notice in writing to the other party.

For the year ended 31 December 2008, the Group's purchases from Prime Machinery Group amounted to RMB212.9 million.

Framework financial services agreement

On 29 June 2006, the Company entered into a framework financial services agreement with SE Corporation, pursuant to which Shanghai Electric Group Finance Company Ltd. ("Finance Company"), a subsidiary of the Company, agreed to continue the provision of/to provide financial services to the Parent Group.

On 25 April 2008, the Company entered into a framework financial services agreement with SE Corporation, pursuant to which Finance Company agreed to continue the provision of certain financial services to the Parent Group. The term of the framework financial services agreement is two years, which is 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 agreement shall be terminated by either party by giving three months' notice in writing to the other party.

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

(i) Framework deposit agreement

Finance Company agrees to provide deposit services to the Parent Group. The existing approved annual caps, representing the maximum daily balance of funds (including interests) that may be deposited, for the year ended 31 December 2008 and for each of the two years ending 31 December 2010 are RMB4,000 million, RMB5,200 million and RMB5,200 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; 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 2008, 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 RMB7.23 million during the year ended 31 December 2008.

(ii) Framework loan agreement

Finance Company provides loans to the Parent Group. Factoring services are also provided by Finance Company of which the amounts are determined with reference to the face value of the bills presented by the Parent Group. The existing annual cap (the maximum daily outstanding balance) of loans (including interests) and purchases of discounted bills for the year ended 31 December 2008 and the approved annual caps of loans (including interests) and purchases of discounted bills for each of the two years ending 31 December 2010 are RMB2.5 billion, RMB3 billion and RMB3 billion, respectively.

The interest rates offered by Finance Company for loans to and discounted bills of 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 2008, the maximum daily outstanding balance of loans (including interests) provided to and discounted bills accepted from the Parent Group by Finance Company did not exceed the approved annual cap. For the year ended 31 December 2008, the interest for loans provided to and discounted bills accepted from the Parent Group by Finance Company amounted to RMB15.15 million.

(iii) Framework guarantee agreement and supplemental framework guarantee agreement

On 28 March 2005, Finance Company entered into a framework guarantee agreement with SE Corporation before the initial public offering of the Company, pursuant to which Finance Company decided not to provide any new guarantees in favour of the Parent Group in addition to guarantees provided to the Parent Group prior to 30 January 2005 and which were still subsisting as at 28 April 2005.

On 29 June 2006, the Company entered into a supplemental framework guarantee agreement with SE Corporation, pursuant to which Finance Company would 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 of the relevant financial services provided by Finance Company to the Parent Group, for each of the three years ended 31 December 2008 were RMB800 million, RMB1,000 million and RMB1,200 million, respectively. The one-off service charge of about 0.1% of the guarantees provided was equivalent to that currently charged by other independent financial institutions for guarantee services of similar nature and was in line with the prevailing market rate.

During the year ended 31 December 2008, the maximum daily balance for financial services provided by Finance Company to the Parent Group did not exceed the approved annual cap. In addition, the service charge for corporate or credit guarantee was RMB4,400 during the year ended 31 December 2008.

(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 did 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 ended 31 December 2008 were RMB3 million, RMB6 million and RMB9 million, respectively. A one-off service fee of approximately 0.6% of the loan amount covered by the credit agency service was charged, which was equivalent to that charged by other independent financial institutions and was in line with the prevailing market rate. The fees for the provision of financial advisory services was 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.

For the year ended 31 December 2008, the total fee charged by Finance Company for the provision of intermediary financial services to the Parent Group did not exceed the approved annual cap. In addition, the service charge for financial advisory services and credit agency services provided by Finance Company to the Parent Group was RMB0.52 million during the year ended 31 December 2008.

Continuing connected transactions with Mitsubishi Electric

Mitsubishi Electric Corporation ("Mitsubishi Electric") is a substantial shareholder of Shanghai Mitsubishi Elevator Co. Ltd. ("SMEC") which is a subsidiary of the Company. Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co. Ltd. ("MESMEE") is held as to 40% by Shanghai Mechanical & Electrical Industry Co. Ltd, a 47.28% owned subsidiary of the Company, 40% by Mitsubishi Electric and 20% by Mitsubishi Electric Building Techno-service Co., Ltd., a wholly owned subsidiary of Mitsubishi Electric.

(i) Mitsubishi Framework Purchase Agreement
On 25 April 2008, SMEC entered into a framework purchase agreement with MESMEE in relation to the purchase of elevators, related components and services from MESMEE by SMEC, pursuant to which both parties agreed that the approved purchase annual caps for each of the three years ending 31 December 2010 are RMB250 million, RMB550 million and RMB800 million, respectively. Price of products purchased from MESMEE is determined with reference to the then prevailing market price.

The term of the framework purchase agreement is three years, which is 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. Either party may terminate the agreement by giving three months' notice to the other party.

For the year ended 31 December 2008, the Group's purchases from MESMEE amounted to RMB194.87 million.

(ii) Mitsubishi Framework Sales Agreement
On 25 April 2008, SMEC entered into a framework sales agreement with MESMEE in relation to the sale of equipment, elevators components and services to MESMEE by SMEC, pursuant to which both parties agreed that the approved sales annual caps for each of the three years ending 31 December 2010 are RMB214 million, RMB320 million and RMB360 million, respectively. Price of products sold to MESMEE is determined with reference to the then prevailing market price.

The term of the framework sales agreement is three years, which is 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. Either party may terminate the agreement by giving three months' notice to the other party.

For the year ended 31 December 2008, the Group's sales to the MESMEE amounted to RMB13.81 million.

Continuing connected transactions with Siemens

The Group purchased 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. To cope with its business expansion, it was necessary for the Group to enter into continuing connected transactions with Siemens for the purchase of equipment, related components and technologies. The total approved annual caps for the

Mitsubishi elevators

Installation of metropolitan railcars

purchase from Siemens by the Group for the year ended 31 December 2008 was RMB1,159 million. The price of products purchased from Siemens was determined with reference to the then prevailing market price.

For the year ended 31 December 2008, the Group's purchase of equipment, related components, and technology from Siemens amounted to approximately RMB991.32 million.

Continuing connected transactions with Ersol

On 30 January 2005, Shanghai Environment Protection Complete Engineering Co., Ltd. ("SEPCE"), a wholly-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 shall 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 shall sell certain percentage of finished products (PV modules) to the Ersol Group. The approved annual caps for the aggregate amount of purchase/sales for each of the three years ended 31 December 2008 were RMB176 million/RMB142 million, RMB235 million/RMB309 million and RMB293 million/RMB503 million, respectively. The prices of PV cells and PV modules were determined with reference to the then prevailing market price.

For the year ended 31 December 2008, the purchase of PV cells from Ersol and the sales of PV modules to the Ersol Group by the Group amounted to RMB65.35 million and RMB86.85 million, respectively.

Continuing connected transactions with Alstom

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

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

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

On 25 April 2008, Alstom Transport entered into a supplemental purchase agreement with Alstom Investment, pursuant to which the original term was extended by two years to 29 June 2011. The approved annual caps for the purchase of equipment and related components for each of the two years ending 31 December 2010 were RMB442 million and RMB500 million, respectively.

For the year ended 31 December 2008, the purchases from Alstom Investment amounted to RMB36.71 million.

Installation of MWB transformer

Guangdong Zhujiang framework sales agreement

On 13 April 2007, the Company entered into a framework sales agreement with Guangdong Zhujiang Investment Co. Ltd ("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 ("Guangdong Zhujiang Group"). The approved annual caps for each of the three years ending 31 December 2009 were RMB700 million, RMB2,200 million and RMB3,000 million, respectively.

The framework sales agreement was entered into in the ordinary course of business of the Group and on normal commercial terms. The pricing basis shall be:

- prices stipulated by the PRC government (if any); and if there are no such stipulated prices;
- prices not less than the 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; and
- an agreed price consisting of the actual or reasonable cost plus a reasonable profit.

The term of the framework sales agreement is three years, renewable at the option of the Company for another three years by giving three months' notice in writing prior to the expiry of the term. The agreement may be terminated by either party by giving three months' notice.

For the year ended 31 December 2008, the Company's total sales to Guangdong Zhujiang Group amounted to RMB1,286.81 million.

Shanghai MWB framework loan agreement

On 13 April 2007, Finance Company entered into a framework loan agreement with MWB Shanghai Instrument Transformer Co., Ltd. ("Shanghai MWB"), a subsidiary of Siemens and 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 for the outstanding balance of loans (including interests) and purchase of discounted bills, being the maximum daily balance, for each of the two years ended 31 December 2008 were RMB100 million on an annual basis.

On 25 April 2008, Finance Company entered into a framework loan agreement with Shanghai MWB, pursuant to which the approved annual caps for the outstanding balance of loans (including interests) and purchase of discounted bills, being the maximum daily balance, for each of the two years ending 31 December 2010 were RMB130 million and RMB130 million on an annual basis, respectively.

The interest rates offered by Finance Company for the loan services to and purchase of discounted bills from Shanghai MWB shall be:

- subject to the relevant guidelines of PBOC and regulations; and
- with reference to the relevant lending rates set by PBOC from time to time and 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 three years by giving three months' notice in writing prior to the expiry of the term. The agreement may be terminated by either party by giving three months' notice.

For the year ended 31 December 2008, the outstanding balance of loans (including interests) and purchase of discounted bills did not exceed the approved annual cap. In addition, the interest for the loans and purchase of discounted bills provided by Finance Company to Shanghai MWB was approximately RMB1.25 million for the year ended 31 December 2008.

Framework integrated services agreement and supplemental framework integrated services agreement

Pursuant to the framework integrated services agreement dated 28 March 2005 between the Company and SE

Corporation, SE Corporation (either by itself or through its connected persons) shall provide various auxiliary services, including labour secondment, property management, management of research centres and projects, water and electricity supply, auxiliary support, training and education, facilities, security and maintenance services, to the Group.

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 for each of the two years ended 31 December 2008 were revised/determined to be RMB49 million and RMB36 million, respectively.

On 25 April 2008, the Company entered into a framework integrated services agreement with SE Corporation to amend and supplement the existing framework integrated services agreement, pursuant to which the approved annual caps for the total services value for each of the three years ending 31 December 2010 were revised/determined to be RMB48 million, RMB58 million and RMB70 million, respectively. The pricing basis shall be:

- prices stipulated by the PRC government (if any); and if there are no such stipulated prices,
- prices not exceeding the 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 plus a reasonable profit.

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

For the year ended 31 December 2008, the total value of various auxiliary services provided by Parent Company to the Company amounted to RMB22.87 million.

The independent non-executive directors of the Company have reviewed the continuing connected transactions of the Company within the reporting period and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable to the Company 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. In addition, of the above continuing connected transactions, those entered into by the Company prior to its listing were granted a conditional waiver while the remaining ones were approved by shareholders. The Company has been, for such relevant transactions, in strict compliance with the approval and shareholders' approval requirements under Rule 14A of the Listing Rules. The transaction amounts did not exceed the caps for the relevant transactions of the Group for the year set out in the above waiver letter and those approved by shareholders.

Appointment and removal of auditors

At the general meeting held on 30 June 2008, the Company considered and approved the re-appointment of Ernst & Young Da Hua and Ernst & Young as the PRC auditors and the international auditors of the Company for 2008, respectively. Due to the merger of Ernst & Young Da Hua and Ernst & Young Hua Ming, the Company considered and approved the appointment of Ernst & Young Hua Ming as the PRC auditors of the Company for 2008 at the extraordinary general meeting held on 24 March 2009. The other terms and conditions of the appointment entered into between the Company and Ernst & Young Da Hua remain unchanged.

Remunerations payable to Ernst & Young Hua Ming, Ernst & Young Da Hua and Ernst & Young during the reporting period are as follows:

Services provided	Fee paid/payable
	RMB'000
Interim review for the Group	5,200
Annual audit for the Company	8,953
A Share Listing audit	2,900
Statutory audits for subsidiaries	6,588
Special audits and non-assurance services	1,945
Total	25,586

Up to the end of 2008, Ernst & Young Da Hua and Ernst & Young have been providing assurance services to the Company for 4 years and 5 years respectively. Ernst & Young Hua Ming has provided assurance services to the Company since 1 December 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 179, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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
24 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
REVENUE	5	58,906,914	55,929,342
Cost of sales		(48,924,116)	(46,880,457)
Gross profit		9,982,798	9,048,885
Other income and gains	5	947,436	1,802,480
Selling and distribution costs		(1,661,180)	(1,372,130)
Administrative expenses		(3,693,506)	(3,492,619)
Other expenses		(1,915,149)	(949,036)
Finance costs	7	(72,757)	(58,982)
Share of profits and losses of:			
Jointly-controlled entities		(79,757)	19,084
Associates		526,955	607,136
PROFIT BEFORE TAX	6	4,034,840	5,604,818
Tax	10	(394,567)	(1,312,910)
PROFIT FOR THE YEAR		3,640,273	4,291,908
Attributable to:			
Equity holders of the parent	11	2,533,605	2,811,483
Non-controlling interests		1,106,668	1,480,425
		3,640,273	4,291,908
DIVIDENDS	12		
Declared final 2007		700,430	-
Proposed final 2008		762,969	-
		1,463,399	-
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic			
- For profit for the year (RMB)		21.21 cents	23.64 cents

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	11,252,172	10,229,726
Prepaid land lease payments	15	1,362,001	1,298,551
Goodwill	16	191,061	203,755
Other intangible assets	17	761,594	679,673
Investments in jointly-controlled entities	19	348,471	387,911
Investments in associates	20	2,381,090	2,571,080
Loans receivable	21	313,071	6,673
Other investments	22	814,048	921,847
Other non-current assets		107,907	142,297
Deferred tax assets	23	742,529	610,740
Total non-current assets		18,273,944	17,052,253
CURRENT ASSETS			
Inventories	24	21,367,883	16,291,081
Construction contracts	25	382,946	285,873
Trade receivables	26	11,417,512	9,786,830
Loans receivable	21	1,017,705	660,139
Discounted bills receivable	27	131,152	307,630
Bills receivable	28	866,368	2,037,612
Prepayments, deposits and other receivables	29	8,759,678	8,371,804
Investments	30	4,401,553	5,639,599
Derivative financial instruments	31	61,680	18,255
Due from the Central Bank	32	1,260,876	1,580,991
Restricted deposits	32	1,403,209	1,179,933
Cash and cash equivalents	32	12,666,525	12,773,103
		63,737,087	58,932,850
Non-current assets classified as held for sale	33	-	35,794
Total current assets		63,737,087	58,968,644
CURRENT LIABILITIES			
Trade payables	34	9,979,819	9,269,045
Bills payable	35	2,046,475	1,850,728
Other payables and accruals	36	35,274,488	30,000,168
Derivative financial instruments	31	21,731	-
Customer deposits	37	747,036	505,294
Interest-bearing bank and other borrowings	38	666,768	1,277,855
Tax payable		1,327,941	1,854,984
Provisions	39	559,566	672,690
		50,623,824	45,430,764

Consolidated Balance Sheet (continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
CURRENT LIABILITIES (continued)		50,623,824	45,430,764
Liabilities directly associated with the non-current assets classified as held for sale	33	-	75,835
Total current liabilities		50,623,824	45,506,599
NET CURRENT ASSETS		13,113,263	13,462,045
TOTAL ASSETS LESS CURRENT LIABILITIES		31,387,207	30,514,298
NON-CURRENT LIABILITIES			
Bonds	40	1,000,000	1,000,000
Interest-bearing bank and other borrowings	38	1,536,856	824,304
Provisions	39	52,018	63,951
Government grants		116,748	112,983
Other non-current liabilities	41	15,971	64,150
Deferred tax liabilities	23	508,533	937,918
Total non-current liabilities		3,230,126	3,003,306
Net assets		28,157,081	27,510,992
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	42	12,507,686	11,891,648
Reserves	43(a)	7,627,654	7,777,590
Declared final 2007 dividend	12	700,430	-
Proposed final 2008 dividend	12	762,969	-
		21,598,739	19,669,238
Non-controlling interests		6,558,342	7,841,754
Total equity		28,157,081	27,510,992

Director Mr. Xu Jianguo Director Mr. Yu Yingui

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000 (note 43(a))	Contributed surplus RMB'000 (note 43(a))	Surplus reserves RMB'000 (note 43(a))	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Declared final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2007												
As previously reported		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
Effect of adopting HK(IFRIC)-Int 12	2.2(c)	-	-	-	-	-	-	3,011	-	3,011	-	3,011
As restated		11,891,648	3,912,940	(3,487,636)	2,042,997	295,864	(18,260)	1,366,247	725,391	16,729,191	6,771,422	23,500,613
Changes in fair value and disposal 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 (as restated)		-	-	-	-	-	-	2,811,483	-	2,811,483	1,480,425	4,291,908
Total income and expense for the year		-	13,837	-	-	839,469	(585)	2,811,483	-	3,664,204	1,713,719	5,377,923
Disposal of subsidiaries	45(2)	-	-	-	-	-	-	-	-	-	(53,996)	(53,996)
Transfer of surplus reserves		-	-	-	(594,346)	-	-	594,346	-	-	-	-
Appropriation to surplus reserves		-	-	-	610,004	-	-	(610,004)	-	-	-	-
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	(633,404)	(633,404)
Final 2006 dividend declared		-	-	-	-	-	-	-	(725,391)	(725,391)	-	(725,391)
Acquisition of non-controlling interests	44(2)	-	-	-	-	-	-	-	-	-	(35,086)	(35,086)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	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)	4,157,283	-	19,669,238	7,841,754	27,510,992

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2008

		Attributable to equity holders of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000 (note 43(a))	Contributed surplus RMB'000 (note 43(a))	Surplus reserves RMB'000 (note 43(a))	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Declared/ proposed final dividends RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2008												
As previously reported		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
Effect of adopting HK(IFRIC)-Int 12	2.2(c)	-	-	-	-	-	-	(58)	-	(58)	-	(58)
As restated		11,891,648	3,932,918*	(3,487,636)*	2,058,537*	1,135,333*	(18,845)*	4,157,283*	-	19,669,238	7,841,754	27,510,992
Changes in fair value and disposal of available-for-sale investments		-	-	-	-	(1,352,970)	-	-	-	(1,352,970)	(347,874)	(1,700,844)
Deferred tax impact on changes in fair value of available-for-sale investments	23	-	-	-	-	319,281	-	-	-	319,281	79,065	398,346
Effect of change in opening balance of deferred tax credited to equity	23	-	-	-	-	6,564	-	-	-	6,564	574	7,138
Exchange realignment		-	-	-	-	-	33,588	-	-	33,588	12,195	45,783
Total income and expense for the year recognised directly in equity		-	-	-	-	(1,027,125)	33,588	-	-	(993,537)	(256,040)	(1,249,577)
Profit for the year		-	-	-	-	-	-	2,533,605	-	2,533,605	1,106,668	3,640,273
Total income and expense for the year		-	-	-	-	(1,027,125)	33,588	2,533,605	-	1,540,068	850,628	2,390,696
Issue of A shares	42	616,038	3,573,023	-	-	-	-	-	-	4,189,061	-	4,189,061
Share issue expenses	42	-	(27,510)	-	-	-	-	-	-	(27,510)	-	(27,510)
Disposal of subsidiaries	45(1)	-	(335,270)	667,933	(249,062)	(15,540)	-	(33,133)	-	34,928	(1,120,083)	(1,085,155)
Appropriation to surplus reserves		-	-	-	426,162	-	-	(426,162)	-	-	-	-
Dividends paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	(714,913)	(714,913)
Final 2007 dividend declared	12	-	-	-	-	-	-	(700,430)	700,430	-	-	-
Proposed final 2008 dividend	12	-	-	-	-	-	-	(762,969)	762,969	-	-	-
Acquisition of non-controlling interests	44(1)	-	(3,827,848)	-	-	-	-	-	-	(3,827,848)	(361,213)	(4,189,061)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	-	62,569	62,569
Others		-	27,359	-	2,291	-	-	(8,848)	-	20,802	(400)	20,402
At 31 December 2008		12,507,686	3,342,672*	(2,819,703)*	2,237,928*	92,668*	14,743*	4,759,346*	1,463,399	21,598,739	6,558,342	28,157,081

* *These reserve accounts constitute the consolidated reserves of RMB7,627,654,000 (2007: RMB7,777,590,000) on the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,034,840	5,604,818
Adjustments for:			
Finance Company:			
Interest income due from banks and other financial institutions	5	(217,013)	(109,549)
Interest income on loans receivable and discounted bills receivable	5	(85,167)	(47,442)
Interest income on time deposits		(100,800)	(83,165)
Interest income on debt investments	5	(28,897)	(60,515)
Dividend income from equity investments and investment funds	5	(38,615)	(301,621)
Gain on disposal of items of property, plant and equipment	5	(38,612)	(9,681)
Gain on disposal of subsidiaries	5	(18,258)	(7,667)
Gain on disposal of an equity interest in a jointly-controlled entity	5	(10,397)	-
Gain on disposal of associates	5	(218,072)	(1,653)
Investments at fair value through profit or loss:			
Reversal of unrealised fair value gains/ (unrealised fair value gains), net	5	259,914	(164,499)
Realised fair value gains,net	5	(148,736)	(187,459)
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value gains, net	5	(21,694)	(11,077)
Realised fair value gains, net	5	(4,248)	(11,173)
Realised gain on available-for-sale investments (transfer from equity)	5	(327,821)	(742,369)
Gain on disposal of unquoted equity investments stated at cost	5	(3,178)	(15,222)
Excess over the cost of business combinations	5	-	(11,412)
Gain on debt restructuring	5	(150)	(23,032)
Finance Company:			
Interest expense due to bank and other financial institutions	6	9,432	35,611
Interest expense on customer deposits	6	11,293	4,182
Interest expense on bonds	6	51,075	4,350
Depreciation	6	874,609	823,628
Recognition of prepaid land lease payments	6	25,114	37,358
Amortisation of other intangible assets	6	79,689	72,503
Early retirement benefits costs	6	67,987	64,265
Write-down of inventories to net realisable value	6	425,280	518,687
Share of profits and losses of jointly-controlled entities		79,757	(19,084)
Share of profits and losses of associates		(526,955)	(607,136)
Impairment of trade receivables and other receivables	6	598,081	151,788
Impairment of loans receivable	6	8,331	4,957
(Reversal of impairment)/impairment of discounted bills receivable	6	(1,196)	1,297
(Reversal of impairment)/impairment of held-to-maturity debt investments	6	(75,000)	75,000
Impairment of items of property, plant and equipment	6	40,276	5,911
Impairment of goodwill	6	12,694	6,401

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Impairment of investments in associates	6	-	2,478
Impairment of other intangible assets	6	1,651	-
Impairment of other non-current assets	6	4,659	-
Provision for product warranty	6	196,048	189,085
Provision for onerous contracts	6	191,210	457,603
Reversal of provision for late delivery	6	(100,000)	-
Finance costs	7	72,757	58,982
Exchange losses, net		57,831	47,045
		5,137,719	5,752,193
Increase in inventories		(4,186,889)	(1,896,581)
(Increase)/decrease in construction contracts		(1,870,474)	1,070,768
Increase in trade receivables and other receivables		(2,065,112)	(4,217,971)
Decrease/(increase) in other non-current assets		3,801	(89,973)
Increase in trade payables, bills payable, other payables and accruals		7,538,818	4,355,160
Utilisation of warranty provision and other provisions		(402,943)	(534,282)
Cash generated from operations		4,154,920	4,439,314
Taxes paid		(1,078,416)	(873,395)
Net cash inflow from operating activities		3,076,504	3,565,919
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		422,338	310,986
Dividends received from jointly-controlled entities		11,684	10,374
Dividends received from associates		472,193	354,407
Dividends received from investments		38,615	300,533
Purchases of items of property, plant and equipment		(3,140,532)	(2,825,509)
Realised fair value gains on derivative instruments		4,248	11,173
Prepaid land lease payments		(133,283)	(115,025)
Proceeds from disposal of items of property, plant and equipment		254,679	141,583
Acquisition of subsidiaries	44(2)	-	(138,060)
Disposal of subsidiaries	45	159,853	210,414
Advances from disposal of a subsidiary	46	41,580	239,403
Advances from disposal of a jointly-controlled entity	46	-	57,367
Capital injection in associates		(4,200)	(97,603)
Capital injection in a jointly-controlled entity		(34,395)	-
Acquisition of associates		-	(4,046)
Proceeds from disposal of associates		148,750	24,059
Purchases of non-current other investments		(346,578)	(241,932)
Proceeds from disposal of non-current other investments		294,984	1,195,568

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES (continued)			
Purchases of other intangible assets		(224,462)	(327,400)
Proceeds from disposal of other intangible assets		26,609	24,246
Acquisition of non-controlling interests	44(2)	-	(23,674)
(Increase)/decrease in restricted deposits		(223,276)	513,266
Increase in non-restricted time deposits with original maturity of over three months when acquired		(213,051)	(332,185)
Increase in loans receivable		(672,295)	(2,538)
Decrease/(increase) in discounted bills receivable		177,674	(125,904)
Decrease/(increase) in an amount due from the Central Bank		320,115	(826,945)
(Increase)/decrease in current investments		(41,032)	1,312,541
Net cash outflow from investing activities		(2,659,782)	(354,901)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital injection by non-controlling shareholders		62,569	82,778
New bank and other loans		1,633,838	2,893,469
Repayments of bank and other loans		(1,501,184)	(1,245,735)
Repayment of debentures		-	(500,000)
Issue of bonds		-	1,000,000
Issue and listing expenses of shares		(49,371)	-
Dividends paid to non-controlling shareholders		(831,381)	(804,741)
Dividends paid by the Company		-	(764,839)
Increase in customer deposits		217,440	208,330
Interest paid		(210,431)	(117,702)
Net cash (outflow)/inflow from financing activities		(678,520)	751,560
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(261,798)	3,962,578
Cash and cash equivalents at beginning of year		10,771,302	6,855,769
Effect of foreign exchange rate changes, net		(57,831)	(47,045)
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,451,673	10,771,302
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	12,666,525	12,773,103
Less: Non-restricted time deposits with original maturity of over three months when acquired		(2,214,852)	(2,001,801)
		10,451,673	10,771,302

Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	379,086	305,159
Other intangible assets	17	4,259	4,290
Investments in subsidiaries	18	16,469,816	12,943,619
Investments in associates	20	168,550	164,350
Other non-current assets		615	-
Deferred tax assets	23	125,819	84,796
Total non-current assets		17,148,145	13,502,214
CURRENT ASSETS			
Inventories	24	17,698	39,838
Construction contracts	25	94,166	159,834
Trade receivables	26	5,823,480	2,997,646
Loans receivable	21	370,340	-
Bills receivable	28	198,971	99,202
Prepayments, deposits and other receivables	29	21,729,962	13,917,582
Investments	30	-	600,000
Restricted deposits	32	78,310	-
Cash and cash equivalents	32	5,391,151	4,049,920
Total current assets		33,704,078	21,864,022
CURRENT LIABILITIES			
Trade payables	34	8,301,219	4,203,839
Bills payable	35	-	25,640
Other payables and accruals	36	22,525,580	15,680,350
Interest-bearing bank and other borrowings	38	30,000	550,000
Tax payable		23,958	26,307
Provisions	39	24,000	124,000
Total current liabilities		30,904,757	20,610,136
NET CURRENT ASSETS		2,799,321	1,253,886
TOTAL ASSETS LESS CURRENT LIABILITIES		19,947,466	14,756,100
NON-CURRENT LIABILITIES			
Government grants		-	17,135
Other non-current liabilities		338	31,000
Total non-current liabilities		338	48,135
Net assets		19,947,128	14,707,965

Balance Sheet (continued)

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
EQUITY			
Issued capital	42	12,507,686	11,891,648
Reserves	43(b)	5,976,043	2,816,317
Declared final dividend 2007	12	700,430	-
Proposed final dividend 2008	12	762,969	-
Total equity		19,947,128	14,707,965

Director Mr. Xu Jianguo Director Mr. Yu Yingui

Notes to Financial Statements

31 December 2008

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 and 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 industrial 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 state-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 (the "HKICPA"), 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 2.6. 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 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Due to the early application of HKAS 27 (Revised) (note 2.3), acquisitions of non-controlling interests are accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following amendments to HKFRSs and new interpretations for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

The principal effects of adopting these amendments and new interpretations are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

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 buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 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 has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

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. HK (IFRIC)-Int 12 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.

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

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements* (continued)

The Group has been granted concessions to invest, design, build and operate a cineration and power generation plant, a sewage duct network and a sewage treatment plant (the "Plants"). Prior to the adoption of HK (IFRIC)-Int 12, the Group's Plants were recognised as property, plant and equipment and depreciated on straight-line basis. Upon the adoption of HK (IFRIC)-Int12, the Plants under the service concession arrangements are reclassified as financial assets and/or intangible assets. HK (IFRIC)-Int 12 has been applied by the Group retrospectively and comparative amounts have been restated. The effect of the above changes is summarised below:

	2008 RMB'000	2007 RMB'000
Consolidated income statement for the year ended 31 December		
Increase in revenue	112,658	217,242
Increase in cost of sales	(114,815)	(218,231)
Increase in other income and gains	3,500	931
Increase in administrative expenses	-	(3,011)
Total increase/(decrease) in net profit	1,343	(3,069)
Increase/(decrease) in basic earnings per share (RMB cents)	0.01	(0.03)
Consolidated balance sheet and equity at 1 January		
Decrease in property, plant and equipment	(327,454)	(108,725)
Increase in other intangible assets	291,571	94,785
Increase in other non-current assets	31,963	13,451
Increase in prepayments, deposits and other receivables	3,862	3,500
	(58)	3,011
(Decrease)/increase in reserves - retained profits	(58)	3,011
Consolidated balance sheet and equity at 31 December		
Decrease in property, plant and equipment	(439,367)	(327,454)
Increase in other intangible assets	403,627	291,571
Increase in other non-current assets	23,972	31,963
Increase in prepayments, deposits and other receivables	13,053	3,862
	1,285	(58)
Increase/(decrease) in reserves - retained profits	1,285	(58)

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

(d) HK(IFRIC)-Int 14 *HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, HK(IFRIC)-Int 14 has had no effect on these financial statements.

2.3 EARLY APPLICATION OF HKFRS 3(REVISED) AND HKAS 27(REVISED)

The Group has early adopted the following revised HKFRS and HKAS, that have been issued but are not yet effective for the current year's financial statements:

HKFRS 3(Revised)	*Business Combinations*
HKAS 27(Revised)	*Consolidated and Separate Financial Statements*

(The above revised HKFRS and HKAS are effective for annual periods beginning on or after 1 July 2009 with earlier application permitted)

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 in the period that an acquisition occurs, and future reported results. HKFRS 3 (Revised) has had no material impact on the financial position or results of operations of the Group.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

In preparation for the Group's consolidated financial statements in prior years, acquisitions of non-controlling interests were 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 was recognised as goodwill. Upon the early application of HKAS 27 (Revised), the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transation.

The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) are applied prospectively and affect the treatment regarding the acquisition of non-controlling interests during the year. The effect of the above early application of these two revised standards on the Group's consolidated financial statements is set out below:

2.3 EARLY APPLICATION OF HKFRS 3(REVISED) AND HKAS 27(REVISED) (continued)

	2008 RMB'000
Consolidated balance sheet and equity at 31 December	
Decrease in goodwill	(3,827,848)
Decrease in capital reserve	(3,827,848)

Except for the effect on acquisitions of non-controlling interests, the early application of these two revised standards has had no material impact on the consolidated financial statements.

2.4 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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [2]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 7 Amendments	*Financial Instruments: Disclosure* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendments	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	*Embedded Derivatives* [2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [2]

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

Apart from the above, in October 2008, the HKICPA also issued first *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008
[*] Improvements to HKFRSs contain amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes, and therefore, the amendments have no impact on the financial statements.

The amendments to HKFRS 7 are made to enhance disclosures about fair vaule measurement and liquidity risk and do not have any financial impact on the Group.

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 disclosure 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 Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard 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, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

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

HKAS 23 has been revised to require capitalisation 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.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The amendments to HK(IFRIC)-Int 9 and HKAS 39 are made in response to the earlier amendments to HKAS 39 and HKFRS7 regarding reclassification of financial assets. As the Group has not reclassified hybrid financial instruments in accordance with the October 2008 amendments HKAS39, the amendments are unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. 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. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 15 will replace HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties.* It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

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

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 provides additional guidance on the accounting for transfers of assets from customers and clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). As the Group currently has no transfers of assets from customers, the interpretation is unlikely to have any financial impact on the Group.

The HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

(a) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest.

(b) HKFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

(c) HKAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the balance sheet.

(d) HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

    In addition, items held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventories when rental ceases and they are held for sale.

(e) HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with HKAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

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

(f) HKAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with HKAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(g) HKAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(h) HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(i) HKAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

2.5 CHANGES IN ACCOUNTING POLICIES

In prior years, investments in jointly-controlled entities were accounted for using the proportionate consolidation method in the consolidated financial statements prepared under HKFRSs. During the year, the Group prepares its PRC consolidated financial statesments in accordance with the new Chinese Accounting Standards for Business Enterprises ("CAS") (2006). The Group adopts the equity method for the investments in jointly-controlled entities in accordance with CAS 2 *Long-term equity investments* in those financial statements.

In order to avoid confusion and to harmonise with existing CAS (2006), the directors believe that the adoption of the equity method to account for the investments in jointly-controlled entities in the financial stataments can provide more relevant information about the Group's financial position. As a result, the Group has adopted the equity method, which is permitted under HKAS 31 *Interests in Joint Ventures,* to account for its investments in jointly-controlled entities in the consolidated financial statements prepared under HKFRSs with effect from 1 January 2008.

The change in accounting policy has been adopted retrospectively but there is no effect on the opening net assets, retained profits nor the profit or loss for the periods presented. The adoption of the equity method only resulted in a reclassification of the accounting captions and the effects on the Group's consolidated financial statements are set out below:

	2008 RMB'000	**2007 RMB'000**
Consolidated balance sheet and equity at 31 December		
Property, plant and equipment	196,420	221,563
Prepaid land lease payments	66,842	78,383
Goodwill	7,426	7,426

2.5 CHANGES IN ACCOUNTING POLICIES (continued)

	2008 RMB'000	2007 RMB'000
Consolidated balance sheet and equity at 31 December (continued)		
Other intangible assets	14,696	6,319
Investments in associates	30,407	4,669
Other investments	2,484	1,577
Other non-current assets	3,408	2,670
Deferred tax assets	585	5,359
Inventories	354,391	203,478
Trade receivables	90,077	150,126
Loans receivable	(63,605)	(55,688)
Discounted bills receivable	(27,161)	(26,785)
Bills receivable	36,436	83,087
Prepayments, deposits and other receivables	50,133	41,224
Restricted deposits	-	4,188
Cash and cash equivalents	111,573	36,827
Trade payables	(113,248)	(173,452)
Bills payable	(1,642)	-
Other payables and accruals	(110,031)	(60,367)
Customer deposits	29,851	33,808
Interest-bearing bank and other borrowings	(315,509)	(159,440)
Tax payable	(793)	(2,488)
Other current liabilities	(13,101)	(7,243)
Other non-current liabilities	(213)	(5,561)
Deferred tax liabilities	(955)	(1,769)
	348,471	387,911
Investments in jointly-controlled entities	348,471	387,911
Consolidated income statement for the year ended 31 December		
Revenue	787,138	725,385
Cost of sales	(600,083)	(544,164)
Other income and gains	4,317	4,855
Selling and distribution costs	(159,618)	(68,202)
Administrative expenses	(70,225)	(60,866)
Other expenses	(32,058)	(17,603)
Finance costs	(4,611)	(13,201)
Share of profits and losses of associates	4,656	240
Tax	(9,273)	(7,360)
	(79,757)	19,084
Share of profits and losses of jointly-controlled entities	(79,757)	19,084

2.6 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 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The Group's investments in jointly-controlled entities 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 jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group’s investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities. 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 interests 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. 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 and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' 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.

2.6 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 an 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 an 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).

2.6 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 least 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 representing property, plant and equipment under construction and installation 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.

2.6 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 sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

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

Intangible assets (other than goodwill)

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 10 years, commencing from the date when the products are put into commercial production.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Concession intangible assets
Concession intangible assets represent the rights to charge users of the public service that the Group obtains under the service concession arrangements. Concession intangible assets are stated at cost, that is, the fair value of the consideration received or receivable in exchange for the construction services provided under the service concession arrangements, less accumulated amortisation and any impairment losses.

Subsequent expenditures such as repairs and maintenance are charged to the income statement in the period in which they are 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 the item, and where the cost of the item can be measured reliably, the expenditures are capitalised as an additional cost of concession intangible assets.

Amortisation of service concession arrangements is calculated to write off their costs on a straight-line basis throughout the periods for which the Group is granted to operate those concession intangible assets.

Operating leases

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

Prepaid land 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement. 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.

2.6 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 gains or losses previously reported in equity are 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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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 has been incurred 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 instrument, 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.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

- 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. The related interest expense is recognised within "Finance costs" in the income statement.

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

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 of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities (continued)

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.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

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.

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in the same or a different period directly in equity.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

Government grants

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;
(c) from the rendering of services, when services are rendered;
(d) rental income, on a time proportion basis over the lease terms;
(e) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
(f) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme
The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 dates 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 RMB. 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 RMB 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.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB 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 contract where it is probable that contract costs are recoverable. The stage of completion is measured in accordance with the accounting policy for construction contracts stated in note 2.6. 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 estimates 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.

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 2008 was RMB191,061,000 (2007: RMB203,755,000). More details are given in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the 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 at 31 December 2008 was RMB742,529,000 (2007: RMB610,740,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2008 was RMB1,022,840,000 (2007: RMB881,759,000). Further details are contained in note 23 to the financial statements.

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 makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2008, no impairment losses have been recognised for available-for-sale assets (2007: Nil). The carrying amount of available-for-sale assets was RMB5,031,319,000 (2007: RMB5,396,832,000). Further details are contained in note 22 and note 30 to the financial statements.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on assessment of the saleability 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 contracts, 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 a 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 at 31 December 2008 was RMB611,584,000 (2007: RMB736,641,000). More details are given in note 39 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Development costs
Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.6 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. At 31 December 2008, the carrying amount of capitalised development costs was RMB9,260,000 (2007:Nil). More details are given in note 17 to the financial statements.

Useful lives of property, plant and equipment
The property, plant and equipment are depreciated on a straight-line basis by taking into account the residual value. The Group reviews the estimated useful lives periodically to determine the related depreciation charges for its items of property, plant and equipment. The estimation is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions with consideration of expected technology renovation. Depreciation charges may be adjusted if there are significant changes in prior assumptions and estimation.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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. No further geographical segment information based on the location of the assets is presented as 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 machinery 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 protection systems segment is principally engaged in the provision of consultancy services and design of environmental protection 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 2008 and 2007;

Year ended 31 December 2008	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental protection systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:									
Sales to external customers	33,088,384	12,931,228	4,693,194	4,468,398	3,077,000	304,323	344,387	-	58,906,914
Intersegment sales	879,745	104,985	439,726	2,681	144,878	126,423	67,633	(1,766,071)	-
Total	33,968,129	13,036,213	5,132,920	4,471,079	3,221,878	430,746	412,020	(1,766,071)	58,906,914
Investment income*	-	-	-	-	-	209,118	-	-	209,118
Segment results	1,998,088	645,720	254,643	35,258	(10,727)	476,883	(41,035)	(18,758)	3,340,072
Interest and dividend income and other unallocated gains									445,022
Corporate and other unallocated expenses									(124,695)
Finance costs									(72,757)
Share of profits and losses of jointly-controlled entities	-	(79,757)	-	-	-	-	-	-	(79,757)
Share of profits and losses of associates	275,398	237,098	(356)	14,815	-	-	-	-	526,955
Profit before tax									4,034,840
Tax									(394,567)
Profit for the year									3,640,273

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2008	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental protection systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities									
Segment assets	48,019,876	13,541,443	12,002,612	1,496,869	2,953,532	17,717,863	420,075	(18,564,457)	77,587,813
Investments in jointly-controlled entities	-	348,471	-	-	-	-	-	-	348,471
Investments in associates	1,324,583	992,450	19,210	38,893	1,927	-	4,027	-	2,381,090
Corporate and other unallocated assets									1,693,657
Total assets									82,011,031
Segment liabilities	39,355,901	5,434,758	5,105,283	638,863	1,551,865	15,091,930	340,774	(16,928,447)	50,590,927
Corporate and other unallocated liabilities									3,263,023
Total liabilities									53,853,950
Other segment information:									
Depreciation and amortisation	387,384	241,486	131,699	150,397	44,752	1,048	22,646	-	979,412
Capital expenditure	783,902	478,253	1,824,508	60,330	145,922	295	116,906	(23,830)	3,386,286
Impairment losses recognised in the income statement	-	23,264	-	36,016	-	-	-	-	59,280
Other non-cash expenses	856,963	135,519	14,220	2,543	42,288	(67,865)	10,979	(39,151)	955,496
Product warranty provision	139,888	17,515	(8,307)	46,330	622	-	-	-	196,048
Provision for onerous contracts	191,210	-	-	-	-	-	-	-	191,210
Reversal of late delivery provision	(100,000)	-	-	-	-	-	-	-	(100,000)

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2007 (Restated)	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental protection 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	12,066,358	2,823,108	4,767,302	2,886,331	156,991	391,344	-	55,929,342
Intersegment sales	601,957	68,822	184,572	4,869	79,888	102,502	48,419	(1,091,029)	-
Total	33,439,865	12,135,180	3,007,680	4,772,171	2,966,219	259,493	439,763	(1,091,029)	55,929,342
Investment income*	-	-	-	-	-	1,363,049	-	-	1,363,049
Segment results	2,523,376	855,116	60,135	177,568	33,499	1,298,349	(553)	(7,468)	4,940,022
Interest and dividend income and other unallocated gains									235,111
Corporate and other unallocated expenses									(137,553)
Finance costs									(58,982)
Share of profits and losses of jointly-controlled entities	-	31,896	-	(12,812)	-	-	-	-	19,084
Share of profits and losses of associates	313,426	277,412	460	15,511	327	-	-	-	607,136
Profit before tax									5,604,818
Tax									(1,312,910)
Profit for the year									4,291,908

4. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2007 (Restated)	Power equipment RMB'000	Electro-mechanical equipment RMB'000	Heavy machinery equipment RMB'000	Transportation equipment RMB'000	Environmental protection systems RMB'000	Financial business RMB'000	Others RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities									
Segment assets	38,940,622	11,566,933	9,778,717	4,736,946	2,975,554	18,456,394	430,932	(15,588,621)	71,297,477
Investments in jointly-controlled entities	-	345,478	-	42,433	-	-	-	-	387,911
Investments in associates	1,302,669	1,173,410	19,734	69,375	1,938	-	3,954	-	2,571,080
Corporate and other unallocated assets									1,764,429
Total assets									76,020,897
Segment liabilities	33,230,582	5,377,845	3,828,108	2,008,960	1,662,017	14,522,994	362,482	(15,852,156)	45,140,832
Corporate and other unallocated liabilities									3,369,073
Total liabilities									48,509,905
Other segment information:									
Depreciation and amortisation	346,962	257,533	97,354	178,170	29,273	1,842	22,355	-	933,489
Capital expenditure	767,514	328,335	1,842,822	134,578	444,095	489	46,092	(43,920)	3,520,005
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	45,895	14,793	51,408	13,354	87,387	759	245,344	751,729
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

* The investment income, as defined in note 5, arising from the financial business segment is included in the segment results 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.

4. SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue information on the Group's geographical segments for the years ended 31 December 2008 and 2007:

	2008			2007 (Restated)		
	Mainland China RMB'000	Elsewhere RMB'000	Total RMB'000	Mainland China RMB'000	Elsewhere RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	50,021,293	8,885,621	58,906,914	51,314,010	4,615,332	55,929,342

5. REVENUE, OTHER INCOME AND GAINS

Revenue includes turnover and other revenue that arise from the ordinary course of business of the Group. 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:

	2008 RMB'000	2007 RMB'000 (Restated)
Revenue		
Turnover		
Sale of goods	44,053,967	46,475,690
Construction contracts	11,926,847	6,472,303
Rendering of services	1,445,029	1,569,818
	57,425,843	54,517,811
Other revenue		
Sales of raw materials, spare parts and semi-finished goods	886,225	980,778
Gross rental income	85,026	101,354
Finance Company:		
Interest income from banks and other financial institutions	217,013	109,549
Interest income on loans receivable and discounted bills receivable	85,167	47,442
Others	207,640	172,408
	1,481,071	1,411,531
	58,906,914	55,929,342

5. REVENUE, OTHER INCOME AND GAINS (continued)

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Other income			
Interest income on bank balances and time deposits		184,836	137,796
Interest income on debt investments*		28,897	60,515
		213,733	198,311
Dividend income from equity investments and investment funds*		38,615	301,621
Subsidy income		185,117	118,872
Others		69,417	52,735
		506,882	671,539
Gains			
Gain on disposal of items of property, plant and equipment		38,612	9,681
Gain on disposal of subsidiaries*	45	18,258	7,667
Gain on disposal of an equity interest in a jointly-controlled entity*		10,397	-
Gain on disposal of associates*		218,072	1,653
Investments at fair value through profit or loss:			
(Reversal of unrealised fair value gains)/ unrealised fair value gains, net*		(259,914)	164,499
Realised fair value gains, net*		148,736	187,459
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value gains, net*	31	21,694	11,077
Realised fair value gains, net*		4,248	11,173
Realised gain on available-for-sale investments (transfer from equity)*		327,821	742,369
Gain on disposal of unquoted equity investments stated at cost*		3,178	15,222
Excess over the cost of business combinations*	44	-	11,412
Gain on debt restructuring		150	23,032
Exchange losses, net		(90,698)	(54,303)
		440,554	1,130,941
		947,436	1,802,480

* 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	2008 RMB'000	2007 RMB'000 (Restated)
Cost of inventories sold		36,321,908	38,518,467
Cost of construction contracts		10,542,361	5,652,723
Cost of services provided		1,146,529	1,311,995
Finance Company:			
Interest expense due to banks and other financial institutions		9,432	35,611
Interest expense on customer deposits		11,293	4,182
Interest expense on bonds		51,075	4,350
		71,800	44,143
Depreciation	14	874,609	823,628
Recognition of prepaid land lease payments**	15	25,114	37,358
Amortisation of patents and licences**	17	45,295	27,273
Amortisation of concession intangible assets	17	1,612	-
Amortisation of other intangible assets**	17	6,164	10,889
Research and development costs:**			
Amortisation of technology know-how	17	26,618	34,341
Current year expenditure*		960,219	563,803
		986,837	598,144
Minimum lease payments under operating leases:			
Land and buildings		105,105	76,324
Plant, machinery and motor vehicles		40,420	33,801
Auditors' remuneration		30,242	36,750
Staff costs (including directors' and supervisors' remuneration (note 8)):			
Wages and salaries		3,381,085	3,192,543
Defined contribution pension scheme (note i)		451,397	428,681
Early retirement benefits costs (note ii)	39	67,987	64,265
Staff severance costs		16,453	24,665
Medical benefits costs (note iii)		204,190	193,817
Housing fund		174,845	173,886
Cash housing subsidies costs		1,979	5,173
		4,297,936	4,083,030

6. PROFIT BEFORE TAX (continued)

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

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Write-down of inventories to net realisable value		425,280	518,687
Impairment of trade receivables and other receivables**	26, 29	598,081	151,788
Impairment of loans receivable**	21	8,331	4,957
(Reversal of impairment)/impairment of discounted bills receivable**	27	(1,196)	1,297
(Reversal of impairment)/impairment of held-to-maturity debt investments**	30	(75,000)	75,000
Impairment of items of property, plant and equipment**	14	40,276	5,911
Impairment of goodwill**	16	12,694	6,401
Impairment of other intangible assets**	17	1,651	-
Impairment of other non-current assets**		4,659	-
Impairment of investments in associates**		-	2,478
Product warranty provision:	39		
Additional provision		224,636	192,984
Reversal of unutilised provision		(28,588)	(3,899)
Onerous contracts provision:	39		
Additional provision		191,210	457,603
Late delivery provision:	39		
Reversal of unutilised provision		(100,000)	-

* Various government grants have been received for setting up research activities in Mainland China. Government grants released have been deducted from the research and development costs to which they relate. Government grants received for which the related expenditure has not yet been undertaken are accounted for as government grants 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% (2007: 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 RMB65,107,000 as at 31 December 2008 (2007: RMB112,216,000) 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.

(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

	2008 RMB'000	2007 RMB'000 (Restated)
Interest on bank loans and other loans wholly repayable within five years	137,592	78,397
Interest on debentures	-	10,733
Total interest expense	137,592	89,130
Less: Interest capitalised	(64,835)	(30,148)
	72,757	58,982

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:

	2008 RMB'000	2007 RMB'000
Directors		
Fees	542	650
Other emoluments:		
Salaries, bonuses and allowances received from the Company	1,558	2,044
Pension scheme contributed by the Company	66	76
Other social benefit schemes contributed by the Company	63	72
	2,229	2,842
Supervisors		
Fees	-	-
Other emoluments:		
Salaries, bonuses and allowances received from the Company	282	258
Pension scheme contributed by the Company	22	19
Other social benefit schemes contributed by the Company	21	18
	325	295
	2,554	3,137

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Dr. Yao Fusheng	-	150
Dr. Cheung Wai Bun	250	250
Mr. Lei Huai Chin	250	250
Mr. Zhu Sendi	42	-
	542	650

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(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 years that is 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, bonuses and allowances received from the Company RMB'000	Pension scheme contributed by the Company RMB'000	Other social benefit schemes contributed by the Company RMB'000	Total RMB'000
Executive directors					
Mr. Huang Dinan	-	586	22	21	629
Mr. Zhang Suxin	-	486	22	21	529
Mr. Yu Yingui	-	486	22	21	529
	-	1,558	66	63	1,687
Supervisor					
Mr. Xie Tonglun	-	282	22	21	325
	-	1,840	88	84	2,012

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

2007	Fees RMB'000	Salaries, bonuses and allowances received from the Company RMB'000	Pension scheme contributed by the Company RMB'000	Other social benefit schemes contributed by the Company RMB'000	Total RMB'000
Executive directors					
Mr. Huang Dinan	-	586	19	18	623
Mr. Wang Qiang*	-	486	19	18	523
Ms. Li Manping*	-	486	19	18	523
Mr. Yu Yingui*	-	486	19	18	523
	-	2,044	76	72	2,192
Supervisor					
Mr. Xie Tonglun*	-	258	19	18	295
	-	2,302	95	90	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 of RMB100,000 per annum for services provided in the years 2004 to 2006.

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 (2007: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2007: four) non-director/non-supervisor, highest paid employees for the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries, bonuses and allowances received from the Group	3,148	2,886
Pension scheme contributed by the Group	66	57
Other social benefit schemes contributed by the Group	63	54
	3,277	2,997

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2008	2007
Nil to HKD1,000,000	3	3
HKD1,000,001 to HKD1,500,000	1	1
	4	4

10. TAX

With the PRC Corporate Income Tax Law (the "Corporate Income Tax Law") effective on 1 January 2008, the Company and all of its subsidiaries that operate in Mainland China are subject to the statutory corporate income tax rate of 25% for the year ended 31 December 2008 (2007: 33%) under the income tax rules and regulations of the PRC, except that:

- certain subsidiaries are subject to a corporate income tax rate of 18% as they were subject to the transitional income tax rate in the current year under the Corporate Income Tax Law;
- certain subsidiaries are subject to a corporate income tax rate of 15% as they have been assessed as "High-New Technology Enterprises" under the Corporate Income Tax Law for the successive three years from 2008; and
- certain subsidiaries are subject to a corporate income tax rate of 12.5% as it was granted a transitional 50% reduction tax holiday in the current year under the Corporate Income Tax Law.

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.

	2008 RMB'000	2007 RMB'000 (Restated)
Group:		
Current - Mainland China		
Charge for the year	955,083	1,603,276
Overprovision in prior years	(389,735)	(115,511)
Current - Elsewhere		
Charge for the year	2,642	4,048
Deferred (note 23)	(173,423)	(178,903)
Total tax charge for the year	394,567	1,312,910

10. TAX (continued)

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) to the effective tax rates, are as follows:

	2008					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total RMB'000	%
Profit before tax	4,021,673		13,167		4,034,840	
Tax at the statutory tax rate	1,005,418	25.0	4,016	30.5	1,009,434	25.0
Lower tax rate for specific provinces/ districts or concessions	(347,755)	(8.7)	(1,652)	(12.5)	(349,407)	(8.7)
Effect of change in tax rate on the opening balance of deferred tax*	184,576	4.6	-	-	184,576	4.6
Adjustments in respect of current tax of previous periods	(389,735)	(9.6)	-	-	(389,735)	(9.6)
Profits and losses attributable to jointly-controlled entities	19,939	0.5	-	-	19,939	0.5
Profits and losses attributable to associates	(131,739)	(3.3)	-	-	(131,739)	(3.3)
Income not subject to tax	(22,287)	(0.6)	-	-	(22,287)	(0.6)
Expenses not deductible for tax	44,909	1.1	-	-	44,909	1.1
Tax incentives on eligible expenditures	(41,389)	(1.0)	(4,568)	(34.7)	(45,957)	(1.1)
Tax losses utilised from previous periods	(5,940)	(0.1)	(703)	(5.3)	(6,643)	(0.1)
Tax losses not recognised	39,693	1.0	-	-	39,693	1.0
Deductible temporary differences not recognised	40,822	1.0	962	7.3	41,784	1.0
Tax charge at the Group's effective rate	396,512	9.9	(1,945)	(14.7)	394,567	9.8

10. TAX (continued)

	2007 (Restated)					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total RMB'000	%
Profit before tax	5,582,858		21,960		5,604,818	
Tax at the statutory tax rate	1,842,343	33.0	6,691	30.5	1,849,034	33.0
Lower tax rate for specific provinces/ districts or concessions	(356,415)	(6.4)	-	-	(356,415)	(6.4)
Effect of change in tax rate on the opening balance of deferred tax**	(98,252)	(1.7)	-	-	(98,252)	(1.7)
Adjustments in respect of current tax of previous periods	(115,511)	(2.1)	-	-	(115,511)	(2.1)
Profits and losses attributable to jointly-controlled entities	(6,298)	(0.1)	-	-	(6,298)	(0.1)
Profits and losses attributable to associates	(200,355)	(3.6)	-	-	(200,355)	(3.6)
Income not subject to tax	(100,502)	(1.8)	-	-	(100,502)	(1.8)
Expenses not deductible for tax	278,365	5.0	241	1.1	278,606	5.0
Tax incentives on eligible expenditures	(87,972)	(1.6)	(2,884)	(13.1)	(90,856)	(1.6)
Tax losses utilised from previous periods	(5,446)	(0.1)	-	-	(5,446)	(0.1)
Tax losses not recognised	50,087	0.9	-	-	50,087	0.9
Deductible temporary differences not recognised	108,818	1.9	-	-	108,818	1.9
Tax charge at the Group's effective rate	1,308,862	23.4	4,048	18.5	1,312,910	23.4

* The effect of change in tax rate on the opening balance of deferred tax for the year ended 31 December 2008 is due to the preferential/transitional tax rates granted to certain subsidiaries during the year.

** The effect of change in tax rate on the opening balance of deferred tax for the year ended 31 December 2007 is due to the impact of the Corporate Income Tax Law effective on 1 January 2008.

The share of tax attributable to jointly-controlled entities amounting to RMB9,273,000 (2007: RMB7,360,000) is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

The share of tax attributable to associates amounting to RMB117,021,000 (2007: RMB102,257,000) 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 2008 includes a profit of RMB1,075,700,000 (2007: RMB1,539,964,000) which has been dealt with in the financial statements of the Company (note 43(b)).

12. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Declared final 2007 dividend-RMB5.6 cents per ordinary share	700,430	-
Proposed final 2008 dividend-RMB6.1 cents per ordinary share	762,969	-
	1,463,399	-

The final dividend declared for the year ended 31 December 2007 was approved by the Company's shareholders at the extraordinary general meeting held on 24 March 2009.

The final dividend proposed for the year ended 31 December 2008 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Pursuant to the Corporate Income Tax Law and relevant regulations, a Chinese resident enterprise shall withhold income tax at 10% when dividends are distributed to overseas non-resident enterprise H share shareholders for year 2008 and the years thereafter. Accordingly, out of final dividend of RMB762,969,000 for the year ended 31 December 2008 proposed after balance sheet date, the Company will withhold income tax for the portion to be distributed to overseas non-resident enterprise shareholders.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2007 and 2008 have not been disclosed as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2008 RMB'000	2007 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	2,533,605	2,811,483

	Number of shares	
	2008 '000	2007 '000
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	11,942,985	11,891,648

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and moulds RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008						
At cost:						
At 1 January 2008						
As previously reported	4,652,254	7,875,126	515,111	625,699	3,764,245	17,432,435
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(166,395)	(120,953)	(19,815)	(23,097)	(88)	(330,348)
Effect of adopting HK (IFRIC) -Int 12 (note 2.2(c))	(36,000)	-	-	-	(293,164)	(329,164)
As restated	4,449,859	7,754,173	495,296	602,602	3,470,993	16,772,923
Additions	153,666	253,635	64,028	87,040	2,470,100	3,028,469
Disposals	(99,596)	(147,336)	(21,204)	(32,812)	(4,283)	(305,231)
Disposal of subsidiaries (note 45(1))	(680,681)	(1,111,749)	(47,467)	(154,712)	(227,505)	(2,222,114)
Transfers	460,210	890,271	20,547	74,816	(1,445,844)	-
Exchange realignment	28,670	36,707	479	1,871	-	67,727
At 31 December 2008	4,312,128	7,675,701	511,679	578,805	4,263,461	17,341,774
Accumulated depreciation and impairment:						
At 1 January 2008						
As previously reported	2,051,670	3,926,220	302,481	364,053	9,268	6,653,692
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(37,952)	(47,311)	(11,382)	(12,140)	-	(108,785)
Effect of adopting HK (IFRIC) -Int 12 (note 2.2(c))	(1,710)	-	-	-	-	(1,710)
As restated	2,012,008	3,878,909	291,099	351,913	9,268	6,543,197
Depreciation provided during the year	171,098	546,879	54,894	101,738	-	874,609
Impairment	-	3,582	-	-	36,694	40,276
Disposals	(37,144)	(122,969)	(18,550)	(25,898)	-	(204,561)
Disposal of subsidiaries (note 45(1))	(344,854)	(686,126)	(38,409)	(109,503)	(41,595)	(1,220,487)
Exchange realignment	19,487	30,860	324	5,897	-	56,568
At 31 December 2008	1,820,595	3,651,135	289,358	324,147	4,367	6,089,602
Net book value:						
At 31 December 2008	2,491,533	4,024,566	222,321	254,658	4,259,094	11,252,172

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (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
31 December 2007						
At cost:						
At 1 January 2007						
As previously reported	4,154,571	6,939,097	483,318	524,426	2,603,763	14,705,175
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(161,848)	(100,505)	(18,888)	(21,237)	(43,282)	(345,760)
Effect of adopting HK (IFRIC) -Int 12 (note 2.2(c))	-	-	-	-	(108,725)	(108,725)
As restated	3,992,723	6,838,592	464,430	503,189	2,451,756	14,250,690
Additions	67,806	174,896	27,633	141,461	2,528,052	2,939,848
Acquisition of a subsidiary (note 44(2))	48,758	51,216	6,901	10,274	1,325	118,474
Disposals	(98,561)	(177,626)	(26,975)	(93,478)	(4,669)	(401,309)
Disposal of subsidiaries (note 45(2))	(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	491,720	941,034	25,279	45,135	(1,503,168)	-
Exchange realignment	(14,786)	(19,528)	(178)	(10)	153	(34,349)
At 31 December 2007	4,449,859	7,754,173	495,296	602,602	3,470,993	16,772,923
Accumulated depreciation and impairment:						
At 1 January 2007						
As previously reported	1,949,819	3,599,526	267,603	289,157	8,532	6,114,637
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(32,696)	(41,155)	(8,772)	(9,371)	-	(91,994)
Effect of adopting HK (IFRIC) -Int 12 (note 2.2(c))	-	-	-	-	-	-
As restated	1,917,123	3,558,371	258,831	279,786	8,532	6,022,643
Depreciation provided during the year	195,316	472,514	52,074	103,724	-	823,628
Impairment	-	2,341	-	-	3,570	5,911
Acquisition of a subsidiary (note 44(2))	6,229	35,533	5,684	6,530	-	53,976
Disposals	(72,999)	(134,484)	(24,973)	(35,226)	(2,834)	(270,516)
Disposal of subsidiaries (note 45(2))	(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	2,012,008	3,878,909	291,099	351,913	9,268	6,543,197
Net book value:						
At 31 December 2007	2,437,851	3,875,264	204,197	250,689	3,461,725	10,229,726

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and moulds RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008						
At cost:						
At 1 January 2008	52,685	32,773	6,472	38,168	209,722	339,820
Additions	-	1,807	599	5,264	90,307	97,977
Disposals	-	(3,081)	-	-	(3,492)	(6,573)
Transfers	-	4,212	-	-	(4,212)	-
At 31 December 2008	52,685	35,711	7,071	43,432	292,325	431,224
Accumulated depreciation:						
At 1 January 2008	10,455	11,747	1,902	10,557	-	34,661
Depreciation provided during the year	2,392	6,596	1,161	8,260	-	18,409
Disposals	-	(932)	-	-	-	(932)
At 31 December 2008	12,847	17,411	3,063	18,817	-	52,138
Net book value:						
At 31 December 2008	39,838	18,300	4,008	24,615	292,325	379,086
31 December 2007						
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
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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2008, certain buildings and machinery of the Group with net book values of approximately RMB682,000 (2007: nil) and RMB55,319,000 (2007: RMB63,954,000), respectively, were pledged to secure general banking facilities granted to the Group (note 38).

As at 31 December 2008, the Group has not obtained the real estate certificates for buildings with a total gross area of approximately 134 thousand m^2 (2007: 148 thousand m^2) and a net book value of RMB294,302,000 (2007: RMB323,376,000).

The Group was in the process of applying for the real estate certificates for buildings with a gross area of approximately 69 thousand m^2 and a net book value of approximately RMB247,082,000 as at 31 December 2008, which is included in the above net book value of RMB294,302,000.

15. PREPAID LAND LEASE PAYMENTS

Group

	2008 RMB'000	2007 RMB'000 (Restated)
At cost:		
At 1 January		
As previously reported	1,603,232	1,423,450
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(85,086)	(82,986)
As restated	1,518,146	1,340,464
Additions	133,283	115,025
Acquisition of a subsidiary (note 44(2))	-	66,030
Disposals	(27,411)	-
Disposal of subsidiaries (note 45)	(25,086)	(3,373)
At 31 December	1,598,932	1,518,146

15. PREPAID LAND LEASE PAYMENTS (continued)

Group (continued)

	2008 RMB'000	2007 RMB'000 (Restated)
Accumulated amortisation and impairment:		
At 1 January		
As previously reported	199,114	159,987
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(3,624)	(2,689)
As restated	195,490	157,298
Amortisation provided during the year	25,114	37,358
Acquisition of a subsidiary (note 44(2))	-	2,463
Disposals	(11,153)	-
Disposal of subsidiaries (note 45)	(3,292)	(1,629)
At 31 December	206,159	195,490
Net book value:		
At 31 December	1,392,773	1,322,656
Of which:		
Current portion included in prepayments, deposits and other receivables (note 29)	30,772	24,105
Non-current portion	1,362,001	1,298,551
	1,392,773	1,322,656

Except for a parcel of leasehold land with cost of RMB26,478,000 (2007: RMB22,971,000), which is situated in Japan, the Group's leasehold lands are all situated in PRC.

The Group's leasehold lands are held under the following lease terms:

	2008 RMB'000	2007 RMB'000 (Restated)
At cost:		
Long term (no less than 50 years)	30,578	27,071
Medium term (no less than 10 years but less than 50 years)	1,568,354	1,491,075
	1,598,932	1,518,146

15. PREPAID LAND LEASE PAYMENTS (continued)

As at 31 December 2008, certain of the Group's leasehold lands with a net book value of approximately RMB3,480,000 (2007: RMB3,600,000) were pledged to secure general banking facilities granted to the Group (note 38).

As at 31 December 2008, the Group has not obtained the real estate certificates for 2 (2007: 2) parcels of land with a total gross area of approximately 165 thousand m^2 (2007: 165 thousand m^2) and a net book value of RMB44,699,000 (2007: RMB44,718,000).

The Group was in the process of applying for the real estate certificates for the remaining two parcels of land as at 31 December 2008.

16. GOODWILL

Group

	2008 RMB'000	2007 RMB'000 (Restated)
At cost:		
At 1 January		
As previously reported	244,893	210,751
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(7,426)	(7,426)
As restated	237,467	203,325
Acquisitions of a subsidiary (note 44(2))	-	34,142
At 31 December	237,467	237,467
Accumulated impairment:		
At 1 January	33,712	27,311
Impairment during the year	12,694	6,401
At 31 December	46,406	33,712
Net book value:		
At 31 December	191,061	203,755

16. GOODWILL (continued)

Impairment testing of goodwill

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

Cash-generating unit	Segment	Carrying amount of goodwill	
		2008 RMB'000	2007 RMB'000 (Restated)
Printing and packing machinery	Electromechanical equipment	15,772	15,772
Engineering machinery	Electromechanical equipment	26,579	26,579
Hydraulic pressure	Electromechanical equipment	39,759	39,759
Machinery tools	Electromechanical equipment	29,982	42,676
Heavy machinery	Heavy machinery equipment	34,142	34,142
Transportation equipment	Transportation equipment	18,354	18,354
Others		26,473	26,473
		191,061	203,755

The recoverable amounts of the above cash-generating units have been determined based on their value in use calculations, using cash flow projections based on financial budgets covering a five-year period. The discount rates applied to the cash flow projections range from 11% to 15% and cash flows beyond the five-year period are extrapolated using a growth rate of 3%.

Key assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2008 and 31 December 2007. 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.

Raw materials price inflation - The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year for local markets from where raw materials are sourced.

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

Growth rate - The growth rate used is the long term average growth rate of the relevant industries.

The values assigned to key assumptions are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

Group

31 December 2008	Patents and licences RMB'000	Technology know-how RMB'000	Concession intangible assets RMB'000	Development costs RMB'000	Others RMB'000	Total RMB'000
At cost:						
1 January 2008						
As previously reported	395,395	293,906	-	-	68,546	757,847
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(6,123)	(72)	-	-	(2,414)	(8,609)
Effect of adopting HK (IFRIC)-Int 12 (note 2.2(c))	-	-	291,571	-	-	291,571
As restated	389,272	293,834	291,571	-	66,132	1,040,809
Additions	36,772	55,078	113,668	9,260	9,756	224,534
Disposal of subsidiaries (note 45(1))	(53,506)	-	-	-	(7,654)	(61,160)
Disposals	(189)	-	-	-	(37,139)	(37,328)
At 31 December 2008	372,349	348,912	405,239	9,260	31,095	1,166,855
Accumulated amortisation and impairment:						
1 January 2008						
As previously reported	196,527	147,387	-	-	19,512	363,426
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(1,988)	(26)	-	-	(276)	(2,290)
As restated	194,539	147,361	-	-	19,236	361,136
Amortisation provided during the year	45,295	26,618	1,612	-	6,164	79,689
Impairment	1,651	-	-	-	-	1,651
Disposal of subsidiaries (note 45(1))	(24,241)	-	-	-	(1,944)	(26,185)
Disposals	(79)	-	-	-	(10,951)	(11,030)
At 31 December 2008	217,165	173,979	1,612	-	12,505	405,261
Net book value:						
At 31 December 2008	155,184	174,933	403,627	9,260	18,590	761,594

17. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

31 December 2007	Patents and licences RMB'000	Technology know-how RMB'000	Concession intangible assets RMB'000	Development costs RMB'000	Others RMB'000	Total RMB'000
At cost:						
1 January 2007						
As previously reported	351,133	231,824	-	-	69,222	652,179
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(6,123)	(72)	-	-	(6,294)	(12,489)
Effect of adopting HK (IFRIC)-Int 12 (note 2.2(c))	-	-	94,785	-	-	94,785
As restated	345,010	231,752	94,785	-	62,928	734,475
Additions	42,324	62,163	196,786	-	30,007	331,280
Acquisition of a subsidiary (note 44(2))	5,298	-	-	-	1,373	6,671
Disposals	(3,360)	(81)	-	-	(28,176)	(31,617)
At 31 December 2007	389,272	293,834	291,571	-	66,132	1,040,809
Accumulated amortisation:						
1 January 2007						
As previously reported	168,017	113,031	-	-	11,127	292,175
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	(763)	(11)	-	-	(161)	(935)
As restated	167,254	113,020	-	-	10,966	291,240
Amortisation provided during the year	27,273	34,341	-	-	10,889	72,503
Acquisition of a subsidiary (note 44(2))	12	-	-	-	872	884
Disposals	-	-	-	-	(3,491)	(3,491)
At 31 December 2007	194,539	147,361	-	-	19,236	361,136
Net book value:						
At 31 December 2007	194,733	146,473	291,571	-	46,896	679,673

17. OTHER INTANGIBLE ASSETS (continued)

Company

	2008 RMB'000	2007 RMB'000
At cost:		
At 1 January	6,635	4,388
Additions	1,434	2,247
At 31 December	8,069	6,635
Accumulated amortisation:		
At 1 January	2,345	592
Amortisation provided during the year	1,465	1,753
At 31 December	3,810	2,345
Net book value:		
At 31 December	4,259	4,290

18. INVESTMENTS IN SUBSIDIARIES

Company

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	15,004,338	9,667,543
Listed investments, at cost	1,465,478	3,276,076
	16,469,816	12,943,619

As at 31 December 2008, the Company had one listed subsidiary, namely Shanghai Mechanical & Electrical Industry Co., Ltd. ("Shanghai Mechanical and Electrical") with a carrying amount of RMB1,465,478,000. Shanghai Mechanical and Electrical is listed on the Shanghai Stock Exchange.

During the year ended 31 December 2006, Shanghai Mechanical and Electrical launched and completed share restructuring to convert all unlisted state-owned shares into tradable shares on the Shanghai 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 conversion of Shanghai Mechanical and Electrical was completed on 17 August 2006. As at 31 December 2008, the fair market value of the listed shares of the subsidiary held by the Company amounted to RMB3,969,954,000 (2007: RMB7,648,167,000).

18. INVESTMENTS IN SUBSIDIARIES (continued)

Shanghai Power Transmission and Distribution Co., Ltd. ("Shanghai Power Transmission") was previously an 83.75%-owned listed subsidiary of the Company. During the year, the Company issued 616,038,405 A shares by way of a share exchange with the non-controlling interests of Shanghai Power Transmission at the exchange ratio of 7.32 A shares of the Company for one Shanghai Power Transmission share to implement the merger with Shanghai Power Transmission, which was delisted from the Shanghai Stock Exchange on 26 November 2008 after the share exchange. Further details are included in note 42 to the financial statements. The newly acquired 16.25% equity interest in Shanghai Power Transmission was recognised based on the closing price of RMB6.80 per share on 5 December 2008, the first transaction date of the Company's A Shares, and the additional investment costs of RMB4,189,061,000 were recorded by the Company as unlisted investments at cost. The original carrying amount of the Company's investment in Shanghai Power Transmission with an amount of RMB900,973,000 was transferred from listed investments at cost to unlisted investments at cost. As at 31 December 2008, Shanghai Power Transmission became a wholly-owned subsidiary of the Company, and the merger of the Company and Shanghai Power Transmission is in progress, which is expected to be completed in 2009. The effect on the Company's financial statements upon the completion of the merger is included in note 54 to the financial statements.

During the year, the Company disposed of its entire 50.32% equity interest in a listed subsidiary, Shanghai Diesel Engine Co., Ltd. ("Shanghai Diesel"), which resulted in a decrease of RMB909,625,000 in the listed investment at cost. Further details of the disposal are included in note 45(1) to the 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	RMB241,818	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%	49%	Sale of power station boilers, industry boilers and power station equipment
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 equipment
Shanghai Power Station Auxiliary Equipment Works Co., Ltd. 上海電站輔機廠有限公司	PRC	RMB62,481	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	PRC	RMB517,965	100%	-	Production and sale of complete equipment for power stations; construction of large and medium scale infrastructure projects

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 Wind Power Equipment Co., Ltd. 上海電氣風電設備有限公司	PRC	RMB300,000	90.67%	-	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	RMB1,022,740	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 池貝株式會社	Japan	JPY490,000	65%	-	Production and servicing of machine tools
SMAC Werkzeugamaschine GmbH 四達機床製造有限公司	Germany	EUR4,300	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
Shanghai No.1 Machine Tool Works Co. Ltd. 上海第一機床廠有限公司	PRC	RMB250,000	80%	19%	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 crankshafts used for large low-speed ship-use diesel engines
Shanghai Electric Nuclear Power Equipment Co., Ltd. 上海電氣核電設備有限公司	PRC	RMB1,000,000	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	PRC	RMB388,100	100%	-	Design, installation and service of crane and conveyor machinery
Shanghai Electric - KSB Nuclear Valve Co., Ltd. # 上海電氣凱士比核電泵閥有限公司	PRC	EUR16,000	55%	-	Production of innovative pump and valve technology for a wide range of applications
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

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 Environment Protection Complete Engineering Co., Ltd. 上海環保工程成套有限公司	PRC	RMB85,011	-	100%	Environmental protection 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	RMB30,515	95.7%	-	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	RMB30,450	97.4%	2.6%	Design and installation of automatic apparatus
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	RMB40,004	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責任公司	PRC	RMB1,500,000	73.38%	6.24%	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 Topsolar Green Energy Co., Ltd. 上海交大泰陽綠色能源有限公司 (note(i))	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 machinery 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	-	100%	Sewage treatment
Shanghai Electronic Nan Tong Sewage Treatment Co., Ltd. 上海電氣南通水處理有限公司	PRC	RMB20,000	-	100%	Provision of sewage treatment, water recycling and related 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 Nantong Environment thermoelectricity Co., Ltd. 上海電氣環保熱電（南通）有限公司	PRC	USD19,063	75%	23.75%	Waste treatment
Shanghai Electric Power Generation Equipment Co., Ltd. # 上海電氣站設備有限公司 (note(ii))	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	RMB351,340	-	47.28%	Production and sale of refrigeration and air-conditioning equipment, provision of technical vservices and equipment construction services
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	RMB262,350	-	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 materials
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	RMB171,143	-	47.28%	Sale of pressurised pumps and related equipment
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

Sino-foreign equity joint ventures

^ 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.

18. INVESTMENTS IN SUBSIDIARIES (continued)

(i) On 24 December 2008, the Company entered into an equity transfer agreement with Yancheng Dongtou New Energy Equipment Co., Ltd. ("Yancheng Dongtou") to dispose of its 36% equity interest in Shanghai Topsolar Green Energy Co., Ltd. ("Topsolar") at a consideration of RMB138,601,000. Pursuant to the equity transfer agreement, the net operating profit or loss generated during the period from 30 September 2007, the transaction benchmark date, to the transaction completion date was attributed to the Company. Topsolar updated its industrial and commercial registration on 30 December 2008.

Up to the issuance of these financial statements, Yancheng Dongtou has not complied with the agreement to pay the second instalment of RMB97,020,000 for the equity transfer within twenty working days after the equity transfer agreement became effective.

The Company's directors are of the view that, since the substantial terms of the equity transfer agreement have not been executed, and, up to the issuance of these financial statements, Yancheng Dongtou has not paid the majority of equity transfer consideration to the Company, the Company continues to exercise controls over the operations and management of Topsolar. Therefore, Topsolar remains to be a subsidiary within the consolidation scope of the consolidated financial statements as of 31 December 2008.

(ii) On 23 June 2006, former three joint ventures with Siemens Ltd., China, namely Shanghai Turbine Co., Ltd., Shanghai Turbine Generator Co., Ltd. and Shanghai Power Equipment Co., Ltd., entered into a merger agreement, pursuant to which the three companies would be dissolved and a new joint venture company, Shanghai Electric Power Generation Equipment Co., Ltd. ("Shanghai Electric Power Generation"), 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, Shanghai Electric Power Generation obtained its business licence. Shanghai Electric Power Generation has started its operation since 1 January 2008. As at 31 December 2008, the three joint ventures with Siemens have been dissolved.

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

Group

	2008 RMB'000	2007 RMB'000 (Restated)
Share of net assets	341,045	380,485
Goodwill on acquisition	7,426	7,426
	348,471	387,911

The Group's balances with jointly-controlled entities in respect of loans receivable, trade receivables, discounted bills receivables, prepayments, deposits and other receivables, trade payables and customer deposits are disclosed in notes 21, 26, 27, 29, 34 and 37 to the financial statements, respectively.

19. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Group (continued)

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

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Shanghai Guanghua Printing Machinery Co., Ltd. # 上海光華印刷機械有限公司	PRC	USD22,792	50%	50%	50%	Production and sale of printing machinery
Shanghai Pulux Machinery Co., Ltd. # 上海紫光機械有限公司	PRC	USD7,500	50%	50%	50%	Design, production and repair of packaging machinery
Shanghai Neles Jamesbury Valve Co., Ltd. # 上海耐萊斯詹姆斯伯雷閥門有限公司	PRC	USD6,882	50%	50%	50%	Production and sale of ball valves, butterfly valves and other special purpose valves
Shanghai Fanuc Robotics Co., Ltd. # 上海發那科機器人有限公司	PRC	USD2,000	50%	50%	50%	Manufacturing, assembling and maintaining robots, automotive equipment
Akiyawa International Corporation 日本秋山國際株式會社	Japan	JPY1,050,000	50%	50%	50%	Research and development, design, production and repair of packing machinery

\# Sino-foreign equity joint ventures

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)

Group (continued)

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

	2008 RMB'000	2007 RMB'000 (Restated)
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	645,300	525,953
Non-current assets	314,842	320,540
Current liabilities	(601,163)	(458,678)
Non-current liabilities	(17,934)	(7,330)
Net assets	341,045	380,485
Share of the jointly-controlled entities' results:		
Revenue	787,138	725,385
Other income	4,317	4,855
	791,455	730,240
Total expenses	(861,939)	(703,796)
Tax	(9,273)	(7,360)
(Loss) /profit after tax	(79,757)	19,084

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	-	-	168,550	164,350
Share of net assets	2,370,966	2,548,188	-	-
Goodwill on acquisition	21,282	37,200	-	-
	2,392,248	2,585,388	168,550	164,350
Provision for impairment	(11,158)	(14,308)	-	-
	2,381,090	2,571,080	168,550	164,350

20. INVESTMENTS IN ASSOCIATES (continued)

The Group's balances with 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 37 to the financial statements, respectively.

Particulars of the principal associates are as follows:

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of ownership interest attributable to the Group		Principal activities
			Direct	Indirect	
Siemens Gas Turbine Parts Co., Ltd. # 上海西門子燃氣輪機部件有限公司	PRC	EUR55,000	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	RMB10,000	33%	-	Production and sale of mechanical and electrical equipment and provision of technical services
Siemens Power Equipment Packages Co., Ltd. # 上海西門子電站成套設備有限公司	PRC	RMB20,000	35%	-	System integration of fossil power plant equipment, import/export of fossil power plant equipment and relevant technical consultation
Schneider Shanghai Power Distribution Electrical Apparatus Co., Ltd. # 上海施耐德配電電器有限公司	PRC	RMB11,000	-	20%	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	RMB14,560	-	20%	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	RMB15,300	-	45%	Design, manufacture and sale of switchgears and related products
MWB Shanghai Instrument Transformer Co., Ltd. # 上海MWB互感器有限公司	PRC	RMB12,423	-	35%	Production and sale of mutual inductors
Areva Shanghai Transformer Co., Ltd. # 上海阿海珐變壓器有限公司	PRC	RMB29,800	-	45.5%	Production and sale of oil-immersed power transformers

20. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the principal associates are as follows: (continued)

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of ownership interest attributable to the Group		Principal activities
			Direct	Indirect	
Siemens Shanghai High Voltage Switchgear Co., Ltd. # 上海西門子高壓開關有限公司	PRC	RMB13,100	-	49%	Production and sale of gas insulated switchgears
Shanghai Goss Graphic Systems Co., Ltd. # 上海高斯印刷設備有限公司	PRC	RMB15,500	-	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	RMB372,343	-	14.18%	Production and sale of centralised air-conditioning systems
Shanghai Marathon-Gexin Electric Co., Ltd. # 上海馬拉松革新電氣有限公司	PRC	USD3,700	-	21.28%	Production, repair and sale of electric machines 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	USD53,000	-	18.91%	Research and development, manufacture and sale of major components of elevators, escalators and automatic sidewalks
Shanghai Nabtesco Hydraulic Co., Ltd. # 上海納博特斯克液壓有限公司	PRC	RMB120,421	-	14.18%	Production and sale of hydraulic travelling motors and swing motors

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.

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

	2008 RMB'000	2007 RMB'000 (Restated)
Assets	17,527,283	15,796,148
Liabilities	9,054,363	9,045,288
Revenues	21,341,431	20,556,802
Profit	1,519,123	1,521,988

21. LOANS RECEIVABLE

Group

	2008			2007 (Restated)		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Loans to the ultimate holding company	700,000	(7,000)	693,000	250,000	(2,500)	247,500
Loans to SEC group companies*	428,470	(4,984)	423,486	271,000	(2,710)	268,290
Loans to jointly-controlled entities	129,500	(2,290)	127,210	112,500	(1,124)	111,376
Loans to associates	27,960	(280)	27,680	30,240	(325)	29,915
Loans to third parties	60,000	(600)	59,400	9,895	(164)	9,731
	1,345,930	(15,154)	1,330,776	673,635	(6,823)	666,812
Portion classified as current assets	1,029,660	(11,955)	1,017,705	666,895	(6,756)	660,139
Long term portion	316,270	(3,199)	313,071	6,740	(67)	6,673

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

Company

	2008			2007		
	Gross RMB'000	Provision RMB'000	Net RMB'000	Gross RMB'000	Provision RMB'000	Net RMB'000
Current portion	370,340	-	370,340	-	-	-

As at 31 December 2008, the Company had entrusted loans provided to two subsidiaries with an amount of RMB370,340,000, of which RMB300,000,000 earns an annual interest rate of 6.48%. The rest is interest-free.

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

Group

	2008 RMB'000	2007 RMB'000 (Restated)
At 1 January	6,823	9,379
Impairment losses recognised	15,145	14,678
Amount written off as uncollectible	-	(7,513)
Impairment losses reversed	(6,814)	(9,721)
At 31 December	15,154	6,823

As at 31 December 2008, none (2007: Nil) of the Group's loans receivable were past due. The annual interest rates of loans provided to related parties range from 4.37% to 7.56% (2007: 5.43% to 7.74%). The Group does not hold any collateral or other credit enhancements over these balances.

22. OTHER INVESTMENTS (NON-CURRENT)

Group

	2008 RMB'000	2007 RMB'000 (Restated)
Equity investments:		
-Available-for-sale (unlisted), at cost and net of impairment	102,541	120,910
-Available-for-sale (listed), at fair value	95,686	247,030
	198,227	367,940
Debt investments:		
-Held-to-maturity (unlisted), at amortised cost	-	156,014
-Available-for-sale (unlisted), at fair value	615,821	397,893
	615,821	553,907
	814,048	921,847

During the year, the decrease in the fair value of the Group's non-current available-for-sale investments recognised directly in equity amounted to RMB143,273,000 (2007: increase in the fair value of RMB272,589,000). In addition, upon the disposal of certain non-current available-for-sale investments, a cumulative gain of RMB440,000 (2007: RMB185,724,000) was transferred from equity and recognised in the consolidated income statement.

As at 31 December 2008, no listed available-for-sale equity investments (2007: RMB247,030,000) were restricted for trading over certain periods of less than one year.

The directors believe that, as at 31 December 2008, no impairment loss is considered necessary for the available-for-sale listed equity investments as their fair values are generally above the investment costs.

As at 31 December 2008, certain unlisted available-for-sale equity investments with a carrying amount of RMB102,541,000 (2007: RMB120,910,000) 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

	2008						
	Losses available for offsetting against future taxable profits RMB'000	Impairment of assets and provisions RMB'000	Early retirement benefits RMB'000	Accrued expense RMB'000	Eliminated profits resulting from intragroup transactions RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2008							
As previously reported	3,194	599,499	19,253	96,057	-	25,793	743,796
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	-	(5,359)	-	-	-	-	(5,359)
As restated	3,194	594,140	19,253	96,057	-	25,793	738,437
Effect of change in tax rate on the opening balance charged to the income statement (note 10)	(1,278)	(173,222)	(1,531)	(8,670)	-	(2,053)	(186,754)
Disposal of subsidiaries (note 45(1))	-	-	(11,536)	(8,263)	-	-	(19,799)
Deferred tax (charged)/ credited to the income statement during the year (note 10)	(56)	127,457	(1,202)	69,820	36,472	(2,084)	230,407
Gross deferred tax assets at 31 December 2008	1,860	548,375	4,984	148,944	36,472	21,656	762,291
Offset against deferred tax liabilities*							(19,762)
Net deferred tax assets at 31 December 2008							742,529

23. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2008						
	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
As at 1 January 2008							
As previously reported	(142,558)	(32,969)	(202,512)	(517,591)	(123,083)	(48,671)	(1,067,384)
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	-	-	-	-	-	1,769	1,769
As restated	(142,558)	(32,969)	(202,512)	(517,591)	(123,083)	(46,902)	(1,065,615)
Effect of change in tax rate on the opening balance credited/(charged) to the income statement (note 10)	-	-	-	2,178	-	-	2,178
Effect of change in tax rate on the opening balance credited to equity	-	-	-	7,138	-	-	7,138
Disposal of a subsidiary (note 45(1))	1,601	-	-	465	-	-	2,066
Deferred tax credited/(charged) to the income statement during the year (note 10)	3,519	1,509	133,436	56,227	(67,099)	-	127,592
Deferred tax credited to equity during the year	-	-	-	398,346	-	-	398,346
Gross deferred tax liabilities at 31 December 2008	(137,438)	(31,460)	(69,076)	(53,237)	(190,182)	(46,902)	(528,295)
Offset against deferred tax assets*							19,762
Net deferred tax liabilities at 31 December 2008							(508,533)

23. DEFERRED TAX (continued)

Deferred tax assets

Group

	2007 (Restated)						
	Losses available for offsetting against future taxable profits RMB'000	Impairment of assets and provisions RMB'000	Early retirement benefits RMB'000	Accrued expense RMB'000	Eliminated profits resulting from intragroup transactions RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2007							
As previously reported	9,241	483,625	23,754	45,667	14,520	40,163	616,970
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	-	(331)	-	-	-	-	(331)
As restated	9,241	483,294	23,754	45,667	14,520	40,163	616,639
Effect of change in tax rate on the opening balance credited/(charged) to the income statement (note 10)	(1,039)	28,252	517	(12,974)	-	(15,059)	(303)
Acquisition of a subsidiary (note 44(2))	-	6,672	-	-	-	-	6,672
Disposal of subsidiaries (note 45(2))	-	-	-	-	-	(278)	(278)
Deferred tax credited/(charged) to the income statement during the year (note 10)	(5,008)	75,922	(5,018)	63,364	(14,520)	967	115,707
Gross deferred tax assets at 31 December 2007	3,194	594,140	19,253	96,057	-	25,793	738,437
Offset by deferred tax liabilities*							(127,697)
Net deferred tax assets at 31 December 2007							610,740

23. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2007 (Restated)						
	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
As at 1 January 2007							
As previously reported	(193,783)	(29,377)	(175,193)	(230,020)	(158,433)	(60,886)	(847,692)
Effect of adopting the equity method for investments in jointly-controlled entities (note 2.5)	-	-	-	-	-	-	-
As restated	(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	1,082	99,031
Effect of change in tax rate on the opening balance credited to equity	-	-	-	34,247	-	13,837	48,084
Acquisition of a subsidiary (note 44(2))	-	(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	(935)	(35,532)
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)	(46,902)	(1,065,615)
Offset by deferred tax assets*							127,697
Net deferred tax liabilities at 31 December 2007							(937,918)

23. DEFERRED TAX (continued)

Deferred tax assets

Company

	2008			2007		
	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	47,663	37,133	84,796	96,808	44,970	141,778
Deferred tax credited/(charged) to the income statement during the year	6,472	34,551	41,023	(47,048)	17,200	(29,848)
Effect of change in tax rate on the opening balance charged to the income statement	-	-	-	(2,097)	(25,037)	(27,134)
At 31 December	54,135	71,684	125,819	47,663	37,133	84,796

* 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 temporary differences:

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Tax losses	296,362	318,569	-	-
Deductible temporary differences	726,478	563,190	-	-
	1,022,840	881,759	-	-

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

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

24. INVENTORIES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Raw materials	4,607,330	3,625,260	3,756	493
Work in progress	13,970,256	10,175,263	352	29,692
Finished goods	2,790,297	2,490,558	13,590	9,653
	21,367,883	16,291,081	17,698	39,838

25. CONSTRUCTION CONTRACTS

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Gross amount due from contract customers	382,946	285,873	94,166	159,834
Contract costs incurred plus recognised profits less losses to date	18,338,416	8,245,430	16,554,354	6,964,429
Less: Progress billings	(17,955,470)	(7,959,557)	(16,460,188)	(6,804,595)
	382,946	285,873	94,166	159,834

As at 31 December 2008, 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 RMB2,253,486,000 (2007: RMB3,301,838,000) and RMB2,173,996,000 (2007: RMB3,241,728,000), respectively.

26. TRADE RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Trade receivables	13,124,849	10,987,600	5,948,308	3,028,846
Impairment	(1,707,337)	(1,200,770)	(124,828)	(31,200)
	11,417,512	9,786,830	5,823,480	2,997,646

26. TRADE RECEIVABLES (continued)

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

For the sale of other products, the Group's trading terms with 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 aged analysis of the trade receivables as at the balance sheet date, based on the due date and net of provision for bad and doubtful debts, is as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Undue	5,203,876	4,789,970	3,005,149	1,724,761
Within 3 months	3,772,709	2,816,784	1,829,852	663,974
Over 3 months but within 6 months	763,431	831,929	345,836	225,756
Over 6 months but within 1 year	1,065,140	813,978	278,929	267,190
Over 1 year but within 2 years	523,967	457,542	345,465	111,901
Over 2 years but within 3 years	68,303	70,635	18,249	4,064
Over 3 years	20,086	5,992	-	-
	11,417,512	9,786,830	5,823,480	2,997,646

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
At 1 January	1,200,770	1,096,606	31,200	607
Acquisition of a subsidiary	-	26,008	-	-
Impairment losses recognised	731,511	303,538	97,628	30,593
Disposal of subsidiaries	(46,824)	(11)	-	-
Amount written off as uncollectible	(11,248)	(70,074)	-	-
Impairment losses reversed	(166,872)	(155,297)	(4,000)	-
	1,707,337	1,200,770	124,828	31,200

26. TRADE RECEIVABLES (continued)

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 carrying amounts before impairment of RMB5,631,241,000 (2007: RMB4,931,477,000) and RMB2,472,713,000 (2007: RMB433,996,000), 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 and the Company do not hold any collateral or other credit enhancements over these balances.

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	5,069,560	4,356,649	2,989,797	1,690,938
Less than 3 month past due	1,787,907	1,308,717	461,007	653,044
3 to 6 months past due	220,167	247,707	8,956	250,868
Over 6 months past due	415,974	143,050	15,835	-
	7,493,608	6,056,123	3,475,595	2,594,850

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	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
The ultimate holding company	129,642	155,448	-	-
Subsidiaries	-	-	64,784	30,885
Jointly-controlled entities	5,348	4,004	-	-
Associates	19,802	16,587	-	-
SEC group companies	183,252	63,299	-	-
Other related companies	72,005	54,399	35,716	-
	410,049	293,737	100,500	30,885

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

A maturity profile of the discounted bills receivable of the Group as at the balance sheet date is as follows:

	2008 RMB'000	2007 RMB'000 (Restated)
Within 3 months	106,237	310,546
Over 3 months but within 6 months	26,635	-
	132,872	310,546
Less: Provision for discounted bills receivable	(1,720)	(2,916)
	131,152	307,630

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

	2008 RMB'000	2007 RMB'000 (Restated)
At 1 January	2,916	1,849
Impairment losses recognised	793	11,571
Amount written off as uncollectible	-	(230)
Impairment losses reversed	(1,989)	(10,274)
	1,720	2,916

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

	2008 RMB'000	2007 RMB'000 (Restated)
Associates	41,419	240,278
Jointly-controlled entities	9,400	53,863
	50,819	294,141

The annual interest rates of discounting services provided to related parties range from 2.7% to 7.2% for the year ended 31 December 2008 (2007: 3.6% to 8.28%).

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

A maturity profile of the bills receivable as at the balance sheet date is as follows:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Within 3 months	418,455	891,751	56,940	25,505
Over 3 months but within 6 months	447,913	1,145,861	142,031	73,697
	866,368	2,037,612	198,971	99,202

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

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Subsidiaries	-	-	84,000	-
Associates	-	3,442	-	-
SEC group companies	6,880	2,400	-	-
	6,880	5,842	84,000	-

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

Included in the balance of bills receivable as at 31 December 2008, RMB39,158,000 (2007: RMB29,281,000) related to bills receivable discounted by the Group companies with Finance Company. The balance was thus recorded as bills receivable in the Group's consolidated balance sheet as at 31 December 2008.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Prepayments	6,733,341	6,592,261	2,176,918	1,120,109
Deposits and other receivables	1,033,545	697,540	277,219	208,009
Prepaid land lease payments (note 15)	30,772	24,105	-	-
Dividend receivables	45,390	82,188	604,195	617,426
Current portion of non-current compensation receivables	13,053	3,862	-	-
Due from subsidiaries	-	-	18,507,397	11,815,049
Due from the ultimate holding company	3,501	22,702	-	9,985
Due from jointly-controlled entities	-	5,770	-	2,971
Due from associates	204,069	219,790	146,270	143,800
Due from SEC group companies	528,792	506,310	28,894	233
Due from other related companies	257,776	303,280	-	-
	8,850,239	8,457,808	21,740,893	13,917,582
Less: Provision for deposits and other receivables	(90,561)	(86,004)	(10,931)	-
	8,759,678	8,371,804	21,729,962	13,917,582

As at 31 December 2008, the Group's and the Company's balances with related parties include prepayments of RMB822,442,000 (2007: RMB853,548,000) and RMB18,084,209,000(2007: RMB11,388,408,000), respectively. The remaining balances of RMB171,696,000 (2007: RMB204,304,000) and RMB598,352,000 (2007: RMB583,630,000) 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	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
At 1 January	86,004	88,259	-	-
Acquisition of subsidiaries	-	26,148	-	-
Impairment losses recognised	35,091	7,349	10,931	-
Disposal of subsidiaries	(1,104)	-	-	-
Amount written off as uncollectible	(27,781)	(31,950)	-	-
Impairment losses reversed	(1,649)	(3,802)	-	-
	90,561	86,004	10,931	-

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The above provision for impairment of deposits and other receivables is a provision for both individually and collectively impaired deposits and other receivables with carrying amounts of RMB265,812,000 (2007: RMB180,904,000), and RMB143,800,000 (2007: Nil). 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 RMB939,429,000 (2007: RMB720,940,000) and RMB731,771,000 (2007: RMB791,639,000), respectively, mainly relate to deposits, advances to employees and other operating 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	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Equity investments:				
- At fair value through profit or loss (listed)	10,816	256,812	-	-
- Available-for-sale (listed),at fair value	-	2,529,893	-	-
- Available-for-sale (unlisted), at fair value	-	574	-	-
	10,816	2,787,279	-	-
Debt investments:				
- At fair value through profit or loss (listed)	6,429	42,941	-	-
- Available-for-sale (listed),at fair value	20,600	-	-	-
- 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	154,102	172,133	-	-
	181,131	743,943	-	-

30. INVESTMENTS (CURRENT) (continued)

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Investment funds:				
- At fair value through profit or loss (listed)	-	44,821	-	-
- At fair value through profit or loss (unlisted)	-	51,073	-	-
- Available-for-sale (unlisted), at fair value	4,196,671	1,903,772	-	-
	4,196,671	1,999,666	-	-
Investment products:				
- At fair value through profit or loss (unlisted)	12,935	33,711	-	-
Entrusted assets management:				
- Held-to-maturity (unlisted), at amortised cost	-	150,000	-	600,000
Less: Provision for held-to-maturity entrusted assets management	-	(75,000)	-	-
	4,401,553	5,639,599	-	600,000

During the year, the decrease in the fair value of the Group's current available-for-sale investments recognised directly in equity amounted to RMB1,229,750,000 (2007: increase in the fair value of RMB1,825,196,000). In addition, upon the disposals of certain current available-for-sale investments, a cumulative gain of RMB327,381,000 (2007: RMB556,645,000) was transferred from equity and recognised in the income statement.

During the year, the Group collected held-to-maturity entrusted assets management with an amount of RMB150,000,000. The provision was reversed accordingly.

As at 31 December 2007, the Company's investments of RMB600,000,000 represented entrusted assets management with Finance Company.

31. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2008		2007	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000 (Restated)	Liabilities RMB'000 (Restated)
Forward currency contracts	61,680	(21,731)	18,255	-

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

The Group has entered into nine 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 RMB21,694,000 (2007: RMB11,077,000) were charged to the income statement during the year. The above transactions involving derivative financial instruments are with China Construction Bank and Bank of China of A- credit rating per Standard & Poor's.

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Cash and bank balances	11,292,275	11,195,558	5,469,461	3,734,984
Time deposits	2,777,459	2,757,478	-	314,936
	14,069,734	13,953,036	5,469,461	4,049,920
Less: Restricted deposits	(1,403,209)	(1,179,933)	(78,310)	-
Cash and cash equivalents	12,666,525	12,773,103	5,391,151	4,049,920
Due from the Central Bank	1,260,876	1,580,991	-	-
Total	13,927,401	14,354,094	5,391,151	4,049,920

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

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Pledged deposits secured for:				
Bank loans (note 38)	56,939	7,020	-	-
Credit facilities	1,346,270	1,172,913	78,310	-
	1,403,209	1,179,933	78,310	-

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

	2008		2007 (Restated)	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
United States Dollars ("USD")	10,244	70,014	18,593	135,814
Euro ("EUR")	11,217	108,343	6,546	69,826
Japan Yen ("JPY")	628,743	47,564	833,752	53,413
Hong Kong Dollars ("HKD")	16,452	14,509	136,859	128,152
Switzerland Francs	-	-	259	1,692
South Africa Rand("ZAR")	4,060	2,971	1,245	1,325
Ethiopia Birr("ETB")	200,296	138,204	-	-
Time deposits:				
USD	1,500	10,252	5,606	40,950
EUR	5,000	48,295	-	-
JPY	20,096	1,520	-	-
HKD	7,015	6,187	23,953	22,430

Company

	2008		2007	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
USD	700	4,787	-	-
EUR	1,070	10,334	-	-
HKD	-	-	23,953	22,430

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

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The amount due from the Central Bank as at 31 December 2008 was deposits of RMB1,258,600,000 and USD333,000, equivalent to RMB2,276,000, with the People's Bank of China (the "Central Bank"), including a statutory reserve of 11.0% (2007: 14.5%) on customer deposits held by Finance Company.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the Company's year-end balance of cash and cash equivalents are cash and bank balances of RMB4,365,581,000 (2007: cash and bank balances RMB3,371,853,000 and time deposit RMB314,936,000) which 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

	2008 RMB'000	2007 RMB'000 (Restated)
Property, plant and equipment	-	12,194
Prepaid land lease payments	-	23,600
Non-current assets classified as held for sale	-	35,794
Liabilities directly associated with the non-current assets classified as held for sale	-	(75,835)

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. As at 31 December 2008, these transactions have been completed.

34. TRADE PAYABLES

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

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Within 3 months	7,615,590	7,083,743	4,525,609	2,262,288
Over 3 months but within 6 months	1,027,650	1,005,340	1,134,554	563,982
Over 6 months but within 1 year	750,833	730,371	1,569,165	810,958
Over 1 year but within 2 years	356,450	272,485	1,013,521	565,510
Over 2 years but within 3 years	114,750	90,901	58,370	1,101
Over 3 years	114,546	86,205	-	-
	9,979,819	9,269,045	8,301,219	4,203,839

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

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Subsidiaries	-	-	6,777,660	3,147,464
Jointly-controlled entities	2,936	4,618	-	-
Associates	200,000	149,962	5,982	4,564
SEC group companies	297,035	164,848	68,220	-
Other related companies	67,719	33,534	41,758	-
	567,690	352,962	6,893,620	3,152,028

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

A maturity profile of the Group's bills payable as at the balance sheet date is as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Within 3 months	1,139,213	953,989	-	25,640
Over 3 months but within 6 months	907,262	896,739	-	-
	2,046,475	1,850,728	-	25,640

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Subsidiaries	-	-	-	25,640
Associates	21,500	6,861	-	-
SEC group companies	3,505	19,352	-	-
	25,005	26,213	-	25,640

Bills payable are non-interest-bearing.

36. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Advances from customers	29,247,183	23,763,656	21,719,603	14,457,056
Other payables	1,851,242	1,776,734	503,067	168,582
Government grants	20,882	-	-	-
Dividend payable to non-controlling shareholders	83,664	210,456	-	-
Dividend payable to shareholders	261	231	-	-
Accruals	3,823,400	3,083,117	119,380	66,827
Due to subsidiaries	-	-	181,729	393,532
Due to the ultimate holding company	114,423	409,060	1,190	8,273
Due to associates	38,178	34,971	-	-
Due to SEC group companies	58,196	44,516	611	2,737
Due to other related companies	37,059	677,427	-	583,343
	35,274,488	30,000,168	22,525,580	15,680,350

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

36. OTHER PAYABLES AND ACCRUALS (continued)

Except for amounts due to related parties of RMB177,513,000 (2007: RMB488,515,000) and RMB141,078,000 (2007: RMB321,932,000) as at 31 December 2008 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2008 all related to purchase deposits received by the Group. Such trade related balances are to be settled in accordance with the relevant trading terms. Other payables are non-interest-bearing and have an average term of no more than 12 months.

37. CUSTOMER DEPOSITS

Group

	2008 RMB'000	2007 RMB'000 (Restated)
Deposits from the ultimate holding company	199,898	220,346
Deposits from associates	20,846	93,532
Deposits from jointly-controlled entities	59,703	67,616
Deposits from SEC group companies	342,954	41,113
Deposits from other related companies	31,004	19,201
Deposits from third parties	92,631	63,486
	747,036	505,294
Repayable:		
On demand	687,171	263,528
Within 3 months	1,600	220,000
Over 3 months but within 1 year	58,265	21,766
	747,036	505,294

The annual interest rates of customer deposits provided to related parties range from 1.98% - 4.14% (2007: 2.88%-4.14%).

38. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2008			2007 (Restated)		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- secured	2.43 - 7.47	2009	128,263	5.33 - 7.02	2008	45,000
- unsecured	3.37 - 7.47	2009	538,505	1.88 - 10.98	2008	1,232,855
			666,768			1,277,855
Non-current						
Bank loans						
- unsecured	2.55	2010-2015	3,182	2.55	2009 - 2015	3,182
- unsecured	7.04 - 7.91	2010-2017	1,133,593	5.85-7.83	2009 - 2017	419,929
- unsecured	10% off over-5-year base rate	2011-2014	400,000	10% off over-5-year base rate	2011-2014	400,000
			1,536,775			823,111
Other loans						
- unsecured	9.00	2010	81	9.00	2010-2013	1,193
			1,536,856			824,304
			2,203,624			2,102,159

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

Group (continued)

	2008 RMB'000	2007 RMB'000 (Restated)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	666,768	1,277,855
In the second year	95,909	84,341
In the third to fifth years, inclusive	461,164	197,365
Beyond five years	979,702	541,405
	2,203,543	2,100,966
Other loans repayable:		
In the second year	81	-
In the third to fifth years, inclusive	-	237
Beyond five years	-	956
	2,203,624	2,102,159

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

	2008		2007 (Restated)	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Foreign currency borrowing balance:				
USD	833	5,844	9,420	68,809
EUR	4,362	46,342	490	5,227
JPY	622,000	46,171	280,000	17,938
HKD	50,000	44,095	48,000	44,946
ZAR	100	81	413	440

Certain of the Group's bank loans are secured by mortgages over certain of the Group's land use rights, buildings and machinery which had net book values of approximately RMB3,480,000 (2007: RMB3,600,000), RMB682,000 (2007: nil) and RMB55,319,000 (2007: RMB63,954,000) (notes 15 and 14), respectively. In addition, as at 31 December 2008, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB56,939,000 (2007: RMB7,020,000) (note 32).

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

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

	2008 RMB'000	2007 RMB'000 (Restated)
Guaranteed by:		
The ultimate holding company	240	468,313
SEC group companies	-	19,000
Other related companies	2,100	22,347
Total	2,340	509,660

Company

	2008			2007		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	5.49	2009	30,000	4.77 - 5.49	2008	550,000

	2008 RMB'000	2007 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	30,000	550,000

The carrying amounts of the Group's and the Company's current interest-bearing bank and other borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current interest-bearing bank and other borrowings are as follows:

	Carrying amounts		Fair values	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Floating rate bank loans	400,000	400,000	388,788	387,168
Fixed rate bank loans	1,136,775	423,111	1,183,066	483,816
Other loans - unsecured	81	1,193	86	1,147
	1,536,856	824,304	1,571,940	872,131

39. 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 2008	248,043	252,382	112,216	124,000	736,641
Additional provisions (note 6)	224,636	191,210	67,987	-	483,833
Disposal of subsidiaries (note 45(1))	-	-	(77,359)	-	(77,359)
Amounts utilised during the year	(105,829)	(259,377)	(37,737)	-	(402,943)
Reversal of unutilised amounts (note 6)	(28,588)	-	-	(100,000)	(128,588)
At 31 December 2008	338,262	184,215	65,107	24,000	611,584
Portion classified as current liabilities	338,262	184,215	13,089	24,000	559,566
Non-current portion	-	-	52,018	-	52,018

Company

	Late delivery RMB'000
As at 1 January 2008	124,000
Reversal of unutilised amounts	(100,000)
As at 31 December 2008	24,000

Product 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 where appropriate.

Onerous contracts provision
The Group has 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 2008. 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.

39. PROVISIONS (continued)

Late delivery

The Company has entered into several contracts in respect of the sale 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 to the extent that it is more likely than not an outflow of resources will be required. During the year, several customers confirmed their waiver of claims regarding late delivery in previous years. The provision was reversed accordingly.

40. BONDS

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

41. OTHER NON-CURRENT LIABILITIES

Included in other non-current liabilities are the following balances with a related party:

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Due to the ultimate holding company	1,691	1,691	-	-

42. SHARE CAPITAL

Shares

	2008 RMB'000	2007 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each, currently not listed:		
- state-owned shares	-	7,898,981
- other legal person shares	-	1,019,755
A share of RMB1.00 each, restricted		
- state-owned shares	7,949,969	-
- other legal person shares	968,767	-
A shares of RMB1.00 each, unrestricted	616,038	-
H shares of RMB1.00 each	2,972,912	2,972,912
Total	12,507,686	11,891,648

42. SHARE CAPITAL (continued)

As mentioned in note 18 to the financial statements, on 26 November 2008, the Company issued 616,038,405 A shares by way of a share exchange with the non-controlling interests of Shanghai Power Transmission at the exchange ratio of 7.32 A shares of the Company for one Shanghai Power Transmission share through an initial pubilc offering of A shares to implement the merger with Shanghai Power Transmission. On 5 December 2008, all these A shares were listed on the Shanghai Stock Exchange. Upon the completion of the A share issue, the total number of the Company's share is 12,507,686,405. In connection with the A share issue, the existing 8,918,736,000 domestic shares have become A shares and tradable on the Shanghai Stock Exchange on the same conditions in all respects as those of the A shares converted from Shanghai Power Transmission shares, save for the statutory lock-up restrictions ranging from one to three years. As of the issuance date of these financial statements, the Company is applying for the updates of its industrial and commercial registration.

The 616,038,405 A shares issued by share exchange were recognised based on the closing price of RMB6.80 per share on the first transaction date of the Company's A shares. The excess of the fair value over the nominal value of RMB1.00 each, totalling RMB3,573,023,000, was recorded as share premium of the Company. The effect on the Company's financial statements upon the completion of the merger in 2009 is included in note 54 to the financial statements.

On 17 July 2008, the Company received a notification from Shanghai City Construction and Investment Corporation ("Shanghai City Construction"), a state-owned enterprise, pursuant to which, Fuxi Investment Holding Co., Ltd.("Fuxi Investment"), a promoter and shareholder of the Company, was ordered by Tianjin No.2 Intermediary People's Court to transfer 50,987,826 shares of the Company to Shanghai City Construction (the "Transfer"). The registration of the Transfer was completed on 7 July 2008, upon which Shanghai City Construction became the ultimate beneficial shareholder of 50,987,826 shares. As of the issuance date of these financial statements, the Company is applying for the update of its PRC Certificate of Approval for Enterprises with Investments of Taiwan, Hong Kong, Macao and Overseas Chinese.

As at 31 December 2008, out of restricted A shares of the Company held by Shenzhen Fengchi Investment Co., Ltd., 450,000,000 shares are pledged to SE Corporation.

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

	Number of shares in issue '000	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2007 and 31 December 2007	11,891,648	11,891,648	1,981,651	13,873,299
Issue of A shares on 26 November 2008	616,038	616,038	3,573,023	4,189,061
	12,507,686	12,507,686	5,554,674	18,062,360
Share issue expenses	-	-	(27,510)	(27,510)
At 31 December 2008	12,507,686	12,507,686	5,527,164	18,034,850

43. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Capital reserve
The capital reserve of the Group includes the share premium 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 net assets of 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 these subsidiaries attributable to the Group and the carrying value of the Group's investment in the associate upon the establishment of the Company.

During the year, the decrease of RMB667,933,000 in contributed surplus arose from the disposal of a subsidiary, Shanghai Diesel Engine (note 45(1)).

Surplus reserves
In accordance with the PRC Company Law and the Group companies' articles of association, the Company and its subsidiaries are required to transfer certain percentage of their net profits after tax to the surplus reserves, comprising the 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 share capital, and the discretionary surplus reserve is set aside to cover losses. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

Distributable reserves
As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB1,614,894,000 (2007: RMB709,114,000), out of which, dividend of RMB700,430,000 for year 2007 was declared on 24 March 2009 and dividend of RMB762,969,000 for year 2008 has been proposed on 24 April 2009 (note 12). In addition, the share premium account of the Company in its statutory financial statements, in the amount of RMB5,488,263,000 (2007: RMB1,950,078,000), which will be reduced upon the completion of merger of Shanghai Power Transmission in year 2009 (note 54), 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 generally accepted accounting principles in the PRC and those under HKFRSs.

43. RESERVES (continued)

(b) Company

	Notes	Capital reserve RMB'000	Surplus reserves RMB'000	(Accumulated losses)/ Retained Profits RMB'000	Total RMB'000
As at 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 reserves		-	152,039	(152,039)	-
Profit for the year	11	-	-	1,539,964	1,539,964
As at 31 December 2007 and 1 January 2008		1,864,967	234,459	716,891	2,816,317
Issue of A shares	42	3,573,023	-	-	3,573,023
Share issue expenses	42	(27,510)	-	-	(27,510)
Profit for the year	11	-	-	1,075,700	1,075,700
Appropriation of statutory surplus reserves		-	100,641	(100,641)	-
Final 2007 dividend declared	12	-	-	(700,430)	(700,430)
Final 2008 dividend proposed	12	-	-	(762,969)	(762,969)
Other		1,912	-	-	1,912
As at 31 December 2008		5,412,392	335,100	228,551	5,976,043

The capital reserve account balance as at 31 December 2008 included the Company's share premium of RMB5,527,164,000 (2007: RMB1,981,651,000) (note 42).

44. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

(1) Acquisitions in 2008

Acquisitions of non-controlling interests

During the year ended 31 December 2008, the Group acquired the following non-controlling interests:

On 22 October 2008, the Group acquired an additional 25.67% equity interest in Shanghai Electric Wind Power Equipment Co., Ltd. ("Wind Power Equipment") at a cash consideration of RMB220,000,000 by unilateral capital injection. After the acquisition, the Group held a 90.67% equity interest in Wind Power Equipment. The share of net assets attributable to the additional 25.67% equity interest acquired was RMB199,573,000. The difference of RMB20,427,000 between the additional capital injection and the book value of the share of the net assets acquired was recorded in equity directly.

44. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

(1) Acquisitions in 2008 (continued)

Acquisitions of non-controlling interests (continued)

As mentioned in note 18 to the financial statements, on 26 November 2008, the Company issued 616,038,405 A shares by way of a share exchange to acquire the remaining 16.25% non-controlling interests of Shanghai Power Transmission, through which Shanghai Power Transmission became a wholly-owned subsidiary of the Group. The difference of RMB3,807,421,000 between the consideration of RMB4,189,061,000 and the carrying amount of the share of the net assets of the 16.25% equity interest acquired with an amount of RMB381,640,000, was recognised directly in equity in the Group's consolidated financial statements.

(2) 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 Works Co., Ltd. ("Shanghai Crane & Conveyor"), which is mainly engaged in the manufacture and installation of cranes and conveyors, from SE Corporation at 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 a 2.76% equity interest in Shanghai Crane & Conveyor through an unlisted equity investment stated at cost with a carrying amount of RMB3,810,000.

The aggregate 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)

44. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

(2) Acquisitions in 2007 (continued)

Acquisition of a subsidiary (continued)

The aggregate 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: (continued)

	Notes	Fair value recognised on acquisition RMB'000	Carrying amount RMB'000
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 investments, stated at cost		3,810	
		150,364	

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 ended 31 December 2007, the revenue and the profit of the Group for the year would have been RMB56,179,645,000 and RMB4,282,951,000, respectively.

44. BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

(2) Acquisitions in 2007 (continued)

Acquisition of non-controlling interest

On 9 November 2007, the Group acquired, at 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 an excess over the cost of business combinations recognised in the income statement (note 5).

45. DISPOSAL OF SUBSIDIARIES

(1) Disposal in 2008

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

On 7 March 2008, the Group entered into an equity transfer agreement to dispose of its 51% equity interest in Xinjiang Green Continent Wood-based Panel Co., Ltd. ("Xinjiang Green Continent") for a cash consideration of RMB7,502,000. The disposal was completed in March 2008. The proceeds from the disposal have been received.

In September 2007, the Group entered into an equity transfer agreement to dispose of its 90% equity interest in Shanghai Pudong "EV" Fuel Injection Co., Ltd. ("Pudong EV") for a cash consideration of RMB239,403,000. The proceeds from the disposal had been received in the year ended 31 December 2007. The disposal was completed in April 2008. Pursuant to the equity transfer agreement, the net profit of RMB9,744,000 generated by Pudong EV during the period from the transaction benchmark date to the completion date was attributed to the Group, which was recognised as other receivables by the Group.

In December 2007, the Group entered into an equity transfer agreement to dispose of its 82.64% equity interest in Shanghai Diesel Engine Works Yangjing Fuel Pump Factory ("Yangjing Fuel Pump Factory") for a cash consideration of RMB14,002,000. The disposal was completed in February 2008. Pursuant to the agreement, the net loss of RMB3,790,000 incurred during the period from the transaction benchmark date to the completion date was borne by the Group. The proceeds from the disposal of RMB10,212,000 has been received and a dividend receivable of RMB2,209,000 due from Yangjing Fuel Pump Factory has been written off as at 31 December 2008.

On 29 December 2007, the Group entered into an equity transfer agreement with SAIC Motor Corporation Limited ("SAIC Motor") to dispose of its entire 50.32% equity interest in Shanghai Diesel Engine for a cash consideration of RMB923,420,000. Pursuant to the agreement, the net profit/loss generated by Shanghai Diesel Engine during the period from the transaction benchmark date to the completion date is attributed to/borne by the Group. The disposal was completed and the proceeds from the disposal were received in December 2008.

45. DISPOSAL OF SUBSIDIARIES (continued)

(1) Disposal in 2008 (continued)

In April 2008, the Group entered into an equity transfer agreement to dispose of its 70.75% equity interest in Shanghai Diesel Engine Jinshan Cylinder Liner Factory ("Jinshan Cylinder Liner Factory") for a cash consideration of RMB28,142,000. The equity transaction was completed in April 2008. Pursuant to the agreement, the net profit generated by Jinshan Cylinder Liner Factory of RMB300,000 during the period from the transaction benchmark date to the completion date was attributed to the Group. As at 31 December 2008, the Group has received the proceeds of RMB28,142,000 from the disposal and recorded other receivables of RMB300,000.

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

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	1,001,627
Prepaid land lease payments	15	21,794
Other intangible assets	17	34,975
Deferred tax assets	23	19,799
Investments in associates		29,064
Held for sale financial assets		45,335
Inventories		458,207
Trade and other receivables		355,700
Bills receivable		667,056
Cash and bank balances		833,724
Bills payable		(319,393)
Trade and other payables		(717,969)
Interest-bearing bank and other borrowings		(31,189)
Tax payable		(16,617)
Provision	39	(77,359)
Other non-current liabilities		(6,959)
Deferred tax liabilities	23	(2,066)
Non-controlling interests		(1,114,375)
		1,181,354
Effect of changes in reserves on:		
Retained profits		22,610
Non-controlling interests		(5,708)
Gain on disposal of subsidiaries	5	18,258
		1,216,514
Satisfied by:		
Cash		1,208,679
Prepayments, deposits and other receivables		7,835
		1,216,514

45. DISPOSAL OF SUBSIDIARIES (continued)

(1) Disposal in 2008 (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	1,208,679
Cash and cash equivalents deposited with Finance Company	24,301
Cash and bank balances disposed of	(833,724)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	399,256
Including:	
Advance from disposal of a subsidiary in 2007	239,403
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries in 2008	159,853

(2) Disposal in 2007

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

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

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.

45. DISPOSAL OF SUBSIDIARIES (continued)

(2) Disposal in 2007 (continued)

The carrying amounts of the assets and liabilities of the above companies disposed of 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 non-current liabilities		(29,683)
Non-controlling interests		(53,996)
		248,467
Gain on disposal of subsidiaries	5	7,667
Unlisted equity investments, stated at cost		(4,740)
		251,394
Satisfied by:		
Cash		238,701
Prepayments, deposits and other receivables		(883)
Trade payables		13,576
		251,394

45. DISPOSAL OF SUBSIDIARIES (continued)

(2) 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

46. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

In 2008, the cash inflow in respect of advances from the disposal of a subsidiary amounted to RMB41,580,000. The disposal has not been completed by 31 December 2008.

In 2007, the cash inflow in respect of advances from the disposal of a subsidiary and 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 Pudong EV and Shanghai Hino Diesel Engine Co., Limited ("Shanghai Hino") by the Group during the year. These disposals have been completed by 31 December 2008.

47. CONTINGENT LIABILITIES

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Guarantees given to banks in connection with facilities granted to:				
- subsidiaries	-	-	1,483,899	1,565,620
- associates	164,764	219,591	-	-
- jointly-controlled entities	27,000	-	27,000	-
- SEC group companies	-	6,000	-	-
	191,764	225,591	1,510,899	1,565,620

47. CONTINGENT LIABILITIES (continued)

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

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
In which,				
guarantees given to banks in connection with				
facilities utilised by:				
- subsidiaries	-	-	1,457,749	1,210,840
- associates	79,139	159,108	-	-
- jointly-controlled entities	27,000	-	27,000	-
- SEC group companies	-	6,000	-	-
	106,139	165,108	1,484,749	1,210,840
Non-financial guarantee				
letters issued on behalf of:				
- the ultimate holding company	-	28,139	-	-
- associates	5,217	7,439	-	-
- SEC group companies	3,441	12,326	-	-
- third parties	31,612	41,130	-	-
	40,270	89,034	-	-

48. 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 are 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.

48. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008 RMB'000	2007 RMB'000 (Restated)
Within one year	38,059	37,797
In the second to fifth years, inclusive	84,517	102,168
After five years	214,842	101,605
	337,418	241,570

(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.

At 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2008 RMB'000	2007 RMB'000 (Restated)	2008 RMB'000	2007 RMB'000
Within one year	56,925	66,964	2,769	1,546
In the second to fifth years, inclusive	136,431	158,565	5,125	1,021
After five years	161,748	282,908	-	-
	355,104	508,437	7,894	2,567

49. COMMITMENTS

In addition to the operating lease commitments detailed in note 48(b) above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Contracted, but not provided for:				
In respect of the acquisition of:				
- land and buildings	478,837	467,586	-	30,974
- plant and machinery	341,971	1,575,473	-	-
- intangible assets	92,726	129,152	92,726	115,105
In respect of capital contribution to:				
- associates	186,321	12,000	186,321	12,000
- companies to be established/acquired	263,960	181,810	263,960	181,810
	1,363,815	2,366,021	543,007	339,889
Authorised, but not contracted for:				
In respect of the acquisition of:				
- land and buildings	197,622	957,771	-	-
- plant and machinery	543,997	368,594	-	-
- intangible assets	19,625	-	-	-
In respect of capital contribution to:				
- associates	5,000	-	5,000	-
	766,244	1,326,365	5,000	-
	2,130,059	3,692,386	548,007	339,889

50. 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	2008 RMB'000	2007 RMB'000 (Restated)
Purchase of materials from:	(i)		
Jointly-controlled entities		18,333	29,328
Associates		875,495	986,627
SEC group companies		1,495,325	612,050
Other related companies		1,379,882	1,214,676
		3,769,035	2,842,681
Sale of goods to:	(i)		
The ultimate holding company		23,872	261,377
Jointly-controlled entities		12,002	26,217
Associates		211,560	219,761
SEC group companies		553,678	299,770
Other related companies		357,958	127,131
		1,159,070	934,256
Construction contract from:	(i)		
Other related company		1,286,814	527,025
Sale of scraps and spare parts to:	(i)		
The ultimate holding company		264	15,600
Associates		4,743	1,135
SEC group companies		11,466	8,581
Other related companies		2,222	57,722
		18,695	83,038
Purchases of services from:	(i)		
Associates		3,036	30,225
SEC group companies		22,870	17,483
Other related companies		337,422	100,103
		363,328	147,811

50. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

	Notes	2008 RMB'000	2007 RMB'000 (Restated)
Provision of services to:	(i)		
The ultimate holding company		4,274	2,130
Associates		67,466	73,143
SEC group companies		1	3,822
Other related companies		3,091	-
		74,832	79,095
Purchases of equipment from:	(i)		
SEC group companies		1,478	1,412
Rental income from:	(ii)		
Associates		18,276	16,497
Rental fee to:	(ii)		
The ultimate holding company		29,836	29,950
Associates		990	990
SEC group companies		10,248	19,243
Other related companies		-	2,028
		41,074	52,211

Notes:

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

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

50. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

During the year ended 31 December 2008, the Group effected the following non-recurring transactions:

(a) The Group disposed of a 90% equity interest in 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 (note 45(1)).

(b) The Group disposed of a 50% equity interest in Shanghai Hino 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.

(c) The Group entered into property transfer agreements on 17 November 2005 to dispose of two properties to a subsidiary of SE Corporation for a total cash consideration of RMB127,400,000, which approximately covered the carrying amounts of the properties and related expenses in respect of the removal. The transaction was completed during the year.

(d) The Company and SE Corporation entered into entrusted agreements, according to which the Company entrusted SE Corporation to negotiate 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 acted as an entrusted party to sign the contracts on behalf of the Company. SE Corporation would not charge any fee in relation to the entrusted agreements apart from a reimbursement of reasonable costs actually incurred.

    Sales regarding the Project of RMB1,764,689,000 were recognised during the year. In addition, purchases of RMB137,009,000 and an agent fee of RMB54,670,000 were incurred through SE Corporation during the year.

(e) The Group acquired a plant from an associate at a cash consideration of RMB 28,678,000.

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

As at 31 December 2008, the Group has provided corporate guarantees in connection with facilities totalling RMB191,764,000 (2007: RMB225,591,000) to related parties, out of which RMB106,139,000 (2007: RMB165,108,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB8,658,000 (2007: RMB47,904,000) (note 47).

50. RELATED PARTY TRANSACTIONS (continued)

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

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

	2008 RMB'000	2007 RMB'000 (Restated)
Guarantees provided to the Group by:		
The ultimate holding company	240	468,313
SEC group companies	-	19,000
Other related companies	2,100	22,347
	2,340	509,660

As at 31 December 2008, SE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Bonds of RMB 1 billion (note 40).

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

	2008 RMB'000	2007 RMB'000 (Restated)
Interest expenses for customer deposits:		
The ultimate holding company	6,273	1,053
Associates	855	861
Jointly-controlled entities	392	1,144
SEC group companies	958	645
Other related companies	1,523	412
	10,001	4,115
Interest income for loans and bills discounting:		
The ultimate holding company	607	4,011
Associates	6,494	8,873
Jointly-controlled entities	7,974	18,454
SEC group companies	14,545	7,627
Other related companies	794	1,360
	30,414	40,325

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

50. RELATED PARTY TRANSACTIONS (continued)

(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, 37 and 41 to the financial statements, respectively.

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

	2008 RMB'000	2007 RMB'000
Fees	542	650
Salaries, bonuses and allowances received from the Company	3,222	2,302
Pension scheme contributed by the Company	110	95
Other social benefit schemes contributed by the Company	104	90
	3,978	3,137

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

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 table, constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules:

	2008 RMB'000	2007 RMB'000 (Restated)
Purchases of equipment, components and technology from an associate:		
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.	194,873	60,426
Purchases of equipment, components and technology from other related companies:		
Siemens Aktiengesellschaft	991,315	1,362,012
Alstom (China) Investment Co., Ltd.	36,707	109,496
Ersol Solar Energy AG	65,352	52,440
Sales of goods to an associate:		
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.	13,814	-
Sales of goods to other related company:		
Ersol Solar Energy AG	86,851	69,680

50. RELATED PARTY TRANSACTIONS (continued)

	2008 RMB'000	2007 RMB'000 (Restated)
Construction contract from other related company:		
Yangxi Haibing Power Development Co., Ltd.	1,286,814	527,025
Interest income for loans and bills discounting from an associate:		
MWB Shanghai Instrument Transformer Co., Ltd.	1,245	842

51. 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

	2008				
	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 receivables	-	-	1,330,776	-	1,330,776
Equity investments	10,816	-	-	198,227	209,043
Debt investments	6,429	154,102	-	636,421	796,952
Investment funds	-	-	-	4,196,671	4,196,671
Investment products	12,935	-	-	-	12,935
Trade receivables	-	-	11,417,512	-	11,417,512
Discounted bills receivable	-	-	131,152	-	131,152
Bills receivable	-	-	866,368	-	866,368
Financial assets included in prepayments, deposits and other receivables	-	-	1,173,122	-	1,173,122
Derivative financial instruments	61,680	-	-	-	61,680
Due from the Central Bank	-	-	1,260,876	-	1,260,876
Restricted deposits	-	-	1,403,209	-	1,403,209
Cash and cash equivalents	-	-	12,666,525	-	12,666,525
	91,860	154,102	30,249,540	5,031,319	35,526,821

51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Group

	2008		
	Financial liability at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	-	9,979,819	9,979,819
Bills payable	-	2,046,475	2,046,475
Financial liabilities included in other payables and accruals	-	3,203,901	3,203,901
Customer deposits	-	747,036	747,036
Bonds	-	1,000,000	1,000,000
Interest-bearing bank and other borrowings	-	2,203,624	2,203,624
Derivative financial instruments	21,731	-	21,731
Other non-current liabilities	-	15,971	15,971
	21,731	19,196,826	19,218,557

Financial assets

Group

	2007 (Restated)				
	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 receivables	-	-	666,812	-	666,812
Equity investments	256,812	-	-	2,898,407	3,155,219
Debt investments	42,941	660,256	-	594,653	1,297,850
Investment funds	95,894	-	-	1,903,772	1,999,666
Investment products	33,711	-	-	-	33,711
Entrusted assets management	-	75,000	-	-	75,000
Trade receivables	-	-	9,786,830	-	9,786,830
Discounted bills receivable	-	-	307,630	-	307,630
Bills receivable	-	-	2,037,612	-	2,037,612
Financial assets included in prepayments, deposits and other receivables	-	-	898,028	-	898,028
Derivative financial instruments	18,255	-	-	-	18,255
Due from the Central Bank	-	-	1,580,991	-	1,580,991
Restricted deposits	-	-	1,179,933	-	1,179,933
Cash and cash equivalents	-	-	12,773,103	-	12,773,103
	447,613	735,256	29,230,939	5,396,832	35,810,640

51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

Group

	2007 Financial liabilities at amortised cost RMB'000 (Restated)
Trade payables	9,269,045
Bills payable	1,850,728
Financial liabilities included in other payables and accruals	3,908,947
Customer deposits	505,294
Bonds	1,000,000
Interest-bearing bank and other borrowings	2,102,159
Other non-current liabilities	64,150
	18,700,323

Financial assets

Company

	2008 Loans and receivables RMB'000
Loans receivables	370,340
Trade receivables	5,823,480
Bills receivable	198,971
Financial assets included in prepayments, deposits and other receivables	1,468,835
Cash and cash equivalents	5,391,151
	13,252,777

Financial liabilities

Company

	2008 Financial liabilities at amortised cost RMB'000
Trade payables	8,301,219
Financial liabilities included in other payables and accruals	610,535
Interest-bearing bank and other borrowings	30,000
	8,941,754

51. 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 liabilities 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

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, 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.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

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 2.6 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 / Japan Yen 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/JPY rate %	Increase/ (decrease) in profit before tax RMB'000
2008		
If RMB weakens against USD	5	33,179
If RMB strengthens against USD	(5)	(33,179)
If RMB weakens against EUR	5	29,704
If RMB strengthens against EUR	(5)	(29,704)
If RMB weakens against JPY	5	9,729
If RMB strengthens against JPY	(5)	(9,729)
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 JPY	5	6,010
If RMB strengthens against JPY	(5)	(6,010)

52. 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 (notes 22 and 30) as at 31 December 2008. The Group's listed investments are listed on the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchange ("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:

	2008			2007		
	31 December	**High**	**Low**	**31 December**	**High**	**Low**
SZSE Component Index	6,485.51	19,219.89	5,577.23	17,700.62	19,600.02	6,585.06
SHSE Composite Index	1,820.81	5,522.78	1,664.92	5,261.56	6,092.06	2,612.54

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**
2008			
Equity investments listed in:			
Shenzhen – Available-for-sale	749	-	37
Shanghai – Available-for-sale	94,937	-	4,747
– At fair value through profit or loss	10,816	541	-
2007 (Restated)			
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	-

* Excluding retained earnings

52. 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

	2008		
	At fair value through profit or loss RMB'000	Available-for-sale RMB'000	Held-to-maturity RMB'000
Within 1 year	6,429	20,600	154,102
1 to 2 years	-	83,470	-
2 to 3 years	-	48,143	-
More than 3 years	-	484,208	-
Total	6,429	636,421	154,102
Effective interest rate (% per annum)	1.7-2.9	1.65-7.00	1.79-2.35

Group

	2007 (Restated)		
	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

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

Group

	2008		
	Loans receivable RMB'000	Due from the Central Bank RMB'000	Time deposits RMB'000
Within 1 year	1,017,705	1,260,876	2,686,459
1 to 2 years	3,726	-	1,000
2 to 3 years	309,345	-	90,000
Total	1,330,776	1,260,876	2,777,459
Effective interest rate (% per annum)	4.37-7.56	0.92	1.71-3.33

Group

	2007 (Restated)			
	Loans receivable RMB'000	Entrusted assets management RMB'000	Due from the Central Bank RMB'000	Time deposits RMB'000
Within 1 year	660,139	75,000	1,580,991	2,744,006
1 to 2 years	6,673	-	-	13,472
Total	666,812	75,000	1,580,991	2,757,478
Effective interest rate (% per annum)	5.42-7.74	5.5	1.72	1.62-4.91

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Financial liabilities

Group

	2008		
	Bonds RMB'000	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	-	666,768	747,036
1 to 2 years	-	95,990	-
2 to 3 years	-	171,364	-
More than 3 years	1,000,000	1,269,502	-
Total	1,000,000	2,203,624	747,036
Effective interest rate (% per annum)	5.22	2.43-9.00	1.98-4.14

Group

	2007 (Restated)		
	Bonds RMB'000	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	-	1,277,855	505,294
1 to 2 years	-	84,341	-
2 to 3 years	-	197,602	-
More than 3 years	1,000,000	542,361	-
Total	1,000,000	2,102,159	505,294
Effective interest rate (% per annum)	5.22	1.88-10.98	2.88-4.14

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

Company

	2008 Loans receivable RMB'000	2007 Entrusted assets management RMB'000
Within 1 year	370,340	600,000
Effective interest rate (% per annum)	0-6.48	3.9-5.5

Financial liabilities

Company

	2008 Interest bearing bank and other borrowings RMB'000	2007 Interest bearing bank and other borrowings RMB'000
Within 1 year	30,000	550,000
Effective interest rate (% per annum)	5.49	4.77-5.49

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
2008		
RMB	15	(2,100)
RMB	(15)	2,100
2007		
RMB	15	(2,100)
RMB	(15)	2,100

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 47 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 12.0% (2007: 9.9%) of the Group's trade receivables as at 31 December 2008.

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

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

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

Group

	2008					
	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	7,221,957	2,014,777	743,085	-	-	9,979,819
Bills payable	-	1,139,213	907,262	-	-	2,046,475
Financial liabilities included in other payables and accruals	2,644,973	452,418	106,510	-	-	3,203,901
Customer deposits	687,171	1,600	58,265	-	-	747,036
Bonds	-	-	-	1,000,000	-	1,000,000
Interest-bearing bank and other borrowings	-	181,270	485,498	557,154	979,702	2,203,624
Derivative financial instruments	-	-	21,731	-	-	21,731
Other non-current liabilities	-	-	-	15,971	-	15,971
	10,554,101	3,789,278	2,322,351	1,573,125	979,702	19,218,557

Group

	2007 (Restated)					
	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	4,203,636	4,026,389	1,039,020	-	-	9,269,045
Bills payable	-	953,989	896,739	-	-	1,850,728
Financial liabilities included in other payables and accruals	2,274,596	977,486	656,865	-	-	3,908,947
Customer deposits	263,528	220,000	21,766	-	-	505,294
Bonds	-	-	-	1,000,000	-	1,000,000
Interest-bearing bank and other borrowings	4,718	102,841	1,170,296	281,943	542,361	2,102,159
Other non-current liabilities	-	-	-	64,150	-	64,150
	6,746,478	6,280,705	3,784,686	1,346,093	542,361	18,700,323

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

Company

	2008			2007		
	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	8,301,219	-	8,301,219	4,203,839	-	4,203,839
Bills payable	-	-	-	-	25,640	25,640
Financial liabilities included in other payables and accruals	610,535	-	610,535	556,132	-	556,132
Interest-bearing bank and other borrowings	-	30,000	30,000	-	550,000	550,000
	8,911,754	30,000	8,941,754	4,759,971	575,640	5,335,611

Capital management

The primary objectives of the Group's capital management are 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 shareholders' 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 for managing capital during the year ended 31 December 2008 and 31 December 2007.

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 and bonds.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

Group

	2008 RMB'000	2007 RMB'000 (Restated)
Interest-bearing bank and other borrowings	2,203,624	2,102,159
Bonds	1,000,000	1,000,000
Net debt	3,203,624	3,102,159
Total equity	28,157,081	27,510,992
Total equity and net debt	31,360,705	30,613,151
Gearing ratio	10.2%	10.1%

53. POST BALANCE SHEET EVENTS

(1) On 20 July 2007, the board of directors of the Company resolved to acquire a 100% equity interest in Shanghai Institute of Machine Building Technology Co., Ltd. from SE Corporation at a mutually agreed consideration of RMB163,960,000 in cash. The acquisition has been completed on 20 February 2009.

(2) On 24 February 2009, the board of directors of Shanghai Mechanical and Electrical resolved to:

acquire a 50% equity interest in Shanghai Pulux Machinery Co., Ltd. ("Pulux Machinery") from Shanghai Zi Wen Investment Co., Ltd. ("Zi Wen Investment") at a consideration of RMB85,920,000;

acquire a 50% equity interest in Shanghai Guang Hua Printing Machinery Co., Ltd. ("Guang Hua Printing") from Zi Wen Investment at a consideration of RMB199,720,000;

acquire a 50% equity interest in Akiyama International Co., Ltd. ("Akiyama International") from Bowton Limited at a consideration of RMB30,900,000, upon completion of which additional capital of RMB200,000,000 will be injected;

53. POST BALANCE SHEET EVENTS (continued)

(2) On 24 February 2009, the board of the directors of Shanghai Mechanical and Electrical resolved to: (continued)

acquire a 22.14% equity interest in Shanghai Shen Wei Da Machinery Co., Ltd. ("Shen Wei Da") from Hong Kong Hua Wei Trading Co., Ltd. at a consideration of RMB15,666,000; acquire a 2.86% equity interest in Shen Wei Da from American Shanghai Mechanical and Electrical Trading Co., Ltd. at a consideration no higher than RMB2,023,000.

After the completion of above transactions, Pulux Machinery, Guang Hua Printing, Akiyama International and Shen Wei Da will become the wholly-owned subsidiaries of the Group.

(3) Details of final 2007 dividend declared and final 2008 dividend proposed after the balance sheet date are contained in note 12 to the financial statements.

54. OTHER SIGNIFICANT MATTERS

As mentioned in notes 18, 42 and 44(1) to the financial statements, during the year, the Company issued 616,038,405 A shares by way of a share exchange to acquire the remaining 16.25% non-controlling interests of Shanghai Power Transmission. Pursuant to the Company's A share prospectus and relevant approvals from the authorities, upon the completion of the share exchange, Shanghai Power Transmission shall be deregistered and be merged into the Company, which is expected to be completed in 2009.

Upon the completion of the merger in 2009, Shanghai Power Transmission's assets and liabilities will be carried onto the Company's books based on their then carrying amounts. The difference between the additional investment costs in the subsidiary attributable to the acquisition of 16.25% non-controlling interests of Shanghai Power Transmission and the relevant share of Shanghai Power Transmission's net assets will be recognised directly in equity.

55. COMPARATIVE AMOUNTS

As further explained in notes 2.2 (c) and 2.5 to the financial statements, due to the adoption of new and revised HKFRSs and the change in accounting policy for the investments in jointly-controlled entities, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 April 2009.