上海电气
SHANGHAI ELECTRIC

# 2009
# Annual Report
## Shanghai Electric Group Company Limited

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

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# Corporate Information

**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
**Email:** 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 email:** 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 relevant 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

(in accordance with the Hong Kong Financial Reporting Standards)

| | 2005[1] | 2006[1] | 2007[1] | 2008[1] | 2009 |
|---|---|---|---|---|---|
| *RMB(million)* | | | | | |
| **Revenue and Profit** | | | | | |
| Revenue | 35,799 | 43,480 | 55,981 | 59,058 | **57,622** |
| Profit before tax | 3,547 | 4,004 | 5,628 | 4,075 | **3,229** |
| Tax | (1,003) | (1,048) | (1,334) | (397) | **(7)** |
| Profit for the year | 2,544 | 2,956 | 4,294 | 3,678 | **3,222** |
| **Attributable to:** | | | | | |
| Owners of the parent | 1,710 | 2,053 | 2,830 | 2,566 | **2,453** |
| Non-controlling interests | 834 | 903 | 1,464 | 1,112 | **769** |
| Dividends | 488 | 725 | - | 1,463 | **735**[2] |
| **Earnings per share attributable to ordinary equity holders of the parent** | | | | | |
| Basic | | | | | |
| Profit for the year (cents) | 21.29 | 24.69 | 23.67 | 21.49 | **19.62** |
| **Assets and Liabilities** | | | | | |
| Non-current Assets | 10,975 | 14,227 | 16,896 | 18,081 | **19,518** |
| Current assets | 43,937 | 49,341 | 59,055 | 63,797 | **70,108** |
| Current liabilities | (33,210) | (39,559) | (45,644) | (50,672) | **(57,325)** |
| Net current assets | 10,727 | 9,782 | 13,411 | 13,125 | **12,783** |
| Total assets less current liabilities | 21,702 | 24,009 | 30,307 | 31,206 | **32,301** |
| Non-current liabilities | (733) | (911) | (3,002) | (3,230) | **(3,237)** |
| Net assets | 20,969 | 23,098 | 27,305 | 27,976 | **29,064** |
| Equity attributable to owners of the parent | 14,724 | 16,373 | 19,493 | 21,462 | **22,475** |
| Non-controlling interests | 6,245 | 6,725 | 7,812 | 6,514 | **6,589** |

Note1: Information with respect to 2005 to 2008 has been restated in accordance with the Hong Kong Financial Reporting Standards.

Note2: The proposed dividend of RMB735 million of the Company for 2009 is subject to the approval at the forthcoming annual general meeting.

# Chairman's Report

Chairman & CEO **Xu Jianguo**

## To all shareholders,

Under the influence of the financial crisis, the People's Republic of China (the "PRC") has gone through the toughest year in the new century in terms of economic development in 2009. However, driven by the RMB4 trillion investment program, a series of policies to revitalize various industries and a string of measures that aim at stoking up domestic demand introduced by the PRC government, China's economy is gradually walking out of the economic downturn and achieved a year-on-year GDP growth of 8.7% in 2009. Shanghai Electric Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") also experienced the hardest blow and the most severe pressure in 2009. However, the board of directors of the Company and the management of the Group are determined and united to achieve growth, overcome the economic hardship and respond proactively to the financial crisis. We have adjusted our operation strategy in a timely manner and recorded a steady yet relatively rapid business development, which is demonstrated by the continuous and satisfactory growth of our core businesses.

During the reporting period, the Group has not only expanded sales, secured growth and safeguarded its cash on hand but also retained its leading positions in its core industries, namely power equipment, heavy machinery and elevator businesses, with year-on-year income growth recorded by all such principal businesses. For the power equipment business, our thermal power equipment segment expanded its overseas market aggressively, and the value of newly acquired power equipment orders amounted to over RMB70 billion, while the accumulated value of our orders on hand again reached record level and amounted to over RMB190 billion. In the area of heavy industry, the value of newly acquired equipment orders amounted to over RMB17 billion and the accumulated value of our orders on hand exceeded RMB26 billion. In the face of severe competition in the industry, our elevator business has further strengthened its foundation and sustained growth by capitalizing on its technological strengths in the production of elevator bodies and its far-flung service network and maintained its superior market position as the largest single elevator manufacturer in the world.

During the reporting period, leveraging on its competitive edges in the fields of thermal power equipment and elevator, the Group has successfully captured market opportunities and spared no effort to develop new energy equipment industries, which include the nuclear and wind power industries. We have established our comprehensive manufacturing capacity for wind power equipment in our Lingang production base and become one of the first domestic manufacturers to export MW grade wind power equipment. All our production resources for nuclear power nuclear island equipment were centralized to the Lingang base in order to achieve economies of scale. We have currently maintained a 100% share in the domestic reactor vessel internals and control rods drive mechanisms markets, and forayed into the market of main pump for nuclear power plant for the first time.

During the reporting period, the Group perpetually pursues innovation and commercialization of new and advanced technologies with particular focus on the field of advanced heavy equipment. We have completed the modification project of our heavy machinery hot processing plant. Our proprietary 16,500 MT free style oil hydraulic press, computer controlled machinery arm and electroslag remelting furnace set three world records. We have commenced the Phase II construction work of the Lingang nuclear power nuclear island equipment production base and participated in Huaneng's exemplary Tianjin eco-friendly IGCC power plant project, which will become the first 250MW IGCC power generation unit in the PRC.

During the reporting period, through exploring different ways to achieve growth unremittingly and adjusting our business structure accordingly, the Group achieved initial success in promoting economic growth. Our new energy equipment business, covering mainly nuclear and wind power areas, as well as power plant EPC businesses continued to develop rapidly, and our overseas power plant EPC business has achieved breakthrough through entering the middle and high-end market with the value of contract work in progress exceeding RMB50 billion, making us one of the leaders in the international power plant EPC market.

During the reporting period, the Group launched a private offering of A shares exercise to raise up to RMB3.556 billion with a view to satisfying our middle to long term capital requirements for the development of our core businesses through capital market fund raising activity, so as to enhance the Company's future competitiveness and secure sustainable development.

Looking forward, the year 2010 marks the last year of the "Eleventh Five Years Plan" as well as the year for the Shanghai Expo. The future theme of development of the PRC will be the establishment of a "low carbon economy". In view of this new objective, we will further our efforts in "closely aligning with the national strategy, strengthening our in-house innovation, promoting the commercialization of new and advanced technologies, and proactively developing our low-carbon business model". The Group will further invest in new energy equipment industries and capture the opportunities presented by the development of nuclear power, wind power and high efficiency clean coal-fired power equipment industries, which are also our core businesses. We aim at promoting our overall competitiveness by enhancing our capability in developing new technologies and operating overseas business and we will spare no effort in establishing the Group as a sustainable international equipment producer.

Through adhering to the principle of "bearing our shareholders' interests in mind and building on our capacity in technological innovation and equipment production", we will endeavor to further develop our business and deliver efficient, green and economic energy and living environment to our nation and the world.

Last but not least, I would like to thank all shareholders for their support and affection to the Group, and express my sincere gratitude to the directors, supervisors, management and the entire staff for their devotion and ceaseless efforts during the year.

Yours faithfully,
**Xu Jianguo**
Chairman
Shanghai, PRC
9 April 2010

# Major Financial Data and Indicators

## Major financial data for the reporting period

Unit:'000 Currency: RMB

| Item | In accordance with the PRC GAAP |
|---|---|
| Operating profit | 2,919,719 |
| Profit before tax | 3,338,166 |
| Net profit attributable to shareholders of the listed company | 2,501,270 |
| Net profit attributable to shareholders of the listed company, net of non-recurring profit or loss | 1,694,815 |
| Net cash inflow generated from operating activities | 6,932,568 |

## Differences between domestic and overseas accounting principles

Unit:'000 Currency: RMB

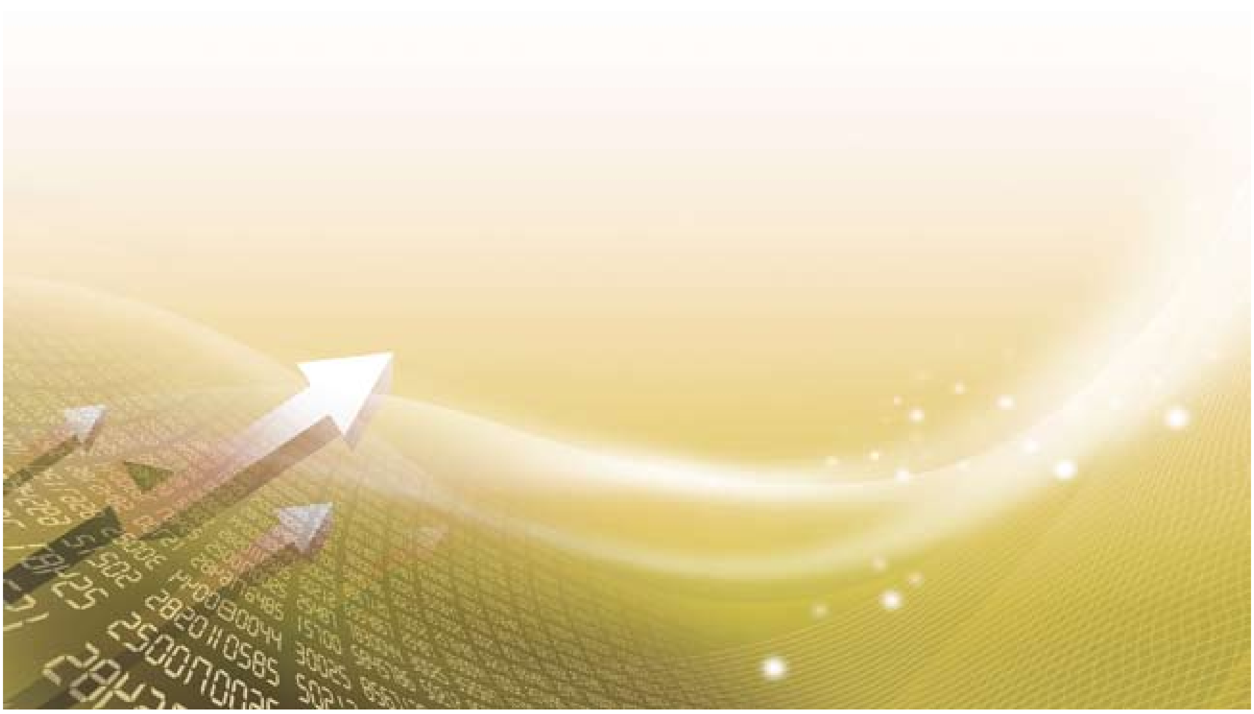
| Item | Net Profit Attributable to Owners of the Parent | | Net Assets Attributable to Owners of the Parent | |
|---|---|---|---|---|
| | Current period | Previous period | At the end of the period | At the beginning of the period |
| In accordance with the PRC GAAP | 2,501,270 | 2,620,982 | 22,474,844 | 21,462,347 |
| In accordance with the HKFRSs | 2,453,448 | 2,566,244 | 22,474,844 | 21,462,347 |

## Non-recurring gain or loss items and amounts to be deducted (in accordance with the PRC GAAP)

Unit:'000 Currency: RMB

| Non-recurring Gain or Loss Items | Amount |
|---|---|
| Gains or losses on disposal of non-current assets | 27,552 |
| Tax rebate or tax credits, or occasional tax rebate or tax credits resulted from unauthorised approvals or items without duly approved documents | 365,527 |
| Government grants (except for government grants which are closely related to the Company's business and conform with the amount and quantities at a national standard) charged to gains or losses for the period | 230,431 |
| Fees for usage of funds received from non-financial enterprises charged to profits and losses for the period | - |
| Gains in fair value of identifiable net assets of investees at the time of acquisition over investment costs for acquiring subsidiaries, associates and joint ventures by the enterprise | - |
| Gains or losses from exchange of non-monetary assets | 106 |
| Gains or losses from discretionary investment or asset management | - |
| Impairment provisions for assets due to force majeure factors such as natural disasters | - |
| Gains or losses from debt restructuring | 90 |
| Corporate restructuring fees such as staff resettlement expenses, integration charges, etc. | (115,339) |

| Non-recurring Gain or Loss Items | Amount |
|---|---|
| Gains or losses arising from transactions at unfair trading prices over their fair value | - |
| Net profit or loss from the subsidiary merqed under common control from the beginning of the reporting period to the date of merger | (245) |
| Gains or losses from contingency items unrelated to the normal business operations of the Company | - |
| Gains or losses generated from changes in fair value of held for trading financial assets and financial liabilities, investment gains generated from disposal of held for trading financial assets, held for trading financial liabilities and financial assets available for sale, other than effective hedging activities associated with normal business operations of the Company | 59,701 |
| Reversal of provisions for impairment of receivables under individual impairment assessments | 172,247 |
| Gains or losses from external entrusted loans | - |
| Gains or losses from changes in fair value of investment properties arising from remeasurement under fair value model | - |
| Effect on gains and losses for the current period from one-off adjustment to gains and losses for the period according to the requirements of the tax and accounting laws and regulations | 100,787 |
| Discretionary fee income received from discretionary operations | - |
| Other non-operating income and expenses apart from those stated above | 97,520 |
| Other gains and losses items conforming with the definition of non-recurring gains or losses | 4,452 |
| Effect on income tax | (86,429) |
| Effect on non-controlling interests (after tax) | (49,945) |
| Total | 806,455 |



## Key accounting data and financial indicators of the Group at the end of the reporting period for the last three years (in accordance with the PRC GAAP)

Unit:'000 Currency: RMB

| Key accounting data | 2009 | 2008 After adjustments | 2008 Before adjustments | Change for the period over the corresponding period of the last year (%) | 2007 After adjustments | 2007 Before adjustments |
|---|---|---|---|---|---|---|
| Operating revenue | 57,790,394.00 | 59,060,009.00 | 58,908,644.00 | -2.15 | 56,149,636.00 | 56,097,841.00 |
| Profit before tax | 3,338,166.00 | 4,192,285.00 | 4,193,189.00 | -20.37 | 5,726,032.00 | 5,745,619.00 |
| Net profit attributable to shareholders of the listed company | 2,501,270.00 | 2,620,982.00 | 2,622,214.00 | -4.57 | 2,875,757.00 | 2,895,344.00 |
| Net profit attributable to shareholders of the listed company, net of non-recurring gain or loss | 1,694,815.00 | 2,227,213.00 | 2,228,445.00 | -23.90 | 2,532,176.00 | 2,551,763.00 |
| Net cash inflow generated from operating activities | 6,932,568.00 | 3,042,843.00 | 3,030,128.00 | 127.80 | 3,555,093.00 | 3,548,116.00 |
| | At the end of 2009 | At the end of 2008 After adjustments | At the end of 2008 Before adjustments | Change over the end of the last year (%) | At the end of 2007 After adjustments | At the end of 2007 Before adjustments |
| Total assets | 89,626,082.00 | 81,878,220.00 | 81,657,875.00 | 9.46 | 75,887,013.00 | 75,629,373.00 |
| Owner's equity (or shareholders' equity) | 22,474,844.00 | 21,462,347.00 | 21,321,669.00 | 4.72 | 19,486,990.00 | 19,349,629.00 |

| Key financial Indicators | 2009 | 2008 After adjustments | 2008 Before adjustments | Change for the period over the corresponding period of the last year (%) | 2007 After adjustments | 2007 Before adjustments |
|---|---|---|---|---|---|---|
| Basic earnings per share (RMB/share) | 0.20 | 0.22 | 0.22 | -9.09 | 0.24 | 0.24 |
| Diluted earnings per share (RMB/share) | 0.20 | 0.22 | 0.22 | -9.09 | 0.24 | 0.24 |
| Basic earnings per share, net of non-recurring gain or loss (RMB/share) | 0.14 | 0.19 | 0.19 | -26.32 | 0.21 | 0.21 |
| Weighted average net assets return rate (%) | 11.38 | 12.89 | 13.81 | decreased by 1.51 | 16.07 | 16.17 |
| Weighted average net assets return rate, net of non-recurring gain or loss ( %) | 7.71 | 10.95 | 11.74 | decreased by 3.24 | 14.15 | 14.25 |
| Net cash inflow per share generated from operating activities (RMB/share) | 0.55 | 0.24 | 0.25 | 129.17 | 0.30 | 0.30 |
| | At the end of 2009 | At the end of 2008 After adjustments | At the end of 2008 Before adjustments | Change over the end of the last year (%) | At the end of 2007 After adjustments | At the end of 2007 Before adjustments |
| Net assets per share attributable to shareholders of the listed company (RMB/share) | 1.80 | 1.72 | 1.70 | 4.65 | 1.64 | 1.63 |

# Shareholding Structure and Disclosure of Interests

## Shareholding Structure

| | Number of shares | Approximate percentage of issued share capital |
|---|---|---|
| A shares | | |
| - Subject to lock-up restrictions | 7,409,088,498 | 59.24% |
| - Not subject to lock-up restrictions | 2,125,685,907 | 16.99% |
| 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 2009, the following persons (other than the Directors, Supervisors and chief executives of Shanghai Electric Group Company Limited (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 voting power at any general meeting 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 (the "SFO"):

| Name of Substantial Shareholder | A/H 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 |
| State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government | A | Interest of controlled corporation | 1 | 7,898,980,620 | Long position | 82.84 | 63.15 |
| Shenzhen Fengchi Investment Co., Ltd. | A | Beneficial owner | 2 | 917,778,942 | Long position | 9.63 | 7.34 |
| Shanghai Depeng Investment Co., Ltd. | A | Interest of controlled corporation | 2 | 917,778,942 | Long position | 9.63 | 7.34 |
| Guangdong Zhujiang Investment Holding Group Co., Ltd. | A | Interest of controlled corporation | 2 | 917,778,942 | Long position | 9.63 | 7.34 |
| Guangdong Hanjiang Asset Management Co., Ltd. | A | Interest of controlled corporation | 2 | 917,778,942 | Long position | 9.63 | 7.34 |
| Guangdong Hanjiang Building and Installation Co., Ltd. | A | Interest of controlled corporation | 2 | 917,778,942 | Long position | 9.63 | 7.34 |
| Zhu Qingyi | A | Interest of controlled corporation | 2 | 917,778,942 | Long position | 9.63 | 7.34 |
| Shenergy Group Company Limited | A | Beneficial owner | 1 | 489,892,122 | Long position | 5.14 | 3.92 |
| Templeton Investment Counsel, LLC | H | Investment manager | | 237,756,464 | Long position | 8.00 | 1.90 |

| Name of Substantial Shareholder | A/H 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 (%) |
|---|---|---|---|---|---|---|---|
| Deutsche Bank Aktiengesellschaft | H | Beneficial owner | | 8,264,222 | Long position | 0.28 | 0.07 |
| | | Investment manager | 3 | 189,914,000 | Long position | 6.39 | 1.52 |
| | | Person having a security interest in shares | | 17,300,771 | Long position | 0.58 | 0.14 |
| | | Total long position | | 215,478,993 | | 7.25 | 1.73 |
| | | Beneficial owner | | 3,746,562 | Short position | 0.13 | 0.03 |
| | | Person having a security interest in shares | | 13,175,000 | Short position | 0.44 | 0.11 |
| | | Total short position | | 16,921,562 | | 0.57 | 0.14 |
| Mirae Asset Global Investments (Hong Kong) Limited | H | Investment manager | | 206,336,000 | Long position | 6.94 | 1.65 |
| Siemens International Holding B.V. | H | Beneficial owner | 4 | 148,646,000 | Long position | 5.00 | 1.19 |
| Siemens Beteiligungsverwaltung GmbH & Co. OHG | H | Interest of controlled corporation | 4 | 148,646,000 | Long position | 5.00 | 1.19 |
| Siemens Beteiligungen Management GmbH | H | Interest of controlled corporation | 4 | 148,646,000 | Long position | 5.00 | 1.19 |
| Siemens Aktiengesellschaft | H | Interest of controlled corporation | 4 | 148,646,000 | Long position | 5.00 | 1.19 |

**Notes**

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

(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 which in turn was owned as to 80% by Guangdong Hanjiang Building and Installation Co., Ltd ("Guangdong Hanjiang"). Guangdong Hanjiang was owned as to 90% by Zhu Qingyi. The interest in 917,778,942 shares relates to the same block of shares in the Company.

(3) Deutsche Bank Aktiengesellschaft was interested in 189,914,000 shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

| Name of controlled corporation | Percentage of ownership in controlled corporation (%) | No. of shares |
|---|---|---|
| Deutsche Asset Management International GmbH | 100 | 15,198,000 |
| Deutsche Asset Management Investmentgesellschaft mbH | 100 | 973,000 |
| DWS Investment GmbH | 100 | 155,000,000 |
| DWS Investment S.A., Luxembourg | 100 | 13,807,000 |
| Deutsche Bank Trust Company Americas | 100 | 488,000 |
| Tilney Investment Management | 100 | 92,000 |
| Deutsche Asset Management (Asia) Limited | 100 | 2,076,000 |
| Deutsche Asset Management (Korea) Company Limited | 100 | 1,150,000 |
| Deutsche Bank (Suisse) S.A. | 100 | 114,000 |
| Deutsche Bank AG Singapore Branch | 100 | 1,016,000 |

Among the entire interest of Deutsche Bank Aktiengesellschaft in the Company, a long position in 4,000 and a short position in 2,848,000 shares were held through cash settled unlisted derivative interests.

(4) 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 2009, had an interest or short positions in the shares and underlying shares of the Company.

### *Directors' and Supervisors' Interests and Short Positions in Shares and Underlying Shares*

As at 31 December 2009, 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. As at 31 December 2009, 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

| | | | | | | | | | | | | | Incentive options granted during the reporting period | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 change | Total remunerations received from the Company during the reporting period (RMB ten thousand) (before tax) | Share options exercisable | Share options exercised | Exercise price | Share price at the end of the period | Receiving remuneration and allowance from shareholding entities or other associates |
| Xu Jianguo (Note 1) | Chairman and Chief Executive Officer | Male | 58 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | / | / | / | / | / | Yes |
| Zhu Kelin | Vice Chairman and Non-executive Director | Male | 47 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | / | / | / | / | / | Yes |
| Huang Dinan (Note2) | Executive Director and President | Male | 43 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | 63.6 | / | / | / | / | No |
| Zhang Suxin | Executive Director | Male | 45 | 30 June 2008 | 15 November 2010 | / | / | / | / | / | / | 50.6 | / | / | / | / | No |
| Yu Yingui (Note 3) | Executive Director and Chief Financial Officer | Male | 59 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | 50.6 | / | / | / | / | No |
| Yao Minfang | Non-executive Director | Female | 42 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | / | / | / | / | / | Yes |
| Zhu Sendi | Independent Non-executive Director | Male | 69 | 3 November 2008 | 15 November 2010 | / | / | / | / | / | / | 25 | / | / | / | / | No |
| Cheung Wai Bun | Independent Non-executive Director | Male | 73 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | 25 | / | / | / | / | No |
| Lei Huai Chin | Independent Non-executive Director | Male | 45 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | 25 | / | / | / | / | No |
| Xie Tonglun | Supervisor | Male | 53 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | 28.2 | / | / | / | / | No |
| Li Bin | Supervisor | Male | 49 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | / | / | / | / | / | No |
| Sun Wenzhu | Supervisor | Female | 53 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | / | / | / | / | / | Yes |
| Zhou Changsheng | Supervisor | Male | 44 | 16 November 2007 | 15 November 2010 | / | / | / | / | / | / | / | / | / | / | / | Yes |
| Zhu Bin | Chief Operating Officer | Male | 48 | 3 February 2010 | 15 November 2010 | / | / | / | / | / | / | 47 | / | / | / | / | No |
| Li Chung Kwong Andrew | Company Secretary | Male | 50 | 30 June 2006 | Up to now | / | / | / | / | / | / | 110 | / | / | / | / | No |
| Fu Rong | Secretary to the Board | Female | 39 | 29 June 2005 | Up to now | / | / | / | / | / | / | 28.2 | / | / | / | / | No |

Note 1: Mr. Xu Jianguo has been the chief executive officer of the Company since September 2006.
Note 2: Mr. Huang Dinan has been the president of the Company since March 2004.
Note 3: Mr. Yu Yingui has been the chief financial officer of the Company since March 2004.
Note 4: The remunerations during the reporting period are the remunerations of the directors, supervisors and senior management received from the Company. Their remunerations are calculated according 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 58, 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 to the 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 43, joined the Company in March 2004 and is an executive director and the president of the Company. He is also the vice chairman of the board of Shanghai Electric (Group) Corporation. Mr. Huang has extensive experience in the power generation equipment industry. Since joining the parent group in 1989, Mr. Huang has held the positions of vice president of Shanghai Turbine Co., Ltd. from 1997 to 1999, president of Shanghai Turbine Co., Ltd. from 1999 to 2002, vice president of Shanghai Electric (Group) Corporation from 2002 to 2004 and president of Shanghai Electric (Group) Corporation from 2004 to 2009. Mr. Huang graduated from Tsinghua University with a master degree in engineering. He is a senior engineer of professor level.

**Zhang Suxin**, aged 45, 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 assistant to the president and vice president of Shanghai Turbine Co., Ltd. from 2001 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, an assistant to the president 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 59, 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 47, 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 May 2007, the chairman of the board of Guangdong Zhujiang Investment Joint Stock Co., Ltd. from December 2007 to February 2009 and from June 2009 to the present 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 42, joined the Company in November 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 and manager of the investment management department of Shenergy Group Co. Ltd. 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 69, joined the Company in November 2008 and is an independent non-executive director of the Company. He is a special advisor and honorable 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 majoring in physics. Mr. Zhu is a senior engineer of professor level.

**Dr. Cheung Wai Bun, Charles**, J.P., aged 73, 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, director and vice chairman of Executive Committee of the Metropolitan Bank (China) Ltd, Semi Advisor of Metropolitan Bank & Trust Co. Philippines and an independent non-executive director and chairman of the respective audit committees of Pioneer Global Group Limited and Sunshine Capital Investments Group Limited (formerly Prime Investments Holding Limited), the latter two are companies listed on the main board of the Stock Exchange, independent non-executive director and chairman of Remuneration Committee of Grand T.G Gold Holding Limited (listed on Hong Kong GEM Board), independent non-executive director and director general of Audit Committee of Zhuhai Commercial Bank Limited and advisor of Twin Wealth Group, Hong Kong. Dr. Cheung is also a Council Member of the Hong Kong Institute of Directors. Dr. Cheung was formerly 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 Hong Kong Directors of the Years Awards 2002.

**Lei Huai Chin**, aged 45, 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 53, joined the Company in March 2004. He is the employee representative and acting chairman of the supervisory committee of the Company. He is also the secretary of the communist party office and vice chairman of labour union of Shanghai Electric Group Company Limited. Mr. Xie 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 49, 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 the computer numerically controlled plant of Shanghai Electric Hydraulic & Pneumatics Co., Ltd. Since 1980, Mr. Li was a worker of plant 2 of Shanghai Hydraulic Pump Factory, product test engineer and head of the product test team of computer numerically controlled plant of 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 44, joined the Company in November 2007, is a supervisor of the Company, deputy head of the audit office of Shenergy Group Co. Ltd., a 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 treasury division 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 Co. Ltd., a director of Shanghai Metro Construction Corporation Ltd. and an 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 53, 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 holds a junior college degree in business management and is an accountant.

**Senior Management:**

Zhu Bin, aged 49, joined the Company in 2009 and is the chief operating officer and an assistant to the president of the Company. Mr. Zhu has extensive experience in the power generation equipment manufacturing industry as well as in business operation and management. Mr. Zhu has been an assistant to the president of the Company since February 2009. During the period from 2004 to 2009, he has served as executive vice president of Shanghai Electric Power Generation Group, president of Shanghai Electric Power Generation Equipment Co., Ltd. and chairman of the board of Shanghai Power Equipment Co., Ltd. During the period from 1996 to 2004, he has been vice president of Shanghai Turbine Works Co., Ltd., deputy head of the power generation department of Shanghai Electric (Group) Corporation, general manager and executive director of Shanghai Electric Power Station Auxiliary Equipment Works Co., Ltd. and president and vice chairman of the board of Shanghai Power Equipment Co., Ltd. Mr. Zhu holds a bachelor's degree in engineering from Xian Jiaotong University and an MBA degree from Tongji University. Mr. Zhu is a Senior Engineer.

Li Chung Kwong, Andrew, aged 50, joined the Company in April 2005 and is the company secretary and an 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 (Practicing) in 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 (England and Wales) and the Institute of Internal Auditors.

Fu Rong, aged 39, joined the Company in June 2005, and is the secretary to the board of directors, the office manager, head of the personnel department and director of secretariat office of the board of directors of the Company. She has been 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. Ms. Fu holds a bachelor degree in management and is an Economist.

## Positions in shareholding entities

| Name | Name of shareholding entities | Position | Commence-ment of term | End of term | Receiving remuneration and allowance |
|---|---|---|---|---|---|
| Xu Jianguo | Shanghai Electric (Group) Corporation | Chairman of the Board | August 2006 | Up to now | Yes |
| Huang Dinan | Shanghai Electric (Group) Corporation | Vice Chairman of the Board | January 2004 | Up to now | No |
| Zhang Suxin | Shanghai Electric (Group) Corporation | Vice President | April 2008 | Up to now | No |
| Zhu Kelin | Shenzhen Fengchi Investment Co., Ltd. | Chairman of the Board | May 2007 | Up to now | No |
| Yao Minfang | Shenergy Group Company Limited | Manager of the Investment Department | March 2009 | Up to now | Yes |
| Zhou Changsheng | Shenergy Group Company Limited | Deputy Director of the Audit Office | February 2009 | Up to now | Yes |

## Positions in other entities

| Name | Name of shareholding entities | Position | Commence-ment of term | End of term | Receiving remuneration and allowance |
|---|---|---|---|---|---|
| Xu Jianguo | Shanghai Mechanical & Electrical Industry Company Limited | Chairman of the Board | May 2009 | May 2012 | No |
| Zhu Kelin | Guangdong Zhujiang Investment Holding Group Co., Ltd. | Vice Chairman of the Board | February 2008 | Up to now | Yes |
| | Guangdong Zhujiang Investment Joint Stock Co., Ltd. | Chairman of the Board | June 2009 | Up to now | No |
| Yu Yingui | Shanghai Mechanical & Electrical Industry Company Limited | Chairman of the Supervisory Committee | May 2009 | May 2012 | No |
| | Shanghai 3F New Materials Company Limited | Independent Director | March 2008 | March 2010 | Yes |
| Zhu Sendi | China Machinery Industry Federation | Special Adviser | May 2009 | May 2014 | Yes |
| | China Machinery Industry Federation Experts Committee | Honorable Director | February 2010 | May 2014 | No |
| | Advisory Committee for State Informatization | Committee 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 | March 2004 | Up to now | Yes |
| | Metropolitan Bank(China) Ltd | Director and vice chairman of Executive Committee | February 2010 | February 2013 | Yes |
| | Metropolitan Bank & Trust Company, Philippines | Senior Adviser | April 2009 | April 2010 | Yes |
| | Pioneer Global Group Limited | Independent Non-executive Director and chairman of Auditing Committee | June 1999 | September 2010 | Yes |
| | Sunshine Capital Investments Group Limited | Independent Non-executive Director and chairman of Audit Committee | March 2001 | November 2010 | Yes |
| | Grand T G Gold Holdings Limited | Independent Non-executive Director and chairman of Remuneration Committee | July 2009 | July 2012 | Yes |
| | Zhuhai City Commercial Bank Limited | Independent Director and chairman of Audit Committee | December 2009 | December 2012 | Yes |
| | Twin Wealth Holdings Limited | Consultant | October 2009 | October 2010 | Yes |
| Lei Huai Chin | GITI Tire (China) Investment Company Ltd. | Managing Director | June 2003 | Up to now | Yes |
| Li Bin | Shanghai Electric Hydraulic & Pneumatics Co., Ltd. | Head of the Production Line, Head of Product Test Team and Senior Technician | December 1980 | Up to now | Yes |
| Zhou Changsheng | Shanghai Shenggang Energy Sources Investment Co., Ltd. | Supervisor | May 2004 | Up to now | No |
| | Anhui Wuhu Nuclear Power Co., Ltd. | Chief Auditor | March 2009 | Up to now | No |
| Sun Wenzhu | Commercial real estate department of Hesheng Group | Vice President | April 2007 | Up to now | Yes |
| Zhu Bin | Shanghai Mechanical & Electrical Industry Co., Ltd. | Vice Chairman of the Board | May 2009 | May 2012 | No |

## Remunerations of Directors, Supervisors and Senior Management

1. Procedures to determine the remunerations of directors, supervisors and senior management: the remunerations of our directors and supervisors (non-employee representatives) of the Company are determined by the general meeting, while the remunerations of our 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 our 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 our supervisors (employee representatives) and senior management are determined based on their responsibilities and achievements according to the annual budget.

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

| Name of directors and supervisors not receiving remunerations and allowances from the Company | Receiving 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

   Currently, the Company does not have any share option arrangement.

## Changes of Directors, Supervisors and Senior Management of the Company

There was no change of the directors, supervisors or senior management of the Company during the reporting period.

### Appointment after the reporting period

On 3 February 2010, Mr. Zhu Bin was appointed as the Chief Operating Officer of the Company by a resolution at the 31 meeting of the second session of the Board, with a term commencing from 3 February 2010 to 15 November 2010.

## Employees of the Company

| | |
|---|---|
| Total number of employees | 29,168 |
| Number of retired employees for whom the Company is responsible for the retirement benefits | 324 |

**Headcount Structure**

| Expertise classification | Number of Employees |
|---|---|
| Production personnel | 16,725 |
| Sales personnel | 1,301 |
| Technical personnel | 6,492 |
| Financial personnel | 584 |
| Administration personnel | 4,066 |
| Total | 29,168 |

**Education Level**

| Degree | Number of employees |
|---|---|
| Postgraduate and above | 875 |
| Undergraduate | 6,417 |
| Tertiary education | 5,834 |
| Secondary education or below | 16,042 |

# Corporate Governance Report

## 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 2009.

## 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 has received the annual confirmations from such Directors and considered them to be independent.

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

The attendance of directors of the Board's meeting

| Name of directors | Independent Director | Required attendance in Board meetings during the year | Attendance in person | Attendance via communications | Attendance by proxy | Absence | Personal absence for two or more consecutive meetings |
|---|---|---|---|---|---|---|---|
| Xu Jianguo | No | 12 | 4 | 8 | 0 | 0 | No |
| Zhu Kelin | No | 12 | 2 | 8 | 2 | 0 | No |
| Huang Dinan | No | 12 | 1 | 8 | 3 | 0 | Yes |
| Zhang Suxin | No | 12 | 3 | 8 | 1 | 0 | No |
| Yu Yingui | No | 12 | 4 | 8 | 0 | 0 | No |
| Yao Minfang | No | 12 | 2 | 8 | 2 | 0 | No |
| Zhu Sendi | Yes | 12 | 4 | 8 | 0 | 0 | No |
| Cheung Wai Bun | Yes | 12 | 4 | 8 | 0 | 0 | No |
| Lei Huai Chin | Yes | 12 | 2 | 8 | 2 | 0 | No |

| | |
|---|---|
| Number of Board held during the Year | 12 |
| Of which: number of physical meetings | 4 |
| Number of meetings held via communications | 8 |

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 overcentralization 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, Mr. Lei Huai Chin and Ms. Yao Minfang, is chaired by Dr. Cheung Wai Bun, an independent non-executive director of the Company.

Seven meetings of the Audit Committee were convened on 6 January, 23 February, 1 April, 22 April, 12 August, 22 October and 28 December of 2009 respectively. During the meetings, 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 quarterly, interim and annual 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. Mr. Lei Huai Chin is the chairman of the Remuneration Committee.

A meeting of the Remuneration Committee was held on 22 April 2009 at which the Remuneration Committee made recommendations to the Board of Directors regarding the compensation policy for Board of Directors, supervisory committee and the senior management of the Company, and formulated proper remuneration procedures.

## 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 2009, 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 (the "Supervisory Committee") is a monitoring agency of the Company responsible for monitoring the Board of Directors and its members and senior management to avoid 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, the attendance at the meetings of the Supervisory Committee was as follows (no. of attendance/ number of meetings ought to attend):

| Name | The second session of Supervisory Committee |
|---|---|
| Xie Tonglun | 3/3 |
| Li Bin | 3/3 |
| Sun Wenzhu | 0/3 |
| Zhou Changsheng | 3/3 |

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

## Internal Control

On the basis of the legal and regulatory requirements with respect to the "Basic Standards of Internal Controls for Enterprises" issued by the Ministry of Finance, the Listing Rules of the Hong Kong Stock Exchange and the Shanghai Stock Exchange, the Board and the senior management of the Company place strong emphasis on the establishment and the perfection of the internal control system and has taken the initiative in establishing internal control mechanism in five aspects, namely internal environment, risk assessment, activities control, information and communication and internal supervision, and shall regularly review and persistently improve the implementation of the system for the purpose of ensuring its effective implementation.

The Company has established and optimized the working plan of internal control and has formulated regulatory mechanisms in every segment of business and every aspect of operation, covering corporate governance, significant investment, financial budget, audit, internal supervision, human resources, information exchanges and contract management. Such an initiative helps formulate an internal system which is to be followed in all aspect of work. Meanwhile, the Company has also established an effective evaluation and incentive system to allow the effective implementation of the internal control system. The Company, on the basis of the Company Ordinance and the Articles of Association of the Company, has established a perfect legal person management system and has formulated three effective rules for Board meetings. The Company, on the basis the business operation and the reasonable requirement on management, has established functional departments whose duties and responsibilities are clearly delineated and which will serve as a checking mechanism against each other. Such an development allows the Company, while formulating the business procedures, avoids, timely identifies and rectifies the major errors and deviance possibly occurred in the course of operation, ensures the legal compliance of the Company's operation management, maintains the safety and integrity of the Company's assets, improves the efficient and effective operation, promotes the Company in identifying the development strategies, establishes optimized financial system and ensures the truth, fairness and completeness of the financial reports and relevant information with a view to achieving the targets of the Company's internal control.

The Company has established Audit and Review Office to be responsible for the review and supervision of the internal control system, and will undertake annual review and evaluation over the integrity and effectiveness of the internal control system and propose advices on amendment and perfection so as to persistently enhancing the internal control standard of the Company.

In 2009, the Company engaged PricewaterhouseCoppers as the consultant of the Company in respect of internal control to rationalize the prevailing management system on the basis of "Basic Standards of Internal Controls for Enterprises" issued by the Ministry of Finance and has compiled the "Internal Control Handbook" with the support of its management experience on advance domestic and overseas enterprises and the Company's practical experience on internal control. This helps to promote the staff's awareness on internal control and the application of internal control and to establish a standardized regulatory criteria of self-evaluation under the internal control mechanism. To promote the effective implementation of the internal control system and establish healthy mechanism for persistent improvement, the Company's Audit and Review Office and PricewaterhouseCoppers formed a working group in 2009 for self-evaluate of the internal control system of the Company and its major subsidiaries for compliance with the requirements of C.2.1 of Appendix 14 of the Listing Rules and the scope of review covers all the important regulatory measures, including financial, operation and compliance control and risk management. The Company will continue to review the rectification of the defects revealed in the self-evaluation undertaken in previous year. Follow-up activities show that every department has put strong emphasis on rectification of defects and timely implemented measures of rectification while the awareness of internal control of management and staff has improved. The result of the aforementioned review was reported to the Audit Committee of the Company in a timely manner.

The Board of Directors of the Company reviews the self-assessment report with respect to the internal control of the Company annually and provides sound and comprehensive opinions accordingly. The review process has taken into account factors such as whether the accounting and financial reporting resources of the Company are sufficient, whether the Company has the services of staff with appropriate qualification and experience and whether the training of the relevant staff or the relevant budgets are enough. The Board of Directors also keeps updated on the implementation of various system and procedures of the Company through setting up the Audit Committee. The Audit Committee appoints internal audit units to review the progress of implementation of the internal control system of the Company periodically.

The Company has conducted self-assessment with respect to internal control during the year and the results revealed

that from 1 January 2009 to the end of the current reporting period, the Company did not have major defects in terms of the design and implementation of internal control measures.

## 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, assets, staff, 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 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 independent from the controlling shareholders. Production systems, auxiliary systems and auxiliary facilities are independently owned by the Company and none of the controlling shareholders has unauthorized access to the Company's capital, assets and other resources.

### 3. Staff Independence

The Company's staff are independently employed by the Company. The directors, supervisors, president, chief financial officer, chief operation officer, company secretary and secretary to the Board are appointed strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. The chief financial officer, the chief operation officer, company secretary and secretary to the Board do not have any position in the controlling shareholder or other companies under its control. The president, chief finance officer, chief operation officer, company secretary and secretary to the Board have not received any remuneration from the controlling shareholder or any companies under its control.

### 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 with the approval acquired in the general meeting of the Company 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 investors 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 2008 was convened on 23 June 2009. An announcement of the results of the annual general meeting is available on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.shanghai-electric.com).

**Extraordinary General Meeting**

The Extraordinary general meetings of 2009 were convened on 24 March 2009 and 25 November 2009. Announcements of the results of the extraordinary general meetings are available on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.shanghai-electric.com).

# Report of the Directors

## Operations review

2009 has been the toughest year in the development of the PRC economy since the start of the new century. However, since the beginning of the year, the Company has taken the right measures in a proactive and timely manner in response to the financial crisis, such as efforts in expanding sales, securing growth and cash, and has satisfactorily achieved all our economic targets. During the reporting period, we have fulfilled our annual budget plan and achieved steady growth in turnover of various core business segments

### Operating results of the core business segments

During the reporting period, the operating revenue from the core business segments of the Company maintained a growth trend under the concerted effort of the Group as a whole.

As the Company's traditional core competence business segment, the power equipment division steadily enhanced its competitiveness. In 2009, the power equipment division recorded sales revenue of RMB36,015 million, representing an increase of 6.0% over the last year. As at the end of the period under review, the value of the EPC project orders on hand amounted to over RMB60,000 million, of which the value of our overseas projects being over 80%. During the reporting period, the Company emerged as one of the first PRC exporters of wind power equipment of over 1 MW capacity and its revenue from the sale of wind power units reached RMB1,244 million, representing a year-on-year increase over 30%. Meanwhile the core design team of the Company has commenced the in-house development of 3.6 MW offshore wind power unit. In 2009, the gross profit margin of the power equipment segment was 14.0%, a decrease of 3.3 percentage points as compared with the last year, which was mainly due to the following two reasons: (1) since the production time for large-scale power units is long, the raw materials used in our production finished in 2009 were purchased in 2008 when the prices for the raw materials were high; and (2) the sales of large capacity and high parameters units, which has a lower gross profit margin and the contracts for which were entered into during the previous years, expanded in 2009, therefore reducing the overall gross profit margin of the power equipment division. The operating profit of the power equipment segment amounted to RMB1,627 million, representing a decrease of 26.3% from the last year, which was mainly due to the drop in gross profit margin.

The electromechanical equipment division also enjoyed a steady growth. In 2009, the electromechanical equipment segment recorded sales revenue of RMB13,177 million, representing a growth of 1.1% as compared with the last year. Despite severe market competition, the elevator equipment business of this division built on its strengths in terms of technological expertise and services and maintained rapid growth in sales revenue and economic efficiency. During the reporting period, the elevator business of the Company recorded sales of RMB8,336 million, a year-on-year increase of 8.1%. In order to further expand the market, the Company commenced the construction of a new escalator production plant in 2009. At the same time, the Company endeavored to develop its repair and maintenance business. Leverage on the nation-wide sales network, the repair and maintenance business achieved a sales of over RMB1,300 million in 2009, jumped up by 14.3% from the last year. The gross profit margin of the electromechanical equipment division was 18.7%, representing an increase of 0.7 percent, which was mainly attributable to product mix changes of certain businesses such as Machine Tools in this division. In 2009, the operating profit of the electromechanical equipment segment amounted to RMB754 million, representing a year-on-year decrease of 21.7%, which was mainly due to a rise in expenses incurred for adjustment of some of the non-core businesses of the electromechanical division.

Through the continuous investment and construction in recent years, the heavy machinery division has entered a fast-growing phase. This division recorded sales revenue of RMB5,809 million, which posted a year-on-year growth of 13.2%. Synergy was achieved through the centralization of our production facilities for nuclear power nuclear islands in our Lingang production base and we remain to be the only manufacture and supplier in China for reactor vessel internals and control rods drive mechanisms in nuclear island while our production capacity of steam generators, pressurizers and pressure vessels has been further expanded. Meanwhile, we have jointly established Shanghai Electric-KSB Nuclear Valve Co., Ltd. and achieved a breakthrough in the field of nuclear power main pumps with the taking of orders for 4 main pumps in the 650,000 KW nuclear power unit in Changjiang. In 2009, the gross profit margin of the heavy machinery division reached 14.3%, increased by 0.3 percent from last year while the operating profit of the heavy machinery division amounted to RMB266 million, representing a decrease of 4.0%, which was mainly due to: (1) our expanded research and development investment aimed at promoting our

proprietary research and development ability of large forging pieces for nuclear power nuclear island equipment; and (2) a rise in expenses incurred for adjustment of certain non-core businesses of this division.

In 2009, the transportation equipment division recorded sales revenue of RMB939 million, representing a year-on-year decrease of 79.0%; the gross profit margin was 10.2%, a drop of 4.4 percent from the last year. In 2009, the operating profit of the transportation equipment division amounted to RMB43 million, representing a year-on-year decrease of 67. 2%. The fall in the above financial indicators was mainly due to the disposal of the diesel engine business by the Company by the end of 2008.

For the environmental systems division, the sales revenue for 2009 was RMB2,370 million, representing a year-on-year decrease of 26.4%, which was mainly due to a significant drop in demand of European customers, the major export market for our solar power products, which was severely hit by the financial crisis.

## Steady progress in the commercialization of high and new technologies

In view of the national strategy to commercialize high and new technologies, the Company focused its attention on power equipment and advanced heavy equipment areas. The hot-processing modification project at Shanghai Heavy Machinery Plant, a subsidiary of the Company, was completed during the reporting period and set three world records in respect of a 16,500 MT free style oil hydraulic press, a forging control machinery controller and a 450 MT electroslag remelting furnace. The Company has commenced the phase II construction project at Lingang nuclear power equipment production base, which will provide the Company with an annual production capacity of 4 to 6 steam generators, pressure vessels and pressurizers as well as 8 to 10 reactor vessel internals and control rod drive mechanisms upon completion. The Company participated in Huaneng's exemplary Tianjin eco-friendly IGCC power plant project, which will become the first 250MW IGCC power generation unit in the PRC. The first 1,000 MW ultra super critical extractions steam turbine has been installed and commenced operation with satisfactory performance indices, while an experimental project of 1,200 MW ultra super critical unit has been formally launched.

## Significant advancement achieved in the new energy equipment business

Through consolidation of resources and continual adjustment in our business structure, our new energy equipment business, such as the nuclear power and wind power divisions, as well as the power station engineering business has achieved rapid growth. The value of nuclear power nuclear island and conventional island orders on hand amounted to approximately RMB34,900 million, while the first order for nuclear power main pump was received. In 2009, the nuclear power nuclear island equipment business realized rapid growth and recorded sales revenue of over RMB1.8 billion, representing a year-on-year growth of over 80%. During the reporting period, the sales revenue of our wind power equipment increased by over 30% from the last year.

## New breakthrough achieved in overseas markets

The Company has achieved new breakthrough in the overseas markets. During the reporting period, the Company successfully obtained the engineering project for two sets of 660 MW thermal power generation equipment in Botswana, Africa, with a contract value of US$1,956 million which represented the single largest project contract undertaken by the Company as of the date hereof. At the same time, the overseas power station engineering business of the Company shifted its focus to middle and high-end market. As at the end of the period under review, the value of the overseas orders on hand amounted to over about RMB50 billion and made us one of the leaders in the global power station engineering industry. During the reporting period, the elevator products of the Company were sold to over 60 countries with an export value of over US$50 million, representing a year-on-year increase of 7.2%.

## A good start in the establishment of world-class production plants

The establishment of world-class production plants marks the first step of the internationalization and implementation of the development strategy of Shanghai Electric. The Company has unequivocally set the establishment of world-class plants as its strategic goal and has prepared a specific plan of establishing world-class plants through cooperating with suitable international enterprises and the internal strengths of the Company. We fully understand the importance of not only the hardware, but also the software and human resources to world-class production plants. Shanghai Electric Power Generation Equipment Co., Ltd., a subsidiary of the Company, has implemented JIT production model, optimized the techniques and processes, reduced production costs and established a technical system that meets the advanced production management and manufacturing standards through cooperating with Siemens' plants in Charlotte, Orlando and Mülheim.

**Formal launch of A shares financing**

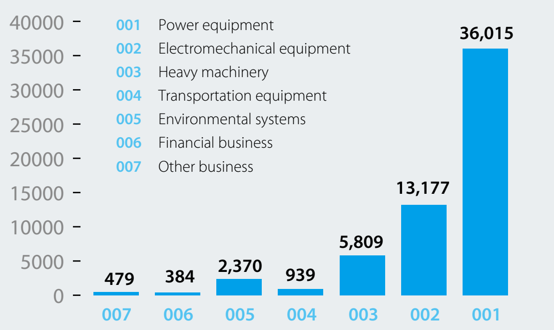
During the reporting period, the Company has submitted the application for a non-public offer of A shares.The proposal was conditionally approved by the listing review committee（發行審核委員會) of China Securities Regulatory Commission on 15 March 2010. The expected proceeds from this non-public offer of the Company will not exceed RMB3,556 million, in which RMB2,756 million will be used as project investments and the balance will be used to replenish our working capital. The proceeds from this fund-raising activity will be applied mainly to our core businesses, such as the nuclear power equipment, wind power equipment and heavy machinery segments, in order to further enhance the core competitiveness of the Company.

## Principal activities and operation review of the Company

### 1. Review of the principal activities by industries and products

RMB million

| 2009 | Revenue | Costs of Sales | Gross Profit Margin | Year-on-year Change of Revenue | Year-on-year Change of Costs of Sales | Year-on-year Change of Profit Margin |
|---|---|---|---|---|---|---|
| Power equipment | 36,015 | 30,987 | 14.0% | 6.0% | 10.2% | -3.3percent |
| Electromechanical equipment | 13,177 | 10,720 | 18.7% | 1.1% | 0.3% | 0.7percent |
| Heavy machinery | 5,809 | 4,978 | 14.3% | 13.2% | 12.8% | 0.3percent |
| Transportation equipment | 939 | 843 | 10.2% | -79.0% | -77.9% | -4.4percent |
| Environmental systems | 2,370 | 2,220 | 6.3% | -26.4% | -27.7% | 1.6percent |
| Financial business | 384 | 233 | 39.3% | -10.9% | -3.6% | -4.6percent |
| Other business | 479 | 393 | 18.0% | -14.8% | -15.7% | 0.9percent |
| Elimination | -1,551 | -1,602 | -3.3% | -12.2% | -10.0% | -2.5percent |
| Total | 57,622 | 48,772 | 15.4% | -2.4% | -0.5% | -1.6percent |




Revenue

### 2. Review of the principal activities by geographical areas

RMB million

| Geographical Areas | Sales Revenue | Year-on-year Change of Sales Revenue (%) |
|---|---|---|
| Domestic | 48,269 | -3.8 |
| Overseas | 9,353 | 5.3 |
| Total | 57,622 | -2.4 |

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 15.2% of the total sales.

## 3. Analysis of the financial position

(1) Items in the statement of financial position

RMB million

| Items | Amount | | Proportion in total assets | | |
|---|---|---|---|---|---|
| | End of period | Beginning of period | End of period | Beginning of period | Change (%) |
| Cash and cash equivalents | 14,810 | 12,707 | 16.5% | 15.5% | 1.0 |
| Trade receivables | 13,614 | 11,430 | 15.2% | 14.0% | 1.2 |
| Prepayment, deposit and other receivables | 10,039 | 8,761 | 11.2% | 10.7% | 0.5 |
| Inventories | 19,532 | 21,372 | 21.8% | 26.1% | -4.3 |
| Properties, plants and equipment | 12,279 | 11,312 | 13.7% | 13.8% | -0.1 |
| Trade payables | 12,818 | 9,998 | 14.3% | 12.2% | 2.1 |
| Other payables and accruals | 39,038 | 35,321 | 43.6% | 43.1% | 0.5 |
| Short-term interest bearing and other borrowings | 901 | 667 | 1.0% | 0.8% | 0.2 |
| Long-term interest bearing and other borrowings | 1,342 | 1,537 | 1.5% | 1.9% | -0.4 |
| Bond payable | 1,000 | 1,000 | 1.1% | 1.2% | -0.1 |
| Total liabilities | 60,562 | 53,902 | 67.6% | 65.8% | 1.8 |
| Total equity | 29,064 | 27,976 | 32.4% | 34.2% | -1.8 |
| Total assets | 89,626 | 81,878 | 100.0% | 100.0% | 0.0 |

The proportion of trade receivables in our total assets at the end of the year increased by 1.23 percent from the beginning of the year mainly due to the difficulty faced by the Group in recovering the receivables in 2009 under the influence of the macro-economic factors and condition of the industry. In addition, the increase in trade receivables was also caused by an increase in retention money.

The proportion of inventories in our total assets at the end of the year decreased by 4.3 percent from the beginning of the year, as many units with large capacity and high parameters were finished and delivered during the year.

Trade payables as a percentage of the total assets increased by 2.1 percent as compared to the beginning of the year, mainly because certain assets purchased for engineering projects were still under the warranty period.

(2) Items in the income statement

RMB million

| | 2009 | 2008 | Change | Change (%) |
|---|---|---|---|---|
| Revenue | 57,622 | 59,058 | -1,436 | -2.4 |
| Other income and gains | 895 | 948 | -53 | -5.6 |
| Share of profits and losses of jointly-controlled ventures/associates | 621 | 448 | 173 | 38.6 |
| Income tax | 7 | 396 | -389 | -98.2 |
| Net profit attributable to owners of the parent | 2,453 | 2,566 | -113 | -4.4 |

a) Other income and gains decreased by 5.6% from 2008 mainly due to the drop in investment gains of financial business.

b) Share of profits and losses of jointly-controlled ventures/associates increased by 38.6% over 2008, mainly due to the improved results recorded by the associated companies under the power equipment division with the support of the stimulus package of the government.

c) Income tax expenses decreased by 98.2% from 2008 mainly due to a decrease in taxable profits and the preferential tax treatments enjoyed by various entities.

(3) Items in the statement of cash flows

RMB million

| Items | 2009 | 2008 | Change |
|---|---|---|---|
| Net cash flow generated from operating activities | 6,897 | 3,089 | 3,808 |
| Net cash flow generated from investment activities | (2,143) | (2,657) | 514 |
| Net cash flow generated from financing activities | (2,658) | (695) | (1,963) |
| Effect of foreign exchange rate changes, net | 16 | (58) | 74 |
| Total | 2,112 | (321) | 2,433 |

a) Net cash inflow from operating activities increased by RMB3,808 million from 2008 mainly due to a substantial decrease in inventories.

b) Net cash outflow from investment activities decreased by RMB514 million from 2008.

c) Net cash outflow from financing activities increased by RMB1,963 million from 2008 mainly due to the distribution of dividends of 2007 and 2008 amounting to RMB1,463 million by the Company to the shareholders in 2009.

(4) Source of Funding and Indebtedness

As at 31 December 2009, the Group had aggregate bank and other borrowings and bonds of RMB3,244 million (2008: RMB3,204 million), an increase of RMB400 million from the beginning of the year. Borrowings repayable within one year were RMB901 million, representing an increase of RMB235 million. Borrowings and debentures repayable after one year were RMB2,342 million, representing a decrease of RMB194 million compared with the beginning of the year.

As of 31 December 2009, except for unsecured bank loans of US$833,000 (2008: US$833,000) in aggregate, which were equivalent to RMB5,688,000 (2008: RMB5,844,000); of HKD52,000,000 (2008: HKD50,000,000) in aggregate, which were equivalent to RMB45,786,000 (2008: RMB44,095,000); of EUR1,839,000 (2008: EUR4,362,000) in aggregate, which were equivalent to RMB18,017,000 (2008: RMB46,342,000); of ZAR59,000 (2008: ZAR100,000) in aggregate, which were equivalent to RMB55,000 (2008: RMB81,000), and of JPY6,288,000,000 (2008: JPY622,000,000) in aggregate, which were equivalent to RMB463,941,000 (2008: RMB46,171,000), all other borrowings are denominated in Renminbi.

As at 31 December 2009, 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 10.0%, a decrease from 10.3% at the beginning of the year.

(5) Pledge of Assets

As at 31 December 2009, bank deposits of RMB867 million (2008: RMB1,403 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 RMB15 million as at 31 December 2009 (2008: RMB59 million).

(6) Contingent Liabilities

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

(7) Capital Commitment

Please refer to note 51 to the consolidated financial statements prepared according to the Hong Kong Financial Reporting Standards for details.

## 4. Operations review and result analysis of the major subsidiaries and investee companies of the Company in accordance with PRC GAAP

RMB million

| Company name | Interest | Major products or services | Registered capital | Total assets | Net assets | Net profit |
|---|---|---|---|---|---|---|
| Shanghai Electric Power Generation Equipment Co., Ltd. | 66.30% | Manufacture and sale of power generation equipment | US$239 million | 16,535 | 3,172 | 572 |
| Shanghai Mechanical and Electrical Industry Co., Ltd. | 47.28% | Production and sale of elevators and electromechanical equipment | 1,023 | 13,112 | 6,768 | 807 |
| Shanghai Electric Group Finance Co., Ltd. | 81.01% | Provision of financial services to group members | 1,500 | 22,124 | 2,726 | 220 |
| Shanghai Heavy Machinery Plant Co., Ltd. | 100% | Sale of metallurgy materials, spare parts, power station equipment and anti-pressure containers | 1,206 | 6,964 | 2,006 | 257 |
| Shanghai Boiler Works, Ltd. | 100% | Sales of power station boilers, industrial boilers and power station equipment | 108 | 15,502 | 1,227 | 521 |

## Future development and outlook of the Company

### 1. Outlook and development plans

2010 is the last year in the "Eleventh Five Year Plan" as well as the year of the Shanghai Expo. Following the outburst of the financial crisis, the Company will actively build on our advantages to achieve restructuring and development, surmount challenges and grasp opportunities in the forthcoming "post-crisis" era.

Looking forward, factors favorable to the development of the Company include: (1) our secured orders. As at the end of 2009, orders on hand of the power equipment division were approximately RMB190billion, which equaled to 5 times the sales revenue of our power equipment in 2009; orders on hand of the heavy machinery division amounted to over RMB26 billion, which equaled to 4 times the sales revenue of our heavy equipment in 2009. In view of our orders on hand in the domestic nuclear power market, it is expected that 2011 and 2012 will be the peak of the delivery of nuclear power equipment by the Company; (2) more development opportunities lie ahead in the new energies (such as nuclear and wind) power equipment market; and (3) our strength against cyclical fluctuation has been further enhanced. After years of structural adjustment, we have developed new sources of growth, such as power station EPC, nuclear power and wind power equipment businesses, and such businesses have achieved economies of scale and started to provide returns. The ability of the Company to mitigate cyclical market fluctuation has been enhanced.

In 2010, the Company will emphasize on the following aspects:

(1) Encourage healthy operation of the Company
In 2010, the Company will further enhance its operational standards and profitability and adjust its development model while maintaining growth. In addition to sustaining sales and profit growth, we will also continue to improve our turnover rate of trade receivables and inventories, reduce trade receivables and inventories as a proportion of our sales revenue and lower the total amount of external guarantee. Being a modern large-scale equipment manufacturing conglomerate, we will continue to make appropriate and targeted investments to our core and major businesses.

(2) Fully utilize our overall competitive strengths
We aim at enhancing our strengths, supporting the development of our core business divisions, achieve growth across the Group and fully utilize our overall competitive strengths and advantages through establishing our world-class production plants. We will continue to study the world-class facilities in all core business segments. Through perfecting our management systems, we will put more efforts in identifying sources of new technologies, nurturing human resources and enhancing our advanced machinery. We will follow a new development path that endeavor "to achieve scientific development based on technological advancement" instead of the tradition path that focus on the hardware and plant but overlook the software and machinery.

(3) Enhance our technical and innovation capability
The Company targets on improving its competitiveness by boosting its technological innovation and development. In respect of the power equipment division, we will study imported technologies and reinvent them in order to launch innovative products such as ultra super critical thermal power generators and heavy gas turbines engines through technological development. Regarding the nuclear island segment, we will encourage in-house innovation and proceed with the phase two construction of the Lingang nuclear power equipment production base aggressively with the aim of building up an annual production capacity of 4 to 6 steam generators, pressure vessels and pressurizers as well as 8 to 10 reactor vessel internals and control rod drive mechanisms by 2012. With respect to the heavy machinery division, we will strive to overcome our bottleneck in terms of large forging parts so as to basically complete the technical development of AP1000 forging parts and forging parts for thermal power equipment with mega-kilowatt capacity in 2010.

(4) Improve our globalized operation capacity
We will adhere to an "go international" strategy that aims at accelerating the pace of our business development by utilizing all kinds of overseas resources. The Company will identify overseas merger and acquisition targets that fit our development strategy that focuses on enhancing our standard and capacity of operating internationally. We will seek financing abroad in order to utilize global resources in conducting our overseas projects and achieve breakthrough in underpinning the business development of our core industries..

## 2. Capital utilization plan

In view of new economic situation and market changes, we will continue to maintain investment momentum, control investment scale at appropriate level and make focused investment in a scientific and careful manner. We will gradually apply our funds in our core and key business divisions in accordance with our scientific planning. In 2010, the Company will proceeds from the non-public offer of A share exercise and will strengthen and rationalize the application of the fund-raising proceeds in order to ensure the effective implementation and advancement of the investment projects that use the proceeds, reinforce the tracking and evaluation of the progress of the projects and enhance the efficiency and returns of the usage of the proceeds so as to provide better investment returns to the shareholders.

### 3. Operational risks and strategies

(1) Challenges posed for the business development of the Company by the uncertainties in the macro-economy

In response to the challenges, the Company will study and evaluate the potential effect of the global and domestic macro-economic trends on the Company. We will stay alert to the possible fluctuation resulting from the economic crisis and response actively to the challenges brought by the changes in the domestic and international markets and formulate response strategies in a timely manner.

(2) Risk of increasing external costs

The PRC may encounter inflation problem in 2010, which is evidenced by a recent price hike set by the steel producers. In addition, an increase in interest rates is also expected to have an effect on the cost of capital of the Company.

In response to such risk, the Company will implement three measures, namely the centralized procurement of heavily used materials, advanced purchasing of certain key raw materials, components and parts used by the nuclear power nuclear island division which were in shortage in the market, and seek and nurture suppliers with a view to build up long-term cooperative and achieve win-win relationship.

(3) Risk of declining demand in the domestic thermal power generation equipment market

It is anticipated that following the arrival of a "low carbon" era, the domestic demand and orders for thermal power equipment will subside as compared with previous years. The Company is fully aware of this risk and has already implemented various strategies such as exploring the overseas EPC markets in the developed countries under the cooperation with Siemens and aggressively expanding the nuclear power and wind power equipment businesses with a view to mitigating the impact of the decline in demand in the domestic thermal power market.

(4) Foreign exchange risk posed for the overseas operations of the Company

During the reporting period, the Group's businesses and assets were subject to foreign exchange risk as the amount of overseas orders has been on the rise in tandem with the expansion of our overseas operations. As a result, fluctuation in exchange rates and the increasing amount of exchange transactions impose risk on the profitability of the Company.

In response thereto, the Company will implement the following proactive measures. On one hand, the Group will establish a foreign currency cash pool on the group level in order to unify the deployment of the foreign exchange balances of each subsidiary so as to reduce the foreign exchange transaction cost. On the other hand, leverage on the status of the Company as one of the first trial enterprises to effect RMB cross-border settlement, the Company will actively negotiate with foreign customers in order to secure RMB-dominated purchase orders in order to mitigate our foreign exchange risk. We will also develop our foreign exchange futures settlement and selling operation so as to minimize the possible adverse effect of foreign exchange fluctuation on the Company.

## Investment of the Company

### 1. Use of proceeds raised from capital market

During the reporting period, the Company has not raised any proceeds or applied any proceeds raised in prior periods.

### 2. Major projects not involving the use of proceeds raised from capital market

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

| Project name | Amount (RMB hundred million) | Progress |
|---|---|---|
| Acquisition of 50% interests in Shanghai Pulux Machinery Co., Ltd., 50% interests in Shanghai Guanghua Printing Machinery Co., Ltd. and 50% interests in Akiyawa International Corporation. | 3.17 | Relevant changes in business registration have been completed |
| Office building of the Company's power station group owned by Shanghai Diamond Electric Development Co., Ltd. | 1.56-1.72 | In progress |

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

For details please refer to the notes to the financial statements "2.2 Changes in Accounting Policy and Disclosures".

## 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 RMB2,475,292,000 and the retained earnings in prior years amounted to RMB1,614,894,000. After transfer to surplus reserve for 2009 and dividends for 2008, profit attributable to equity holders amounted to RMB2,379,257,000. As audited by Ernst & Young Hua Ming, the Group's profit attributable to owners of the parent set out in the consolidated financial statements prepared in accordance with the PRC GAAP amounted to RMB2,501,270,000. As audited by Ernst & Young, the Group's profit attributable to owners of the parent set out in the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards amounted to RMB2,453,448,000.

Proposed profit appropriation for 2009 in accordance with the Articles of Association and relevant requirements of the PRC: Cash dividend of RMB0.0588 (tax inclusive) per share. Based on the total 12,507,686,405 shares of the Company, a total of RMB735,452,000 will be paid out as dividends.

## Other information

### Pre-emptive rights

According to the Articles of Association and the Company Law in the People's Republic of China (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 shareholdings.

### 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 management 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 maintained sufficient public float as at the date of this report.

# Report of the Supervisory Committee

## Working progress of the Supervisory Committee

| | |
|---|---|
| Number of meetings held | 3 |
| Meetings of the Supervisory Committee | Subject matters of the meeting of the Supervisory Committee |
| The Company convened the sixth meeting of the second session of the Supervisory Committee on 23 April 2009 | Work Report of the Supervisory Committee of the Company for 2008, 2008 Annual Report of the Company, written review opinion of the Supervisory Committee on 2008 Annual Report of the Company, report for the first quarter of 2009 of the Company, written review opinion of the Supervisory Committee on the report for the first quarter of 2009 of the Company, self-assessment report on internal control of the Company for 2008, social responsibility report of the Company for 2008. |
| The Company convened the seventh meeting of the second session of the Supervisory Committee on 14 August 2009 | Half-year report of the Company for 2009, written review opinion of the Supervisory Committee on the half-year report of the Company for 2009, the management system of external guaranteed business of Shanghai Electric Group Company Limited |
| The Company convened the eigth meeting of the second session of the Supervisory Committee on 23 October 2009 | Report for the third quarter of 2009 of the Company, written revierw opinion of the Supervisory Committee on report for the third quarter of 2009 of the Company |

## 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 in the course of 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 2009, 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, prepayment, inventories and large sum of fund for which the Company has high regard and perk up the gross profit margin. In addition, the supervisors have reviewed the financial reports of the Company and considered that the financial budget, final accounts, annual report, interim report and quarterly report of the Company are true and reliable.

## Independent opinions of the Supervisory Committee on the actual use of capital raised by the Company from the last capital raising activity

The Supervisory Committee is of the view that the capital raised by the Company from the last capital raising activity 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.

# Significant Events

## Equity interests in other listed companies and other important issues

### 1. Equity interests in other listed companies

Unit: RMB

| Stock code | Stock abbreviation | Initial investment cost | Percentage of shareholding in the relevant companies ( % ) | Book value as at the end of the period | Profits and Losses during the reporting period | Equity change of owners during the reporting period | Accounting classification | Source of shares |
|---|---|---|---|---|---|---|---|---|
| 600642 | Shenergy | 2,800,000 | 0.06 | 20,484,000 | - | 7,276,500 | Financial assets available for sale | Purchase |
| 601328 | BOCOM | 5,893,780 | 0.01 | 44,728,063 | - | 16,539,816 | Financial assets available for sale | Purchase |
| 600000 | SPDB | 767,760 | 0.02 | 41,390,680 | - | 19,830,615 | Financial assets available for sale | Purchase |
| 600845 | Baosight | 4,912,000 | 0.51 | 42,606,000 | - | 17,272,150 | Financial assets available for sale | Purchase |
| 600610 | SST China Textile Machinery Co., Ltd | 760,000 | 0.10 | 4,924,920 | - | 429,000 | Financial assets available for sale | Purchase |
| 600643 | Shanghai AJ Corporation | 163,400 | 0.01 | 870,677 | - | 838,169 | Financial assets available for sale | Purchase |
| 600082 | Tianjin Hi-Tech Development Co., Ltd. | 270,000 | 0.05 | 2,709,720 | - | 944,190 | Financial assets available for sale | Purchase |
| 600618 | SCAC | 1,240,008 | 0.03 | 2,927,232 | - | 1,397,550 | Financial assets available for sale | Purchase |
| 600633 | Shanghai Whitecat Shareholding Co., Ltd. | 7,471,992 | 1.44 | 17,288,568 | - | 4,749,426 | Financial assets available for sale | Purchase |
| 000501 | Wu Han Department Store Group Co. Ltd. | 353,609 | 0.03 | 2,217,142 | - | 1,101,111 | Financial assets available for sale | Purchase |
| 600665 | Tande Co., Ltd. | 1,399,200 | 0.09 | 4,395,600 | - | 1,871,100 | Financial assets available for sale | Purchase |

### 2. Equity interests in unlisted financial institutions

| Name of institution | Initial investment cost (RMB) | Number of shares held (Shares) | Percentage of shareholding in the relevant companies (%) | Book value as at the end of the period (RMB) | Profits and Losses during the reporting period (RMB) | Equity change of owners during the reporting period (RMB) | Accounting Classification | Source of shares |
|---|---|---|---|---|---|---|---|---|
| Shenyin Wanguo | 10,956,465 | 14,138,280 | 0.34 | 8,855,000 | 857,000 | - | Long term equity investment | Purchase |

### 3. Purchase and Sale of other listed companies

| Buy/sell | Name of shares | Initial number of shares (Shares) | Number of shares bought/sold during the reporting period (Shares) | Number of shares as at the endof the period (Shares) | Amount of capital used (RMB) | Investment gains delivered (RMB) |
|---|---|---|---|---|---|---|
| Sell | Shanghai Jiabao Industry & Commerce (Group) Co.,ltd. | 748,800 | 748,800 | 0 | 0.00 | 4,682,870.06 |
| Sell | Shanghai Whitecat Shareholding Co., Ltd. | 2,336,400 | 145,200 | 2,191,200 | 0.00 | 447,612.16 |
| Sell | SCAC | 568,700 | 229,900 | 338,800 | 0.00 | 166,141.85 |
| Sell | Shanghai Chengtou Holding Co., Ltd. | 126,500 | 126,500 | 0 | 0.00 | 1,178,777.97 |

## Connected transactions and continuing connected transactions:

According to the Listing Rules, the details of the connected transactions and continuing connected transactions between the Company and its subsidiaries( the "Group") and the connected persons during the year ended 31 December 2009 are set out as follows:

### Connected transactions

On 23 October 2009, the Group and Shanghai Electric (Group) Corporation ("SE Corporation") entered into an agreement, pursuant to which, SE Corporation agreed to make capital contribution to Akiyama International Corporation ("AIC") in the amount of JPY2.7 billion, equivalent to approximately RMB192,000,000. Upon completion of the capital injection, the registered capital of AIC will be increased from JPY1.05 billion to JPY3.75 billion. The equity interest of AIC will be held as to 90% by SE Corporation and AIC will cease to be a subsidiary of the Group. Up to now, the capital injection has not been completed.

On 23 October 2009, Shanghai Magine Machine Tool Co., Ltd. ("SMMT"), a wholly-owned subsidiary of the Group, and SE Corporation entered into various agreements, pursuant to which, SMMT would dispose its 100% equity interest in Shanghai No.3 Machine Tools Plant and 100% equity interest in Shanghai Meter Machine Tools Plant to SE Corporation at a cash consideration of RMB94,326,000 and RMB8,030,000, respectively. Up to now, the transactions have not been completed.

On 3 September 2009, the Group and Siemens Ltd. China ("Siemens") entered into an agreement, pursuant to which, Siemens agreed to make unilateral capital contribution to Shanghai Electric Power Generation Equipment Co., Ltd. ("SEPGE") in an amount of RMB712,000,000. Upon completion of the capital injection, the registered capital of SEPGE will be increased from USD239,375,000 to USD264,792,000. SEPGE will continue to be a subsidiary of the Group and the equity interest of SEPGE will be held as to 60% by the Group indirectly and as to 40% by Siemens. Up to now, the capital injection has not been completed.

### Continuing Connected transactions

#### Framework land lease agreement and revised framework land lease agreement

The Company entered into a framework land lease agreement dated 1 January 2005 with SE Corporation, pursuant to which SE Corporation agrees to lease (either by itself or through its subsidiaries) parcels of land with a total area of approximately 2,110,954 square meters to the Group.

On 6 January 2009, the Company entered into a revised framework land lease agreement with SE Corporation, pursuant to which the approved annual caps for rental payable to SE Corporation by the Group for each of the three years ending 31 December 2011 are revised to RMB35 million.

The revised framework land lease agreement are entered into in the ordinary course of business of the Group and are on normal commercial terms by considering the market rental rates of comparable land space within the same area and have taken into account the possibility that the market price for the relevant land space may be increased in the next three years.

The term of each lease is either 20 years, or the remaining term of operation of the Group's joint venture that occupies the relevant premises in the event that the remaining term of operation of the relevant joint venture is less than 20 years. Rental payment is to be reviewed and adjusted every three years, taking into account market conditions and should not be higher than the rent applicable to a third party tenant.

For the year ended 31 December 2009, the rental paid or payable to SE corporation was RMB22 million.

## Framework sale agreement and supplemental framework sale agreement

The Company entered into a framework sale agreement and a supplement framework sale agreement with SE Corporation on 28 March 2005 and 13 April 2007, respectively, pursuant to which the Group agrees to sell (on a non-exclusive basis) certain products from its various business divisions, both finished and semi-finished, to SE Corporation and its connected persons (the "Parent Group").

On 25 April 2008, the Company entered into a framework sale agreement with SE Corporation in relation to the sale (on a non-exclusive basis) of certain component parts, equipment and raw materials to the Parent Group. The framework sale agreement extends the existing supplemental framework sales agreement signed on 13 April 2007 and covers a period up to the financial year ending 31 December 2010. The relevant annual caps for the sales of certain products to the Parent Group by the Group for each of the two years ending 31 December 2010 are determined to be RMB3,200 million and RMB3,600 million, respectively.

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

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

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

For the year ended 31 December 2009, the Group's sales to the Parent Group amounted to RMB489.27 million.

## Framework purchase agreement and supplemental framework purchase agreement

The Company entered into a framework purchase agreement and a supplement framework purchase agreement with SE Corporation on 28 March 2005 and 29 June 2006, respectively, pursuant to which the Group agrees to purchase (on a non-exclusive basis) certain raw materials, component parts and equipment from the Parent Group.

On 25 April 2008, the Company entered into a framework purchase agreement with SE Corporation in relation to the purchase (on a non-exclusive basis) of certain component parts, 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 extends the existing supplemental framework purchase agreement signed on 29 June 2006 and covers a period up to the financial year ending 31 December 2010. The relevant annual caps for the purchase of certain component parts, equipment and raw materials for each of the two years ending 31 December 2010 are determined to be RMB2,430 million and RMB2,670 million, respectively.

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

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

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

For the year ended 31 December 2009, the Group's purchases from the Parent Group amounted to RMB1,041.40 million.

## Framework financial services agreements

On 25 April 2008, the Company entered into various framework financial services agreements with SE Corporation, pursuant to which Shanghai Electric Group Finance Co., Ltd. ("Finance Company"), a subsidiary of the Company, provides deposit and loan services to the Parent Group. On 6 January 2009, the Company entered into a framework guarantee agreement with SE Corporation, pursuant to which Finance Company provides guarantee services to the Parent Group.

The above framework financial service agreements are entered into in the ordinary course of business of the Group and are on normal commercial terms. The term of the framework financial services agreements is two years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term and may be terminated by either party to the agreement by giving three months' notice.

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

(i) Framework deposit agreement

Finance Company would provide deposit services to the Parent Group to allow the Parent Group to deposit funds with Finance Company. The approved annual caps, representing the maximum daily balance of funds (including interests) that may be so deposited, for each of the two years ending 31 December 2010 are 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 ("PBOC"); and
- with reference to the relevant savings rates set by PBOC from time to time and are in line with the market rates.

For the year ended 31 December 2009, the maximum daily balance of funds (including interests) placed by the Parent Group did not exceed the approved annual cap. In addition, the interest from Finance Company for deposits placed by the Parent Group amounted to RMB7.28 million for the year ended 31 December 2009.

(ii) Framework loan agreement

Finance Company would provide loan services to the Parent Group and would pay the face value of bills presented by the Parent Group. The approved annual caps, representing the maximum daily outstanding balance of funds (including interests) and purchases of discounted bills, for each of the two years ending 31 December 2010 are RMB3,000 million and RMB3,000 million, respectively. The interest rates offered by Finance Company for all loan services and purchases of discounted bills provided to the Parent Group shall be:

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

For the year ended 31 December 2009, 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. In addition, the interest for loans provided to and discounted bills accepted from the Parent Group by Finance Company amounted to RMB52.99 million.

(iii) Framework guarantee agreement

Finance Company would provide guarantee services to the Parent Group with a one-off service charge. The relevant annual cap of the guaranteed amount and the one-off service charge for the guarantee service are determined to be RMB40 million and a certain percentage of not exceeding 0.2% of the guaranteed amount, respectively, for the year ended 31 December 2009.

The one-off service charge is equivalent to that currently charged by other independent financial institutions for guarantee services of similar nature and is in line with the current market rate. Such service fee rates offered by the Company will be no more favourable to the Parent Group than those provided by other independent financial institutions. Service charge is usually payable by the Parent Group to SE Finance at the beginning of provision of guarantees.

For the year ended 31 December 2009, 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 change for guarantees were lower than RMB1 million for the year ended 31 December 2009.

## Framework integrated services agreement

Pursuant to an agreement dated 28 March 2005 between the Company and SE Corporation, SE Corporation (either by itself or through its subsidiaries) provides various kinds of auxiliary services including labour secondment, property management, management of research centres and projects, water and electricity supply, auxiliary support, training and education, facility, security and maintenance services to the Group.

On 25 April 2008, the Company entered into a framework integrated services agreement with SE Corporation to amend and extend the existing framework integrated service agreement. The relevant annual caps for the total services value provided by the Parent Group for the three years ending 31 December 2010 are revised/determined to be RMB48 million, RMB58 million and RMB70 million, respectively. The pricing basis shall be:

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

The term of the framework integrated services 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 and may be terminated by either party to the agreement by giving three months' notice.

For the year ended 31 December 2009, the total value of various auxillary services provided by the Parent Group to the Company amounted to RMB30.44 million.

## Prime Machinery framework purchase agreement and supplemental framework purchase agreement

The Company entered into a framework purchase agreement and a supplement framework purchase agreement with Shanghai Prime Machinery Company Limited ("Prime Machinery"), a subsidiary of SE Corporation, on 31 March 2006 and 13 April 2007, respectively, pursuant to which the Group agrees to purchase (on a non-exclusive basis) certain parts and products from Prime Machinery and its subsidiaries (the "Prime Machinery Group").

On 25 April 2008, the Company entered into a framework purchase agreement with Prime Machinery in relation to the purchase (on a non-exclusive basis) of turbine blades, mechanical and related components by the Group and its connected persons. The relevant annual caps for purchase from Prime Machinery for each of the three years ending 31 December 2011 are determined to be RMB417 million, RMB535 million and RMB656 million, respectively.

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

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

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

For the year ended 31 December 2009, the Group's purchases from Prime Machinery Group amounted to RMB238.15 million.

**Continuing connected transactions with Shenergy**

On 3 June 2009, the Company entered into a framework sales agreement with Shenergy (Group) Company Limited ("Shenergy", a promoter of the Company), pursuant to which the Group may sell certain power equipment, accessories and ancillary services to Shenergy and its subsidiaries and associates ("Shenergy Group"). The annual caps of the estimated sales to Shenergy Group for the three years ending 31 December 2011 are RMB800 million, RMB850 million and RMB850 million, respectively.

The framework sales agreement is entered into on normal commercial terms and conducted in the ordinary course of business, and that the prices of products and service fees, as well as the other terms of such transactions are fair, reasonable and no less favourable to the Group than those offered to other third parties and are in the interest of the Company and the shareholders of the Company as a whole.

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 prior to the expiry of the term.

For the year ended 31 December 2009, the Group's sales to Shenergy Group amounted to RMB20.11 million.

**Guangdong Zhujiang framework sale agreement**

The Company entered into a framework sale agreement dated 13 April 2007 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 (the "Guangdong Zhujiang Group"). The approved annual caps for each of the three years ended 31 December 2009 are RMB700 million, RMB2,200 million and RMB3,000 million, respectively.

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

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

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

For the year ended 31 December 2009, the Group's sales to Guangdong Zhujiang Group amounted to RMB1,286.14 million.

**Continuing connected transactions with Siemens**

On 23 January 2009, the Company entered into a framework purchase and sales agreement with Siemens Aktiengesellschaft ("Siemens", who indirectly owns more than 10% of the registered capital in certain subsidiaries of the Company), pursuant to which the Group has agreed to purchase certain power generation, distribution and transmission related electrical and mechanical components from Siemens and its subsidiaries and associates ("Siemens Group") to be used in various projects and products of the Group, and the Group will sell certain power generation equipment and related components to Siemens Group. The relevant annual caps are forecasted as follows:

- RMB1,100 million, RMB1,300 million and RMB1,500 million for the purchases for the three years ending 31 December 2011, respectively; and
- RMB196 million, RMB7,035 million and RMB7,500 million for the sales for the three years ending 31 December 2011, respectively.

The prices of products to be sourced from or sold to Siemens Group are determined with reference to the then prevailing market price. The prices of products as well as terms of purchase and sale of equipment, related components and parts from and to the Siemens Group are fair, reasonable and no less favourable to the Group than those offered by or to other third parties and in the interests of the Company and the shareholders of the Company as a whole.

For the year ended 31 December 2009, the Group's purchases from and sales to Siemens Group amounted to RMB167.05 million and RMB45.51 million, respectively.

### Continuing connected transactions with Mitsubishi Electric

Mitsubishi Electric Corporation ("Mitsubishi Electric") holds more than 10% of the equity interest in Shanghai Mitsubishi Elevator Co., Ltd. ("SMEC"), being 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

SMEC entered into a framework purchase agreement with MESMEE dated 25 April 2008 in relation to the purchase of elevators, related components and services from MESMEE by SMEC. Pursuant to the agreement, the annual caps of the estimated relevant purchase for the three years ending 31 December 2010 were RMB250 million, RMB550 million and RMB800 million, respectively. On 29 December 2009, the Company has revised the relevant annual cap for the year ended 31 December 2009 from RMB550 million to RMB750 million. The price of products to be purchased from MESMEE is determined with reference to the then prevailing market price.

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

For the year ended 31 December 2009, the Group's purchases from MESMEE amounted to RMB631.60 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 from SMEC. Pursuant to the agreement, the annual caps of the estimated sales to MESMEE for the three years ending 31 December 2010 are RMB214 million, RMB320 million and RMB360 million, respectively. The price of products to be sold to MESMEE is determined with reference to the then prevailing market price.

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 and may be terminated by either party to the agreement by giving three months' notice.

For the year ended 31 December 2009, the Group's sales to MESMEE amounted to RMB45.23 million.

### Continuing connected transactions with Alstom Investment

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

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

On 25 April 2008, Alstom Transport entered into a supplemental framework purchase agreement with Alstom Investment to extend the expiry of the framework purchase agreement to 29 June 2011. The relevant annual caps for the purchase of equipment and related components from Alstom Investment for each of the two years ending 31 December 2010 are determined to be RMB442 million and RMB500 million, respectively.

For the year ended 31 December 2009, the Group's purchases from Alstom Investment amounted to RMB4.67 million.

### Shanghai MWB framework loan agreement

Finance Company entered into a framework loan agreement dated 25 April 2008 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, representing the maximum daily outstanding balance of funds (including interests) and purchase of discounted bills, for each of the two years ending 31 December 2010 are RMB130 million annually.

The interest rates offered by Finance Company for all loan services and purchases of discounted bills provided to Shanghai MWB shall be:

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

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

For the year ended 31 December 2009, the outstanding balance of loans (including interests) and purchases of discounted bills did not exceed the approved annual cap.

## Continuing connected transactions with KSB Aktiengesellschaft

KSB Aktiengesellschaft holds more than 10% of the equity interest in Shanghai Electric – KSB Nuclear Pumps and Valves Co., Ltd. ("SE KSB"), which is 55%-owned by the Company.

According to the announcement dated 23 October 2009, the Company determined the annual caps for various transactions between the Group and KSB Aktiengesellschaft. Details are as follows:

(i) Purchase from KSB Aktiengesellschaft
The Group will purchase equipment and components for nuclear power pumps and valves production and/or nuclear power pump and valves products and components from KSB Aktiengesellschaft. The relevant annual caps for the three years ending 31 December 2011 are RMB100 million, RMB150 million and RMB200 million, respectively.

(ii) Sales to KSB Aktiengesellschaft
The Group will sell electromechanical equipment and relevant components to KSB Aktiengesellschaft. The relevant annual caps for the three years ending 31 December 2011 are RMB100 million, RMB150 million and RMB150 million, respectively.

(iii) Transfer of technology from KSB Aktiengesellschaft
KSB Aktiengesellschaft will transfer technology for nuclear power pumps, valves and other components production to the Group. The relevant annual caps for the three years ending 31 December 2011 are RMB50 million, RMB80 million and RMB100 million, respectively.

Each of above transactions is/or will be entered into, on normal commercial terms, in the ordinary course of business of the Company, will be fair and reasonable and in the interests of the shareholders of the Company taken as a whole. A written agreement is, and will continue to be entered into for each relevant transaction, and the consideration of each relevant transaction is and will continue to be determined, successively, in accordance with the following pricing principles:

- prices for the relevant products and/or technologies prescribed by the PRC government; or
- where there are no government-prescribed prices, guidance prices for similar products and/or technologies set by the PRC government; or
- market price, which is determined by reference to the prevailing market rates for similar or the same products and/or technologies available on an arm's length basis from independent third parties; or
- a price to be agreed between the Group and KSB Aktiengesellschaft, which will be calculated based on the reasonable costs of the relevant products and/or technologies plus profits reasonably earned. In setting the price, the Group and KSB Aktiengesellschaft may refer to prices for previous related transactions if available.

For the year ended 31 December 2009, the Group did not make any purchases from or sales to KSB Aktiengesellschaft. In addition, on 27 October 2008, SE KSB entered into a technology licence agreement with KSB Aktiengesellschaft. According to the technology licence agreement, SE KSB shall pay licence fee in the forms of entrance fee and commission fee. The entrance fee is EUR12 million, payable in three annual instalments of EUR4 million each. The commission fee is based on certain percentage of net sales of relevant products for fifteen years. During the year ended 31 December 2009, SE KSB paid the first instalment of EUR4 million.

### Continuing connected transactions with Bosch

Bosch Solar Energy AG ("Bosch", formerly known as Ersol Solar Energy AG) holds more than 10% of the equity interest in Shanghai Electric Solar Energy Co., Ltd., being a subsidiary of the Group.

According to the announcement dated 23 October 2009, the Company determined the relevant annual caps for sales of photovoltaic modules required for solar energy systems and products to Bosch for the three years ending 31 December 2011 are RMB100 million annually.

Each of above transactions is/or will be entered into, on normal commercial terms, in the ordinary course of business of the Company, will be fair and reasonable and in the interests of the shareholders of the Company taken as a whole. A written agreement is, and will continue to be entered into for each relevant transaction, and the consideration of each relevant transaction is and will continue to be determined, successively, in accordance with the following pricing principles:

- market price, which is determined by reference to the prevailing market rates for similar or the same products and/or technologies available on an arm's length basis from independent third parties; or
- a price to be agreed between the Group and Bosch, which will be calculated based on the reasonable costs of the relevant products and/or technologies plus profits reasonably earned. In setting the price, the Group and Bosch may refer to prices for previous related transactions if available.

For the year ended 31 December 2009, the Group's sales of photovoltaic modules to Bosch amounted to RMB22.36 million.

### Continuing connected transactions with Xantrex

Xantrex Technology Inc. ("Xantrex") holds more than 10% of the equity interest in Shanghai Electric Xantrex Power Electronics Co., Ltd, being a subsidiary of the Group.

According to the announcement dated 23 October 2009, the Company determined the annual caps for various transactions between the Group and Xantrex as follows:

(i) Purchase from Xantrex

The Group will purchase relevant equipment and components in relation to wind power converters and solar energy power generation inverters from Xantrex. The relevant annual caps for the three years ending 31 December 2011 are RMB100 million, RMB200 million and RMB300 million, respectively.

(ii) Sales to Xantrex

Xantrex will transfer the manufacturing technology in relation to wind power converters and solar energy power generation inverters to the Group. The relevant annual caps for the three years ending 31 December 2011 are RMB30 million, RMB50 million and RMB100 million, respectively.

Each of above transactions is/or will be entered into, on normal commercial terms, in the ordinary course of business of the Company, will be fair and reasonable and in the interests of the shareholders of the Company taken as a whole. A written agreement is, and will continue to be entered into for each relevant transaction, and the consideration of each relevant transaction is and will continue to be determined, successively, in accordance with the following pricing principles:

- market price, which is determined by reference to the prevailing market rates for similar or the same products and/or technologies available on an arm's length basis from independent third parties; or
- a price to be agreed between the Group and Xantrex, which will be calculated based on the reasonable costs of the relevant products and/or technologies plus profits reasonably earned. In setting the price, the Group and Xantrex may refer to prices for previous related transactions if available.

For the year ended 31 December 2009, the Group did not make any purchases from or sales to Xantrex.

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 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 transactions 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

Unit:RMB '000

| | |
|---|---|
| Have other auditors being appointed | No |
| | Currently engaged |
| Name of the PRC auditor | Ernst & Young Hua Ming |
| Remunerations for the PRC auditor | 13,040 |
| Term of the PRC auditor | 2 years |
| Name of the international auditor | Ernst & Young |
| Remunerations for the international auditor | 5,000 |
| Term of the international auditor | 6 years |

# 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 43 to 174, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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
18/F Two International Finance Centre
8 Finance Street
Hong Kong
9 April 2010

# CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2009*

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **REVENUE** | 5 | **57,622,366** | 59,057,894 |
| Cost of sales | | **(48,771,926)** | (49,028,869) |
| **Gross profit** | | **8,850,440** | 10,029,025 |
| Other income and gains | 5 | **895,228** | 947,672 |
| Selling and distribution costs | | **(1,486,731)** | (1,669,816) |
| Administrative expenses | | **(3,594,500)** | (3,706,961) |
| Other expenses | | **(1,998,221)** | (1,899,799) |
| Finance costs | 7 | **(58,650)** | (72,991) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | **152,054** | (79,757) |
| Associates | | **469,437** | 527,264 |
| **PROFIT BEFORE TAX** | 6 | **3,229,057** | 4,074,637 |
| Income tax expense | 10 | **(7,344)** | (396,404) |
| **PROFIT FOR THE YEAR** | | **3,221,713** | 3,678,233 |
| Attributable to: | | | |
| Owners of the parent | 11 | **2,453,448** | 2,566,244 |
| Non-controlling interests | | **768,265** | 1,111,989 |
| | | **3,221,713** | 3,678,233 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 13 | | |
| Basic and diluted | | | |
| - For profit for the year (RMB) | | **19.62 cents** | 21.49 cents |

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2009*

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **3,221,713** | 3,678,233 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Available-for-sale assets: | | | |
| Changes in fair value | | **306,201** | (1,373,023) |
| Reclassification adjustments for gains included in the consolidated income statement - gain on disposal | 5 | **(134,167)** | (327,821) |
| Income tax effect | | **(39,347)** | 398,346 |
| | | **132,687** | (1,302,498) |
| Share of other comprehensive income of: | | | |
| Jointly-controlled entities | | **(130)** | 7,386 |
| Associates | | **330** | 1,944 |
| Exchange differences on translation of foreign operations | | **(7,887)** | 45,784 |
| Effect of changes in tax rate on the opening balance | 24 | **1,569** | 7,138 |
| Fair value gains on step acquisition of subsidiaries | | **91,760** | - |
| Others | | **12,664** | (350) |
| **OTHER COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR, NET OF TAX** | | **230,993** | (1,240,596) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **3,452,706** | 2,437,637 |
| Attributable to: | | | |
| Owners of the parent | | **2,637,314** | 1,593,883 |
| Non-controlling interests | | **815,392** | 843,754 |
| | | **3,452,706** | 2,437,637 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2009*

| | Notes | 31 December 2009 | 31 December 2008 | 1 January 2008 |
|---|---|---|---|---|
| | | RMB'000 | RMB'000 (Restated) | RMB'000 (Restated) |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 14 | **12,279,471** | 11,311,721 | 10,240,181 |
| Investment properties | 15 | **141,539** | - | - |
| Prepaid land lease payments | 16 | **1,516,286** | 1,349,823 | 1,334,503 |
| Goodwill | 17 | **77,068** | 3,627 | 3,627 |
| Other intangible assets | 18 | **670,126** | 758,949 | 676,407 |
| Investments in jointly-controlled entities | 20 | **635,137** | 297,183 | 387,911 |
| Investments in associates | 21 | **2,204,848** | 2,381,365 | 2,571,080 |
| Loans receivable | 22 | **521,690** | 313,071 | 6,673 |
| Other investments | 23 | **490,843** | 814,832 | 921,847 |
| Other non-current assets | | **72,720** | 107,906 | 142,815 |
| Deferred tax assets | 24 | **908,286** | 742,529 | 610,740 |
| Total non-current assets | | **19,518,014** | 18,081,006 | 16,895,784 |
| **CURRENT ASSETS** | | | | |
| Inventories | 25 | **19,532,300** | 21,372,265 | 16,295,879 |
| Construction contracts | 26 | **660,698** | 382,947 | 285,873 |
| Trade receivables | 27 | **13,613,954** | 11,429,693 | 9,810,709 |
| Loans receivable | 22 | **1,160,715** | 1,017,705 | 660,139 |
| Discounted bills receivable | 28 | **42,263** | 131,152 | 307,630 |
| Bills receivable | 29 | **2,041,120** | 867,743 | 2,040,077 |
| Prepayments, deposits and other receivables | 30 | **10,039,377** | 8,760,957 | 8,420,934 |
| Investments | 31 | **5,452,907** | 4,401,553 | 5,639,599 |
| Derivative financial instruments | 32 | **84,910** | 61,680 | 18,255 |
| Due from the Central Bank | 33 | **1,803,003** | 1,260,876 | 1,580,991 |
| Restricted deposits | 33 | **866,588** | 1,403,209 | 1,179,933 |
| Cash and cash equivalents | 33 | **14,810,233** | 12,707,432 | 12,814,879 |
| Total current assets | | **70,108,068** | 63,797,212 | 59,054,898 |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | 34 | **12,818,416** | 9,998,021 | 9,293,482 |
| Bills payable | 35 | **1,580,267** | 2,046,475 | 1,850,728 |
| Other payables and accruals | 36 | **39,037,752** | 35,320,880 | 30,188,288 |
| Derivative financial instruments | 32 | **9,443** | 21,731 | - |
| Customer deposits | 37 | **766,704** | 730,535 | 505,294 |
| Interest-bearing bank and other borrowings | 38 | **901,407** | 666,768 | 1,277,855 |
| Tax payable | | **980,617** | 1,327,883 | 1,855,472 |
| Provisions | 39 | **1,230,118** | 559,566 | 672,690 |
| Total current liabilities | | **57,324,724** | 50,671,859 | 45,643,809 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

*31 December 2009*

| | Notes | 31 December 2009 RMB'000 | 31 December 2008 RMB'000 (Restated) | 1 January 2008 RMB'000 (Restated) |
|---|---|---|---|---|
| **NET CURRENT ASSETS** | | **12,783,344** | 13,125,353 | 13,411,089 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **32,301,358** | 31,206,359 | 30,306,873 |
| **NON-CURRENT LIABILITIES** | | | | |
| Bonds | 40 | **1,000,000** | 1,000,000 | 1,000,000 |
| Interest-bearing bank and other borrowings | 38 | **1,342,404** | 1,536,856 | 824,304 |
| Provisions | 39 | **165,281** | 52,018 | 63,951 |
| Government grants | | **119,263** | 116,748 | 112,983 |
| Other non-current liabilities | | **147,354** | 15,970 | 67,060 |
| Deferred tax liabilities | 24 | **463,437** | 508,736 | 933,773 |
| Total non-current liabilities | | **3,237,739** | 3,230,328 | 3,002,071 |
| **Net assets** | | **29,063,619** | 27,976,031 | 27,304,802 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued capital | 42 | **12,507,686** | 12,507,686 | 11,891,648 |
| Reserves | 43(a) | **9,231,706** | 7,491,262 | 7,600,917 |
| Proposed final dividends | 12 | **735,452** | 1,463,399 | - |
| | | **22,474,844** | 21,462,347 | 19,492,565 |
| **Non-controlling interests** | | **6,588,775** | 6,513,684 | 7,812,237 |
| **Total equity** | | **29,063,619** | 27,976,031 | 27,304,802 |

**Director** **Mr. Xu Jianguo** **Director** **Mr. Yu Yingui**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2009*

| | | Attributable to owners 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 | 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) | 4,157,283 | - | 19,669,238 | 7,841,754 | 27,510,992 |
| Effect of adopting AG 5 (a) | 2.2 | - | (88,008) | - | - | - | (44,893) | (181,133) | - | (314,034) | (29,517) | (343,551) |
| Acquisition of SIMBT (b) | 44 | - | 156,946 | - | - | - | - | (19,585) | - | 137,361 | - | 137,361 |
| As restated | | 11,891,648 | 4,001,856 | (3,487,636) | 2,058,537 | 1,135,333 | (63,738) | 3,956,565 | - | 19,492,565 | 7,812,237 | 27,304,802 |
| Total comprehensive income for the year | | - | 8,980 | - | - | (1,027,125) | 45,784 | 2,566,244 | - | 1,593,883 | 843,754 | 2,437,637 |
| 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) |
| Acquisition of non-controlling interests | | - | (3,827,848) | - | - | - | - | - | - | (3,827,848) | (361,213) | (4,189,061) |
| Disposal of subsidiaries | 48 | - | (335,270) | 667,933 | (249,062) | (15,540) | - | (33,133) | - | 34,928 | (1,120,083) | (1,085,155) |
| Dividend paid to non-controlling shareholders | | - | - | - | - | - | - | - | - | - | (714,913) | (714,913) |
| Capital injection by non-controlling shareholders | | - | - | - | - | - | - | - | - | - | 62,569 | 62,569 |
| Proposed final 2007 and 2008 dividends | 12 | - | - | - | - | - | - | (1,463,399) | 1,463,399 | - | - | - |
| Transfer from retained profits | | - | - | - | 426,162 | - | - | (426,162) | - | - | - | - |
| Others | | - | 14,380 | - | 2,291 | - | - | (9,403) | - | 7,268 | (8,667) | (1,399) |
| At 31 December 2008 | | 12,507,686 | 3,407,611* | (2,819,703)* | 2,237,928* | 92,668* | (17,954)* | 4,590,712* | 1,463,399 | 21,462,347 | 6,513,684 | 27,976,031 |

(a) AG 5 is the abbreviation of Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants.

(b) SIMBT is the abbreviation of Shanghai Institute of Machinery Building Technology Co., Ltd..

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

*Year ended 31 December 2009*

| | | Attributable to owners 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 | Proposed final dividends RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2009 | | | | | | | | | | | | |
| As previously reported | | 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 |
| Effect of adopting AG 5 | 2.2 | - | (96,556) | - | - | - | (32,697) | (147,817) | - | (277,070) | (44,658) | (321,728) |
| Acquisition of SIMBT | 44 | - | 161,495 | - | - | - | - | (20,817) | - | 140,678 | - | 140,678 |
| As restated | | 12,507,686 | 3,407,611 | (2,819,703) | 2,237,928 | 92,668 | (17,954) | 4,590,712 | 1,463,399 | 21,462,347 | 6,513,684 | 27,976,031 |
| Total comprehensive income for the year | | - | 88,655 | - | - | 103,098 | (7,887) | 2,453,448 | - | 2,637,314 | 815,392 | 3,452,706 |
| Acquisition of SIMBT | 44 | - | (156,368) | - | - | - | - | - | - | (156,368) | - | (156,368) |
| Merger of SPTD (c) | 47 | - | (431,985) | 467,177 | (243,297) | - | - | 208,105 | - | - | - | - |
| Capital injection by non-controlling shareholders | | - | - | - | - | - | - | - | - | - | 6,695 | 6,695 |
| Dividend paid to non-controlling shareholders | | - | - | - | - | - | - | - | - | - | (679,439) | (679,439) |
| Final 2007 and 2008 dividends declared | 12 | - | - | - | - | - | - | - | (1,463,399) | (1,463,399) | - | (1,463,399) |
| Proposed 2009 final dividend | 12 | - | - | - | - | - | - | (735,452) | 735,452 | - | - | - |
| Transfer from retained profits | | - | - | - | 437,311 | - | - | (437,311) | - | - | - | - |
| Acquisition of non-controlling interests | 46 | - | (2,535) | - | - | - | - | - | - | (2,535) | (15,165) | (17,700) |
| Others | | - | - | - | (2,649) | - | - | 134 | - | (2,515) | (52,392) | (54,907) |
| At 31 December 2009 | | 12,507,686 | 2,905,378* | (2,352,526)* | 2,429,293* | 195,766* | (25,841)* | 6,079,636* | 735,452 | 22,474,844 | 6,588,775 | 29,063,619 |

(c) SPTD is the abbreviation of Shanghai Power Transmission and Distribution Co., Ltd..

* These reserve accounts constitute the consolidated reserves of RMB9,231,706,000 (2008: RMB7,491,262,000) on the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2009*

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **3,229,057** | 4,074,637 |
| **Adjustments for:** | | | |
| Finance Company: | | | |
| Interest income due from banks and other financial institutions | 5 | **(150,393)** | (217,013) |
| Interest income on loans receivable and discounted bills receivable | 5 | **(51,818)** | (85,167) |
| Interest income on time deposits | | **(49,727)** | (100,800) |
| Interest income on debt investments | 5 | **(20,324)** | (28,897) |
| Dividend income from equity investments and investment funds | 5 | **(42,691)** | (38,615) |
| Gain on disposal of items of property, plant and equipment | 5 | **(50,287)** | (38,612) |
| Gain on disposal of subsidiaries | 5 | **-** | (18,258) |
| Gain on disposal of an equity interest in a jointly-controlled entity | 5 | **-** | (10,397) |
| Gain on disposal of associates | 5 | **(4,651)** | (218,072) |
| Investments at fair value through profit or loss: | | | |
| Reversal of unrealised fair value gains, net | 5 | **10,395** | 259,914 |
| Realised fair value gains, net | 5 | **(17,415)** | (148,736) |
| Derivative financial instruments - transactions not qualifying as hedges: | | | |
| Unrealised fair value gains, net | 5 | **(35,518)** | (21,694) |
| Realised fair value gains, net | 5 | **(6,790)** | (4,248) |
| Realised gain on available-for-sale investments (transfer from equity) | 5 | **(134,167)** | (327,821) |
| Gain on disposal of unquoted equity investments stated at cost | 5 | **(7,907)** | (3,487) |
| Gain on debt restructuring | 5 | **(90)** | (150) |
| Finance Company: | | | |
| Interest expense due to bank and other financial institutions | 6 | **1,279** | 9,432 |
| Interest expense on customer deposits | 6 | **8,364** | 11,293 |
| Interest expense on bonds | 6 | **38,614** | 51,075 |
| Depreciation of property, plant and equipment | 6 | **987,622** | 833,741 |
| Depreciation of investment properties | 6 | **5,570** | - |
| Recognition of prepaid land lease payments | 6 | **32,074** | 26,735 |
| Amortisation of other intangible assets | 6 | **94,471** | 86,575 |
| Early retirement benefit costs | 6 | **38,002** | 67,987 |
| Write-down of inventories and construction contracts to net realisable value | 6 | **374,885** | 425,280 |
| Share of profits and losses of jointly-controlled entities | | **(152,054)** | 79,757 |
| Share of profits and losses of associates | | **(469,437)** | (527,264) |
| Impairment of trade receivables and other receivables | 6 | **301,522** | 598,081 |
| Impairment of loans receivable | 6 | **2,901** | 8,331 |
| Reversal of impairment of discounted bills receivable | 6 | **(1,293)** | (1,196) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

*Year ended 31 December 2009*

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES (continued)** | | | |
| Impairment of unquoted equity investments stated at cost | 6 | **8,627** | - |
| Reversal of impairment of held-to-maturity debt investments | 6 | **-** | (75,000) |
| Impairment of items of property, plant and equipment | 6 | **88,796** | 40,276 |
| Impairment of goodwill | 6 | **29,107** | - |
| Impairment of other intangible assets | 6 | **48,475** | 1,651 |
| Impairment of other non-current assets | 6 | **20,001** | 4,659 |
| Provision for product warranty | 6 | **122,356** | 196,048 |
| Provision for onerous contracts | 6 | **660,011** | 191,210 |
| Provision/ (reversal of provision) for late delivery | 6 | **142,110** | (100,000) |
| Other provision | 6 | **6,700** | - |
| Finance costs | 7 | **58,650** | 72,991 |
| Exchange losses, net | | **(16,198)** | 57,831 |
| | | **5,098,829** | 5,132,077 |
| Decrease/ (increase) in inventories | | **1,966,457** | (4,186,473) |
| Increase in construction contracts | | **(277,751)** | (1,870,474) |
| Increase in trade receivables and other receivables | | **(5,031,738)** | (2,041,813) |
| Decrease in other non-current assets | | **18,912** | 2,905 |
| Increase in trade payables, bills payable, other payables and accruals | | **5,941,291** | 7,534,684 |
| Utilisation of warranty provision and other provisions | | **(185,364)** | (402,943) |
| Cash generated from operations | | **7,530,636** | 4,167,963 |
| Taxes paid | | **(633,830)** | (1,078,744) |
| Net cash flows from operating activities | | **6,896,806** | 3,089,219 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **280,957** | 422,338 |
| Dividends received from jointly-controlled entities | | **116,382** | 11,684 |
| Dividends received from associates | | **379,283** | 472,193 |
| Dividends received from investments | | **42,691** | 38,615 |
| Purchases of items of property, plant and equipment | | **(2,173,744)** | (3,141,104) |
| Realised fair value gains on derivative instruments | | **6,790** | 4,248 |
| Prepaid land lease payments | | **(35,203)** | (133,283) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

*Year ended 31 December 2009*

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES (continued)** | | | |
| Proceeds from disposal of items of property, plant and equipment | | **242,238** | 254,679 |
| Acquisition of subsidiaries | 45 | **(203,869)** | - |
| Business combination of SMIBT under common control | 44 | **(156,368)** | - |
| Disposal of subsidiaries | 48 | **-** | 159,853 |
| (Repayment of advances)/ advances from disposal of a subsidiary | | **(41,580)** | 41,580 |
| Capital injection in associates | | **(3,225)** | (4,200) |
| Capital injection in a jointly-controlled entity | | **(165,213)** | (34,395) |
| Proceeds from disposal of associates | | **275,488** | 148,750 |
| Purchases of non-current other investments | | **(912,599)** | (346,578) |
| Proceeds from disposal of non-current other investments | | **154,102** | 298,473 |
| Purchases of other intangible assets | | **(69,606)** | (224,462) |
| Proceeds from disposal of other intangible assets | | **21,586** | 26,609 |
| Proceeds from disposal of prepaid land lease payments | | **30,642** | - |
| Acquisition of non-controlling interests | 46 | **(17,700)** | - |
| Decrease/ (increase) in restricted deposits | | **536,621** | (223,276) |
| Decrease/ (increase) in non-restricted time deposits with original maturity of over three months when acquired | | **9,500** | (213,051) |
| Increase in loans receivable | | **(354,530)** | (672,295) |
| Decrease in discounted bills receivable | | **90,182** | 177,674 |
| (Increase)/decrease in an amount due from the Central Bank | | **(542,127)** | 320,115 |
| Decrease/ (increase) in current investments | | **346,167** | (41,032) |
| Net cash flows used in investing activities | | **(2,143,135)** | (2,656,865) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Capital injection by non-controlling shareholders | | **6,695** | 62,569 |
| New bank and other loans | | **451,890** | 1,633,838 |
| Repayments of bank and other loans | | **(876,344)** | (1,501,184) |
| Issue and listing expenses of shares | | **-** | (49,371) |
| Dividends paid to non-controlling shareholders | | **(679,439)** | (831,381) |
| Dividends paid by the Company | | **(1,463,399)** | - |
| Increase in customer deposits | | **27,805** | 200,939 |
| Interest paid | | **(124,776)** | (210,431) |
| Net cash flows used in financing activities | | **(2,657,568)** | (695,021) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

*Year ended 31 December 2009*

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **2,096,103** | (262,667) |
| Cash and cash equivalents at beginning of year | | **10,492,580** | 10,813,078 |
| Effect of foreign exchange rate changes, net | 5 | **16,198** | (57,831) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **12,604,881** | 10,492,580 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents as stated in the statement of financial position | 33 | **14,810,233** | 12,707,432 |
| Less: Non-restricted time deposits with original maturity of over three months when acquired | | **(2,205,352)** | (2,214,852) |
| Cash and cash equivalents as stated in the statement of cash flows | | **12,604,881** | 10,492,580 |

# STATEMENT OF FINANCIAL POSITION

*31 December 2009*

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **599,981** | 379,086 |
| Other intangible assets | 18 | **14,146** | 4,259 |
| Prepaid land lease payments | 16 | **70,219** | - |
| Investments in subsidiaries | 19 | **12,644,708** | 16,469,816 |
| Investments in jointly-controlled entities | 20 | **462,022** | - |
| Investments in associates | 21 | **1,090,287** | 168,550 |
| Other investments | 23 | **22,998** | - |
| Other non-current assets | | **-** | 615 |
| Deferred tax assets | 24 | **165,452** | 125,819 |
| Total non-current assets | | **15,069,813** | 17,148,145 |
| **CURRENT ASSETS** | | | |
| Inventories | 25 | **109,015** | 17,698 |
| Construction contracts | 26 | **144,486** | 94,166 |
| Trade receivables | 27 | **7,940,427** | 5,823,480 |
| Loans receivable | 22 | **1,020,000** | 370,340 |
| Bills receivable | 29 | **333,672** | 198,971 |
| Prepayments, deposits and other receivables | 30 | **21,293,655** | 21,729,962 |
| Derivative financial instruments | 32 | **39,564** | - |
| Restricted deposits | 33 | **27,000** | 78,310 |
| Cash and cash equivalents | 33 | **8,291,623** | 5,391,151 |
| Total current assets | | **39,199,442** | 33,704,078 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 34 | **10,910,534** | 8,301,219 |
| Other payables and accruals | 36 | **25,530,577** | 22,525,580 |
| Interest-bearing bank and other borrowings | 38 | **300,000** | 30,000 |
| Tax payable | | **129,890** | 23,958 |
| Provisions | 39 | **132,472** | 24,000 |
| Total current liabilities | | **37,003,473** | 30,904,757 |
| **NET CURRENT ASSETS** | | **2,195,969** | 2,799,321 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **17,265,782** | 19,947,466 |

# STATEMENT OF FINANCIAL POSITION (continued)

*31 December 2009*

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **17,265,782** | 19,947,466 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 38 | **2,727** | - |
| Other non-current liabilities | 41 | **22,692** | 338 |
| Total non-current liabilities | | **25,419** | 338 |
| Net assets | | **17,240,363** | 19,947,128 |
| **EQUITY** | | | |
| Issued capital | 42 | **12,507,686** | 12,507,686 |
| Reserves | 43(b) | **3,997,225** | 5,976,043 |
| Proposed final dividends | 12 | **735,452** | 1,463,399 |
| Total equity | | **17,240,363** | 19,947,128 |



**Director** **Mr. Xu Jianguo** **Director** **Mr. Yu Yingui**

*31 December 2009*

## 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. 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 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Purchase method of accounting is used to account for the acquisitions of subsidiaries not under common control. 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. Under this method, 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.

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation (continued)

As further explained in note 2.2 to the financial statements, the method of accounting for acquisitions of subsidiaries under common control has been changed from purchase method to merger accounting in the year ended 31 December 2009. Merger accounting involves incorporating the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first come under the control of the controlling party. The net assets of the Group and the combining entities are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of the acquired subsidiaries' identifiable assets, liabilities and contingent liabilities over cost of acquisition at the time of the business combinations under common control. The consolidated income statements include the results of the Group and the acquired subsidiaries under common control from 1 January 2008, the earliest date presented, or since the date when the combining entities first came under common control, where this is a shorter period, regardless of the date of the business combinations under common control.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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. An acquisition of non-controlling interests is 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

***Merger accounting for business combinations under common control***

In the previous years, the Group adopted purchase accounting under HKFRS 3 "*Business Combinations*" to account for the business combinations under common control and resulted in goodwill amounting to approximately RMB233,840,000 as at 31 December 2008. In the current year, the Group decided to change its accounting policy for business combinations under common control and adopt "merger accounting" as prescribed in AG 5.

The Company's shares are dual-listed on the Stock Exchange of Hong Kong Ltd. and the Shanghai Stock Exchange. The Company's directors are of the view that applying the new accounting policies as described above can minimise the differences between the financial statements prepared under the China Accounting Standards and HKFRSs, and can provide more comparable and relevant information to the readers of the financial statements in the PRC and overseas. This change in accounting policies has been accounted for retrospectively and the financial statements for the year ended 31 December 2008 have been restated in order to comply with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***Merger accounting for business combinations under common control (continued)***

The effect on the consolidated financial statements arising from the aforementioned change in accounting policies is as follows:

| | 31 December 2009 RMB'000 | 31 December 2008 RMB'000 | 1 January 2008 RMB'000 |
|---|---|---|---|
| Decrease in goodwill | | | |
| - at cost | **(233,840)** | (233,840) | (233,840) |
| - accumulated impairment | **46,406** | 46,406 | 33,712 |
| - net book value | **(187,434)** | (187,434) | (200,128) |
| Decrease in assets and liabilities other than goodwill, net | **(119,261)** | (134,294) | (143,423) |
| Decrease in total equity | **(306,695)** | (321,728) | (343,551) |
| *of which, increase in profit after tax* | ***26,266*** | *33,440* | |
| Increase in basic and diluted earnings per share | **0.21 cent** | 0.28 cent | |

The Group and certain acquired subsidiaries are under common control of SE Corporation. The Group has applied merger accounting as prescribed in AG 5 to account for the purchase of the equity interests in these acquired subsidiaries, as if the acquisitions had been occurred and these acquired subsidiaries had been combined from 1 January 2008, the beginning of the earliest financial period of the consolidated financial statements presented.

The net assets of the Group and these acquired subsidiaries are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of the Group's interest in the net fair value of these acquired subsidiaries' identifiable assets, liabilities and contingent liabilities over costs of acquisitions at the time of the business combinations under common control. The consolidated income statement includes the results of the Group and these acquired subsidiaries from 1 January 2008, the earliest date presented, regardless of the date of the business combinations under common control.

The comparative amounts in the consolidated financial statements are restated and presented as if the entities or businesses had been combined at the previous end of reporting period or when they first came under common control, whichever is later.

Transaction costs, such as professional fees, registration fees, or costs of furnishing information to shareholders, incurred in relation to business combinations under common control that is to be accounted for by using merger accounting are recognised as expenses in the year in which they are incurred.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***New and revised HKFRSs***

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant effect on 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* |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* |
| HKFRS 8 | *Operating Segments* |
| HKAS 1 (Revised) | *Presentation of Financial Statements* |
| HKAS 18 Amendment* | Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent* |
| HKAS 23 (Revised) | *Borrowing Costs* |
| 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* |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded* Derivatives and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* |
| HK(IFRIC)-Int 15 | *Agreements for the Construction of Real Estate* |
| HK(IFRIC)-Int 16 | *Hedges of a Net Investment in a Foreign Operation* |
| HK(IFRIC)-Int 18 | *Transfers of Assets from Customers* (adopted from 1 July 2009) |
| Improvements to HKFRSs (October 2008) | Amendments to a number of HKFRSs |

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

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

(a) 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*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***New and revised HKFRSs (continued)***

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

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

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. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or result of operations of the Group.

(c) HKFRS 7 *Amendments Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 54 to the financial statements while the revised liquidity risk disclosures are presented in note 55 to the financial statements.

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces 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 concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in note 4 to the financial statements.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

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 includes 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 has elected to present two statements.

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***New and revised HKFRSs (continued)***

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

(g) HKAS 23 (Revised) *Borrowing Costs*

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 has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

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 have had no impact on the financial position or results of operations of the Group.

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

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 has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces 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 has had no impact on the financial position or results of operations of the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***New and revised HKFRSs (continued)***

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

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

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 has had no impact on the financial position or results of operations of the Group.

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. 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.

(n) In October 2008, the HKICPA issued its *first Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 7 *Financial Instruments*: *Disclosures*: Removes the reference to "total interest income" as a component of finance costs.
- 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 statement of financial position.
- HKAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and states that the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.
  In addition, items of property, plant and equipment 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.
- 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.
- HKAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".
- 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 for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

***New and revised HKFRSs (continued)***

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

(n) (continued)

- HKAS 39 *Financial Instruments: Recognition and Measurement:* (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of HKAS 39 is applicable.

## 2.3 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 (Revised) | *First-time Adoption of Hong Kong Financial Reporting Standards*[1] |
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time adopters*[2] |
| HKFRS 2 Amendments | Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKAS 24 (Revised) | *Related Party Disclosures*[5] |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3] |
| HKAS 39 Amendment | Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1] |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[5] |
| HK(IFRIC)-Int 17 | *Distributions of Non-cash Assets to Owners*[1] |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments*[4] |
| Amendments to HKFRS 5 included *in Improvements to* HKFRSs issued in October 2008 | Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1] |
| HK Interpretation 4 (Revised in December 2009) | *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2] |

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

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

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. As the Group has not entered into share-based payment schedules, the amendments will not have any financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: *Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

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

The HKAS 39 Amendment 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 no such hedged financial instruments, the amendments will not have any financial impact on the Group.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no such payments, the amendments will not have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. 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 Reporting Period* 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 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 clarify 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. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

*Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. 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 those amendments are expected to have a significant financial impact on the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Subsidiaries (continued)

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.

The Group's interests in jointly-controlled entities are stated in the consolidated statement of financial position 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 interests in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

### Associates

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Associates (continued)

The Group's interests in associates are stated in the consolidated statement of financial position 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 interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

### Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated statement of financial position 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 in the consolidated statement of financial position.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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 the end of each reporting period 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).

### 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation (continued)

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

| | |
|---|---|
| Buildings | 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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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.

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principle useful lives used for this purpose are 10 to 50 years.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Non-current assets and disposal groups held for sale (continued)

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. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

*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.

*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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

*Initial recognition and measurement*
Financial assets within 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. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, loans receivable, discounted bills receivable, quoted and unquoted financial instruments and derivative financial instruments.

*Subsequent measurement*
The subsequent measurement of financial assets depends on their classification as follows:

*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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do 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.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

*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 calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, , at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, at which time the cumulative gains or losses is recognised in the income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

*Available-for-sale financial investments (continued)*

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

### Derecognition of financial assets

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

*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 investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 removed from other comprehensive income and recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*Available-for-sale financial investments (continued)*
In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### Financial liabilities

*Initial recognition and measurement*
Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings and financial guarantee contracts, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, customer deposits, bonds, derivative financial instruments and interest-bearing loans and borrowings.

*Subsequent measurement*
The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement includes any interest charged on these financial liabilities.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. 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 end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency sick and interest rate risk, respectively. 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 of derivatives are taken directly to the income statement.

### 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.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Contracts for services (continued)

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 statement of cash flows, 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 statement of financial position, 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 end of the reporting period 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.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

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 by the end of the reporting period.

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 stated above;

(c) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for contracts for services stated above;

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

(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.

### 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period 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 recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, 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 end of the reporting period. 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 2.4. Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract cost and the recoverability of the contract costs. In making the judgement, the Group evaluates by relying on past experience and the work of the project management team. Revenue from construction contracts is disclosed in note 5 to the financial statements.

The stage of completion of each construction contract is assessed on a cumulative basis in each accounting period. Changes in 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.

*Operating lease commitments-Group as lessor*
According to the lease contracts of the Group's investment property portfolio, the Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

### Estimation uncertainty

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### Estimation uncertainty (continued)

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was RMB77,068,000 (2008: RMB3,627,000). More details are given in note 17 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 the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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.

*Deferred tax assets*

Deferred tax assets are recognised for all deductable 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 value of deferred tax assets at 31 December 2009 was RMB908,286,000 (2008: RMB742,529,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2009 was RMB1,475,212,000 (2008: RMB1,026,864,000). Further details are contained in note 24 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 2009 was RMB1,395,399,000 (2008: RMB611,584,000). 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 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2009, the carrying amount of capitalised development costs is RMB9,931,000 (2008: RMB9,260,000). More details are given in note 18 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. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has seven reportable operating segments 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;
(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.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profits before tax (i.e. operating profits stated below) are measured consistently with the Group's profits before tax except that finance costs, share of profits and losses of jointly-controlled entities or associates and unallocated head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, investments in jointly-controlled entities and associates, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2009 | Power equipment | Electro-mechanical equipment | Heavy machinery equipment | Transportation equipment | Environmental protection systems | Financial business | Others | Corporation and other unallocated amounts | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Segment revenue:** | | | | | | | | | | |
| Sales to external customers | 35,665,086 | 12,993,209 | 5,392,890 | 918,984 | 2,016,109 | 203,278 | 413,263 | 19,547 | - | 57,622,366 |
| Intersegment sales | 349,700 | 183,801 | 416,577 | 19,547 | 353,792 | 180,601 | 47,026 | - | (1,551,044) | - |
| Total revenue | 36,014,786 | 13,177,010 | 5,809,467 | 938,531 | 2,369,901 | 383,879 | 460,289 | 19,547 | (1,551,044) | 57,622,366 |
| **Operating profits/ (losses)** | 1,626,560 | 753,872 | 265,747 | 42,594 | 13,999 | 277,465 | (32,046) | (48,451) | (233,524) | 2,666,216 |
| Finance costs | | | | | | | | | | (58,650) |
| Share of profits and losses of: | | | | | | | | | | |
| Jointly-controlled entities | 122,860 | 29,194 | - | - | - | - | - | - | - | 152,054 |
| Associates | 213,400 | 247,556 | (27) | 9,290 | (782) | - | - | - | - | 469,437 |
| Profit before tax | | | | | | | | | | 3,229,057 |
| Income tax expense | | | | | | | | | | (7,344) |
| Profit for the year | | | | | | | | | | 3,221,713 |

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2009 (continued) | Power equipment | Electro-mechanical equipment | Heavy machinery equipment | Transportation equipment | Environmental protection systems | Financial business | Others | Corporation and other unallocated amounts | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets and liability** | | | | | | | | | | |
| Segment assets | 50,577,020 | 15,622,504 | 15,038,237 | 1,532,049 | 2,701,093 | 22,123,636 | 259,418 | 18,315,297 | (39,383,157) | 86,786,097 |
| Investments in jointly-controlled entities | 458,357 | 176,780 | - | - | - | - | - | - | - | 635,137 |
| Investments in associates | 1,072,678 | 1,094,640 | - | 32,575 | 928 | - | 4,027 | - | - | 2,204,848 |
| **Total assets** | | | | | | | | | | 89,626,082 |
| Segment liabilities | 43,049,779 | 7,232,310 | 6,132,625 | 687,959 | 1,586,916 | 19,309,280 | 266,841 | 4,254,783 | (21,958,030) | 60,562,463 |
| **Total liabilities** | | | | | | | | | | 60,562,463 |
| **Other segment information:** | | | | | | | | | | |
| Capital expenditure * | 809,962 | 1,027,919 | 982,873 | 7,266 | 18,932 | 1,615 | 7,556 | 98,116 | (47,799) | 2,906,440 |
| Depreciation and amortisation | 473,912 | 231,573 | 306,853 | 25,930 | 56,494 | 1,334 | 24,689 | 2,747 | (3,795) | 1,119,737 |
| Impairment losses recognised in the income statement | 46,017 | 92,077 | 46,443 | - | 237 | 20,457 | - | - | (18,852) | 186,379 |
| Other non-cash expenses | 534,384 | 82,317 | 15,528 | 30,723 | 19,011 | - | (234) | 4,913 | - | 686,642 |
| Product warranty provision | 117,442 | 3,023 | 1,891 | - | - | - | - | - | - | 122,356 |
| Provision for onerous contracts | 660,011 | - | - | - | - | - | - | - | - | 660,011 |
| Provision for late delivery | 142,110 | - | - | - | - | - | - | - | - | 142,110 |
| Other provision | - | - | - | - | - | - | 6,700 | - | - | 6,700 |

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2008 (Restated) | Power equipment | Electro-mechanical equipment | Heavy machinery equipment | Transportation equipment | Environmental protection systems | Financial business | Others | Corporation and other unallocated amounts | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | 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 | 486,964 | 8,403 | - | 59,057,894 |
| Intersegment sales | 879,745 | 104,985 | 439,726 | 2,681 | 144,878 | 126,423 | 67,633 | - | (1,766,071) | - |
| Total revenue | 33,968,129 | 13,036,213 | 5,132,920 | 4,471,079 | 3,221,878 | 430,746 | 554,597 | 8,403 | (1,766,071) | 59,057,894 |
| **Operating profits/ (losses)** | 2,206,607 | 962,645 | 276,646 | 131,348 | (27,739) | 440,414 | (35,280) | (63,053) | (191,467) | 3,700,121 |
| Finance costs | | | | | | | | | | (72,991) |
| Share of profits and losses of: | | | | | | | | | | |
| Jointly-controlled entities | - | (79,757) | - | - | - | - | - | - | - | (79,757) |
| Associates | 195,950 | 316,855 | (356) | 14,815 | - | - | - | - | - | 527,264 |
| Profit before tax | | | | | | | | | | 4,074,637 |
| Income tax expense | | | | | | | | | | (396,404) |
| Profit for the year | | | | | | | | | | 3,678,233 |

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2008 (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 | Corporation and other unallocated amounts RMB'000 | Eliminations RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets and liability** | | | | | | | | | | |
| Segment assets | 46,063,241 | 11,987,786 | 13,094,477 | 1,519,190 | 2,968,105 | 17,717,863 | 376,541 | 20,902,714 | (35,430,247) | 79,199,670 |
| Investments in jointly-controlled entities | - | 297,183 | - | - | - | - | - | - | - | 297,183 |
| Investments in associates | 1,286,170 | 1,031,138 | 19,210 | 38,893 | 1,927 | - | 4,027 | - | - | 2,381,365 |
| **Total assets** | | | | | | | | | | 81,878,218 |
| Segment liabilities | 37,838,826 | 5,192,000 | 5,644,547 | 657,372 | 1,553,486 | 15,012,508 | 274,820 | 4,380,306 | (16,651,678) | 53,902,187 |
| **Total liabilities** | | | | | | | | | | 53,902,187 |
| **Other segment information:** | | | | | | | | | | |
| Capital expenditure | 783,902 | 471,387 | 1,824,508 | 60,330 | 145,922 | 295 | 26,230 | 91,249 | (23,830) | 3,379,993 |
| Depreciation and amortisation | 387,384 | 200,891 | 131,699 | 150,397 | 44,752 | 1,048 | 27,768 | 3,112 | - | 947,051 |
| Impairment losses recognised in the income statement | - | 10,569 | - | 36,017 | - | - | - | - | - | 46,586 |
| Other non-cash expenses | 856,963 | 135,519 | 14,220 | 2,543 | 42,288 | (67,865) | 48 | 10,931 | (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 provision for late delivery | (100,000) | - | - | - | - | - | - | - | - | (100,000) |

## 4. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

**(a) Revenue from external customers**

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Mainland China (place of domicile) | **48,268,654** | 50,172,273 |
| Other countries | **9,353,712** | 8,885,621 |
| | **57,622,366** | 59,057,894 |

The revenue information above is based on the location of the customers.

**(b) Non-current assets**

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Mainland China (place of domicile) | **17,870,411** | 16,403,578 |
| Other countries | **248,474** | 120,067 |
| | **18,118,885** | 16,523,645 |

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

## 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.

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| **Revenue** | | |
| *Turnover* | | |
| Sale of goods | **43,245,399** | 44,198,235 |
| Construction contracts | **11,635,872** | 11,926,847 |
| Rendering of services | **1,788,948** | 1,445,029 |
| | **56,670,219** | 57,570,111 |
| *Other revenue* | | |
| Sales of raw materials, spare parts and semi-finished goods | **491,583** | 886,225 |
| Gross rental income | **63,393** | 85,026 |
| Finance Company: | | |
| Interest income from banks and other financial institutions | **150,393** | 217,013 |
| Interest income on loans receivable and discounted bills receivable | **51,818** | 85,167 |
| Others | **194,960** | 214,352 |
| | **952,147** | 1,487,783 |
| | **57,622,366** | 59,057,894 |
| **Other income** | | |
| Interest income on bank balances and time deposits | **138,434** | 184,836 |
| Interest income on debt investments | **20,324** | 28,897 |
| | **158,758** | 213,733 |
| Dividend income from equity investments and investment funds | **42,691** | 38,615 |
| Subsidy income | **305,737** | 185,117 |
| Others | **125,414** | 36,477 |
| | **632,600** | 473,942 |

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|---|
| **Gains** | | | |
| Gain on disposal of items of property, plant and equipment | | **50,287** | 38,612 |
| Gain on disposal of subsidiaries | 48 | **-** | 18,258 |
| Gain on disposal of an equity interest in a jointly-controlled entity | | **-** | 10,397 |
| Gain on disposal of associates | | **4,651** | 218,072 |
| Investments at fair value through profit or loss: | | | |
| Reversal of unrealised fair value gains, net | | **(10,395)** | (259,914) |
| Realised fair value gains, net | | **17,415** | 148,736 |
| Derivative financial instruments - transactions not qualifying as hedges: | | | |
| Unrealised fair value gains, net | 32 | **35,518** | 21,694 |
| Realised fair value gains, net | | **6,790** | 4,248 |
| Realised gain on available-for-sale investments (transfer from equity) | | **134,167** | 327,821 |
| Gain on disposal of unquoted equity investments stated at cost | | **7,907** | 3,487 |
| Gain on debt restructuring | | **90** | 150 |
| Exchange gains/ (losses), net | | **16,198** | (57,831) |
| | | **262,628** | 473,730 |
| | | **895,228** | 947,672 |

## 6. PROFIT BEFORE TAX

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Cost of inventories sold | **34,953,613** | 36,427,604 |
| Cost of construction contracts | **10,676,765** | 10,537,037 |
| Cost of services provided | **1,413,033** | 1,145,950 |
| Finance Company: | | |
| Interest expense due to banks and other financial institutions | **1,279** | 9,432 |
| Interest expense on customer deposits | **8,364** | 11,293 |
| Interest expense on bonds | **38,614** | 51,075 |
| | **48,257** | 71,800 |

## 6. PROFIT BEFORE TAX (continued)

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

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| Depreciation of property, plant and Equipment | 14 | **987,622** | 833,741 |
| Depreciation of investment properties** | 15 | **5,570** | - |
| Recognition of prepaid land lease payments** | 16 | **32,074** | 26,735 |
| Amortisation of patents and licences** | 18 | **30,500** | 44,985 |
| Amortisation of concession intangible assets | 18 | **13,146** | 1,612 |
| Amortisation of other intangible assets** | 18 | **16,802** | 13,360 |
| Research and development costs:** | | | |
| Amortisation of technology know-how | 18 | **34,023** | 26,618 |
| Current year expenditure* | | **1,074,204** | 960,219 |
| | | **1,108,227** | 986,837 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | **119,059** | 119,115 |
| Plant, machinery and motor vehicles | | **36,039** | 40,420 |
| Auditors' remuneration | | **22,343** | 30,242 |
| Staff costs (including directors' and supervisors' remuneration (note 8)): | | | |
| Wages and salaries | | **3,369,308** | 3,389,721 |
| Defined contribution pension scheme (note i) | | **465,829** | 451,397 |
| Early retirement benefits costs (note ii) | 39 | **38,002** | 67,987 |
| Staff severance costs | | **74,587** | 16,453 |
| Medical benefits costs (note iii) | | **224,514** | 204,190 |
| Housing fund | | **196,587** | 174,845 |
| Cash housing subsidies costs | | **1,020** | 1,979 |
| | | **4,369,847** | 4,306,572 |
| Write-down of inventories and construction contracts to net realisable value | | **374,885** | 425,280 |
| Impairment of trade receivables and other receivables** | 27, 30 | **301,522** | 598,081 |
| Impairment of loans receivable** | 22 | **2,901** | 8,331 |
| Reversal of impairment of discounted bills receivable, net** | 28 | **(1,293)** | (1,196) |
| Reversal of impairment of held-to-maturity debt investments** | 31 | **-** | (75,000) |

## 6. PROFIT BEFORE TAX (continued)

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

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| Impairment of items of property, plant and equipment** | 14 | **88,796** | 40,276 |
| Impairment of goodwill ** | 17 | **29,107** | - |
| Impairment of concession intangible assets** | 18 | **286** | - |
| Impairment of patents and licences** | 18 | **48,189** | 1,651 |
| Impairment of unquoted equity investments stated at cost** | 23 | **8,627** | - |
| Impairment of other non-current assets** | | **20,001** | 4,659 |
| Product warranty provision: | 39 | | |
| Additional provision | | **158,409** | 224,636 |
| Reversal of unutilised provision | | **(36,053)** | (28,588) |
| Onerous contracts provision: | 39 | | |
| Additional provision | | **676,642** | 191,210 |
| Reversal of unutilised provision | | **(16,631)** | - |
| Late delivery provision: | 39 | | |
| Additional provision | | **142,110** | - |
| Reversal of unutilised provision | | **-** | (100,000) |
| Other provision | 39 | **6,700** | - |

* 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 related expenditure has not yet been undertaken are included in government grants in the statement of financial position. 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.

(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% (2008: 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.

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 are borne by SE Corporation from 1 March 2004 onwards, i.e., the incorporation date of the Company. Starting from that date, the related costs paid by the Group are fully reimbursed by SE Corporation.

## 6. PROFIT BEFORE TAX (continued)

(ii) Early retirement benefits

The Group implements an early retirement plan for certain employees in addition to the benefits under the government-regulated defined contribution pension scheme and the Supplementary Pension Benefits described above. The benefits of the early retirement plan are calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of 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 totalled approximately RMB74,074,000 as at 31 December 2009 (2008: RMB65,107,000) 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 statement of financial position and of reporting period 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

An analysis of finance costs is as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Interest on bank loans and other loans wholly repayable within five years | **107,471** | 137,826 |
| Interest on bank loans and other loans wholly repayable beyond five years | **5,886** | - |
| Total interest expense | **113,357** | 137,826 |
| Less: Interest capitalised | **(54,707)** | (64,835) |
| | **58,650** | 72,991 |

## 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:

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **Directors** | | |
| Fees | **750** | 542 |
| Other emoluments: | | |
| Salaries, bonus and allowances received from the Group | **1,648** | 1,558 |
| Pension scheme contributed by the Group | **78** | 66 |
| Other social benefit schemes contributed by the Group | **75** | 63 |
| | **2,551** | 2,229 |
| **Supervisors** | | |
| Fees | **-** | - |
| Other emoluments: | | |
| Salaries, bonus and allowances received from the Group | **282** | 282 |
| Pension scheme contributed by the Group | **26** | 22 |
| Other social benefit schemes contributed by the Group | **25** | 21 |
| | **333** | 325 |
| | **2,884** | 2,554 |

### (a) Independent non-executive directors

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

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Mr. Zhu Sendi | **250** | 42 |
| Mr. Cheung Wai Bun | **250** | 250 |
| Mr. Lei Huai Chin | **250** | 250 |
| | **750** | 542 |

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

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

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

| | Fees | Salaries, bonus and allowances received from the Group | Pension scheme contributed by the Group | Other social benefit schemes contributed by the Group | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2009** | | | | | |
| **Executive directors** | | | | | |
| Mr. Huang Dinan | **-** | **636** | **26** | **25** | **687** |
| Mr. Zhang Suxin | **-** | **506** | **26** | **25** | **557** |
| Mr. Yu Yingui | **-** | **506** | **26** | **25** | **557** |
| | **-** | **1,648** | **78** | **75** | **1,801** |
| **Supervisor** | | | | | |
| Mr. Xie Tonglun | **-** | **282** | **26** | **25** | **333** |
| | **-** | **1,930** | **104** | **100** | **2,134** |
| **2008** | | | | | |
| **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 |

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 (2008: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2008: four) non-directors/non-supervisors, highest paid employees for the year are as follows:

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Salaries, bonus and allowances received from the Group | **3,432** | 3,148 |
| Pension scheme contributed by the Group | **78** | 66 |
| Other social benefit schemes contributed by the Group | **75** | 63 |
| | **3,585** | 3,277 |

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

| | Number of employees | |
|---|---|---|
| | 2009 | 2008 |
| Nil to HKD1,000,000 | **2** | 3 |
| HKD1,000,001 to HKD1,500,000 | **2** | 1 |
| | **4** | 4 |

## 10. INCOME 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 were subject to the statutory corporate income tax rate of 25% for the year ended 31 December 2009 (2008: 25%) under the income tax rules and regulations of the PRC, except that:

- certain subsidiaries were subject to a corporate income tax rate of 20% as they were subject to the transitional income tax rate in the current year under the Corporate Income Tax Law;
- certain subsidiaries were 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 were subject to a corporate income tax rate of 12.5% as they were 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.

## 10. INCOME TAX (continued)

| | 2009 | 2008 |
|---|---|---|
| | RMB'000 | RMB'000 (Restated) |
| **Group:** | | |
| Current - Mainland China | | |
| Charge for the year | **672,821** | 952,922 |
| Overprovision in prior years | **(391,854)** | (389,735) |
| Current - Elsewhere | | |
| Charge for the year | **7,936** | 2,642 |
| Overprovision in prior years | **(1,287)** | - |
| Deferred (note 24) | **(280,272)** | (169,425) |
| Total tax charge for the year | **7,344** | 396,404 |

A reconciliation of the tax expense applicable to profit before tax at 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:

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Mainland China RMB'000 | % | Elsewhere RMB'000 | % | Total RMB'000 | % |
| Profit before tax | 3,201,851 | | 27,206 | | 3,229,057 | |
| Tax at the statutory tax rate | 800,463 | 25.0 | 4,722 | 17.4 | 805,185 | 24.9 |
| Lower tax rate for specific provinces/districts or concessions | (260,103) | (8.1) | - | - | (260,103) | (8.0) |
| Effect of change in tax rate on the opening balance of deferred tax | 720 | - | - | - | 720 | - |
| Adjustments in respect of current tax of previous periods | (391,854) | (12.2) | (1,287) | (4.7) | (393,141) | (12.2) |
| Profits and losses attributable to jointly-controlled entities | (39,479) | (1.2) | - | - | (39,479) | (1.2) |
| Profits and losses attributable to associates | (194,033) | (6.0) | - | - | (194,033) | (6.0) |
| Income not subject to tax | (18,210) | (0.6) | (237) | (0.9) | (18,447) | (0.5) |
| Expenses not deductible for tax | 35,370 | 1.1 | 1,634 | 6.0 | 37,004 | 1.1 |
| Tax incentives on eligible expenditures | (13,092) | (0.4) | - | - | (13,092) | (0.4) |
| Tax losses utilised from previous periods | (6,108) | (0.2) | - | - | (6,108) | (0.2) |
| Tax losses not recognised | 55,680 | 1.7 | 3,385 | 12.4 | 59,065 | 1.8 |
| Deductible temporary differences not recognised | 29,707 | 0.9 | 66 | 0.2 | 29,773 | 0.9 |
| Tax charge at the Group's effective rate | (939) | - | 8,283 | 30.4 | 7,344 | 0.2 |

## 10. INCOME TAX (continued)

| | 2008 (Restated) | | | | | |
|---|---|---|---|---|---|---|
| | Mainland China RMB'000 | % | Elsewhere RMB'000 | % | Total RMB'000 | % |
| Profit before tax | 4,061,470 | | 13,167 | | 4,074,637 | |
| Tax at the statutory tax rate | 1,015,228 | 25.0 | 4,016 | 30.5 | 1,019,244 | 25.0 |
| Lower tax rate for specific provinces/districts or concessions | (347,600) | (8.6) | (1,652) | (12.5) | (349,252) | (8.6) |
| Effect of change in tax rate on the opening balance of deferred tax* | 184,576 | 4.5 | - | - | 184,576 | 4.5 |
| 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 | (131,685) | (3.2) | - | - | (131,685) | (3.2) |
| Income not subject to tax | (22,364) | (0.6) | - | - | (22,364) | (0.5) |
| Expenses not deductible for tax | 36,405 | 0.9 | - | - | 36,405 | 0.9 |
| Tax incentives on eligible expenditures | (41,389) | (1.0) | (4,568) | (34.7) | (45,957) | (1.1) |
| Tax losses utilised from previous periods | (5,755) | (0.1) | (703) | (5.3) | (6,458) | (0.2) |
| Tax losses not recognised | 39,693 | 1.0 | - | - | 39,693 | 1.0 |
| Deductible temporary differences not recognised | 41,036 | 1.0 | 962 | 7.3 | 41,998 | 1.0 |
| Tax charge at the Group's effective rate | 398,349 | 9.8 | (1,945) | (14.7) | 396,404 | 9.7 |

* The effect of change in tax rate on the opening balance of deferred tax for the years ended 31 December 2009 and 2008 is due to the preferential/transitional tax rates granted to certain subsidiaries during those years.

The share of tax attributable to jointly-controlled entities amounting to RMB28,849,000 (2008: RMB9,273,000) 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 RMB132,153,000 (2008: RMB117,021,000) is included in "Share of profits losses of associates" in the consolidated income statement.

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB2,533,775,000 (2008: RMB1,075,700,000) which has been dealt with in the financial statements of the Company (note 43(b)).

## 12. DIVIDENDS

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Proposed final 2009 – RMB5.88 cents (2008: RMB6.1 cents) per ordinary share | **735,452** | 762,969 |
| Proposed final 2007 – RMB5.6 cents per ordinary share* | **-** | 700,430 |
| | **735,452** | 1,463,399 |

* The final 2007 dividend was proposed and declared during the year ended 31 December 2009.

The proposed final dividend for the year ended 31 December 2009 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 RMB735,452,000 (2008: RMB762,969,000) for the year ended 31 December 2009 proposed after the end of the reporting period , the Company will withhold income tax for the portion to be distributed to overseas non-resident enterprise H share shareholders.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 12,507,686,000 (2008: 11,942,985,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic earnings per share is based on:

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation | **2,453,448** | 2,566,244 |

| | Number of shares<br>2009<br>'000 | <br>2008<br>'000 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **12,507,686** | 11,942,985 |

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings | Plant and machinery | Motor vehicles | Equipment, tools and moulds | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2009** | | | | | | |
| **At cost:** | | | | | | |
| At 1 January 2009 | | | | | | |
| As previously reported | 4,312,128 | 7,675,701 | 511,679 | 578,805 | 4,263,461 | 17,341,774 |
| Effect of adopting AG 5 (note 2.2) | (206,546) | (123,532) | (6,767) | (12,504) | - | (349,349) |
| Acquisition of SIMBT (note 44) | 101,490 | 8,915 | 1,865 | 167 | - | 112,437 |
| As restated | 4,207,072 | 7,561,084 | 506,777 | 566,468 | 4,263,461 | 17,104,862 |
| Additions | 64,230 | 141,275 | 27,047 | 36,022 | 1,769,404 | 2,037,978 |
| Acquisition of subsidiaries (note 45) | 144,117 | 204,531 | 32,892 | 46,392 | 8,315 | 436,247 |
| Disposals | (91,360) | (299,824) | (31,481) | (26,781) | (68,247) | (517,693) |
| Transfers | 1,439,713 | 2,512,442 | 30,295 | 46,889 | (4,029,339) | - |
| Transfer to investment properties (note 15) | (90,029) | - | - | - | - | (90,029) |
| Exchange realignment | (4,556) | (6,070) | (110) | (419) | - | (11,155) |
| At 31 December 2009 | 5,669,187 | 10,113,438 | 565,420 | 668,571 | 1,943,594 | 18,960,210 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2009 | | | | | | |
| As previously reported | 1,820,595 | 3,651,135 | 289,358 | 324,147 | 4,367 | 6,089,602 |
| Effect of adopting AG 5 (note 2.2) | (195,947) | (99,447) | (5,282) | (8,210) | - | (308,886) |
| Acquisition of SIMBT (note 44) | 9,007 | 2,479 | 848 | 91 | - | 12,425 |
| As restated | 1,633,655 | 3,554,167 | 284,924 | 316,028 | 4,367 | 5,793,141 |
| Depreciation provided during the year | 177,132 | 651,983 | 67,014 | 91,493 | - | 987,622 |
| Acquisition of subsidiaries (note 45) | 41,661 | 95,482 | 17,913 | 16,846 | - | 171,902 |
| Impairment | 6,843 | 75,347 | 183 | 341 | 6,082 | 88,796 |
| Disposals | (32,352) | (242,872) | (24,821) | (23,248) | (3,449) | (326,742) |
| Transfer to investment properties (note 15) | (24,565) | - | - | - | - | (24,565) |
| Exchange realignment | (3,795) | (5,162) | (104) | (354) | - | (9,415) |
| At 31 December 2009 | 1,798,579 | 4,128,945 | 345,109 | 401,106 | 7,000 | 6,680,739 |
| **Net book value:** | | | | | | |
| At 31 December 2009 | 3,870,608 | 5,984,493 | 220,311 | 267,465 | 1,936,594 | 12,279,471 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### Group (continued)

| | Buildings | Plant and machinery | Motor vehicles | Equipment, tools and moulds | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2008** | | | | | | |
| **At cost:** | | | | | | |
| At 1 January 2008 | | | | | | |
| As previously reported | 4,449,859 | 7,754,173 | 495,296 | 602,602 | 3,470,993 | 16,772,923 |
| Effect of adopting AG 5 (note 2.2) | (206,606) | (123,073) | (6,767) | (12,504) | - | (348,950) |
| Acquisition of SIMBT (note 44) | 101,490 | 8,456 | 1,865 | 167 | - | 111,978 |
| As restated | 4,344,743 | 7,639,556 | 490,394 | 590,265 | 3,470,993 | 16,535,951 |
| Additions | 154,898 | 254,208 | 64,028 | 87,040 | 2,470,100 | 3,030,274 |
| Disposals | (100,768) | (147,909) | (21,204) | (32,812) | (4,283) | (306,976) |
| Disposal of subsidiaries (note 48) | (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 | 4,207,072 | 7,561,084 | 506,777 | 566,468 | 4,263,461 | 17,104,862 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2008 | | | | | | |
| As previously reported | 2,012,008 | 3,878,909 | 291,099 | 351,913 | 9,268 | 6,543,197 |
| Effect of adopting AG 5 (notes 2.2) | (170,465) | (71,267) | (4,294) | (6,840) | - | (252,866) |
| Acquisition of SIMBT (note 44) | 3,860 | 1,186 | 354 | 39 | - | 5,439 |
| As restated | 1,845,403 | 3,808,828 | 287,159 | 345,112 | 9,268 | 6,295,770 |
| Depreciation provided during the year | 147,914 | 530,954 | 54,400 | 100,473 | - | 833,741 |
| Impairment | - | 3,582 | - | - | 36,694 | 40,276 |
| Disposals | (34,295) | (124,843) | (18,550) | (25,898) | - | (203,586) |
| Disposal of subsidiaries (note 48) | (344,854) | (686,126) | (38,409) | (109,503) | (41,595) | (1,220,487) |
| Exchange realignment | 19,487 | 21,772 | 324 | 5,844 | - | 47,427 |
| At 31 December 2008 | 1,633,655 | 3,554,167 | 284,924 | 316,028 | 4,367 | 5,793,141 |
| **Net book value:** | | | | | | |
| At 31 December 2008 | 2,573,417 | 4,006,917 | 221,853 | 250,440 | 4,259,094 | 11,311,721 |

## 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 |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| **At cost:** | | | | | | |
| At 1 January 2009 | 52,685 | 35,711 | 7,071 | 43,432 | 292,325 | 431,224 |
| Merger of SPTD (note 47) | 89,344 | 10,285 | 8,733 | 3,347 | 41,538 | 153,247 |
| Additions | - | 853 | 280 | 3,202 | 98,430 | 102,765 |
| Disposals | - | - | (4,773) | (617) | (3,023) | (8,413) |
| At 31 December 2009 | 142,029 | 46,849 | 11,311 | 49,364 | 429,270 | 678,823 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2009 | 12,847 | 17,411 | 3,063 | 18,817 | - | 52,138 |
| Merger of SPTD (note 47) | 1,713 | 10 | 3,685 | 2,820 | - | 8,228 |
| Depreciation provided during the year | 6,233 | 6,065 | 1,637 | 7,731 | - | 21,666 |
| Disposals | - | - | (2,768) | (422) | - | (3,190) |
| At 31 December 2009 | 20,793 | 23,486 | 5,617 | 28,946 | - | 78,842 |
| **Net book value:** | | | | | | |
| At 31 December 2009 | 121,236 | 23,363 | 5,694 | 20,418 | 429,270 | 599,981 |
| **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 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2009, certain buildings and machinery of the Group with net book values of approximately RMB1,219,000 (2008: RMB682,000) and RMB9,600,000 (2008: RMB55,319,000), respectively, were pledged to secure general banking facilities granted to the Group (note 38).

As at 31 December 2009, the Group has not obtained the real estate certificates for buildings with a total gross area of approximately 121 thousand $m^2$ (2008: 134 thousand $m^2$) and a net book value of RMB288,326,000 (2008: RMB294,302,000). The Group was in the process of applying for the real estate certificates for buildings with a gross area of approximately 65 thousand $m^2$ and a net book value of approximately RMB255,830,000 as at 31 December 2009, which is included in the above net book value of RMB288,326,000.

## 15. INVESTMENT PROPERTIES

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| **At cost:** | | |
| At 1 January | **-** | - |
| Transferred from owner-occupied properties (note 14) | **90,029** | - |
| Acquisition of subsidiaries (note45) | **102,921** | - |
| At 31 December | **192,950** | - |
| **Accumulated depreciation and impairment:** | | |
| At 1 January | **-** | - |
| Transferred from owner-occupied properties (note 14) | **24,565** | - |
| Acquisition of subsidiaries (note 45) | **21,276** | - |
| Depreciation provided during the year | **5,570** | - |
| At 31 December | **51,411** | - |
| **Net book value:** | | |
| At 31 December | **141,539** | - |

The Group's investment properties are situated in Mainland China and are held under the following lease terms:

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Long term leases | **140,837** | - |
| Medium term leases | **702** | - |
| | **141,539** | - |

## 16. PREPAID LAND LEASE PAYMENTS

### Group

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| **At cost:** | | |
| At 1 January | | |
| As previously reported | **1,598,932** | 1,518,146 |
| Effect of adopting AG 5 (note 2.2) | **(73,400)** | (52,459) |
| Acquisition of SIMBT (note 44) | **60,259** | 60,259 |
| As restated | **1,585,791** | 1,525,946 |
| Additions | **35,203** | 114,185 |
| Acquisition of subsidiaries (note 45) | **204,517** | - |
| Disposals | **(37,181)** | (29,254) |
| Disposal of subsidiaries (note 48) | **-** | (25,086) |
| At 31 December | **1,788,330** | 1,585,791 |
| **Accumulated amortisation:** | | |
| At 1 January | | |
| As previously reported | **206,159** | 195,490 |
| Effect of adopting AG 5 (note 2.2) | **(1,797)** | (4,952) |
| Acquisition of SIMBT (note 44) | **2,112** | 905 |
| As restated | **206,474** | 191,443 |
| Amortisation provided during the year | **32,074** | 26,735 |
| Acquisition of subsidiaries (note 45) | **4,832** | - |
| Disposals | **(6,539)** | (8,412) |
| Disposal of subsidiaries (note 48) | **-** | (3,292) |
| At 31 December | **236,841** | 206,474 |
| **Net book value:** | | |
| At 31 December | **1,551,489** | 1,379,317 |
| **Of which:** | | |
| Current portion included in prepayments, deposits and other receivables (note 30) | **35,203** | 29,494 |
| Non-current portion | **1,516,286** | 1,349,823 |
| | **1,551,489** | 1,379,317 |

Except for three (2008: one) parcels of leasehold land with a total cost of RMB94,964,000 (2008: RMB26,478,000), which are situated in Japan, the Group's leasehold lands are all situated in PRC.

## 16. PREPAID LAND LEASE PAYMENTS (continued)

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| **At cost:** | | |
| Long term (no less than 50 years) | **133,281** | 30,578 |
| Medium term (no less than 10 years but less than 50 years) | **1,655,049** | 1,555,213 |
| | **1,788,330** | 1,585,791 |

As at 31 December 2009, certain of the Group's land use rights with a net book value of approximately RMB3,863,000 (2008: RMB3,480,000) were pledged to secure general banking facilities granted to the Group (note 38).

As at 31 December 2009, the Group has not obtained the real estate certificates for one (2008: two) parcel of land with a total gross area of approximately 124 thousand $m^2$ (2008: 165 thousand $m^2$) and a net book value of RMB32,847,000 (2008: RMB44, 699,000).

The Group was in the process of applying for the real estate certificates for the above parcel of land as at 31 December 2009.

### Company

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | **-** | - |
| Merger of SPTD (note 47) | **79,860** | - |
| Additions | **1,640** | - |
| At 31 December | **81,500** | - |
| **Accumulated amortisation:** | | |
| At 1 January | **-** | - |
| Merger of SPTD (note 47) | **8,331** | - |
| Amortisation provided during the year | **1,319** | - |
| At 31 December | **9,650** | - |
| **Net book value:** | | |
| At 31 December | **71,850** | - |
| **Of which:** | | |
| Current portion included in prepayments, deposits and other receivables (note 30) | **1,631** | - |
| Non-current portion | **70,219** | - |
| | **71,850** | - |

## 17. GOODWILL

### Group

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| **At cost:** | | |
| At 1 January | | |
| As previously reported | **237,467** | 237,467 |
| Effect of adopting AG 5 (note 2.2) | **(233,840)** | (233,840) |
| As restated | **3,627** | 3,627 |
| Acquisition of subsidiaries (note 45) | **102,548** | - |
| At 31 December | **106,175** | 3,627 |
| **Accumulated impairment:** | | |
| At 1 January | | |
| As previously reported | **46,406** | 33,712 |
| Effect of adopting AG 5 (note 2.2) | **(46,406)** | (33,712) |
| As restated | **-** | - |
| Impairment during the year | **29,107** | - |
| At 31 December | **29,107** | - |
| **Net book value:** | | |
| At 31 December | **77,068** | 3,627 |

### 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 | |
|---|---|---|---|
| | | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
| Printing and packing machinery | Electromechanical equipment | **73,441** | - |
| Others | | **3,627** | 3,627 |
| | | **77,068** | 3,627 |

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 rate applied to the cash flow projections is 12% (2008: 12%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2008: 3%) .

## 17. GOODWILL (continued)

### Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2009 and 2008. 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 rate* - The discount rate used is before tax and reflects specific risks relating to the relevant units.

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

## 18. OTHER INTANGIBLE ASSETS

### Group

| | Patents and licences | Technology know-how | Concession intangible assets | Development costs | Others | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2009** | | | | | | |
| **At cost:** | | | | | | |
| 1 January 2009 | | | | | | |
| As previously reported | 372,349 | 348,912 | 405,239 | 9,260 | 31,095 | 1,166,855 |
| Effect of adopting AG 5 (note 2.2) | (5,033) | - | - | - | (2,148) | (7,181) |
| As restated | 367,316 | 348,912 | 405,239 | 9,260 | 28,947 | 1,159,674 |
| Acquisition of subsidiaries (note 45) | 12,260 | - | - | - | 8,729 | 20,989 |
| Additions | 2,128 | 33,157 | - | 10,157 | 23,143 | 68,585 |
| Disposals | (5,847) | - | (5,806) | (9,486) | (1,349) | (22,488) |
| At 31 December 2009 | 375,857 | 382,069 | 399,433 | 9,931 | 59,470 | 1,226,760 |
| **Accumulated amortisation and impairment:** | | | | | | |
| 1 January 2009 | | | | | | |
| As previously reported | 217,165 | 173,979 | 1,612 | - | 12,505 | 405,261 |
| Effect of adopting AG 5 (note 2.2) | (3,298) | - | - | - | (1,238) | (4,536) |
| As restated | 213,867 | 173,979 | 1,612 | - | 11,267 | 400,725 |
| Acquisition of subsidiaries (note 45) | 7,907 | - | - | - | 6,978 | 14,885 |
| Amortisation provided during the year | 30,500 | 34,023 | 13,146 | - | 16,802 | 94,471 |
| Impairment | 48,189 | - | 286 | - | - | 48,475 |
| Disposals | (273) | - | (1,020) | - | (629) | (1,922) |
| At 31 December 2009 | 300,190 | 208,002 | 14,024 | - | 34,418 | 556,634 |
| **Net book value:** | | | | | | |
| At 31 December 2009 | 75,667 | 174,067 | 385,409 | 9,931 | 25,052 | 670,126 |

## 18. OTHER INTANGIBLE ASSETS (continued)

### Group (continued)

| | 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 |
|---|---|---|---|---|---|---|
| **2008** | | | | | | |
| **At cost:** | | | | | | |
| 1 January 2008 | | | | | | |
| As previously reported | 389,272 | 293,834 | 291,571 | - | 66,132 | 1,040,809 |
| Effect of adopting AG 5 (note 2.2) | (5,033) | - | - | - | (2,148) | (7,181) |
| As restated | 384,239 | 293,834 | 291,571 | - | 63,984 | 1,033,628 |
| Additions | 36,772 | 55,078 | 113,668 | 9,260 | 20,756 | 235,534 |
| Disposal of subsidiaries (note 48) | (53,506) | - | - | - | (7,654) | (61,160) |
| Disposals | (189) | - | - | - | (48,139) | (48,328) |
| At 31 December 2008 | 367,316 | 348,912 | 405,239 | 9,260 | 28,947 | 1,159,674 |
| **Accumulated amortisation and impairment:** | | | | | | |
| 1 January 2008 | | | | | | |
| As previously reported | 194,539 | 147,361 | - | - | 19,236 | 361,136 |
| Effect of adopting AG 5 (note 2.2) | (2,987) | - | - | - | (928) | (3,915) |
| As restated | 191,552 | 147,361 | - | - | 18,308 | 357,221 |
| Amortisation provided during the year | 44,985 | 26,618 | 1,612 | - | 13,360 | 86,575 |
| Impairment | 1,651 | - | - | - | - | 1,651 |
| Disposal of subsidiaries (note 48) | (24,241) | - | - | - | (1,944) | (26,185) |
| Disposals | (80) | - | - | - | (18,457) | (18,537) |
| At 31 December 2008 | 213,867 | 173,979 | 1,612 | - | 11,267 | 400,725 |
| **Net book value:** | | | | | | |
| At 31 December 2008 | 153,449 | 174,933 | 403,627 | 9,260 | 17,680 | 758,949 |

## 18. OTHER INTANGIBLE ASSETS (continued)

### Company

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | **8,069** | 6,635 |
| Merger of SPTD (note 47) | **11,449** | - |
| Additions | **2,148** | 1,434 |
| At 31 December | **21,666** | 8,069 |
| **Accumulated amortisation:** | | |
| At 1 January | **3,810** | 2,345 |
| Merger of SPTD (note 47) | **1,228** | - |
| Amortisation provided during the year | **2,482** | 1,465 |
| At 31 December | **7,520** | 3,810 |
| **Net book value:** | | |
| At 31 December | **14,146** | 4,259 |

## 19. INVESTMENTS IN SUBSIDIARIES

### Company

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **11,179,230** | 15,004,338 |
| Listed investment, at cost | **1,465,478** | 1,465,478 |
| | **12,644,708** | 16,469,816 |

As at 31 December 2009, 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 2009, the 36-month lock-up restriction period has expired and the fair market value of the listed shares of the subsidiary held by the Company amounted to RMB6,614,559,000.

## 19. INVESTMENTS IN SUBSIDIARIES (continued)

During the year ended 31 December 2009, SPTD was deregistered and merged into the Company. Details are contained in note 47 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 Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai Turbine Works Co., Ltd. 上海汽輪機廠有限公司 | PRC | RMB246,675 | 100% | - | 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 | 100% | - | 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 | 100% | - | 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 | 100% | - | 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 | 100% | - | Design and production of turbo-ancillary appliances and ancillary boiler appliances |
| 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 | 100% | - | 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 | 100% | - | Production and sale of machinery and spare parts |

## 19. INVESTMENTS IN SUBSIDIARIES (continued)

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

| Company name | Place of incorporation/ registration and operations | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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 | 100% | - | 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 Rail Traffic Equipment Development Co., Ltd. 上海軌道交通設備發展有限公司 | PRC | RMB600,000 | 83.33% | - | Production, sale, maintenance and technology development of city rail-traffic equipment and provision of consultancy services |
| Shanghai Environment Protection Complete Engineering Co., Ltd. 上海環保工程成套有限公司 | PRC | 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 | 100% | - | Design and installation of automatic apparatus |

## 19. INVESTMENTS IN SUBSIDIARIES (continued)

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

| Company name | Place of incorporation/ registration and operations | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai Institute of Mechanical and Electrical Engineering Co., Ltd.<br>上海市機電設計研究院有限公司 | PRC | RMB21,656 | 100% | - | Development of machinery for communal projects |
| Shanghai Centrifuge Institute Co., Ltd.<br>上海市離心機械研究所有限公司 | PRC | RMB40,004 | 100% | - | Development of technology for general purpose machinery |
| Shanghai Electric Group Finance Co., Ltd.<br>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.<br>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.<br>上海電氣國際經濟貿易有限公司 | PRC | RMB350,000 | 100% | - | Import and export of products |
| SEC-IHI Power Generation Environment Protection Engineering Co., Ltd.<br>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.<br>上海交大泰陽綠色能源有限公司 | PRC | RMB313,000 | 61.35% | - | Production and sale of solar energy related products |
| Shanghai Electric Lingang Heavy Machinery Co., Ltd.<br>上海電氣臨港重型裝備有限公司 | PRC | RMB1,000,000 | 100% | - | Design, manufacture and sale of heavy machinery and provision of related services |
| Bin Hai Ace Environmental Protection Co., Ltd.<br>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.<br>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 |
| Shanghai Electric Nantong Environment thermoelectricity Co., Ltd.<br>上海電氣環保熱電（南通）有限公司 | PRC | USD19,063 | 75% | 23.75% | Waste treatment |

## 19. 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 Power Generation Equipment Co., Ltd. # 上海電氣電站設備有限公司 (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 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 services 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 | RMB512,350 | - | 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 | RMB407,797 | - | 44.82% | Manufacture and operation of engineering machinery and related equipment |
| Shanghai Guanghua Printing Machinery Co., Ltd. 上海光華印刷機械有限公司 | PRC | USD22,792 | - | 73.64% | Production and sale of printing machinery |
| Shanghai Purlux Machinery Co., Ltd. * 上海紫光機械有限公司 | PRC | USD7,500 | - | 47.28% | Design, production and repair of packaging machinery |
| 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 |

## 19. INVESTMENTS IN SUBSIDIARIES (continued)

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

| Company name | Place of incorporation/ registration and operations | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai 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 |
| Akiyama International Corporation. 日本秋山國際株式會社 | Japan | JPY1,050,000 | - | 73.64% | Research and development, design, production and repair of packing machinery |
| Shanghai Institute of Machinery Building Technology Co., Ltd. 上海市機械製造工藝研究所 | PRC | RMB28,500 | 100% | - | Research and development in production, materials and equipment |

# Sino-foreign equity joint ventures

^ Shanghai Mechanical and Electrical Industry Co., Ltd. is owned by the Company as to 47.28% and 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.

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.

## 20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

### Group

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| Share of net assets | | |
| As previously reported | **635,137** | 341,045 |
| Effect of adopting AG 5 (note 2.2) | **-** | (51,288) |
| As restated | **635,137** | 289,757 |
| Goodwill on acquisition | **-** | 7,426 |
| | **635,137** | 297,183 |

### Company

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **462,022** | - |

## 20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The Group's balances with jointly-controlled entities in respect of loans receivable, trade receivables, discounted bills receivable, bills receivable, prepayments, deposits and other receivables, trade payables and customer deposits are disclosed in notes 22, 27, 28, 29, 30, 34 and 37 to the financial statements, respectively.

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 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 |
| SEC Areva (Shanghai Baoshan) Transformers Co., Ltd. # 上海電氣阿海珐寶山變壓器有限公司 | PRC | USD29,800 | 50% | 50% | 50% | Production and sale of, oil-immersed power transformers |

\#     Sino-foreign equity joint ventures

^     The investments in these 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.

## 20. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES (continued)

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| **Share of the jointly-controlled entities' assets and liabilities:** | | |
| Current assets | **819,038** | 645,300 |
| Non-current assets | **238,094** | 270,980 |
| Current liabilities | **(408,504)** | (601,163) |
| Non-current liabilities | **(13,491)** | (17,934) |
| Net assets | **635,137** | 297,183 |
| **Share of the jointly-controlled entities' results:** | | |
| Revenue | **924,598** | 787,138 |
| Other income | **12,329** | 4,317 |
| | **936,927** | 791,455 |
| Total expenses | **(756,024)** | (861,939) |
| Income tax expense | **(28,849)** | (9,273) |
| Profit/ (loss) after tax | **152,054** | (79,757) |

## 21. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| Unlisted investments, at cost | **-** | - | **1,090,287** | 168,550 |
| Share of net assets | **2,183,566** | 2,360,083 | **-** | - |
| Goodwill on acquisition | **21,282** | 21,282 | **-** | - |
| | **2,204,848** | 2,381,365 | **1,090,287** | 168,550 |

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 22, 27, 28, 29, 30, 34, 35, 36 and 37 to the financial statements, respectively.

## 21. INVESTMENTS IN ASSOCIATES (continued)

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 |
| 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 and 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 |

## 21. 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: Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 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:

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| Assets | **15,862,726** | 17,527,558 |
| Liabilities | **9,182,138** | 9,054,363 |
| Revenues | **18,423,278** | 21,341,431 |
| Profit | **1,922,556** | 1,519,123 |

## 22. LOANS RECEIVABLE

### Group

| | 2009 | | | 2008 (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 | **900,000** | **(9,000)** | **891,000** | 700,000 | (7,000) | 693,000 |
| Loans to SEC group companies* | **729,780** | **(8,098)** | **721,682** | 428,470 | (4,984) | 423,486 |
| Loans to jointly-controlled entities | **10,000** | **(100)** | **9,900** | 129,500 | (2,290) | 127,210 |
| Loans to associates | **25,680** | **(257)** | **25,423** | 27,960 | (280) | 27,680 |
| Loans to non-related parties | **35,000** | **(600)** | **34,400** | 60,000 | (600) | 59,400 |
| | **1,700,460** | **(18,055)** | **1,682,405** | 1,345,930 | (15,154) | 1,330,776 |
| Portion classified as current assets | **1,173,500** | **(12,785)** | **1,160,715** | 1,029,660 | (11,955) | 1,017,705 |
| Long term portion | **526,960** | **(5,270)** | **521,690** | 316,270 | (3,199) | 313,071 |

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

### Company

| | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|
| | Annual interest rate | Gross RMB'000 | Provision RMB'000 | Net RMB'000 | Gross RMB'000 | Provision RMB'000 | Net RMB'000 |
| Current portion | Nil | **660,000** | **-** | **660,000** | 70,340 | - | 70,340 |
| Current portion | 4.20%-6.48% | **360,000** | **-** | **360,000** | 300,000 | - | 300,000 |
| | | **1,020,000** | **-** | **1,020,000** | 370,340 | - | 370,340 |

As at 31 December 2009, the above loans represent the entrusted loans provided by the Company to subsidiaries.

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

### Group

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **15,154** | 6,823 |
| Impairment losses recognised (note 6) | **5,513** | 15,145 |
| Impairment losses reversed (note 6) | **(2,612)** | (6,814) |
| At 31 December | **18,055** | 15,154 |

As at 31 December 2009, none (2008: nil) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 4.37% to 5.31% (2008: 4.37% to 7.56%). The Group does not hold any collateral or other credit enhancements over these balances.

## 23. OTHER INVESTMENTS (NON-CURRENT)

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Equity investments: | | | | |
| - Available-for-sale (unlisted), at cost | **94,734** | 120,133 | **15,039** | - |
| - Impairment | **(14,602)** | (16,808) | **-** | - |
| | **80,132** | 103,325 | **15,039** | - |
| - Available-for-sale (listed), at fair value | **184,542** | 95,686 | **7,959** | - |
| | **264,674** | 199,011 | **22,998** | - |
| Debt investments: | | | | |
| - Available-for-sale (unlisted), at fair value | **226,169** | 615,821 | **-** | - |
| | **490,843** | 814,832 | **22,998** | - |

The movements in the provision for impairment of equity investments are as follows:

### Group

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **16,808** | 20,217 |
| Impairment losses recognised | **8,627** | - |
| Disposal | **(10,833)** | (3,409) |
| At 31 December | **14,602** | 16,808 |

During the year, the increase in the fair value of the Group's non-current available-for-sale investments recognised in other comprehensive income amounted to RMB76,138,000 (2008: decrease in the fair value of RMB143,273,000). In addition, upon the disposal of certain non-current available-for-sale investments, a cumulative gain of RMB25,968,000 (2008: RMB440,000) was transferred from equity and recognised in the consolidated income statement.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets.

The fair values of listed equity investments are based on quoted market prices. The directors believe that, as at 31 December 2009, 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 2009, certain unlisted available-for-sale equity investments with a carrying amount of RMB80,132,000 (2008: RMB103,325,000) 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.

## 24. DEFERRED TAX

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

### Deferred tax assets

### Group

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 2009 | 1,860 | 548,375 | 4,984 | 148,944 | 36,472 | 21,656 | 762,291 |
| Effect of change in tax rate on the opening balance charged to the income statement (note 10) | - | (720) | - | - | - | - | (720) |
| Deferred tax (charged)/credited to the income statement during the year (note 10) | (1,860) | 79,507 | (47) | 68,767 | (8,810) | 8,209 | 145,766 |
| Acquisition of subsidiaries (note 45) | - | 920 | - | 249 | - | - | 1,169 |
| Exchange realignment | - | - | - | - | - | (220) | (220) |
| Gross deferred tax assets at 31 December 2009 | - | 628,082 | 4,937 | 217,960 | 27,662 | 29,645 | 908,286 |

### Deferred tax liabilities

### Group

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 2009 | | | | | | | |
| As previously reported | (137,438) | (31,460) | (69,076) | (53,237) | (190,182) | (46,902) | (528,295) |
| Effect of adopting AG 5 (note 2.2) | 8,737 | 25,735 | - | - | - | (3,042) | 31,430 |
| Acquisition of SIMBT (note 44) | (31,634) | - | - | - | - | - | (31,634) |
| As restated | (160,335) | (5,725) | (69,076) | (53,237) | (190,182) | (49,944) | (528,499) |
| Effect of change in tax rate on the opening balance credited to equity | 1,569 | - | - | - | - | - | 1,569 |
| Acquisition of subsidiaries (note 45) | - | (32,386) | - | - | - | - | (32,386) |
| Deferred tax credited/(charged) to the income statement during the year (note 10) | 1,832 | 1,606 | 69,076 | 11,078 | 56,090 | (4,456) | 135,226 |
| Deferred tax credited to equity during the year | - | - | - | (39,347) | - | - | (39,347) |
| Gross deferred tax liabilities at 31 December 2009 | (156,934) | (36,505) | - | (81,506) | (134,092) | (54,400) | (463,437) |

## 24. DEFERRED TAX (continued)

### Deferred tax assets

### Group

| | 2008 (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 2008 | 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 48) | - | - | (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 |

## 24. DEFERRED TAX (continued)

### Deferred tax liabilities

### Group

| | 2008 (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 2008 | | | | | | | |
| As previously reported | (142,558) | (32,969) | (202,512) | (517,591) | (123,083) | (46,902) | (1,065,615) |
| Effect of adopting AG 5 (note 2.2) | 14,541 | 29,440 | - | - | - | (3,213) | 40,768 |
| Acquisition of SIMBT (note 44) | (36,623) | - | - | - | - | - | (36,623) |
| As restated | (164,640) | (3,529) | (202,512) | (517,591) | (123,083) | (50,115) | (1,061,470) |
| Effect of change in tax rate on the opening balance credited/(charged) to the income statement (note 10) | - | - | - | 2,178 | - | 172 | 2,350 |
| Effect of change in tax rate on the opening balance credited to equity | - | - | - | 7,138 | - | - | 7,138 |
| Disposal of subsidiaries (note 48) | 1,601 | - | - | 465 | - | - | 2,066 |
| Deferred tax credited/(charged) to the income statement during the year (note 10) | 3,054 | (2,196) | 133,436 | 56,227 | (67,099) | - | 123,422 |
| Deferred tax credited to equity during the year | (350) | - | - | 398,346 | - | - | 397,996 |
| Gross deferred tax liabilities at 31 December 2008 | (160,335) | (5,725) | (69,076) | (53,237) | (190,182) | (49,943) | (528,498) |
| Offset against deferred tax assets* | | | | | | | 19,762 |
| Net deferred tax liabilities at 31 December 2008 | | | | | | | (508,736) |

### Deferred tax assets

### Company

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | 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 | **54,135** | **71,684** | **125,819** | 47,663 | 37,133 | 84,796 |
| Merger of SPTD (note 47) | **2,405** | **(983)** | **1,422** | - | - | - |
| Deferred tax credited to the income statement during the year | **(3,254)** | **41,465** | **38,211** | 6,472 | 34,551 | 41,023 |
| At 31 December | **53,286** | **112,166** | **165,452** | 54,135 | 71,684 | 125,819 |

* For presentation purpose, certain deferred tax assets and liabilities have been offset in the statement of financial position.

## 24. DEFERRED TAX (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 (Restated) | RMB'000 | RMB'000 |
| Tax losses | **577,155** | 300,386 | **-** | - |
| Deductible temporary differences | **898,057** | 726,478 | **-** | - |
| | **1,475,212** | 1,026,864 | **-** | - |

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.

## 25. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 (Restated) | RMB'000 | RMB'000 |
| Raw materials | **4,103,349** | 4,610,123 | **1,500** | 3,756 |
| Work in progress | **12,169,403** | 13,970,261 | **4,054** | 352 |
| Finished goods | **3,259,548** | 2,791,881 | **103,461** | 13,590 |
| | **19,532,300** | 21,372,265 | **109,015** | 17,698 |

## 26. CONSTRUCTION CONTRACTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 (Restated) | RMB'000 | RMB'000 |
| Gross amount due from contract customers | **660,698** | 382,947 | **144,486** | 94,166 |
| Contract costs incurred plus recognised profits less losses to date | **28,697,906** | 18,338,417 | **26,387,515** | 16,554,354 |
| Less: Progress billings | **(28,037,208)** | (17,955,470) | **(26,243,029)** | (16,460,188) |
| | **660,698** | 382,947 | **144,486** | 94,166 |

## 26. CONSTRUCTION CONTRACTS (continued)

As at 31 December 2009, advances received from customers for contract works included in the Group's and the Company's balances of other payables and accruals amounted to approximately RMB3,833,385,000 (2008: RMB2,253,486,000) and RMB3,512,402,000 (2008: RMB2,173,996,000), respectively.

## 27. TRADE RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (Restated) | | |
| Trade receivables | **15,635,417** | 13,139,066 | **8,074,323** | 5,948,308 |
| Impairment | **(2,021,463)** | (1,709,373) | **(133,896)** | (124,828) |
| | **13,613,954** | 11,429,693 | **7,940,427** | 5,823,480 |

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 end of the reporting period, based on the due date and net of provision for bad and doubtful debts, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | (Restated) | | |
| Undue | **8,441,455** | 5,203,877 | **6,046,858** | 3,005,149 |
| Within 3 months | **2,281,832** | 3,781,755 | **482,333** | 1,829,852 |
| Over 3 months but within 6 months | **1,444,940** | 764,717 | **624,025** | 345,836 |
| Over 6 months but within 1 year | **1,046,196** | 1,066,857 | **363,595** | 278,929 |
| Over 1 year but within 2 years | **318,396** | 523,975 | **314,679** | 345,465 |
| Over 2 years but within 3 years | **59,430** | 68,426 | **99,988** | 18,249 |
| Over 3 years | **21,705** | 20,086 | **8,949** | - |
| | **13,613,954** | 11,429,693 | **7,940,427** | 5,823,480 |

## 27. TRADE RECEIVABLES (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| At 1 January | | | | |
| As previously reported | **1,707,337** | 1,200,770 | **124,828** | 31,200 |
| Acquisition of SIMBT (note 44) | **2,036** | 1,635 | **-** | - |
| As restated | **1,709,373** | 1,202,405 | **124,828** | 31,200 |
| Impairment losses recognised (note 6) | **513,427** | 732,009 | **3,003** | 97,628 |
| Acquisition of subsidiaries (note 45) | **52,525** | - | **-** | - |
| Merger of SPTD (note 47) | **-** | - | **6,222** | - |
| Disposal of subsidiaries (note 48) | **-** | (46,824) | **-** | - |
| Amount written off as uncollectible | **(31,745)** | (11,323) | **-** | - |
| Impairment losses reversed (note 6) | **(222,117)** | (166,894) | **(157)** | (4,000) |
| | **2,021,463** | 1,709,373 | **133,896** | 124,828 |

The above provisions for impairment of trade receivables of the Group and the Company are provisions for both individually and collectively impaired trade receivables with carrying amounts before provision of RMB4,103,286,000 (2008: RMB5,633,277,000) and RMB876,455,000 (2008: RMB2,472,713,000), 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 | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| Neither past due nor impaired | **8,573,550** | 5,069,560 | **6,141,171** | 2,989,797 |
| Less than 3 months past due | **2,274,267** | 1,796,953 | **361,621** | 461,007 |
| 3 to 6 months past due | **484,084** | 221,453 | **145,899** | 8,956 |
| Over 6 months past due | **200,230** | 417,823 | **549,177** | 15,835 |
| | **11,532,131** | 7,505,789 | **7,197,868** | 3,475,595 |

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.

## 27. TRADE RECEIVABLES (continued)

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 | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| The ultimate holding company | **149,567** | 129,642 | **-** | - |
| Subsidiaries | **-** | - | **83,173** | 64,784 |
| Jointly-controlled entities | **312** | 5,348 | **-** | - |
| Associates | **14,951** | 19,802 | **-** | - |
| SEC group companies | **112,174** | 183,525 | **-** | - |
| Other related companies | **130,884** | 72,005 | **121,561** | 35,716 |
| | **407,888** | 410,322 | **204,734** | 100,500 |

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

## 28. DISCOUNTED BILLS RECEIVABLE

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Within 3 months | **25,549** | 106,237 |
| Over 3 months but within 6 months | **17,141** | 26,635 |
| | **42,690** | 132,872 |
| Less: Provision for discounted bills receivable | **(427)** | (1,720) |
| | **42,263** | 131,152 |

## 28. DISCOUNTED BILLS RECEIVABLE (continued)

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

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **1,720** | 2,916 |
| Impairment losses recognised (note 6) | **-** | 793 |
| Impairment losses reversed (note 6) | **(1,293)** | (1,989) |
| | **427** | 1,720 |

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

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| Associates | **6,199** | 41,419 |
| Jointly-controlled entities | **-** | 9,400 |
| | **6,199** | 50,819 |

The annual interest rates of discounting services provided to related parties ranged from 3.6% to 4.5% for the year ended 31 December 2009 (2008: 2.7% to 7.2%).

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 issuers and endorsers.

## 29. BILLS RECEIVABLE

A maturity profile of the bills receivable as at the end of the reporting period is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Within 3 months | **913,268** | 418,805 | **114,160** | 56,940 |
| Over 3 months but within 6 months | **1,126,102** | 448,938 | **219,512** | 142,031 |
| Over 6 months but within 1 year | **1,750** | - | **-** | - |
| | **2,041,120** | 867,743 | **333,672** | 198,971 |

## 29. BILLS RECEIVABLE (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| Subsidiaries | **-** | - | **-** | 84,000 |
| Associates | **6,500** | - | **-** | - |
| SEC group companies | **33,607** | 6,880 | **-** | - |
| | **40,107** | 6,880 | **-** | 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 2009 was an amount of RMB26,200,000 (2008: RMB39,158,000) 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 statement of financial position as at 31 December 2009.

## 30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| Prepayments | **7,236,506** | 6,734,942 | **2,505,508** | 2,176,918 |
| Deposits and other receivables | **1,011,534** | 1,036,489 | **316,873** | 277,219 |
| Prepaid land lease payments (note 16) | **35,203** | 29,494 | **1,631** | - |
| Dividend receivables | **18,813** | 45,390 | **127,074** | 604,195 |
| Current portion of non-current compensation receivables | **20,937** | 13,053 | **-** | - |
| Due from subsidiaries | **-** | - | **18,130,878** | 18,507,397 |
| Due from the ultimate holding company | **5,740** | 3,501 | **-** | - |
| Due from jointly-controlled entities | **13,366** | - | **4,911** | - |
| Due from associates | **215,633** | 204,069 | **145,770** | 146,270 |
| Due from SEC group companies | **1,056,062** | 528,792 | **76,964** | 28,894 |
| Due from other related companies | **531,990** | 257,776 | **-** | - |
| | **10,145,784** | 8,853,506 | **21,309,609** | 21,740,893 |
| Less: Provision for deposits and other receivables | **(106,407)** | (92,549) | **(15,954)** | (10,931) |
| | **10,039,377** | 8,760,957 | **21,293,655** | 21,729,962 |

## 30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

As at 31 December 2009, the Group's and the Company's balances with related parties include prepayments of RMB1,649,452,000 (2008: RMB822,362,000) and RMB17,842,527,000 (2008: RMB18,084,209,000), respectively. The remaining balances of RMB173,339,000 (2008: RMB171,776,000) and RMB515,996,000 (2008: RMB598,352,000) are non-trade in nature and are unsecured, non-interest-bearing and repayable on demand or within one year.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| At 1 January | | | | |
| As previously reported | **90,561** | 86,004 | **10,931** | - |
| Acquisition of SIMBT (note 44) | **1,988** | 2,929 | **-** | - |
| As restated | **92,549** | 88,933 | **10,931** | - |
| Acquisition of subsidiaries (note 45) | **7,894** | - | **-** | - |
| Merger of SPTD (note 47) | **-** | - | **414** | - |
| Impairment losses recognised (note 6) | **18,737** | 35,091 | **4,913** | 10,931 |
| Disposal of subsidiaries (note 48) | **-** | (1,104) | **-** | - |
| Amount written off as uncollectible | **(4,248)** | (28,246) | **-** | - |
| Impairment losses reversed (note 6) | **(8,525)** | (2,125) | **(304)** | - |
| | **106,407** | 92,549 | **15,954** | 10,931 |

The above provision for impairment of deposits and other receivables is a provision for the Group's and the Company's both individually and collectively impaired deposits and other receivables with carrying amounts of RMB286,393,000 (2008: RMB267,091,000), and RMB150,801,000 (2008: RMB143,800,000). These impaired deposits and other receivables relate to parties that were in default or delinquency in payments and only a portion of the deposits and other receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

Receivables of the Group and the Company that were not impaired amounting to RMB893,205,000 (2008: RMB940,708,000) and RMB677,743,000 (2008: RMB731,771,000), 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.

## 31. INVESTMENTS (CURRENT)

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| **Equity investments:** | | | | |
| - At fair value through profit or loss (listed) | **213** | 10,816 | **-** | - |
| - Available-for-sale (listed), at fair value | **270,588** | - | **-** | - |
| | **270,801** | 10,816 | **-** | - |
| **Debt investments:** | | | | |
| - At fair value through profit or loss (listed) | **1,622** | 6,429 | **-** | - |
| - Available-for-sale (listed), at fair value | **-** | 20,600 | **-** | - |
| (unlisted), at fair value | **82,050** | - | **-** | - |
| - Held-to-maturity (unlisted), at amortised cost | **-** | 154,102 | **-** | - |
| | **83,672** | 181,131 | **-** | - |
| **Investment funds:** | | | | |
| - Available-for-sale (unlisted), at fair value | **4,487,539** | 4,196,671 | **-** | - |
| | **4,487,539** | 4,196,671 | **-** | - |
| **Investment products:** | | | | |
| - At fair value through profit or loss (unlisted) | **-** | 12,935 | **-** | - |
| - Available-for-sale (unlisted), at fair value | **111,092** | - | **-** | - |
| | **111,092** | 12,935 | **-** | - |
| **Designated investment management:** | | | | |
| - Available-for-sale (unlisted), at fair value | **499,803** | - | **-** | - |
| | **499,803** | - | **-** | - |
| | **5,452,907** | 4,401,553 | **-** | - |

## 31. INVESTMENTS (CURRENT) (continued)

The movements in provision for impairment of investments are as follows:

### Group

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **-** | 75,000 |
| Impairment reversed | **-** | (75,000) |
| At 31 December | **-** | - |

During the year, the increase in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB230,063,000 (2008: decrease in fair value of RMB1,229,750,000). In addition, upon the disposals of certain current available-for-sale investments, a cumulative gain of RMB108,199,000 (2008: RMB327,381,000) was transferred from equity and recognised in the income statement.

As at 31 December 2009, listed available-for-sale equity investments of RMB181,755,000 (2008: Nil) were restricted for trading over certain periods of less than one year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

## 32. DERIVATIVE FINANCIAL INSTRUMENTS

### Group

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Assets RMB'000 | Liabilities RMB'000 | Assets RMB'000 (Restated) | Liabilities RMB'000 (Restated) |
| Forward currency contracts | **84,910** | **(9,443)** | 61,680 | (21,731) |

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

The Group has entered into 16 (2008: 9) 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 RMB35,518,000 (2008: RMB21,694,000) were charged to the income statement during the year. The above transactions involving derivative financial instruments are with China Construction Bank, Bank of China, Agricultural Bank of China, and HSBC Bank (China) Company Limited of A1 credit rating per Moody's.

## 32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Company

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Assets RMB'000 | Liabilities RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| Forward currency contracts | **39,564** | **-** | - | - |

The Company has entered into 2 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 RMB39,564,000 were charged to the income statement during the year. The above transactions involving derivative financial instruments are with Bank of China and HSBC Bank (China) Company Limited of A1 credit rating per Moody's.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Cash and bank balances | **11,987,046** | 11,292,275 | **6,805,623** | 5,469,461 |
| Time deposits | **3,689,775** | 2,818,366 | **1,513,000** | - |
| | **15,676,821** | 14,110,641 | **8,318,623** | 5,469,461 |
| Less: Restricted deposits | **(866,588)** | (1,403,209) | **(27,000)** | (78,310) |
| Cash and cash equivalents | **14,810,233** | 12,707,432 | **8,291,623** | 5,391,151 |
| Due from the Central Bank | **1,803,003** | 1,260,876 | **-** | - |
| Total | **16,613,236** | 13,968,308 | **8,291,623** | 5,391,151 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| **Pledged deposits secured for:** | | | | |
| Bank loans | **22,048** | 56,939 | **-** | - |
| Credit facilities | **844,540** | 1,346,270 | **27,000** | 78,310 |
| | **866,588** | 1,403,209 | **27,000** | 78,310 |

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

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

### Group

| | 2009 | | 2008 (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") | **120,180** | **820,610** | 10,244 | 70,014 |
| Euro ("EUR") | **33,484** | **328,062** | 11,217 | 108,343 |
| Japan Yen ("JPY") | **2,185,543** | **163,369** | 628,743 | 47,564 |
| Hong Kong Dollars ("HKD") | **28,138** | **24,775** | 16,452 | 14,509 |
| South African Rand ("ZAR") | **249** | **227** | 4,060 | 2,971 |
| Ethiopian Birr ("ETB") | **8,086** | **4,325** | 200,296 | 138,204 |
| Indian Rupee ("INR") | **21,660** | **3,017** | - | - |
| Indonesian Rupia ("IDR") | **10,264,985** | **7,456** | - | - |
| **Time deposits:** | | | | |
| USD | **1,931** | **13,183** | 1,500 | 10,252 |
| EUR | **-** | **-** | 5,000 | 48,295 |
| JPY | **20,193** | **1,482** | 20,096 | 1,520 |
| HKD | **2,035** | **1,792** | 7,015 | 6,187 |

### Company

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Foreign currency in'000 | RMB equivalent RMB'000 | Foreign currency in'000 | RMB equivalent RMB'000 |
| **Cash and bank balances:** | | | | |
| USD | **31,015** | **211,776** | 700 | 4,787 |
| EUR | **-** | **4** | 1,070 | 10,334 |

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 2009 was deposits of RMB1,771,099,000, HKD10,000 (equivalent to RMB9,000) and USD4,671,000 (equivalent to RMB31,895,000) with the People's Bank of China (the "Central Bank"), including a statutory reserve of 11.0% (2008: 11.0%) on customer deposits held by Finance Company.

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

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 RMB7,274,028,000 (2008: RMB4,365,581,000) which were deposited with Finance Company according to the prevailing market conditions.

## 34. TRADE PAYABLES

An aged analysis of the trade payables as at the end of reporting period, based on the invoice date, is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **RMB'000** | **RMB'000 (Restated)** | **RMB'000** | **RMB'000** |
| Within 3 months | **8,584,734** | 7,632,115 | **5,898,749** | 4,525,609 |
| Over 3 months but within 6 months | **1,389,013** | 1,028,111 | **2,026,493** | 1,134,554 |
| Over 6 months but within 1 year | **1,434,707** | 751,060 | **1,207,552** | 1,569,165 |
| Over 1 year but within 2 years | **1,169,365** | 356,518 | **1,388,729** | 1,013,521 |
| Over 2 years but within 3 years | **107,196** | 115,222 | **340,316** | 58,370 |
| Over 3 years | **133,401** | 114,995 | **48,695** | - |
| | **12,818,416** | 9,998,021 | **10,910,534** | 8,301,219 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| | **RMB'000** | **RMB'000 (Restated)** | **RMB'000** | **RMB'000** |
| Subsidiaries | **-** | - | **8,025,436** | 6,777,660 |
| Jointly-controlled entities | **2,506** | 2,936 | **-** | - |
| Associates | **152,848** | 200,000 | **16** | 5,982 |
| SEC group companies | **421,470** | 297,035 | **1,264** | 68,220 |
| Other related companies | **40,850** | 67,719 | **4,682** | 41,758 |
| | **617,674** | 567,690 | **8,031,398** | 6,893,620 |

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 end of the reporting period is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Within 3 months | **1,211,549** | 1,139,213 | **-** | - |
| Over 3 months but within 6 months | **368,718** | 907,262 | **-** | - |
| | **1,580,267** | 2,046,475 | **-** | - |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Associates | **13,391** | 21,500 | **-** | - |
| SEC group companies | **2,628** | 3,505 | **-** | - |
| Other related companies | **10,880** | - | **-** | - |
| | **26,899** | 25,005 | **-** | - |

Bills payable are non-interest-bearing.

## 36. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Advances from customers | **31,635,154** | 29,249,720 | **24,313,400** | 21,719,603 |
| Other payables | **2,763,805** | 1,894,960 | **631,940** | 503,067 |
| Government grants | **77,433** | 21,019 | **-** | - |
| Dividend payable to non-controlling shareholders | **100,752** | 83,664 | **5,631** | - |
| Dividend payable to controlling shareholders | **-** | 261 | **-** | - |
| Accruals | **4,119,191** | 3,823,400 | **193,192** | 119,380 |
| Due to subsidiaries | **-** | - | **381,831** | 181,729 |
| Due to the ultimate holding company | **112,485** | 114,423 | **-** | 1,190 |
| Due to associates | **18,349** | 38,178 | **-** | - |
| Due to SEC group companies | **32,666** | 58,196 | **4,583** | 611 |
| Due to other related companies | **177,917** | 37,059 | **-** | - |
| | **39,037,752** | 35,320,880 | **25,530,577** | 22,525,580 |

## 36. OTHER PAYABLES AND ACCRUALS (continued)

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

Except for amounts due to related parties of RMB255,861,000 (2008: RMB177,513,000) and RMB386,414,000 (2008: RMB141,078,000) as at 31 December 2009 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2009 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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Deposits from the ultimate holding company | **152,908** | 199,898 |
| Deposits from associates | **43,123** | 20,846 |
| Deposits from jointly-controlled entities | **116** | 59,703 |
| Deposits from SEC group companies | **519,659** | 326,453 |
| Deposits from other related companies | **4,115** | 31,004 |
| Deposits from non-related parties | **46,783** | 92,631 |
| | **766,704** | 730,535 |
| Repayable: | | |
| On demand | **594,952** | 670,670 |
| Within 3 months | **49,521** | 1,600 |
| Over 3 months but within 1 year | **122,231** | 58,265 |
| | **766,704** | 730,535 |

The annual interest rates of customer deposits provided to related parties range from 1.71% to 2.25% (2008: 1.98% to 4.14%).

## 38. INTEREST-BEARING BANK AND OTHER BORROWINGS

### Group

| | 2009 | | | 2008 (Restated) | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans | | | | | | |
| - secured | **1.17-5.58** | **2010** | **57,321** | 2.43 - 7.47 | 2009 | 128,263 |
| - unsecured | **0.76-7.91** | **2010** | **844,086** | 3.37 - 7.47 | 2009 | 538,505 |
| | | | **901,407** | | | 666,768 |
| **Non-current** | | | | | | |
| Bank loans | | | | | | |
| - unsecured | **2.55** | **2011-2015** | **2,727** | 2.55 | 2010 - 2015 | 3,182 |
| - unsecured | **5.35-9.00** | **2011-2015** | **611,069** | 7.04-7.91 | 2010 - 2017 | 1,133,593 |
| - unsecured | **10% off over-5-year base rate** | **2011-2014** | **546,400** | 10% off over-5-year base rate | 2011 - 2014 | 400,000 |
| - unsecured | **over-5-year base rate** | **2017** | **182,154** | | | - |
| | | | **1,342,350** | | | 1,536,775 |
| **Other loans** | | | | | | |
| - unsecured | **9.00** | **2012** | **54** | 9.00 | 2010 | 81 |
| | | | **1,342,404** | | | 1,536,856 |
| | | | **2,243,811** | | | 2,203,624 |

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| **Analysed into:** | | |
| Bank loans repayable: | | |
| Within one year or on demand | **901,407** | 666,768 |
| In the second year | **70,000** | 95,909 |
| In the third to fifth years, inclusive | **636,200** | 461,164 |
| Beyond five years | **636,150** | 979,702 |
| | **2,243,757** | 2,203,543 |
| Other loans repayable: | | |
| In the second year | **54** | 81 |
| | **2,243,811** | 2,203,624 |

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

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

| | 2009 | | 2008 (Restated) | |
|---|---|---|---|---|
| | Foreign currency in'000 | RMB equivalent RMB'000 | Foreign currency in'000 | RMB equivalent RMB'000 |
| **Foreign currency borrowing balance:** | | | | |
| USD | **833** | **5,688** | 833 | 5,844 |
| EUR | **1,839** | **18,017** | 4,362 | 46,342 |
| JPY | **6,288,000** | **463,941** | 622,000 | 46,171 |
| HKD | **52,000** | **45,786** | 50,000 | 44,095 |
| ZAR | **59** | **55** | 100 | 81 |

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 RMB3,863,000 (2008: RMB3,480,000), RMB1,219,000 (2008: RMB682,000) and RMB9,600,000 (2008: RMB55,319,000) (notes 16 and 14), respectively. In addition, as at 31 December 2009, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB22,048,000 (2008: RMB56,939,000).

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

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| **Guaranteed by:** | | |
| The ultimate holding company | **473,814** | 240 |
| Other related companies | **-** | 2,100 |
| Total | **473,814** | 2,340 |

### Company

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans | | | | | | |
| - unsecured | **4.37** | **2010** | **300,000** | 5.49 | 2009 | 30,000 |
| **Non-current** | | | | | | |
| Bank loans | | | | | | |
| - unsecured | **2.55** | **2015** | **2,727** | - | - | - |
| | | | **302,727** | | | 30,000 |

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

| | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|
| **Analysed into:** | | |
| Bank loans repayable: | | |
| Within one year or on demand | **300,000** | 30,000 |
| Beyond five years | **2,727** | - |

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 | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 | 2009 RMB'000 | 2008 RMB'000 |
| Floating rate bank loans | **400,000** | 400,000 | **392,979** | 388,788 |
| Fixed rate bank loans | **942,350** | 1,136,775 | **949,824** | 1,183,066 |
| Other loans - unsecured | **54** | 81 | **59** | 86 |
| | **1,342,404** | 1,536,856 | **1,342,862** | 1,571,940 |

## 39. PROVISIONS

### Group

| | Product warranty RMB'000 | Onerous contracts RMB'000 | Early retirement benefits RMB'000 | Late delivery provision RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2009 | 338,262 | 184,215 | 65,107 | 24,000 | - | 611,584 |
| Additional provisions (note 6) | 158,409 | 676,642 | 38,002 | 142,110 | 6,700 | 1,021,863 |
| Reversal during the year (note 6) | (36,053) | (16,631) | - | - | - | (52,684) |
| Amounts utilised during the year | (73,869) | (82,460) | (29,035) | - | - | (185,364) |
| At 31 December 2009 | 386,749 | 761,766 | 74,074 | 166,110 | 6,700 | 1,395,399 |
| Portion classified as current portion | 281,092 | 761,766 | 14,450 | 166,110 | 6,700 | 1,230,118 |
| Non-current portion | 105,657 | - | 59,624 | - | - | 165,281 |

## 39. PROVISIONS (continued)

### Company

| | Onerous contracts RMB'000 | Late delivery provision RMB'000 | Total RMB'000 |
|---|---|---|---|
| As at 1 January 2009 | - | 24,000 | 24,000 |
| Additional provision | 36,362 | 72,110 | 108,472 |
| As at 31 December 2009 | 36,362 | 96,110 | 132,472 |
| Portion classified as current portion | 36,362 | 96,110 | 132,472 |

*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 2009. Provision has been made for such onerous contracts based on the estimated minimum net cost of exiting from the contracts.

*Early retirement benefits*

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

*Late delivery*

The Group has entered into several contracts in respect of the sale of power equipment in which the Group 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 that an outflow of resources will be required.

## 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 | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Due to the ultimate holding company | **1,548** | 1,548 | **-** | - |

## 42. SHARE CAPITAL

### Shares

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Registered, issued and fully paid: | | |
| A shares of RMB1.00 each, restricted | | |
| - state-owned shares | **7,409,088** | 7,949,969 |
| - other legal person shares | **-** | 968,767 |
| A shares of RMB1.00 each, unrestricted | **2,125,686** | 616,038 |
| H shares of RMB1.00 each | **2,972,912** | 2,972,912 |
| Total | **12,507,686** | 12,507,686 |

During the year, the Company has updated its PRC Certificate of Approval for Enterprises with Investments of Taiwan, Hong Kong, Macao and Overseas Chinese, as a result of the change of the Company's shareholders, which was completed on 7 July 2008.

As at the end of the reporting period, all restricted shares, except for those held by the ultimate holding company, were no longer subject to the statutory lock-up restriction period, and were tradable on the Shanghai Stock Exchange.

As at 31 December 2009, out of 917,779,000 restricted A shares of the Company held by Shenzhen Fengchi Investment Co., Ltd., 250,000,000 shares are pledged to China Credit Trust Co., Ltd., 460,000,000 shares are pledged to Beijing International Trust Co., Ltd., 134,000,000 shares are pledged to Guangdong Finance Trust Co., Ltd., and 47,300,000 shares are pledged to Huaneng Guicheng Trust Co., Ltd. The pledged shares account for 7.13% of the Company's total share capital.

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<br>'000 | Issued capital<br>RMB'000 | Share premium<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **At 1 January 2008** | 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 |
| Share issue expenses | - | - | (27,510) | (27,510) |
| **At 31 December 2008 and 1 January 2009** | 12,507,686 | 12,507,686 | 5,527,164 | 18,034,850 |
| Merger of SPTD (note 47) | - | - | (3,781,784) | (3,781,784) |
| **At 31 December 2009** | 12,507,686 | 12,507,686 | 1,745,380 | 14,253,066 |

## 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 excess of (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, over (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.

*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 2009, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB2,379,257,000 (2008: RMB1,614,894,000), out of which dividend of RMB735,452,000 for the year has been proposed on 9 April 2010 (note 12).

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.

### (b) Company

| | Note | Capital reserve RMB'000 | Surplus reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2008** | | 1,864,967 | 234,459 | 716,891 | 2,816,317 |
| Total comprehensive income for the year | | 1,912 | - | 1,075,700 | 1,077,612 |
| Issue of A shares | | 3,573,023 | - | - | 3,573,023 |
| Share issue expenses | | (27,510) | - | - | (27,510) |
| Appropriation of statutory surplus reserves | | - | 100,641 | (100,641) | - |
| Proposed final 2007 and 2008 dividends | 12 | - | - | (1,463,399) | (1,463,399) |
| **At 31 December 2008 and 1 January 2009** | | 5,412,392 | 335,100 | 228,551 | 5,976,043 |
| Total comprehensive income for the year | | 4,643 | - | 2,533,775 | 2,538,418 |
| Merger of SPTD (note 47) | | (3,781,784) | - | - | (3,781,784) |
| Appropriation of statutory surplus reserves | | - | 247,530 | (247,530) | - |
| Proposed final dividend | 12 | - | - | (735,452) | (735,452) |
| **As at 31 December 2009** | | 1,635,251 | 582,630 | 1,779,344 | 3,997,225 |

## 43. RESERVES (continued)

### (b) Company (continued)

The capital reserve account balance as at 31 December 2009 included the Company's share premium of RMB1,745,380,000 (2008: RMB5,527,164,000) (note 42).

## 44. BUSINESS COMBINATION UNDER COMMON CONTROL

In February 2009, the Group acquired a 100% equity interest in SIMBT, which is mainly engaged in the research and development in production, materials and equipment, from the ultimate holding company at a cash consideration of RMB156,368,000. No significant adjustments were made to the net assets and net loss of SIMBT as a result of the common control combination to achieve consistency of accounting policies.

As mentioned in note 2.2 to the financial statements, the Group has applied merger accounting as prescribed in AG 5 to account for the business combination under common control. Accordingly, SIMBT has been combined since 1 January 2008, the earliest financial period presented, as if the acquisition had been occurred at that time.

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 31 December 2009 and 2008 is as follows:

### 2009

| | The Group excluding SIMBT | SIMBT | Adjustments | Consolidated |
|---|---|---|---|---|
| | RMB'000 (Restated) | RMB'000 | RMB'000 | RMB'000 |
| **Assets and liabilities** | | | | |
| Investment in a subsidiary | 156,368 | - | (156,368) | - |
| Other current assets | 19,500,168 | 17,846 | - | 19,518,014 |
| Cash and cash equivalents | 14,796,939 | 51,901 | (38,607) | 14,810,233 |
| Non-current assets | 55,153,602 | 151,473 | (7,240) | 55,297,835 |
| Customer deposits | (805,311) | - | 38,607 | (766,704) |
| Other current liabilities | (56,514,990) | (50,270) | 7,240 | (56,558,020) |
| Non-current liabilities | (3,209,506) | (28,233) | - | (3,237,739) |
| Net assets | 29,077,270 | 142,717 | (156,368) | 29,063,619 |
| **Equity** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued/paid-up capital | 12,507,686 | 28,500 | (28,500) | 12,507,686 |
| Reserves | 9,245,357 | 114,217 | (127,868) | 9,231,706 |
| Proposed final dividends | 735,452 | - | - | 735,452 |
| | 22,488,495 | 142,717 | (156,368) | 22,474,844 |
| **Non-controlling interests** | 6,588,775 | - | - | 6,588,775 |
| Total equity | 29,077,270 | 142,717 | (156,368) | 29,063,619 |

## 44. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

### 2008

| | The Group excluding SIMBT | SIMBT | Adjustments | Consolidated |
|---|---|---|---|---|
| | RMB'000 (Restated) | RMB'000 | RMB'000 | RMB'000 |
| **Assets and liabilities** | | | | |
| Other current assets | 18,060,511 | 20,495 | - | 18,081,006 |
| Cash and cash equivalents | 12,666,525 | 57,408 | (16,501) | 12,707,432 |
| Non-current assets | 50,930,837 | 158,943 | - | 51,089,780 |
| Customer deposits | (747,036) | - | 16,501 | (730,535) |
| Other current liabilities | (49,882,690) | (58,634) | - | (49,941,324) |
| Non-current liabilities | (3,192,794) | (37,534) | - | (3,230,328) |
| Net assets | 27,835,353 | 140,678 | - | 27,976,031 |
| **Equity** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued/paid-up capital | 12,507,686 | 28,500 | (28,500) | 12,507,686 |
| Reserves | 7,350,584 | 112,178 | 28,500 | 7,491,262 |
| Proposed final dividends | 1,463,399 | - | - | 1,463,399 |
| | 21,321,669 | 140,678 | - | 21,462,347 |
| **Non-controlling interests** | 6,513,684 | - | - | 6,513,684 |
| Total equity | 27,835,353 | 140,678 | - | 27,976,031 |

The above adjustments represent adjustments to eliminate the paid-up capital of SIMBT against the Group's investment cost in SIMBT, and the cash deposited in Finance Company by SIMBT as at 31 December 2009 and 2008, respectively.

## 45. BUSINESS COMBINATIONS

During the year ended 31 December 2009, the Group acquired the following companies:

On 31 August 2009, the Group acquired additional equity interests of its jointly-controlled entities. Upon the acquisition, these entities became the Group's subsidiaries. Details are as follows:

- the Group acquired an additional 50% equity interest in Shanghai Guanghua Printing Machinery Co., Ltd. ("Shanghai Guanghua"), which is mainly engaged in production and sale of printing machinery, from Shanghai Zi Wen Investment Co., Ltd.. The cash consideration is RMB199,780,000.
- the Group acquired an additional 50% equity interest in Shanghai Purlux Machinery Co., Ltd. ("Shanghai Purlux"), which is mainly engaged in design, production and repair of packaging machinery, from Shanghai Zi Wen Investment Co., Ltd.. The cash consideration is RMB85,962,000.
- the Group acquired an additional 50% equity interest in Akiyama International Corporation ("AIC"), which is mainly engaged in research and development, design, production and repair of packing machinery, from Bowton Limited. The cash consideration is RMB30,900,000.

## 45. BUSINESS COMBINATIONS (continued)

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

| | Notes | Fair value recognised on acquisition | Carrying amount |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| Property, plant and equipment | 14 | 264,345 | 357,337 |
| Prepaid land lease payments | 16 | 199,685 | 19,253 |
| Investment properties | 15 | 81,645 | 7,053 |
| Investment in associates | | 27,922 | 21,385 |
| Other intangible assets | 18 | 6,104 | 6,104 |
| Other non-current assets | | 3,728 | 3,819 |
| Deferred tax assets | 24 | 1,169 | 1,169 |
| Inventory | | 501,377 | 507,731 |
| Trade receivables | | 88,209 | 88,634 |
| Prepayments, deposits and other receivables | | 43,961 | 43,986 |
| Bill receivables | | 27,170 | 27,170 |
| Cash and cash equivalents | | 112,773 | 112,914 |
| Trade and bills payables | | (157,082) | (154,652) |
| Other payables and accruals | | (108,800) | (103,635) |
| Interest-bearing bank and borrowings | | (597,183) | (598,301) |
| Tax payable | | 496 | 496 |
| Deferred tax liabilities | 24 | (32,386) | - |
| Other current liabilities | | (20,094) | (10,649) |
| | | 443,039 | 329,814 |
| Goodwill arising on acquisition | 17 | 102,548 | |
| | | 545,587 | |
| Satisfied by: | | | |
| Cash | | 316,642 | |
| Investments in jointly-controlled entities | | 228,945 | |
| | | 545,587 | |

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

| | RMB'000 |
|---|---|
| Cash consideration | (316,642) |
| Cash and bank balances acquired | 112,773 |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | (203,869) |

## 45. BUSINESS COMBINATIONS (continued)

Since the acquisition, the newly acquired subsidiaries resulted in RMB281,615,000 to the Group's turnover and recorded a loss of RMB79,197,000 to the consolidated profit for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year ended 31 December 2009, the revenue and the profit of the Group for the year would have been RMB57,815,415,000 and RMB3,196,349,000, respectively.

## 46. ACQUISITION OF NON-CONTROLLING INTERESTS

### 2009

During the year ended 31 December 2009, the Group acquired the following non-controlling interest:

On 31 August 2009, Shanghai Mechanical and Electrical, as a 47.28%-owned subsidiary of the Company, acquired additional 22.14% and 2.86% interests in Shanghai Shen Wei Da Machinery Co., Ltd. ("Shen Wei Da"), respectively, from Hong Kong Huawei Trading Co., Ltd. and U.S. Shanghai Mechanical and Electric Trading Co., Ltd. at a cash consideration of RMB15,676,000 and RMB2,024,000. After the acquisitions, Shanghai Mechanical and Electrical held a 100% equity interest in Shen Wei Da. The share of net assets attributable to the additional 25% equity interest acquired was RMB12,339,000. The difference of RMB5,361,000 between the consideration and the book value of the share of the net assets acquired was recorded in equity directly by Shanghai Mechanical and Electrical.

### 2008

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.

In addition, 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 in SPTD, whereby SPTD 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 RMB381,640,000 of the share of the net assets of the 16.25% equity interest acquired was recognised directly in equity in the Group's consolidated financial statements. In May 2009, SPTD was deregistered and merged into the Company, details are included in the note 47 to the financial statements.

## 47. LEGAL MERGER

SPTD was previously an 83.75%-owned listed subsidiary of the Company. During the year ended 31 December 2008, the Company issued 616,038,405 A shares by way of a share exchange with the non-controlling interests of SPTD at the exchange ratio of 7.32 A shares of the Company for one SPTD share to implement the merger with SPTD, which was delisted from the Shanghai Stock Exchange on 26 November 2008 after the share exchange. The newly acquired 16.25% equity interest in SPTD 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 SPTD with an amount of RMB900,973,000 was transferred from listed investments at cost to unlisted investments at cost.

## 47. LEGAL MERGER (continued)

On 21 May 2009, the merger of the Company and SPTD was completed. As a result, SPTD was deregistered and all its assets and liabilities were merged into the Company.

Upon the legal merger, the assets and liabilities of SPTD were recognised in the Company's statement of financial position based on their carrying amounts in the Group's consolidated financial statements. The cumulative profits attributable to the Company were recognised in the income statement of the Company and the remainder difference between the carrying amounts of SPTD's net assets and the Company's investment cost was recognised in equity.

The carrying amounts of SPTD's assets and liabilities as at the date of legal merger were as follows:

| | Notes | RMB'000 |
|---|---|---|
| Property, plant and equipment | 14 | 145,019 |
| Prepaid land lease payments | 16 | 71,529 |
| Other investments | | 18,427 |
| Investment in associates | | 1,495,148 |
| Investment in joint-controlled entities | | 392,492 |
| Investment in subsidiaries | | 293,542 |
| Other intangible assets | 18 | 10,221 |
| Deferred tax assets | 24 | 2,405 |
| Inventory | | 41,214 |
| Trade receivables | | 178,670 |
| Prepayments, deposits and other receivables | | 645,720 |
| Bills receivable | | 10,412 |
| Cash and cash equivalents | | 234,562 |
| Trade payables | | (372,784) |
| Other payables and accruals | | (552,755) |
| Interest-bearing bank and borrowings | | (52,727) |
| Tax payable | | 3,656 |
| Deferred tax liabilities | 24 | (983) |
| | | 2,563,768 |
| Less: Investment in SPTD of the Company | | (5,090,034) |
| | | (2,526,266) |
| Recognised as: | | |
| Other income and gains of the Company | | 1,255,518 |
| Capital reserve of the Company | 43(b) | (3,781,784) |
| | | (2,526,266) |

The merger has no significant impact on the Group's consolidated financial statements.

## 48. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2008, 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 were 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.

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.

## 48. DISPOSAL OF SUBSIDIARIES (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 | 1,001,627 |
| Prepaid land lease payments | 16 | 21,794 |
| Other intangible assets | 18 | 34,975 |
| Deferred tax assets | 24 | 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 | | (77,359) |
| Other non-current liabilities | | (6,959) |
| Deferred tax liabilities | 24 | (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 |

## 48. DISPOSAL OF SUBSIDIARIES (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 |

## 49. CONTINGENT LIABILITIES

(a) At the end of reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009 RMB'000 | 2008 RMB'000 (Restated) | 2009 RMB'000 | 2008 RMB'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| - subsidiaries | **-** | - | **1,360,390** | 1,483,899 |
| - associates | **153,128** | 164,764 | **35,000** | - |
| - jointly-controlled entities | **-** | 27,000 | **-** | 27,000 |
| | **153,128** | 191,764 | **1,395,390** | 1,510,899 |
| Guarantees given to banks in connections with facilities are utilised to the extent as follows: | | | | |
| - subsidiaries | **-** | - | **1,211,589** | 1,457,749 |
| - associates | **91,354** | 79,139 | **4,812** | - |
| - jointly-controlled entities | **-** | 27,000 | **-** | 27,000 |
| | **91,354** | 106,139 | **1,216,401** | 1,484,749 |
| Non-financial guarantee letters issued on behalf of: | | | | |
| - associates | **3,931** | 5,217 | **-** | - |
| - SEC group companies | **1,345** | 3,441 | **-** | - |
| - non-related parties | **-** | 31,612 | **-** | - |
| | **5,276** | 40,270 | **-** | - |

## 49. CONTINGENT LIABILITIES (continued)

(b) As of 31 December 2009, performance guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB19,186,085,000 (2008: RMB17,072,535,000).

(c) The Company was engaged in an construction project in Indonesia with aggregate amount of USD108,000,000. The performance guarantee for the project amounted to USD13,500,000. During the year, the owner unilaterally terminated the project and requested the Company to repay all the advances on the project included in other payables and accruals of the Group and the Company of USD10,800,000 (equivalent to RMB73,745,000). The Company has appealed for arbitration in Singapore. Up to the date of approval of the financial statements, the arbitration is still in progress. The directors believe that there are no contingent liabilities in the arbitration other than the related costs that have been provided for as at 31 December 2009.

## 50. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases certain of its properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years and those for plant and machinery 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.

At 31 December 2009, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Within one year | **51,386** | 38,788 |
| In the second to fifth years, inclusive | **133,895** | 84,997 |
| After five years | **97,337** | 214,842 |
| | **282,618** | 338,627 |

### (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 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| Within one year | **56,206** | 56,925 | **2,554** | 2,769 |
| In the second to fifth years, inclusive | **132,864** | 136,431 | **4,775** | 5,125 |
| After five years | **165,999** | 161,748 | **-** | - |
| | **355,069** | 355,104 | **7,329** | 7,894 |

## 51. COMMITMENTS

In addition to the operating lease commitments detailed in note 50(b) above, the Group and the Company had the following capital commitments at the end of reporting period:

| | Group | | Company | |
|---|---|---|---|---|
| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) | 2009<br>RMB'000 | 2008<br>RMB'000 |
| Contracted, but not provided for | | | | |
| In respect of the acquisition of: | | | | |
| - land and buildings | **91,045** | 478,837 | **-** | - |
| - plant and machinery | **774,782** | 341,971 | **-** | - |
| - intangible assets | **52,904** | 92,726 | **52,904** | 92,726 |
| In respect of capital contribution to: | | | | |
| - associates | **186,145** | 186,321 | **186,145** | 186,321 |
| - companies to be established/acquired | **70,000** | 263,960 | **-** | 263,960 |
| | **1,174,876** | 1,363,815 | **239,049** | 543,007 |
| Authorised, but not contracted for | | | | |
| In respect of the acquisition of: | | | | |
| - land and buildings | **285,685** | 197,622 | **164,000** | - |
| - plant and machinery | **726,898** | 543,997 | **20,774** | - |
| - intangible assets | **-** | 19,625 | **-** | - |
| In respect of capital contribution to: | | | | |
| - associates | **-** | 5,000 | **-** | 5,000 |
| | **1,012,583** | 766,244 | **184,774** | 5,000 |
| | **2,187,459** | 2,130,059 | **423,823** | 548,007 |

## 52. RELATED PARTY TRANSACTIONS

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

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|---|
| Purchase of materials from: | (i) | | |
| Associates | | **1,027,769** | 875,495 |
| Jointly-controlled entities | | **18,476** | 18,333 |
| SEC group companies | | **1,226,348** | 1,495,325 |
| Other related companies | | **823,128** | 1,379,882 |
| | | **3,095,721** | 3,769,035 |

## 52. RELATED PARTY TRANSACTIONS (continued)

### (1) (continued):

| | Notes | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|---|
| Sale of goods to: | (i) | | |
| The ultimate holding company | | **6,936** | 23,872 |
| Associates | | **242,737** | 211,560 |
| Jointly-controlled entities | | **30,499** | 12,002 |
| SEC group companies | | **437,666** | 553,678 |
| Other related companies | | **305,797** | 357,958 |
| | | **1,023,635** | 1,159,070 |
| Construction contract from: | (i) | | |
| Other related company | | **1,286,135** | 1,286,814 |
| Sale of scraps and spare parts to: | (i) | | |
| The ultimate holding company | | **2,569** | 264 |
| Associates | | **5,670** | 4,743 |
| SEC group companies | | **3,732** | 11,466 |
| Other related companies | | **-** | 2,222 |
| | | **11,971** | 18,695 |
| Purchases of services from: | (i) | | |
| Associates | | **1,977** | 3,036 |
| SEC group companies | | **30,442** | 22,870 |
| Other related companies | | **135,495** | 337,422 |
| | | **167,914** | 363,328 |
| Provision of services to: | (i) | | |
| The ultimate holding company | | **2,706** | 4,274 |
| Associates | | **67,719** | 67,466 |
| SEC group companies | | **5,437** | 1 |
| Other related companies | | **2,996** | 3,091 |
| | | **78,858** | 74,832 |
| Purchases of equipment from: | (i) | | |
| Associates | | **46** | - |
| SEC group companies | | **12,997** | 1,478 |
| Other related companies | | **-** | - |
| | | **13,043** | 1,478 |

## 52. RELATED PARTY TRANSACTIONS (continued)

### (1) (continued):

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| Rental income from: | (ii) | | |
| Associates | | **9,382** | 18,276 |
| Rental fee to: | (ii) | | |
| The ultimate holding company | | **21,997** | 29,836 |
| Associates | | **-** | 990 |
| SEC group companies | | **6,472** | 10,248 |
| | | **28,469** | 41,074 |

In addition, Shanghai Electric – KSB Nuclear Pumps and Valves Co., Ltd. ("SE KSB") entered into a technology licence agreement with KSB Aktiengesellschaft on 27 October 2008. According to the technology licence agreement, SE KSB shall pay licence fee in the forms of entrance fee and commission fee. The entrance fee is EUR12,000,000, payable in three annual instalments of EUR4,000,000 each. The commission fee is based on certain percentage of net sales of relevant products for fifteen years. During the year ended 31 December 2009, SE KSB paid the first instalment of EUR4,000,000.

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.

During the year ended 31 December 2009, the Group effected the following non-recurring transactions:

(a) The Group entered into property transfer agreements on 23 October 2009 to dispose of several buildings and accessories to SE Corporation for a total cash consideration of RMB27,251,000, which approximately covered the carrying amounts of the properties and related expenses in respect of the removal. The transaction was completed during the year.

(b) 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 RMB1,009,083,000 (2008: RMB1,764,689,000) were recognised during the year. In addition, purchases of RMB25,393,000 (2008: RMB137,009,000) and an agent fee of RMB13,458,000 (2008: RMB54,670,000) were incurred through SE Corporation during the year.

## 52. RELATED PARTY TRANSACTIONS (continued)

### (1) (continued):

(c) In February 2009, the Group acquired a 100% equity interest in SIMBT from SE Corporation, details are contained in note 44 to the financial statements.

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

As at 31 December 2009, the Group has provided corporate guarantees in connection with facilities totalling RMB153,128,000 (2008: RMB191,764,000) to related parties, out of which RMB91,354,000 (2008: RMB106,139,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB3,964,000 (2008: RMB8,658,000).

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Guarantees provided to the Group by: | | |
| The ultimate holding company | **473,814** | 240 |
| Other related companies | **-** | 2,100 |
| | **473,814** | 2,340 |

As at 31 December 2009, SE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Bonds of RMB1 billion (note 40).

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Interest expenses for customer deposits: | | |
| The ultimate holding company | **3,389** | 6,273 |
| Associates | **90** | 855 |
| Jointly-controlled entities | **1** | 392 |
| SEC group companies | **3,892** | 958 |
| Other related companies | **15** | 1,523 |
| | **7,387** | 10,001 |

## 52. RELATED PARTY TRANSACTIONS (continued)

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Interest income for loans and bills discounting: | | |
| The ultimate holding company | **15,588** | 607 |
| Associates | **2,047** | 6,494 |
| Jointly-controlled entities | **683** | 7,974 |
| SEC group companies | **37,404** | 14,545 |
| Other related companies | **-** | 794 |
| | **55,722** | 30,414 |

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

### (4) Balances due from/to related parties

The balances due from/to related parties mainly resulted from loans, trading transactions, customer deposits, discounted bills receivable and miscellaneous amounts reimbursable by/to the related parties. Further details are set out in notes 22, 27, 28, 29, 30, 34, 35, 36, 37 and 41 to the financial statements, respectively.

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

| | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|
| Fees | **750** | 542 |
| Salaries, bonuses and allowances received from the Group | **3,313** | 3,222 |
| Pension scheme contributed by the Group | **130** | 110 |
| Other social benefit schemes contributed by the Group | **124** | 104 |
| | **4,317** | 3,978 |

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

## 52. RELATED PARTY TRANSACTIONS (continued)

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

| | 2009<br>RMB'000 | 2008<br>RMB'000<br>(Restated) |
|---|---|---|
| Purchases of equipment, components and technology from an associate: | | |
| Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. | **631,601** | 194,873 |
| Purchases of equipment, components and technology from other related companies: | | |
| Siemens Aktiengesellschaft | **167,048** | 991,315 |
| Alstom (China) Investment Co., Ltd. | **4,672** | 36,707 |
| Bosch Solar Energy AG (formerly known as "Ersol Solar Energy AG") | **-** | 65,352 |
| Sales of goods to an associate: | | |
| Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. | **45,225** | 13,814 |
| Sales of goods to other related company: | | |
| Shanghai Shenergy Changxing Wind Power Co., Ltd. | **20,107** | - |
| Siemens Aktiengesellschaft | **45,508** | - |
| Bosch Solar Energy AG | **22,362** | 86,851 |
| Construction contract from other related company: | | |
| Yangxi Haibing Power Development Co., Ltd. | **1,286,135** | 1,286,814 |
| Interest income for loans and bills from an associate: | | |
| MWB Shanghai Instrument Transformer Co., Ltd. | **53** | 1,245 |

In addition, the transaction between SE KSB and KSB Aktiengesellschaft as disclosed in section (1) of this note, also constitutes connected transactions and continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 53. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of reporting period are as follows:

### Financial assets

### Group

| | 2009 | | | | |
|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Held-to-maturity investments RMB'000 | Loans and receivables RMB'000 | Available for-sale financial assets RMB'000 | Total RMB'000 |
| Loans receivable | - | - | 1,682,405 | - | 1,682,405 |
| Equity investments | 213 | - | - | 535,262 | 535,475 |
| Debt investments | 1,622 | - | - | 308,219 | 309,841 |
| Investment funds | - | - | - | 4,487,539 | 4,487,539 |
| Investment products | - | - | - | 111,092 | 111,092 |
| Designated investment management | - | - | - | 499,802 | 499,802 |
| Trade receivables | - | - | 13,613,954 | - | 13,613,954 |
| Discounted bills receivable | - | - | 42,263 | - | 42,263 |
| Bills receivable | - | - | 2,041,121 | - | 2,041,121 |
| Financial assets included in prepayments, deposits and other receivables | - | - | 1,118,216 | - | 1,118,216 |
| Derivative financial instruments | 84,910 | - | - | - | 84,910 |
| Due from the Central Bank | - | - | 1,803,003 | - | 1,803,003 |
| Restricted deposits | - | - | 866,588 | - | 866,588 |
| Cash and cash equivalents | - | - | 14,810,233 | - | 14,810,233 |
| | 86,745 | - | 35,977,783 | 5,941,914 | 42,006,442 |

### Financial liabilities

### Group

| | 2009 | | |
|---|---|---|---|
| | Financial liabilities at fair value through profit or loss RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
| Trade payables | - | 12,818,416 | 12,818,416 |
| Bills payable | - | 1,580,267 | 1,580,267 |
| Financial liabilities included in other payables and accruals | - | 2,801,649 | 2,801,649 |
| Customer deposits | - | 766,704 | 766,704 |
| Bonds | - | 1,000,000 | 1,000,000 |
| Interest-bearing bank and other borrowings | - | 2,243,811 | 2,243,811 |
| Derivative financial instruments | 9,443 | - | 9,443 |
| | 9,443 | 21,210,847 | 21,220,290 |

## 53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Financial assets

### Group

| | 2008 (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 receivable | - | - | 1,330,776 | - | 1,330,776 |
| Equity investments | 10,816 | - | - | 199,011 | 209,827 |
| 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 | - | - | 11,429,693 | - | 11,429,693 |
| Discounted bills receivable | - | - | 131,152 | - | 131,152 |
| Bills receivable | - | - | 867,743 | - | 867,743 |
| 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 | - | - | 12,707,432 | - | 12,707,432 |
| | 91,860 | 154,102 | 30,304,003 | 5,032,103 | 35,582,068 |

### Financial liabilities

### Group

| | 2008 (Restated) | | |
|---|---|---|---|
| | Financial liabilities at fair value through profit or loss RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
| Trade payables | - | 9,998,021 | 9,998,021 |
| Bills payable | - | 2,046,475 | 2,046,475 |
| Financial liabilities included in other payables and accruals | - | 3,203,901 | 3,203,901 |
| Customer deposits | - | 730,535 | 730,535 |
| 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 |
| | 21,731 | 19,182,556 | 19,204,287 |

## 53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Financial assets

### Company

| | 2009 | | | |
|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Loans receivable | - | 1,020,000 | - | 1,020,000 |
| Equity investments | - | - | 22,998 | 22,998 |
| Trade receivables | - | 7,940,427 | - | 7,940,427 |
| Bills receivable | - | 333,672 | - | 333,672 |
| Financial assets included in prepayments, deposits and other receivables | - | 943,989 | - | 943,989 |
| Derivative financial instruments | 39,564 | - | - | 39,564 |
| Restricted deposits | - | 27,000 | - | 27,000 |
| Cash and cash equivalents | - | 8,291,623 | - | 8,291,623 |
| | 39,564 | 18,556,711 | 22,998 | 18,619,273 |

### Financial liabilities

### Company

| | 2009 Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade payables | 10,910,534 |
| Financial liabilities included in other payables and accruals | 933,616 |
| Interest-bearing bank and other borrowings | 302,727 |
| | 12,146,877 |

## 53. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Financial assets

### Company

| | 2008<br>Loans and receivables<br>RMB'000 |
|---|---|
| Loans receivable | 370,340 |
| Trade receivables | 5,823,480 |
| Bills receivable | 198,971 |
| Financial assets included in prepayments, deposits and other receivables | 1,468,835 |
| Restricted deposits | 78,310 |
| Cash and cash equivalents | 5,391,151 |
| | 13,331,087 |

### Financial liabilities

### Company

| | 2008<br>Financial liabilities at amortised cost<br>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 |

## 54. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## 54. FAIR VALUE HIERARCHY (continued)

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

*Assets measured at fair value as at 31 December 2009:*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Available-for-sale investments: | | | | |
| Equity investments | 455,130 | - | - | 455,130 |
| Debt investments | 308,219 | - | - | 308,219 |
| Investment fund | 4,487,539 | - | - | 4,487,539 |
| Investment products | - | 111,092 | - | 111,092 |
| Designated investment management | - | 499,802 | - | 499,802 |
| Equity investments at fair value through profit or loss | 213 | - | - | 213 |
| Debt investments at fair value through profit or loss | 1,622 | - | - | 1,622 |
| Derivative financial instruments | - | 84,910 | - | 84,910 |
| | 5,252,723 | 695,804 | - | 5,948,527 |

*Liabilities measured at fair value as at 31 December 2009:*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Derivative financial instruments | - | 9,443 | - | 9,443 |

As at 31 December 2009, the Company held the following financial instruments measured at fair value:

*Assets measured at fair value as at 31 December 2009:*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Available-for-sale investments | | | | |
| – Equity (listed) | 7,959 | - | - | 7,959 |
| Derivative financial instruments | - | 39,564 | - | 39,564 |
| | 7,959 | 39,564 | - | 47,523 |

During the year ended 31 December 2009, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

## 55. 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.

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 2.4 to the financial statements.

### Market risk

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

(a) Foreign currency risk

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar / Euro / Japan Yen/ Hong Kong dollar exchange rates, 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/HKD rate% | Increase/(decrease) in profit before tax RMB'000 |
|---|---|---|
| **2009** | | |
| If RMB weakens against USD | 5 | 97,159 |
| If RMB strengthens against USD | (5) | (97,159) |
| If RMB weakens against EUR | 5 | 26,837 |
| If RMB strengthens against EUR | (5) | (26,837) |
| If RMB weakens against JPY | 5 | (16,828) |
| If RMB strengthens against JPY | (5) | 16,828 |
| If RMB weakens against HKD | 5 | (1,112) |
| If RMB strengthens against HKD | (5) | 1,112 |

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

(a) Foreign currency risk (continued)

**Group (continued)**

| | Increase/(decrease) in USD/ EUR/JPY/HKD 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) |
| If RMB weakens against HKD | 5 | 1,172 |
| If RMB strengthens against HKD | (5) | (1,172) |

**Company**

| | Increase/(decrease) in USD/ EUR rate % | Increase/(decrease) in profit before tax RMB'000 |
|---|---|---|
| **2009** | | |
| If RMB weakens against USD | 5 | 55,107 |
| If RMB strengthens against USD | (5) | (55,107) |
| If RMB weakens against EUR | 5 | 4,423 |
| If RMB strengthens against EUR | (5) | (4,423) |

(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 23 and 31) as at 31 December 2009. 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 end of the reporting period.

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

(b) Equity price risk (continued)

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

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **31 December** | **High** | **Low** | **31 December** | **High** | **Low** |
| SZSE A-share Index | **1,261** | **1,296** | **600** | 582 | 1,660 | 480 |
| SHSE A-share Index | **3,437** | **3,644** | **1,956** | 1,912 | 5,771 | 1,793 |

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 end of the reporting period.

| | **Carrying amount RMB'000** | **Increase in profit before tax RMB'000** | **Increase in equity* RMB'000** |
|---|---|---|---|
| **2009** | | | |
| Equity investments listed in: | | | |
| Shenzhen – Available-for-sale | 106,712 | - | 4,005 |
| Shanghai – Available-for-sale | 348,418 | - | 13,082 |
| – At fair value through profit or loss | 213 | 11 | - |
| **2008 (Restated)** | | | |
| Equity investments listed in: | | | |
| Shenzhen – Available-for-sale | 749 | - | 30 |
| Shanghai – Available-for-sale | 94,937 | - | 3,616 |
| – At fair value through profit or loss | 10,816 | 541 | - |

*Excluding retained profits

(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.

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

(c) Interest rate risk (continued)

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

### Debt investments

### Group

| | 2009 | | |
|---|---|---|---|
| | At fair value through profit or loss RMB'000 | Available-for-sale RMB'000 | Held-to-maturity RMB'000 |
| Within 1 year | 1,622 | 82,050 | - |
| 1 to 2 years | - | - | - |
| 2 to 3 years | - | - | - |
| More than 3 years | - | 226,168 | - |
| Total | 1,622 | 308,218 | - |
| Effective interest rate (% per annum) | 0.50 | 1.65-7.15 | - |

| | 2008 (Restated) | | |
|---|---|---|---|
| | 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) | 1.70-2.90 | 1.65-7.00 | 1.79-2.35 |

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

(c) Interest rate risk (continued)

#### Other financial assets

#### Group

| | 2009 | | | |
|---|---|---|---|---|
| | Loans receivable RMB'000 | Discounted bills receivable RMB'000 | Due from the central bank RMB'000 | Time deposits RMB'000 |
| Within 1 year | 1,160,715 | 42,263 | 1,803,003 | 3,599,775 |
| 1 to 2 years | 521,690 | - | - | 90,000 |
| Total | 1,682,405 | 42,263 | 1,803,003 | 3,689,775 |
| Effective interest rate (% per annum) | 4.37-5.76 | 3.60-4.50 | 0.72 | 1.71-3.33 |

| | 2008 (Restated) | | | |
|---|---|---|---|---|
| | Loans receivable RMB'000 | Discounted bills receivable RMB'000 | Due from the central bank RMB'000 | Time deposits RMB'000 |
| Within 1 year | 1,017,705 | 131,152 | 1,206,876 | 2,686,459 |
| 1 to 2 years | 3,726 | - | - | 1,000 |
| 2 to 3 years | 309,345 | - | - | 90,000 |
| Total | 1,330,776 | 131,152 | 1,206,876 | 2,777,459 |
| Effective interest rate (% per annum) | 4.37-5.76 | 2.70-7.20 | 0.92 | 1.71-3.33 |

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

(c) Interest rate risk (continued)

**Financial liabilities**

**Group**

| | 2009 | | |
|---|---|---|---|
| | **Bonds RMB'000** | **Interest-bearing bank and other borrowings RMB'000** | **Customer deposits RMB'000** |
| Within 1 year | - | 901,407 | 766,704 |
| 1 to 2 years | - | 70,054 | - |
| 2 to 3 years | - | 73,340 | - |
| More than 3 years | 1,000,000 | 1,199,010 | - |
| Total | 1,000,000 | 2,243,811 | 766,704 |
| Effective interest rate (% per annum) | 3.87 | 0.76-9.00 | 1.71-2.25 |

| | 2008 (Restated) | | |
|---|---|---|---|
| | **Bonds RMB'000** | **Interest-bearing bank and other borrowings RMB'000** | **Customer deposits RMB'000** |
| Within 1 year | - | 666,768 | 730,535 |
| 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 | 730,535 |
| Effective interest rate (% per annum) | 5.22 | 2.43-9.00 | 1.98-4.14 |

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

(c) Interest rate risk (continued)

#### Other financial assets

#### Company

| | 2009<br>Loans receivable<br>RMB'000 | 2008<br>Loans receivable<br>RMB'000 |
|---|---|---|
| Within 1 year | **1,020,000** | 370,340 |
| Effective interest rate (% per annum) | **0 – 6.48** | 0 - 6.48 |

#### Financial liabilities

#### Company

| | 2009<br>Interest bearing bank and other borrowings<br>RMB'000 | 2008<br>Interest bearing bank and other borrowings<br>RMB'000 |
|---|---|---|
| Within 1 year | **300,000** | 30,000 |
| More than 5 years | **2,727** | - |
| Effective interest rate (% per annum) | **2.55 – 4.37** | 5.49 |

The following table demonstrates the sensitivity to a reasonable possible change in Renminbi interest rate, 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 |
|---|---|---|
| **2009** | | |
| RMB | 15 | (2,100) |
| RMB | (15) | 2,100 |
| **2008** | | |
| RMB | 15 | (2,100) |
| RMB | (15) | 2,100 |

## 55. 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 the PRC 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 52 to the financial statements.

The carrying amount of the trade receivables included in the consolidated statement of financial position 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 10% (2008: 12%) of the Group's trade receivables as at 31 December 2009.

The Group performs ongoing credit evaluations of its customers' financial conditions. The allowance for doubtful debts is based upon a review of the expected collectability 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 27 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.

The maturity profile of the Group's financial assets and liabilities as at the end of reporting period, based on the contractual undiscounted payments, is as follows:

### Group

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | over 5 years RMB'000 | Total RMB'000 |
| Trade payables | 7,566,750 | 2,860,297 | 2,305,332 | 86,037 | - | 12,818,416 |
| Bills payable | - | 1,211,549 | 368,718 | - | - | 1,580,267 |
| Financial liabilities included in other payables and accruals | 2,235,259 | 417,034 | 149,356 | - | - | 2,801,649 |
| Customer deposits | 594,952 | 49,721 | 124,738 | - | - | 769,411 |
| Bonds | - | - | 38,700 | 1,074,175 | - | 1,112,875 |
| Interest-bearing bank and other borrowings | - | 498,407 | 495,896 | 1,493,833 | 143,856 | 2,631,992 |
| Derivative financial instruments | - | - | 9,443 | - | - | 9,443 |
| | 10,396,961 | 5,037,008 | 3,492,183 | 2,654,045 | 143,856 | 21,724,053 |

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Financial risks (continued)

(b) Liquidity risk (continued)

#### Group

| | 2008 (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 | over 5 years RMB'000 | Total RMB'000 |
| Trade payables | 7,240,159 | 2,014,777 | 743,085 | - | - | 9,998,021 |
| 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 | 670,670 | 1,604 | 59,599 | - | - | 731,873 |
| Bonds | - | - | 38,700 | 1,112,875 | - | 1,151,575 |
| Interest-bearing bank and other borrowings | - | 211,553 | 571,107 | 953,698 | 1,081,832 | 2,818,190 |
| Derivative financial instruments | - | - | 21,731 | - | - | 21,731 |
| Other non-current liabilities | - | - | - | 15,971 | - | 15,971 |
| | 10,555,802 | 3,819,565 | 2,447,994 | 2,082,544 | 1,081,832 | 19,987,737 |

#### Company

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | 1 to 5 years RMB'000 | over 5 years RMB'000 | Total RMB'000 |
| Trade payables | 10,910,534 | - | - | - | - | 10,910,534 |
| Financial liabilities included in other payables and accruals | 933,616 | - | - | - | - | 933,616 |
| Interest-bearing bank and other borrowings | - | 2,694 | 300,070 | 278 | 2,733 | 305,775 |
| | 11,844,150 | 2,694 | 300,070 | 278 | 2,733 | 12,149,925 |

## 55. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Financial risks (continued)

(b) Liquidity risk (continued)

#### Company

| | 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 | over 5 years RMB'000 | Total RMB'000 |
| Trade payables | 8,301,219 | - | - | - | - | 8,301,219 |
| Financial liabilities included in other payables and accruals | 610,535 | - | - | - | - | 610,535 |
| Interest-bearing bank and other borrowings | - | 406 | 30,686 | - | - | 31,092 |
| | 8,911,754 | 406 | 30,686 | - | - | 8,942,846 |

### 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 years ended 31 December 2009 and 31 December 2008.

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.

The gearing ratios as at the ends of the reporting periods were as follows:

#### Group

| | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|
| Interest-bearing bank and other borrowings | **2,243,811** | 2,203,624 |
| Bonds | **1,000,000** | 1,000,000 |
| Net debt | **3,243,811** | 3,203,624 |
| Total equity | **29,063,619** | 27,976,031 |
| Total equity and net debt | **32,307,430** | 31,179,655 |
| Gearing ratio | **10.0%** | 10.3% |

## 56. EVENTS AFTER THE REPORTING PERIOD

(1) On 27 April 2009, the board of directors of the Company resolved to issue no more than 700 million A Shares by way of private offering ("Private Offering"). On 26 February 2010, the board of directors of the Company further resolved to adjust the intended use of proceeds from the Private Offering. Upon completion of the Private Offering, the Company estimates that it will receive net proceeds of approximately RMB3,556,000,000, which the Company intends to utilise to finance investment projects, projects and supplement the working capital of the Company. On 15 March 2010, the Private Offering has conditionally been approved by the Public Offering Review Committee of China Securities Regulatory Commission.

(2) On 3 February 2010, the board of directors of the Company resolved to dispose a 100% equity interest in Shanghai Crane & Conveyor Works Co., Ltd. to SE Corporation at a mutually agreed consideration of RMB300,086,000 in cash.

(3) On 22 February 2010, the board of directors of the Company resolved to dispose a 44.79% equity interest in Shanghai Rail Traffic Equipment Development Co., Ltd. ("SRTE") to China CNR Corporation Limited ("CNR") for a mutually agreed consideration of RMB365,089,000 in cash ("Equity Transfer").

Upon the completion of the Equity Transfer, CNR will make a unilateral capital injection in cash of RMB84,911,000 into SRTE. Upon the capital injection, the register capital of SRTE will be increased from RMB600,000,000 to RMB662,520,000 and be owned as to 50% by CNR, 34.91% by the Company and 15.09% by SE Corporation, and cease to be a subsidiary of the Company.

(4) Details of final 2009 dividend proposed after the reporting period are contained in note 12 to the financial statements.

## 57. OTHER SIGNIFICANT MATTERS

(1) On 23 October 2009, the Group and SE Corporation entered into an agreement, pursuant to which, SE Corporation agreed to make capital contribution to AIC in the amount of JPY2.7 billion, equivalent to approximately RMB192,000,000. Upon completion of the capital injection, the registered capital of AIC will be increased from JPY1.05 billion to JPY3.75 billion. The equity interest of AIC will be held as to 90% by SE Corporation and AIC will cease to be a subsidiary of the Group. Up to the date of approval of the financial statements, the capital injection has not been completed.

(2) On 23 October 2009, Shanghai Magine Machine Tool Co., Ltd. ("SMMT"), a wholly-owned subsidiary of the Group, and SE Corporation entered into various agreements, pursuant to which, SMMT would dispose its 100% equity interest in Shanghai No.3 Machine Tools Plant and 100% equity interest in Shanghai Meter Machine Tools Plant to SE Corporation at a cash consideration of RMB94,326,000 and RMB8,030,000, respectively. Up to the date of approval of the financial statements, the transactions have not been completed.

(3) On 3 September 2009, the Group and Siemens Ltd. China ("Siemens") entered into an agreement, pursuant to which, Siemens agreed to make unilateral capital contribution to Shanghai Electric Power Generation Equipment Co., Ltd. ("SEPGE") in an amount of RMB712,000,000. Upon completion of the capital injection, the registered capital of SEPGE will be increased from USD239,375,000 to USD264,792,000. SEPGE will continue to be a subsidiary of the Group and the equity interest of SEPGE will be held as to 60% by the Group indirectly and as to 40% by Siemens. Up to the date of approval of the financial statements, the capital injection has not been completed.

## 58. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the change in accounting policy for business combination under common control and the adoption of new and revised HKFRSs, 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.

## 59. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 April 2010.