上海电气
SHANGHAI ELECTRIC

2010 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 Profile

Corporate Information

Legal name of the Company (Chinese)	上海電氣集團股份有限公司
Abbreviated legal name of the Company (Chinese)	上海電氣
Legal name of the Company (English)	Shanghai Electric Group Company Limited
Abbreviated legal name of the Company (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
Company Secretary	Leung Ka Lok (*FCCA, CPA, MBA*) (appointed with effect from 16 February 2011) Li Chung Kwong Andrew (*FCCA, FCPA, ACA, CIA*) (resigned with effect from 16 February 2011)

Contact Person and Contact Details

	Secretary to the Board
Name	Fu Rong
Correspondence address	30/F, Maxdo Center, No.8 Xingyi Road, Shanghai
Telephone	+86(21)52082266
Fax	+86(21)52082103
Email	ir@shanghai-electric.com

Summary of Basic Information

Registered address	30/F, Maxdo Center, No.8 Xingyi Road, Shanghai
Business address	30/F, Maxdo Center, No.8 Xingyi Road, Shanghai
Zip code	200336
Company website	http://www.shanghai-electric.com
Email	service@shanghai-electric.com

Information Disclosure and Place for inspection of Annual Report of the Company

Company's designated newspapers for information disclosure	China Securities Daily, Shanghai Securities Daily, Securities Times Daily
The Company's annual reports available at	Office of the secretary to the Board of the Company
Website designated for publishing annual report required by China Securities Regulatory Commission	www.sse.com.cn
Website designated for publishing annual report required by the Stock Exchange of Hong Kong Limited	www.hkexnews.hk

Summary of the Company's Shares

Types of Shares	Place of Listing of Shares	Abbreviation of Shares	Stock Code
A shares	The Shanghai Stock Exchange	上海電氣	601727
H shares	The Stock Exchange of Hong Kong Limited	SH Electric	02727

Registrar and Transfer Office

A Shares: Shanghai Branch of China Securities Depository and Clearing Corporation Limited

H Shares: Computershare Hong Kong Investor Services Limited

Other Relevant Information

Date of Incorporation of the Company		1 March 2004
Place of Incorporation of the Company		Shanghai, PRC
Change of Registration	Change of registration date of the Company	27 October 2004, 4 February 2005, 26 September 2006, 18 December 2007, 5 June 2009, 3 November 2010
	Place of registration	Shanghai, PRC
	Legal person business licence registration number	310000000086691
	Tax registration number	310105759565082
	Organization code	75956508-2

Name of auditors appointed by the Company	Ernst & Young Hua Ming
Business address of auditors appointed by the Company	Level 16, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang An Ave, Dong Cheng District, Beijing
Name of international auditors appointed by the Company:	Ernst & Young
Business address of international auditors appointed by the Company:	18/F, Two International Finance Centre, 8 Finance Street Central, Hong Kong
Legal advisers appointed by the Company as to PRC Law:	Grandall Legal Group (Shanghai)
Legal advisers appointed by the Company as to Hong Kong aw and u.S. Law:	Freshfields Bruckhaus Deringer
Legal advisers appointed by the Company as to Japanese Law:	Anderson Mori & Tomotsune

Five-year Financial Summary

(In accordance with the Hong Kong Financial Reporting Standards ("HKFRS"))

	2006	2007	2008	2009	2010
RMB(million)					
Revenue and Profit					
Revenue	43,480	55,981	59,058	57,622	**62,957**
Profit before tax	4,004	5,628	4,075	3,229	**4,025**
Tax	(1,048)	(1,334)	(397)	(7)	**(228)**
Profit for the year	2,956	4,294	3,678	3,222	**3,797**
Attributable to:					
Equity owner of the parent	2,053	2,830	2,566	2,453	**2,784**
Non-controlling interests	903	1,464	1,112	769	**1,013**
Dividend	725	-	1,463	-	**1,590**[1]
Earnings per share attributable to equity holders of the parent					
Basic					
Profit for the year (cents)	17.26	23.67	21.49	19.62	**21.90**
Assets and Liabilities					
Non-current assets	14,227	16,896	18,081	19,518	**21,367**
Current assets	49,341	59,055	63,797	70,108	**76,844**
Current liabilities	(39,559)	(45,644)	(50,672)	(57,325)	**(60,878)**
Net current assets	9,782	13,411	13,125	12,783	**15,966**
Total assets less current liabilities	24,009	30,307	31,206	32,301	**37,333**
Non-current liabilities	(911)	(3,002)	(3,230)	(3,237)	**(2,831)**
Net assets	23,098	27,305	27,976	29,064	**34,502**
Equity attributable to equity owners of the parent	16,373	19,493	21,462	22,475	**27,002**
Non-controlling interests	6,725	7,812	6,514	6,589	**7,500**

Note 1: It includes in the distributed interim dividend of RMB755 million of the Company for 2010 and the proposed final dividend of RMB835 million for 2010. The latter is subject to the approval at the forthcoming annual general meeting being held on 25 May 2011.

Shanghai Electric , Create Our Future Together

Based on integration innovation, Shanghai Electric characterise its corporate spirit through independent innovation and aims to provide China and the world with more efficient and much greener energy sources and industrial equipments, to become the modern and international conglomerate.

Chairman & CEO **Xu Jianguo**

The ever-increasing pressure in the reduction of carbon emission in the global arena makes the low carbon economy an inevitable option. New energy industry has set up to be the next round of the development spotlight of global economy. As one of the largest comprehensive industrial equipment manufacturing conglomerates in China, Shanghai Electric adopts an active stance of "green manufacturing" and "manufacturing the green" in order to focus its operation on the low carbon economy and significantly develop our core business, so as to contribute to the proposition of alleviating the global energy crisis.

In the field of new energy: We strive for a rapid development of our wind power equipment business and have completed the first domestic export of MW type wind power equipment. Our 2 MW wind power turbine units have proceeded to mass production and our self-developed wind power turbine units, the 3.6 MW offshore wind power turbine unit, has also been connected to power grid for power supply. In the first round of tendering of nation's offshore wind power franchise project, we won the bid on the 200 MW intertidal zone project in Dongtai, Jiangsu and has become one of the first three enterprises of having offshore wind power unit operation in the mainland China. Through our continuous investment and construction in recent years, our business of nuclear power nuclear island equipment has entered into a stage of rapid development. Currently, the Company is the largest domestic manufacturer of nuclear reactor vessel internals and control rod drive mechanisms with a market share of over 90% while our production capacity of steam generators, pressurizers and pressure vessels has been further increased. In the reporting period, the first domestic solely self-designed modified second generation nuclear island equipment, a 1,000MW steam generator were successfully delivered, which achieved a significant breakthrough of technological capability of the Company's products from 600MW to 1,000MW. Meanwhile, a new breakthrough has been achieved in the field of nuclear power main pumps through collaborating with KSB Group of Germany. We havez become the most comprehensive supplier within the nuclear power nuclear island equipment industry chain in the PRC.

In the field of highly efficiency and clean energy: In terms of market share, our 1,000MW ultra-supercritical thermal power units currently retain its top spot in the domestic market. We have gradually ventured into the overseas high-end thermal power equipment market through our overseas marketing efforts in the past few years. In the reporting period, we had entered into a supply contract with Reliance Power Limited of India to provide it 36 sets of 660 MW supercritical thermal power units with a contract amount of USD 8.29 billion, the largest import contract ever signed in the history of India. We have participated in the exemplary Tianjin eco-friendly IGCC power plant project of China Huaneng Group, which involves the building of the first 250MW IGCC power generation unit in the PRC. The first domestic-built 1,000MW ultra-supercritical extraction steam turbine has been successfully put into operation. Upon entering into a comprehensive strategic alliance with Alstom Group in the area of transformer business, our competitiveness in the field of high voltage and ultra-high voltage large-scale transformer will gradually be enhanced.

In the field of industrial equipment: Our elevator business has continued to retain its leading position in the PRC's elevator market. We have the largest single elevator factory in the world and have taken the lead in achieving an annual sales volume for a single elevator factory of 40,000 units and a sales turnover of topping 10 billion yuan in the first time. Among our Chinese peers, we have the highest number of installation units and the highest number of units under maintenance and repair contracts. Our large-scale grinder and computer-controlled machine tools have reached the highest standard in the PRC. We are also the company with the largest scale, the most advanced products and the most comprehensive industry chain in the Chinese printing and packaging equipment industry. We have continued to explore the market of metro-railcars through the strategic cooperation entered in the arena of metropolitan rail transportation equipment with China CNR Corporation.

In the field of modern services: Our services cover engineering services, international trading and financial services. Our engineering services bussiness has achieved a sales turnover of over 10 billion yuan in three consecutive years. Overseas subcontracted EPC power station projects have widely distributed in many countries. We will further target at relatively more developed countries and regions this year and foray into markets which are dominated by traditional energy giants of Europe and America. Meanwhile, we will enhance our cooperation with our strategic partners in power station services. The robust development of our core business is well supported by our finance company which provides professional management and services for the management and control of our exchange risk exposure.

2010 is the turning year for the development of Shanghai Electric, and our various economic indicators continue to maintain their impressive development. 2011 is the opening year of "Twelfth-five" for Shanghai Electric and is also the starting year of our "re-venturing". Our re-venturing must achieve the goals of "Set for a good start and look for a solid result". Being on the new starting point, we need to be more proactive to cope with the strategic and emerging industry development of the nation. The strategic direction of "innovative driven and transformative development" shall be adhered to facilitate the change of the economic development. We shall employ a worldwide perspective to enhance international cooperation and fully grasp the proactive right in order to establish its core development advantage and capture the international market. We need to employ modern rationale and method to establish the development mechanism of Shanghai Electric on the existing foundation and establish the effective development mechanism of Shanghai Electric in reliance of talent support and enhanced industry capability.

Last but not least, I would like to take this opportunity to express my sincere gratitude to all shareholders for their continuous support and affection to the Group and to the directors, supervisors, management and the entire staff for their tremendous effort and devotion in the past year.

Let us get together to achieve another remarkable year!

Yours faithfully,
Xu Jianguo
Chairman
Shanghai, PRC
25 March 2011

Key Accounting Data and Financial Indicators

Key accounting data and financial indicators of the Company at the end of the reporting period for the last two years

(in accordance with the PRC GAAP)

Unit:'000 Currency: RMB

Key accounting data	2010	2009	Change for the period over the corresponding period of the last year (%)
Operating revenue	63,175,862	57,790,394	9.32
Total profit	4,122,568	3,338,166	23.50
Net profit attributable to shareholders of the listed company	2,819,499	2,501,270	12.72
Net cash flows generated from operating activities	4,827,114	6,932,568	(30.37)
	At the end of 2010	At the end of 2009	Change for the end of the period over the end of the period of the last year (%)
Total assets	98,211,841	89,626,082	9.58
Owners' equity	27,002,449	22,474,844	20.15

Key accounting data	2010	2009	Change for the period over the corresponding period of the last year (%)
Basic earnings per share (RMB/share)	0.22	0.20	10.00
Diluted earnings per share (RMB/share)	0.22	0.20	10.00
Weighted average net assets return rate (%)	11.13	11.38	decreased by 0.25 percentage
Net cash flows per share generated from operating activities (RMB/share)	0.38	0.55	(30.91)
	At the end of 2010	At the end of 2009	Change for the end of the period over the end of the period of the last year (%)
Net assets per share attributable to shareholders of the listed company (RMB/ share)	2.11	1.80	17.22

Note: Detailed information relating to the published annual report in accordance with the PRC GAAP is available at http:// www.sse.com.cn, the website designated by China Securities Regulatory Commission.

Differences between PRC GAAP and HKFRSs

Differences in net profit and net assets in the financial statements prepared in accordance with the PRC GAAP and HKFRSs

Unit:'000 Currency: RMB

	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	2,819,499	2,501,270	27,002,449	22,474,844
Items and amounts adjusted in accordance with HKFRSs:				
Staff incentives and benefit funds	(35,893)	(47,822)	-	-
In accordance with HKFRSs	2,783,606	2,453,448	27,002,449	22,474,844

The Company has also won the bidding in the first round of concession tendering for offshore wind farm with the 200,000 KW intertidal zone projects in Jiang Su, Dong Tai.

Shareholding Structure and Disclosure of Interests

Shareholding Structure

	Number of shares	Approximate percentage of issued share capital
A shares		
- Subject to lock-up restrictions	7,725,028,753	60.24%
- Not subject to lock-up restrictions	2,125,685,907	16.58%
H shares	2,972,912,000	23.18%
Total	12,823,626,660	100.00%

Disclosure of Interests

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

As at 31 December 2010, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Hong Kong Listing Rules")) 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 right 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 (Chapter 571 of the Laws of Hong Kong) ("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	75.21	57.78
State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government	A	Interest of controlled corporation	1	7,898,980,620	Long position	80.19	61.60
Fengchi Investment Co., Ltd.	A	Beneficial owner	2	907,778,942	Long position	9.22	7.08
Shanghai Depeng Investment Co., Ltd.	A	Interest of controlled corporation	2	907,778,942	Long position	9.22	7.08
Guangdong Zhujiang Investment Holding Group Co., Ltd.	A	Interest of controlled corporation	2	907,778,942	Long position	9.22	7.08
Guangdong Hanjiang Asset Management Co., Ltd.	A	Interest of controlled corporation	2	907,778,942	Long position	9.22	7.08
Guangdong Hanjiang Building and Installation Co., Ltd.	A	Interest of controlled corporation	2	907,778,942	Long position	9.22	7.08
Zhu Qingyi	A	Interest of controlled corporation	2	907,778,942	Long position	9.22	7.08
Shenergy Group Company Limited	A	Beneficial owner	1	489,892,122	Long position	4.97	3.82

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 (%)
Templeton Investment Counsel, LLC	H	Investment manager		326,852,742	Long position	10.99	2.55
Deutsche Bank Aktiengesellschaft	H	Beneficial owner		5,773,514	Long position	0.19	0.05
		Investment manager	3	201,405,800	Long position	6.77	1.57
		Person having a security interest in shares		28,358,000	Long position	0.95	0.22
		Total long position		235,537,314		7.92	1.84
		Beneficial owner		1,635,291	Short position	0.06	0.01
		Person having a security interest in shares		1,058,000	Short position	0.04	0.01
		Total short position		2,693,291		0.09	0.02
Mirae Asset Global Investments (Hong Kong) Limited	H	Investment manager		208,866,000	Long position	7.03	1.63
Siemens International Holding B.V.	H	Beneficial owner	4	148,646,000	Long position	5.00	1.16
Siemens Beteiligungsverwaltung GmbH & Co. OHG	H	Interest of controlled corporation	4	148,646,000	Long position	5.00	1.16
Siemens Beteiligungen Management GmbH	H	Interest of controlled corporation	4	148,646,000	Long position	5.00	1.16
Siemens Aktiengesellschaft	H	Interest of controlled corporation	4	148,646,000	Long position	5.00	1.16

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) Fengchi Investment Co., Ltd. holding 907,778,942 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 long position of 907,778,942 shares of the Company held by Fengchi Investment Co., Ltd. represented the same parcel of shares in which Mr Zhu Qingyi, Guangdong Hanjiang Building and Installation Co., Ltd., Guangdong Hanjiang Asset Management Co., Ltd., Guangdong Zhujiang Investment Holding Group Co., Ltd and Shanghai Depeng Investment Co., Ltd. were deemed to be interested in by virtue of the SFO.

(3) Deutsche Bank Aktiengesellschaft was interested in 201,405,800 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	443,000
Deutsche Asset Management Investmentgesellschaft mbH	100	711,000
DWS Investment GmbH	100	194,600,000
DWS Investment S.A., Luxembourg	100	4,280,000
Tilney Investment Management	100	92,000
Deutsche Asset Management (Korea) Company Limited	100	1,279,800

Among the entire interest of Deutsche Bank Aktiengesellschaft in the Company, a long position in 1,512,000 shares and a short position in 3,200 shares were held through cash settled unlisted derivative interests.

(4) Siemens International Holding B.V., holding 148,646,000 shares of the Company in long position, 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 respectively. The long position of 148,646,000 shares of the Company held by Siemens International Holding B.V. represented the same parcel of shares in which Siemens Beteiligungsverwaltung GmbH & Co. OHG, Siemens Beteiligungen Management GmbH and Siemens Aktiengesellschaft were deemed to be interested in by virtue of the SFO.

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 2010, 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 2010, none of the directors, supervisors or chief executives of the Company and their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the SFO), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise required to be notified by the Directors, Supervisors or chief executives to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer set out in Appendix 10 to the Hong Kong Listing Rules. As at 31 December 2010, none of the directors, supervisors or chief executives of the Company or their respective associates were granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

Directors, Supervisors, Senior Management and Staff

Interests in shares and remuneration of the Directors, Supervisors, Senior management and Staff

Name	Position	Gender	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	Reason for change	Total remunerations received from the Company during the reporting period (RMB ten thousand) (before tax)	Receiving Remuneration and allowance from shareholding entities or other associates
Xu Jianguo	Chairman and Chief Executive Officer	Male	59	15 December 2010	14 December 2013	/	/	/	/	Yes
Zhu Kelin	Vice Chairmen and Non-executive Director	Male	48	15 December 2010	14 December 2013	/	/	/	/	Yes
Huang Dinan	Executive Director and President	Male	44	15 December 2010	14 December 2013	/	/	/	80.6	No
Zhang Suxin	Executive Director	Male	46	15 December 2010	16 February 2011	/	/	/	60.6	No
Yu Yingui	Executive Director and Chief Financial Officer	Male	60	15 December 2010	14 December 2013	/	/	/	58.6	No
Yao Minfang	Non-executive Director	Female	43	15 December 2010	14 December 2013	/	/	/	/	Yes
Zhu Sendi	Independent Non-executive Director	Male	70	15 December 2010	14 December 2013	/	/	/	25	No
Cheung Wai Bun	Independent Non-executive Director	Male	74	15 December 2010	14 December 2013	/	/	/	25	No
Lui Sun Wing	Independent Non-executive Director	Male	60	15 December 2010	14 December 2013	/	/	/	/	No
Dong Jianhua	Chief Supervisor	Male	45	15 December 2010	14 December 2013	/	/	/	/	Yes
Xie Tonglun	Supervisor	Male	54	15 December 2010	14 December 2013	/	/	/	34.4	No
Li Bin	Supervisor	Male	50	15 December 2010	14 December 2013	/	/	/	/	No
Zhou Changsheng	Supervisor	Male	45	15 December 2010	14 December 2013	/	/	/	/	Yes
Zheng Weijian	Supervisor	Male	49	15 December 2010	14 December 2013	/	/	/	/	Yes
Zhu Bin	Chief Operating Officer	Male	49	15 December 2010	14 December 2013	/	/	/	58.6	No
Li Chung Kwong Andrew	Company Secretary	Male	51	30 June 2006	16 February 2011	/	/	/	110	No
Fu Rong	Secretary to the Board	Female	40	15 December 2010	14 December 2013	/	/	/	34.4	No

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

Directors

Xu Jianguo, aged 59, joined the Company in September 2006 and is the chairman of the board, an executive director and chief executive officer 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 and was a senior economist.

Huang Dinan, aged 44, 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 46, joined the Company in May 2007 and is an executive director of the Company and the vice president of Shanghai Electric (Group) Corporation during the reporting period. Mr. Zhang has extensive experience in the power equipment industry and had been devoted in energy strategy research for a long period time. 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 60, 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 and extensive experience in financial management. 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, and is a senior economist.

Zhu Kelin, aged 48, 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 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 43, 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.

Dr. Cheung Wai Bun, Charles, J.P., aged 74, 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 China Financial International Investments Limited (formerly Sunshine Capital Investments Group 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. On 30 August 2010, Dr. Cheung received 3 awards namely (1) Outstanding Management Award for the Year 2010 of The Chartered Management Association, (2) Outstanding Director Award for the Year 2010 of The Chartered Association of Directors (3) Outstanding CEO Award for the Year 2010 of The Asia Pacific CEO Association in Hong Kong.

Zhu Sendi, aged 70, 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 Advisory Committee of China International Engineering Consulting Corporation 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., an independent director of Hangzhou Advance Gearbox 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, the administrative deputy director of the Machinery Industry Planning & Review Committee, and executive vice president of China Machinery Industry Federation. Mr. Zhu graduated from Anhui University majoring in physics. Mr. Zhu is a senior engineer of professor level.

Dr. Lui Sun Wing, aged 60, joined the Company in December 2010. He is the independent non-executive director of the Company. Dr. Lui worked at the Hong Kong Productivity Council from October 1981, and served as various positions. He was promoted to the vice-president in charge of the R&D, consultancy and training services, improvement of business administration and productivity to the industry. He then joined Hong Kong Polytechnic University as the vice-president from July 2000 to June 2010 responsible for partnership development, applied R&D and transformation of research results. Dr. Lui is the founding chairman and director of the Society of Automotive Engineers-HK, former president to the Hong Kong Association for the Advancement of Science and Technology as well as Honorary President and Honorary Advisors of various commercial, industrial and professional associations. Dr. Lui is also a non-executive director of EVA Precision Industrial Holdings Limited, Leeport (Holdings) Limited and Leo Paper Group (Hong Kong) Limited (unlisted) and the non-executive director of Eco-Tek Holdings Limited. Dr. Lui obtained his PhD degree in mechanical engineering from the University of Birmingham in UK.

Supervisors

Dong Jianhua, aged 45, joined the Company in December 2010, is the chief supervisor of the Company. He joined the Shanghai Electric (Group) Corporation, as chief financial officer in April 2008. Mr. Dong has extensive experience in internal audit and supervision. Prior to joining the parent group of the Company, Mr. Dong was the assistant to the head, deputy head of Infrastructure Office of Shanghai Municipal Audit Bureau, deputy head and head of Fixed Assets Investment and Audit Office, as well as head of Audit Office between 1987 and 2008. Mr. Dong has been involved in professional auditing for more than 23 years. Mr. Dong graduated from Shanghai Tongji University with a bachelor's degree in engineering. He also obtained a master degree in business administration from Shanghai Jiao Tong University. Mr. Dong is a senior economist.

Xie Tonglun, aged 54, joined the Company in March 2004. He is the employee representative 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 and the vice-officer of Shanghai Electric (Group) Corporation. 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 50, 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 is also the member of the experts committee of China Hydraulics Pneumatic & Seals Association, the chairman of Shanghai Technicians Association and the vice-chairman of research Institute of Opto-mechatronics Technology of Shanghai Second Polytechnic University. Mr. Li graduated from Shanghai Second Polytechnic University, majoring in electromechanical engineering. Mr. Li is a Senior Technician.

Zhou Changsheng, aged 45, joined the Company in November 2007 and is a supervisor of the Company, deputy head of the audit office of Shenergy Group 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 Shanghai Meishan Co. Ltd., the manager of the finance department of Shanghai Bailian (Group) Co. Ltd., the director of the finance department of Shenergy Group Co. Ltd., a chief director and assistant to the head of the audit office of Shenergy Group Co. Ltd., a director of Shanghai Metro Construction Corporation Ltd. and chairman of the supervisory committee of Shanghai Shenjiang Specialty Steel Co. Ltd., Mr. Zhou holds a master degree. He is also a senior accountant and a Certified Public Accountant in PRC.

Zheng Weijian, aged 49, is the chairman of supervisory committee of Guangdong Zhujiang Investment Co., Ltd. Since 2005, Mr. Zheng has been the director of operational control center of Guangdong Zhujiang Construction Limited. Since January 2008 until now, he had been the chairman of supervisory committee of Guangdong Zhujiang Investment Co., Ltd, a director of Shenzhen Yunfeng Guaranty & Investment Co., Ltd., and a supervisor of Guangdong Zhicheng Investment Co., Ltd. He was a supervisor of the Company from 2004 to 2007. Mr. Zheng holds an MBA of Macau University of Science and Technology. He is also an accountant and senior International Finance Manager.

Senior mangement

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 chairman 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 51, joined the Company in April 2005 and is the company secretary and an assistant to the president of the Company during the reporting period. 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 40, joined the Company in June 2005, and is the secretary to the board of directors, the director of secretariat office of the board of directors, the head of the office, head of the Investor Relations Department of the Compnay. 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	Positions	Commencement 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	February 2011	No
Zhu Kelin	Fengchi Investment Co., Ltd.	Chairman of the Board	May 2007	Up to now	No
Dong Jianhua	Shanghai Electric (Group) Corporation	Chief Financial Officer	April 2008	Up to now	Yes
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 other entities	Positions	Commencement 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 Holding Group Co., Ltd.	Chairman of the Board	June 2009	Up to now	No
Yu Yingui	Shanghai Mechanical & Electrical Industry Company Limited	Chief Supervisor	May 2009	May 2012	No

Name	Name of other entities	Positions	Commencement of term	End of term	Receiving remuneration and allowance
Yu Yingui	Shanghai 3F New Materials Company Limited	Independent Director	March 2008	March 2011	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	April 2012	No
	Chinese Mechanical Engineering Society	Consultant	2006	2011	No
	China International Engineering Consulting Corporation	Member of Experts Committee	January 2011	January 2014	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
	Hangzhou Advance Gearbox Group Co., Ltd	Independent Director	September 2008	September 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 2011	Yes
	Pioneer Global Group Limited	Independent Non-executive Director and Chairman of Audit Committee	June 1999	September 2013	Yes
	China Financial International Investments Limited	Independent Non-executive Director and Chairman of Audit Committee	March 2001	November 2011	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	31 October 2011	Yes
Lui Sun Wing	EVA Precision Industrial Holdings Limited	Independent Non-executive Director	January 2005	Up to now	Yes
	Leeport (Holdings) Limited	Independent Non-executive Director	May 2003	Up to now	Yes
	Eco-Tek Holdings Limited	Non-executive Director	January 2001	Up to now	Yes
	Leo Paper Group (Hong Kong) Limited	Independent Non-executive Director	April 2010	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

Name	Name of other entities	Positions	Commencement of term	End of term	Receiving remuneration and allowance
Zhou Changsheng	Anhui Wuhu Nuclear Power Co., Ltd.	Chief Auditor	March 2009	Up to now	No
Zheng Weijian	Guangdong Zhujiang Investment Co., Ltd	Chairman of Supervisory Committee	January 2008	Up to now	Yes
	Shenzhen Yunfeng Guaranty & Investment Co., Ltd.	Director	January 2006	Up to now	No
	Guangdong Zhicheng Investment Co., Ltd.	Supervisor	September 2008	Up to now	No
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

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.
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.
Actual payment of remunerations to Directors, Supervisors and Senior Management	The Company has paid the remunerations to its Directors, Supervisors and Senior Management who are entitled to those remunerations.

Changes of Directors, Supervisors and Senior management of the Company

Name	Position	Change	Reason for change
Lui Sun Wing	Independent Non-executive Director	Appointed	Elected at the general meeting
Lei Huai Chin	Independent Non-executive Director	Resigned	Retired upon expiration of term
Zheng Weijian	Supervisor	Appointed	Elected at the general meeting
Sun Wenzhu	Supervisor	Resigned	Retired upon expiration of term

Subsequent appointments

On 16 February 2011, at the second board meeting of the third session of the Company, it was resolved that Mr. Zhang Suxin resigned as the executive director of the Company and the member of strategy committee under the Board of the Company, due to re-designation of position. Ms. Xu Ziying was elected as the candidate for executive director of the Company. It was proposed at the general meeting of the Company.

On 16 February 2011, at the second board meeting of the third session of the Company, it was resolved that Mr. Li Chung Kwong Andrew resigned as the company secretary, due to re-designation of position. Mr. Leung Ka Lok was appointed as the company secretary with a term commencing from 16 February 2011 and ending on 14 December 2013.

Services contracts of Directors and Supervisors

None of the Directors and Supervisors of the Company has any service contract with the Company which is not determinable with one year without payment of compensation (other than statutory compensation).

Directors' and Supervisors' interests in contracts

During the year, none of the Directors and Supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party.

Incentive Share Option Scheme

Currently, the Company does not have any incentive Share Option Scheme.

Employees of the Company

Total number of employees	28,836
Number of retired employees for whom the Company is responsible for the retirement benefits	302

Headcount Structure

Personnel classification	Number of employees
Production personnel	14,855
Sales personnel	2,019
Technical personnel	7,320
Financial personnel	630
Administration personnel	4,012
Total	**28,836**

Education Level

Degree	Number of employees
Postgraduate and above	860
Undergraduate	6,551
Tertiary education	6,317
Secondary education or below	15,108

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 2010.

Board of Directors

The Board of Directors comprises nine directors, including four executive directors, namely Xu Jianguo, Huang Dinan, Zhang Suxin and Yu Yingui, two non-executive directors, namely Zhu Kelin, Yao Minfang and three independent non-executive directors, namely Zhu Sendi, Cheung Wai Bun and Lui Sun Wing. 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 in 2010.

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.

Apart from the working relationship in the Company, there were no financial business, family relationship or other material relationships among the Directors, Supervisors and Senior management.

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	11	7	1	0	No
Zhu Kelin	No	12	10	7	2	0	No
Huang Dinan	No	12	10	7	2	0	No
Zhang Suxin	No	12	9	7	3	0	No
Yu Yingui	No	12	12	7	0	0	No
Yao Minfang	No	12	11	7	1	0	No
Zhu Sendi	Yes	12	11	7	1	0	No
Cheung Wai Bun	Yes	12	12	7	0	0	No
Lui Sun Wing	Yes	1	1	0	0	0	No

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 reappointed 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 2010 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, Dr. Lui Sun Wing and Ms. Yao Minfang, is chaired by Dr. Cheung Wai Bun, an independent non-executive director of the Company.

Six meetings of the Audit Committee were convened on 3 February, 8 April, 27 April, 19 August, 26 October and 15 December 2010 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 and annual financial reports, profit distribution plan, the appointment of and remuneration for auditors.

During the reporting period, the attendance at the meetings of the Audit Committee was as follows (no. of attendance/ number of meetings ought to attend):

Name of Audit Committee Member	Attendance
Cheung Wai Bun (Chairman of the Committee)	6/6
Zhu Sendi	4/6
Yao Minfang	5/6
Liu Sun Wing (appointed with effect from 15 December 2010)	1/1
Lei Huai Chin (retired with effect from 15 December 2010)	4/5

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 Dr. Lui Sun Wing, Mr. Huang Dinan and Mr. Zhu Sendi. Dr. Lui Sun Wing is the chairman of the Remuneration Committee.

A meeting of the Remuneration Committee was held on 8 April 2010 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.

During the reporting period, the attendance at the meetings of the Remuneration Committee was as follows (no. of attendance/ number of meetings ought to attend):

Name of Remuneration Committee Member	Attendance
Liu Sun Wing (Chairman of the Committee) (appointed with effect from 15 December 2010)	0/0
Huang Dinan	0/1
Zhu Sendi	1/1
Lei Huai Chin (retired with effect from 15 December 2010)	1/1

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 2010, 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 of Supervisors	Attendance
Dong Jianhua	1/1
Xie Tonglun	7/7
Li Bin	6/7
Zhou Changsheng	7/7
Zheng Weijian	0/1

Internal Control

Pursuant to 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 Company has taken the initiative in establishing a comprehensive internal control system and systemic mechanism in five aspects, namely internal environment, risk assessment, control activities, information and communication and internal supervision, and commenced the self-assessment for internal control. It also actively promoted the ratification of the internal control issues and enabled continuous regular review and persistently improve the implementation of the system for the purpose of ensuring its effective implementation.

According to the requirements of the "Supplementary Guideline of Internal Controls for Enterprises" by the five PRC government departments and authorities, and consolidating the management experiences of domestic and overseas advanced enterprises, the Company has compiled the "Internal Control Handbook" which standardizes the internal control requirements on 29 processes with 343 control points, which include corporate governance, overall budget, human resources, investment management, sales receipt, procurement payments, as well as the relevant segregation of job duties and respective requirements on authorization and approval, as result of building up standards for internal control system. Meanwhile, the Company has formulated the working plan and promoted the requirements in the "Internal Control Handbook" to the Company itself and its subsidiaries. The promotion scope of Internal Control Handbook covered 11 major enterprises and 13 business processes in 2010, ratifying and modifying the existing internal control system and leading to a more scientific and reasonable design of the internal control, so as to regulate the daily business operations of the enterprises.

1000MW Ultra Super Critical Power Generation Sets

The Company's Audit and Review Office is responsible for the daily inspection and monitoring work of the Company's internal control, with separate personnel for inspecting and monitoring the internal control, who inspected and reviewed annually on the design of internal control system and the effectiveness of the implementation, and proposed advices on amendment and perfection, so as to persistently enhance the level of the Company's internal control.

The Company has established an effective inspection and monitoring mechanism of internal control and conducted an annual review on the effectiveness of the internal control and issued reports to the audit committee and the Board. In 2010, the Company has complied with the requirements of C.2.1 of Appendix 14 of the Listing Rules. The Company conducted self-assessments on the key procedures for its 15 major enterprises, inspecting the design and implementation of the internal control system and following up the ratification of the issues regarding the internal control in prior years.

The Board of Directors of the Company reviews the self-assessment report with respect to the internal control of the Company annually. The review process has taken into account and reviewed the 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 is 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 office 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 discovered that from 1 January 2010 to the end of the current reporting period, the Company did not have weakness in terms of 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 sales system. 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 president, chief financial officer, the chief operation officer, company secretary and secretary to the Board do not have any executive 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. Corporate 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 corporate governance. 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 the 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 persistently disclose our significant corporate information to public in a timely, accurate and complete manner since our public listing. The Company recognizes the importance of good communications with its investors. Our investor relations team has arranged interviews and site visits for investors from time to time. The team has 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 Meetings

Session of the meeting	Date of meeting	Information disclosure newspapers for publishing the resolutions	Date of information disclosure for publishing the resolutions
Annual general meeting for 2009	22 June 2010	China Securities Daily, Shanghai Securities Daily, Securities Times Daily	23 June 2010

Extraordinary General Meetings

Session of the meeting	Date of meeting	Information disclosure newspapers for publishing the resolutions	Date of information disclosure for publishing the resolutions
The first extraordinary general meeting for 2010	15 October 2010	China Securities Daily, Shanghai Securities Daily, Securities Times Daily	16 October 2010
The second extraordinary general meeting for 2010	15 December 2010	China Securities Daily, Shanghai Securities Daily, Securities Times Daily	16 December 2010

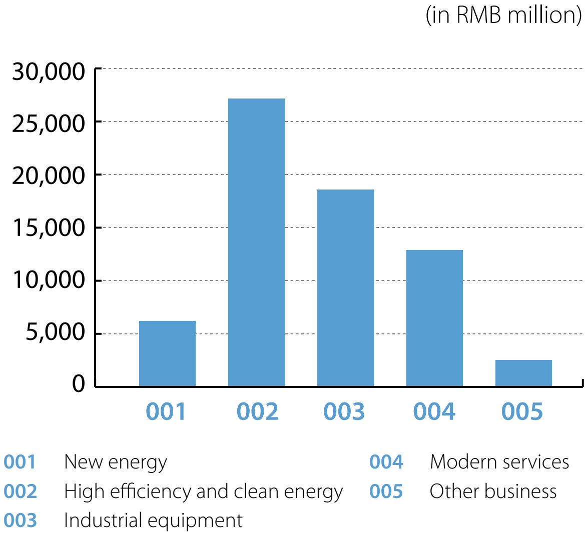
Management Discussion and Analysis

Despite of gradual recovery of the macro-economy of China, the global economy has not yet made a full recovery from the financial crisis during the reporting period. Meanwhile, uncontrollable risks, such as inflation and fluctuation in exchange rates, were among the unfavourable factors facing by PRC companies. The Company carefully coped with the volatile macroeconomic environment and targeted for enhancing its overall profit level by expediting the development of its core businesses. It also steadfastly made adjustments to its business structure, aggressively promoted the commercialization of new and advanced technologies and establishment of our world-class plants through implemented innovative management, as to maintaining a steady and healthy development of the Group. During the reporting period, the Group recorded a revenue of RMB62,957 million, representing a growth of 9.3% compared with that of the same period last year. Net profit attributable to owners of the parent amounted to RMB2,784 million, representing a growth of 13.5% compared with that of the same period last year.

Business Review of Major Business Segments

(in RMB million)

2010	Revenue	Cost of Sales	Gross Profit Margin	Year-on-year Change in Revenue	Year-on-year Change in Cost of Sales	Year-on-year Change in Gross Profit Margin
New Energy	6,200	5,323	14.1%	55.1%	51.5%	2.0 percent
High Efficiency and Clean Energy	27,161	22,455	17.3%	(1.0%)	(3.0%)	1.6 percent
Industrial Equipment	18,572	15,033	19.1%	13.6%	13.5%	0.1 percent
Modern Services	12,894	11,978	7.1%	3.3%	1.5%	1.7 percent
Other Business	2,522	2,298	8.9%	(24.9%)	(24.6%)	(0.4 percent)
Elimination	(4,392)	(4,408)	(0.4%)	(27.0%)	(26.4%)	(0.8 percent)
Total	62,957	52,679	16.3%	9.3%	8.0%	0.9 percent



New Energy Segment

As one of the main focuses of the Company in the future, the new energy segment developed rapidly during the reporting period, benefiting from economies of scale in production and better operational efficiency. During the reporting period, the Company has achieved a breakthrough in the third generation AP1000 nuclear technologies and secured the supply contracts for 4 nuclear generation units under Taohuajiang project. The value of the Company's orders on hand for nuclear power nuclear island equipment exceeded RMB19 billion at the end of the reporting period. In terms of wind power, the revenue generated from the Company's wind power generation units amounted to RMB3,006 million, representing a year-on-year increase of 141.6%. The off-shore wind power equipment of 3.6MW developed by the Company's core technology team has been successfully connected to power grid for power supply. The Company has also won the bidding in the first round of concession tendering for offshore wind farm with the 200,000 KW intertidal zone projects in Dong Tai, Jiang Su. In 2010, the revenue generated from the new energy segment amounted to RMB6,200 million, representing a year-on-year increase of 55.1%. The gross profit margin was 14.1%, representing a year-on-year increase of 2.0 percentage. The operating profit in this segment surged and amounted to RMB505 million, representing a year-on-year increase by 11 times.

High Efficiency and Clean Energy Segment

The Company continued its efforts in upgrading its products and enhancing the core products competitiveness. During the reporting period, the Company was committed to developing the high efficiency and clean thermal power equipment products, with the ultra super-critical power generator as the core product, and commenced its research of the 1,200 MW thermal power generators. With respect to the 1,000 MW ultra super-critical projects, which represents the world's highest standard in the field, the Company achieved a leading market position and accounts for 55% market share. The Company's first integrated gasification combined cycle ("IGCC") project in China, to which it owns the intellectual property, has been launched into operation. Meanwhile, the Company has successfully developed the technology of the 1.7 metres long turbine blades for our large nuclear steam turbines, and became one of the three companies capable of developing and manufacturing independently the whole ring self-locking damping structure long blade in the world. Additionally, the Company completed the projects such as the low pressure pneumatic design and structural strength design for the third generation AP1000 Taohuajiang Project. Benefiting from the construction of the national power grid, the power transmission and distribution equipment business of the Company achieved greater progress during the reporting period. In 2010, the revenue generated from the high efficiency and clean energy segment amounted to RMB27,161 million, down 1.0% year-on-year. The gross profit margin was 17.3%, representing a year-on-year increase of 1.6 percentage. The operating profit amounted to RMB1,351 million, decreased by 0.8% when compared with the same period last year.

16,500-ton free-forging hydraulic press

Industrial Equipment Segment

Major products of the industrial equipment segment such as elevators, electric motors, machine tools, printing and packaging equipment and metropolitan rail transportation equipment are more susceptible to changes in the macro environment and their market demand is relatively stable. During the reporting period, one of our major products, elevators, continued to record stable growth in revenue and operating profit, thus generated a good profit and cash flow for the segment. Shanghai Mitsubishi Elevator Co. Ltd., a subsidiary of the Company, has secured orders of 54 elevators in section A of Shanghai Tower, the highest skyscraper in China. In 2010, the industrial equipment division recorded a revenue of RMB18,572 million, which represents a year-on-year increase of 13.6%. The gross profit margin remained stable at 19.1%. The operating profit amounted to RMB909 million, representing a year-on-year increase of 18.1%.

Modern Services Segment

The Company's modern services business hinges on the solid foundation provided by our equipment manufacturing business, while the development of our modern services business promoted further growth of the Company's equipment manufacturing business. Supported by new technology and new equipment, revenue and operating profit of the Company's modern services business have been growing robustly. At the end of the reporting period, the value of the Company's orders on hand for the power station EPC projects exceeded RMB80 billion. The Company has over 2,000 staff working on overseas projects. The Company is continuously expanding the business to markets in relatively developed foreign countries. In the area of financial services, the finance company of the Group continues to play its role as a functional and professional platform, providing comprehensive financial support for the business development of the Group. In 2010, the revenue generated from the modern service segment amounted to RMB12,894 million, representing a year-on-year increase of 3.3%. The gross profit margin was 7.1%, representing a year-on-year increase of 1.7 percentage. The operating profit amounted to RMB496 million, representing a year-on-year growth of 15.9%.

Review of the principal activities by geographical areas

(in RMB million)

Geographical Areas	2010		2009	
	Sales Revenue	Proportion	Sales Revenue	Proportion
Domestic	51,110	81.2%	48,269	83.8%
Overseas	11,847	18.8%	9,353	16.2%
Total	62,957	100.0%	57,622	100.0%

Note 1: During the reporting period, the Company has been continuously expanding the overseas business, and the share of revenue from overseas market in the total revenue continued to increase while the power station engineering projects continued to maintain competitive advantage in the South Asia and Southeast Asia market.

Note 2: Total purchases from the five largest suppliers of the Company accounted for 6.31% of the total purchases of the year and total sales to the five largest customers accounted for 12.15% of the total sales.

Analysis of the financial position

1. Items in the statement of financial position

(in RMB million)

	End of the Year	Proportion in Total Assets	Beginning of the Year	Proportion in Total Assets
Assets				
Cash and cash equivalents	18,943	19.3%	14,810	16.5VWV%
Trade receivables	15,977	16.3%	13,614	15.2%
Prepayments, deposits and other receivables	8,886	9.0%	10,039	11.2%
Inventories and construction contracts	20,328	20.7%	20,193	22.5%
Liabilities				
Short-term interest-bearing bank and other borrowings	396	0.4%	901	1.0%
Trade payables	15,968	16.3%	12,818	14.3%
Other payables and accruals	38,560	39.3%	39,038	43.6%
Bonds	1,000	1.0%	1,000	1.1%
Long-term interest-bearing bank and other borrowings	1,021	1.0%	1,342	1.5%
Total liabilities	63,710	64.9%	60,562	67.6%
Total equity	34,502	35.1%	29,064	32.4%
Total assets	98,212	100.00%	89,626	100.0%

The proportion of cash and cash equivalent in total assets at the end of the year increased by 2.8 percent from the beginning of the year mainly due to the increase of cash inflows from operating profit and from raised capital funds from financing activites.

The proportion of trade receivables in total assets at the end of the year increased by 1.1 percent from the beginning of the year mainly due to the increase of revenue and retention receivables. Retention money was increased accordingly with the revenue.

The proportion of trade payables in total assets at the end of the year increased by 2.0 percent from the beginning of the year mainly due to the increase of materials procurement driven by sales and the increase in retention payables for projects on hand.

2. Items in the income statement

(in RMB million)

	2010	2009	Change	Rate (%)
Revenue	62,957	57,622	5,335	9.3%
Other income and gains	1,328	895	433	48.4%
Finance costs	52	58	(6)	(10.3%)
Other expenses	2,955	1,998	957	47.9%
Share of profits and losses of jointly-controlled entities and associates	814	621	193	31.1%
Income tax	228	7	221	3157.1%
Net profit attributable to equity holders of the parent	2,784	2,453	331	13.5%

Other income and gains increased by 48.4% from 2009 mainly due to the increase of government grants as resulted from the significant increase in the research and development expenses for the study of major raw materials and core technologies during the reporting period.

Other expenses increased by 47.9% from 2009 mainly due to the increase in the research and development expenses and the increase of provision for bad debts during the reporting period . In 2010, the Company has enhanced research and development efforts in the areas of major raw materials and new and advanced technologies.

Share of profits and losses of jointly-controlled entities and associates increased by 31.1% from 2009 mainly due to the substantial improvement in results of certain associates and joint ventures, which had benefited from the industry growth.

Income tax increased by 32 times from 2009 mainly due to the profit increase for the year.

3. Items in the statement of cash flows

(in RMB million)

Items	2010	2009	Change
Cash and cash equivalents at beginning of year	12,605	10,493	2,112
Net cash flows from operating activities	4,820	6,897	(2,077)
Net cash flows from investing activities	(4,358)	(2,143)	(2,215)
Net cash flows from financing activities	2,366	(2,658)	5,024
Net increase in cash and cash equivalents	2,828	2,096	732
Effect of foreign exchange rate changes	(61)	16	(77)
Cash and cash equivalents at the end of the year	15,372	12,605	2,767

Net cash inflow from operating activities decreased by RMB2,077 million from 2009, howerver, it still maintain a relatively good momentum.

Net cash outflow from investment activities increased by RMB2,215 million from 2009 mainly due to the expedited construction of fixed assets during the reporting period.

Net cash inflow from financing activities increased by RMB5,024 million from 2009 due to the equity funds raised in A shares market during the reporting period and the additional funds contributed from external shareholders in the subsidiaries of the Group.

Source of Funding and Indebtedness

As at 31 December 2010, the Group had aggregate bank and other borrowings and bonds of RMB2,417 million (2009: RMB3,244 million), representing a decrease of RMB827 million from the beginning of the year. Borrowings and bonds repayable within one year amounted to RMB396 million, representing a decrease of RMB505 million compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB2,021 million, representing a decrease of RMB321 million compared with that of the beginning of the year.

As at 31 December 2010, the bank and other borrowings of the Group , except for unsecured bank loans at nil in US dollars (2009: US$833,000) in aggregate, which were equivalent to nil in Renminbi (2009: RMB5,688,000); of HKD52,000,000 (2009: HKD52,000,000) in aggregate, which were equivalent to RMB44,248,000 (2009: RMB45,786,000); nil in EUR (2009: EUR1,839,000) in aggregate, which were equivalent to nil in Renmibi (2009: RMB18,017,000); nil in ZAR (2009: ZAR59,000) in aggregate, which were equivalent to nil in Renminbi (2009: RMB55,000), and of JPY80,000,000 (2009: JPY6,288,000,000) in aggregate, which were equivalent to RMB6,501,000 (2009: RMB463,941,000), all other non-secured bank borrowings are denominated in Renminbi.

As at 31 December 2010, 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 6.5%, a decrease from 10.0% at the beginning of the year.

Pledge of Assets

As at 31 December 2010, bank deposits of RMB653 million (2009: RMB867 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 RMB53 million as at 31 December 2010 (2009: RMB15 million).

Contingent Liabilities

Please refer to note 50 to the consolidated financial statements prepared in accordance with the Hong Kong Financial Reporting Standards for details.

Capital Commitments

Please refer to note 52 to the consolidated financial statements prepared in accordance with the Hong Kong Financial Reporting Standards for details.

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.

Future Development and Outlook of The Company

2011, being the first year of the "12th Five Year Plan", is the first year of the Group implementing a new set of business plans. Various external environmental factors might affect our business, for example (i) the adjustments on national policy for energy structure become clear, and provide a favourable condition for the rapid development of new energy equipment; (ii) various costs including energy, raw materials and human resources will continue to increase pressure on corporation's profitability; (iii) the energy demand in South East Asia, Middle East, Africa and other areas remains strong.

The Company will continuously focus on the national energy development strategies, and enhance our technological innovation as to equip ourselves to the overseas market under the global perspective. We will strategically capture opportunities of collaborating with multinational companies aiming at the development of international and domestic markets. By applying the modern management concepts and methods, we will continue to enhance economic value and management efficiency of the Group.

For year 2011, the business objective of the Company is to achieve continuous increase in revenue and net profit based on those of 2010 with net profit growing at a faster pace than that of revenue. The Company is committed to continuously improve the receivables and inventories turnover. Apart from the above, we will focus on the following major areas:

Enhance the technology advancements

We will continue to optimize investment structure, to promote industrial transformation and upgrading, to increase the added values on our products by means of production intelligence and information technology. In view of advocating the continuous re-innovation and self-innovation among the Group, the Company had arranged a number of major technical research projects, such as research on the production technique of AP1000 tube sheet forgings for steam generator and in-house research and development of 8m/s high-speed elevator, thus develop the high-end manufacturing enterprise in the world. Meanwhile, we will also focus on research and development of prospective technologies. The Company will conduct research and development on 700 centigrade ultra super-critical thermal units, CAP1400 nuclear conventional islands units, and will build a small-scale thermal test platform for critical technology research and principle research on oxygen enriched combustion and gas turbine design technology.

Accelerate the internationalization process

To further upgrade our standards to reach international level, we will take initiatives to increase our corporate influence in the global industry market throughout the business cooperation among the global players and proactively increase the pace of development. We will strengthen the strategic cooperation with Siemens, and accelerate the transfer of thermal power equipment production capacity from Siemens through the joint co-operation. At the same time, the Company will seek for external cooperation in the field of wind power and to capture technology innovation of large-scale offshore wind turbine as soon as possible. We will also expedite the process of setting up joint venture in power station service to develop the power plant service industry. Through continuous and strategic cooperation with Mitsubishi Electric, the Company will enter in the field of energy conservation through industrial transformation and promotion of the construction of intelligent system for buildings.

Improve the standards of modern management

The Company will continue to practise centralized procurement and expand its scope and variety to strive for better offers in the market. Tender offering, tender evaluation and supplier management will be further enhanced, so that we could build a long-term and effective purchasing management system and process approval system.

The Company will promote supply chain construction, logistics optimization, and digital inventory management in order to build up our world-class production plant. To achieve this, we will take following actions: (i) to cooperate with external management consultants company to carry out pilot projects in Shanghai Boiler Works, a subsidiary of the Company, and mainly target for reducing inventory level and managing the entire logistics cycle of the Company as to optimize the fund management and to enhance the economic performance; (ii) to cooperate with Roland Berger Strategic Consultants, mainly provide consultancy service for Power Station Group in purchasing management by building up a more scientific and reasonable purchasing method and process in order to increase optimization and improvements in cost saving, quality control and product delivery; and (iii) to cooperate with America Supply Chain Council so that Turbine Works Factory and Turbine Generators Works Factory in Shanghai Electric Power Generation Equipment Co., Ltd,. a subsidiary of the Company, could reach a new standard in terms of their performance standards in various processes, such as procurement, production, product delivery and return, which may bring down operational costs, extend cash flow cycle and reduce inventory level. Subsequent to the success of above special pilot projects, we will gradually apply them to other world-class factories and enterprises among the Group.

Promote innovation of new development model

We should (i) explore the feasibility of merger and acquisition in the fields of desalination, smart power grid, energy saving and environment protection and digital printing etc. Expansion by merger will accelerate the speed of entering into new fields for the Company and it is an important way to foster strong and rapid development for the Group; (ii) develop service business by establishing an energy saving division and promoting energy saving in factories. We will also put more efforts in elevator maintenance service and develop power station service business through actively exploring a one-stop service model for power station. In terms of energy saving area, the Company entered cooperation with Mitsubishi Electric to conduct energy saving and automatic control business.

Capital utilization plan

In view of new economic and market changes, we will continue to maintain investment momentum, to control investment scale at appropriate level and to focus on our investments in a scientific and careful manner. We will gradually apply our funds to our core and key business segments in accordance with our scientific planning. In 2010, the Company has received proceeds of RMB 2.22 billion from the private placement from A shares equity market and will strengthen and rationalize the application of the proceeds raised in order to ensure the effective implementation and improvement of the projects we have invested. The Company also 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.

Use of Proceeds Raised from A Share Capital Market

During the reporting period, as approved by the approval document ZHENG JIAN XU KE (2010) No.497 issued by the China Securities Regulatory Commission, the Company successfully issued 315,940,255 A shares of the Company to 5 investors at a price of RMB7.03 per share under private placement (the "Placement") in A shares market. The aggregate proceeds raised from the Placement approximately amounted to RMB2,221,060,000, net proceeds after deducting sponsor underwriting fees and remaining offering expenses approximately amounted to RMB2,176,846,000. During the year, those proceeds are used in accordance to the committed amounts on respective projects set out in the Prospectus of the Placement as follows:

(in RMB hundred million)

Name of committed project	Proposed investment amount from proceeds raised	Proceeds used during the reporting period	Unused Proceed as at 31 December 2010
Production Capacity expansion and technology enhancement project of nuclear power plant reactor vessel internals and control rods drive mechanisms of 1,000MW (Phase II) units	3.70	-	3.70
Technology enhancement project of 450 tonnes electroslag furnace	1.10	0.77	0.33
Production Capacity expansion and enhancement project of nuclear power nuclear island major equipment integrated production (with the approved name of "Phase II of capacity expansion and technology enhancement project of nuclear power nuclear island major equipment")	3.02	1.05	1.97
Technology enhancement project of heavy nuclear power condenser assembly plant	0.60	0.12	0.48
Phase I of development project of new wind power equipment production plant at Lingang base (with the approved name of "Development project of wind power equipment production plant at Lingang base")	3.14	0.95	2.19
Introduction and training for the use of the design and analysis software of wind power equipment	1.10	0.77	0.33
Research and production project of wind power equipment of 2MW and 3.6MW	2.79	1.12	1.67
Development project of research centre of wind power technology	0.50	0.19	0.31
Enhancement project of machines tool products and production capability (with the approved name of "Technology enhancement project of large CNC precision grinding products")	1.50	0.45	1.05
Supplement to working capital	4.32	4.32	-
Total	**21.77**	**9.74**	**12.03**

450ton ESR furnace

Large-size Transformer

As reviewed and approved on the thirty eighth (of the second session) Board meeting of the Company held on 20 August 2010 and in accordance with mandate granted at the shareholders' general meeting, the Board of the Company adjusted specific arrangement of investment projects funded by proceeds and ceased to invest the proceeds in the following four projects: (i) technology enhancement project of nuclear turbine low-pressure welding rotors of 1,000MW, (ii) technology enhancement project of nuclear power station rotor sets of 1,000MW, (iii) enhancement project of large-scale gas turbine production capability and technology, (iv) enhancement project of Global Vacuum Pressure Impregnation ("GVPI") insulation processing technology, meanwhile, supplemented an amount of RMB432 million to the working capital of the Company. In addition, the offshore wind turbines assembly base of development project of wind power equipment production plant at Lingang base will be relocated to Chengdong New District of Dong Tai City in Jiangsu Province, but the main construction of the project will remain unchanged.

As of 31 December 2010, the Group will continue to invest the unused proceeds into the committed projects.

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

For details please refer to the note to the financial statements "2.2 Changes in Accounting Policies 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 RMB1,678,122,000 in 2010, and the opening retained earnings amounted to RMB2,379,257,000. After deducting 2010 interim dividends of RMB755,311,000, transfer to surplus reserve of RMB167,812,000 and the increased retained earnings of RMB65,101,000 resulting from the adoption of the partial equity method- instead of the costs method for the transfer of equity interests of Shanghai Rail Traffic Equipment Development Co., Ltd., the subsidiary of the Company, and the additional provision for statutory surplus reserve of RMB6,510,000 profit attributable to equity holders amounted to RMB3,192,847,000. As audited by Ernst & Young Hua Ming, the Group's net profit attributable to owners of the parent prepared in accordance with the PRC GAAP amounted to RMB2,819,499,000 in 2010. As audited by Ernst & Young, the Group's net profit attributable to owners of the parent set out in the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standard amounted to RMB2,783,606,000 in 2010.

Proposed profit appropriation for 2010 in accordance with the Articles of Association and relevant requirements of the PRC: Cash dividend of RMB0.0651 (tax inclusive) per share. Based on the total 12,823,626,660 shares of the Company, a total of RMB834,818,000 will be paid out as dividends, accounted for approximately 30% of the net profit attributable to equity holders of the parent prepared in accordance with HKFRSs of RMB2,783,606,000.

According to the implementation rules which came into effect on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the 2010 final dividend to non-resident enterprise shareholders as appearing on the H Share register of members of the Company. Any shares registered in the name of the non-individual registered shareholders including HKSCC (Nominees) Limited, other nominees, trustees or other groups and organizations will be treated as being held by non-resident enterprise shareholders and therefore will be subject to the withholding of the corporate income tax.

Closure of Register of Members

The register of members of the Company will be closed from 21 April 2011 to 25 May 2011, both days inclusive, during which period no transfer of H Shares will be effected.

In order to qualify for attending the AGM and receiving the finaldividends, the holders of H Shares whose transfers have not been registered must deposit transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computer Share Hong Kong Investor Services Limited, no later than 4:30 p.m. on 20 April 2011.

Other information

Pre-emptive rights and arrangements on options of shares

According to the Articles of Association and the Company Law in the People's Republic of China (the "PRC") and the Articles of Association, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings. At present, the Company does not have any arrangement on share option.

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

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

Reserves

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.

Right of Directors to acquire shares and debentures

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

Sufficiency of Public float

Based on publicly available information and to the best knowledge of the Directors, the Board of 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	7
Meetings of the Supervisory Committee	Subject matters of the meeting of the Supervisory Committee
The Company convened the ninth meeting of the second session of the Supervisory Committee on 2 February 2010	The proposal of the implementation of the capital investment budgets of Shanghai Electric Group Company Limited for 2009; the proposal of capital investment budgets of Shanghai Electric Group Company Limited for 2010; the proposal of investment budgets in assets of Shanghai Electric Group Company Limited for 2010; the proposal of investment budgets in technological research of Shanghai Electric Group Company Limited for 2010; the proposal of transferring assets and employees of integrated control system of Shanghai Rail Traffic Equipment Co., Ltd to Shanghai Automation Instrumentation Co., Ltd.; the proposal of jointly establishing Shanghai Electric (Wuxi) Forging Co., Ltd. by Shanghai Heavy Machinery Plant Company Ltd. and Wuxi Forging Plant Co., Ltd. the proposal of formulating administrative regulations of disposal of properties of Shanghai Electric Group Company Limited
The Company convened the tenth meeting of the second session of the Supervisory Committee on 9 April 2010	Report of the Supervisory Committee of the Company for 2009; the full text and summary of the Annual Report of the Company for the year of 2009; the final accounts of the Company for 2009; the profit distribution plan of the Company for 2009; the proposal of re-appointment of Ernst & Young as the auditors of the Company for 2010; the proposal of adjusting the amount of guarantee for 2010; the proposal of formulating Administrative Regulations on Forward Exchange Settlement Business of Shanghai Electric Group Company Limited; the proposal of formulating Administrative Regulations on Banking Facilities of Shanghai Electric Group Company Limited; the proposal of proposing to the general meeting to authorise the Board to approve the amounts of remunerations of directors and supervisors for 2010 and ratification of the remunerations of the directors and supervisors for 2009; the proposal of extending the trial period of Provisional Measures for Administration of the Emoluments of the Managers of Shanghai Electric Group Company Limited to 2010; the proposal of approving the amounts of remunerations of the senior management for 2010 and ratification of the remunerations of the senior management for 2009; self assessment report on internal control of the Company for 2009; social responsibility report of the Company for 2009
The Company convened the eleventh meeting of the second session of the Supervisory Committee on 28 April 2010	The full text and main text of report for the first quarter of 2010 of the Company; written review opinion on report for the first quarter of 2010 of the Company; the proposal of capital reduction of Shanghai Electric Lingang Heavy Machinery Co., Ltd.; the proposal of Shanghai Electric Group Company Limited's acquisition of 9.33% equity interests in Shanghai Electric Wind Power Equipment Co., Ltd. held by China Huadian Engineering (Group) Company Limited; the proposal of Shanghai Electric Group Company Limited's capital increase in Shanghai Electric Nuclear Power Equipment Co., Ltd.
The Company convened the twelfth meeting of the second session of the Supervisory Committee on 30 April 2010	The proposal of amending the profit distribution plan of the Company for 2009; the proposal of amending the full text and summary of the Annual Report of the Company for the year of 2009

The Company convened the thirteenth meeting of the second session of the Supervisory Committee on 20 August 2010	Half-year report of 2010 of the Company; the interim profit distribution plan of the Company for 2010; written review opinion of the Supervisory Committee on the half-year report of 2010 of the Company; the proposal of adjusting investment projects funded by proceeds from non-public offering; special report on depositing and actual utilisation of proceeds raised of the Company; the proposal of using proceeds from non-public offering and the Company's own funds to increase investment in the wholly-owned subsidiaries of the Company; the proposal of disposal of legal person shares in Shenyin & Wanguo Securities Co., Ltd.; the proposal of amending the Information Disclosure Management System of Shanghai Electric Group Company Limited, the proposal of amending the Articles of Association
The Company convened the fourteenth meeting of the second session of the Supervisory Committee on 27 October 2010	Report for the third quarter of 2010 of the Company; written review opinion of the Supervisory Committee on report for the third quarter of 2010 of the Company; the proposal of electing supervisors of the third Supervisory Committee of the Company; the proposal of continuing connected transactions between the Company and SE Corporation for the years from 2011 to 2013
The Company convened the first meeting of the third session of the Supervisory Committee on 15 December 2010	The proposal of electing the chairman of the third Supervisory Committee 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 fulfillment 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 2010, 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 is satisfied with 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 suggested the Board of Directors and management of the Company to strengthen the management of the Company's receivables, prepayment, inventories and large sum of fund and perk up the gross profit margin for which the Company has high regard. In addition, the supervisors have reviewed the financial reports of the Company and considered that the financial budget, final accounts, annual report, 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.

Review of the Supervisory Committee on the self assessment report on internal control

The Supervisory Committee has reviewed the self assessment report on internal control of the Company, and further suggested that, in the future construction of the internal control system, the Company should further expand the sample selection scope of internal control projects, which should include both projects from excellent enterprises and corporation with relatively weak management, and through the comparison to point out problems existed. In addition, the internal control system should be designed to further enhance the management in inventories, trade receivables, disposal of obsolete equipment and purchasing behavior of purchasers.

Equity interests in other listed companies and financial institutions held by the Company

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	Account	Source of shares
600642	Shenergy	2,800,000	0.06	13,734,000	-	(5,062,500)	Financial assets available for sale	Purchase
601328	BOCOM	9,122,809	0.01	30,147,190	-	(10,935,655)	Financial assets available for sale	Purchase
600000	SPDB	767,760	0.02	30,736,728	-	(9,055,859)	Financial assets available for sale	Purchase
600845	Baosight	4,912,000	0.51	35,680,500	-	(5,476,275)	Financial assets available for sale	Purchase
600610	SST China Textile Machinery Co., Ltd	760,000	0.1	8,387,808	-	2,597,166	Financial assets available for sale	Purchase
600643	Shanghai AJ Corporation	163,400	0.01	716,408	-	(139,901)	Financial assets available for sale	Purchase
600082	Tianjin Hi-Tech Development Co., Ltd.	270,000	0.05	1,863,810	-	(634,433)	Financial assets available for sale	Purchase
600618	SCAC	1,240,008	0.03	2,751,056	-	(132,132)	Financial assets available for sale	Purchase
600633	*Shanghai Whitecat Shareholding Co., Ltd.	7,471,992	1.44	15,951,936	-	(1,002,474)	Financial assets available for sale	Purchase
000501	Wu Han Department Store Group Co. Ltd.	353,609	0.03	2,743,825	-	395,012	Financial assets available for sale	Purchase
600665	Tande Co., Ltd.	1,399,200	0.09	3,214,200	-	(886,050)	Financial assets available for sale	Purchase
	Total	29,260,778	-	145,927,461	-	(30,333,101)	-	-

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)	Account	Source of shares
Shenyin Wanguo	8,956,465	11,757,706	0.18	6,319,665	3,407,541	-	Long term equity investment	Purchase

3. Purchase and Sale of shares 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 at the end of the period (Shares)	Amount of capital used (RMB)	Investment gains generated (RMB)
Buy	BOCOM	4,783,750	717,562	5,501,312	3,229,029	-

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 2010 are set out as follow:

Connected transactions

On 3 February 2010, Shanghai Rail Traffic Equipment Co., Ltd ("Shanghai Rail Traffic"), a former subsidiary of the Company entered into an agreement with Shanghai Automation Instrumentation Co., Ltd. ("Shanghai Automation"), a subsidiary of SE Corporation, pursuant to which, Shanghai Rail Traffic will transfer certain assets in relating to integrated monitoring system to Shanghai Automation at a price of RMB 3.36 million. Up to now, the transfer of assets has not been completed.

On 3 February 2010, the Company entered into an agreement with SE Corporation, pursuant to which, the Company will transfer its 100% equity interests in Shanghai Crane & Conveyor Works Co., Ltd., a subsidiary of the Company, to SE Corporation at a price of approximately RMB300 million. Up to now, the transfer of equity interests has 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 two years ending 31 December 2011 are revised to RMB35 million.

The directors of the Company believe that the revised framework land lease agreement is entered into in the ordinary course of business of the Group and is 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.

The actual land rental paid to SE Corporation for year ended 31 December 2010 is RMB27 million.

Framework sale agreement

The Company entered into a framework sale agreement with SE Corporation on 25 April 2008, pursuant to which the Group agrees to sell, on a non-exclusive basis, certain component parts, equipment and raw materials to SE Corporation and its connected persons (the "Parent Group"). The cap of sales to the Parent Group for the fiscal year ended 31 December 2010 is RMB3.6 billion.

The directors of the Company believe that the above 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.

The actual sales to the Parent Group for year ended 31 December 2010 is approximately RMB430 million.

Framework purchase agreement

The Company entered into a framework purchase agreement with SE Corporation on 25 April 2008, pursuant to which the Group agrees to purchase, on a non-exclusive basis, 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 cap of purchase from the Parent Group for the fiscal year ended 31 December 2010 is RMB2.67 billion.

The directors of the Company believe that the above framework purchase 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 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.

The actual purchase from the Parent Group for year ended 31 December 2010 is approximately RMB902 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.

The directors of the Company believe that these 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 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.

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

(i) Framework deposit agreement

On 25 April 2008, the Company entered into a framework deposit agreement with SE Corporation in relation to the deposit services provided by Finance Company, pursuant to which, the approved annual cap, representing the maximum daily balance of funds (including interests) that may be deposited, for the year ended 31 December 2010 is RMB5.2 billion. 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

1000MW Class Steam Generator

- with reference to the relevant savings rates set by PBOC from time to time and are in line with the market rates.

The actual daily balance of funds from the Parent Group for the year ended 31 December 2010 did not exceed the approved annual cap of RMB5.2 billion. Besides, the Parent Group received interest income of approximately RMB16 million for the deposits from Finance Company for the year ended 31 December 2010.

(ii) Framework loan agreement

On 25 April 2008, the Company entered into a framework loan agreement with SE Corporation in relation to the loan services to the Parent Group provided by Finance Company, pursuant to which, the approved annual cap, representing the maximum daily balance of outstanding loans (including interests) and purchases of discounted bills, for the year ended 31 December 2010 is RMB3 billion. 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.

The actual daily balance of outstanding loans and purchased discounted bills from the Parent Group in the year ended 31 December 2010 did not exceed the approved annual cap of RMB 3 billion. Besides, the Parent Group paid interest of approximately RMB67 million, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2010.

Framework integrated services agreement

Pursuant to an agreement dated 25 April 2008 between the Company and SE Corporation, the Company agreed to procure various kinds of services including labour secondment, property management, management of research centres and projects, water and electricity supply, auxiliary support, training and education, welfare facility, security and maintenance, on a non-exclusive basis, from the Parent Group. As of 31 December 2010, the annual cap of out sourced services from the Parent Group was RMB70 million. 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

The actual various integrated services provided by the Parent Group in the year ended 31 December 2010 is approximately RMB26 million.

Prime Machinery framework purchase agreement

On 25 April 2008, the Company entered into a framework purchase agreement with Shanghai Prime Machinery Company Limited ("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 and its subsidiaries (the "Prime Machinery Group") for each of the two years ending 31 December 2011 are determined to be RMB535 million and RMB656 million, respectively.

The directors of the Company believe that the above framework purchase 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 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.

The actual purchase from Prime Machinery Group for the year ended 31 December 2010 was approximately RMB221 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:

- RMB1.3 billion and RMB1.5 billion for the purchases for the two years ending 31 December 2011, respectively; and
- RMB7.035 billion and RMB7.5 billion for the sales for the two years ending 31 December 2011, respectively.

The directors of the Company believe that 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.

The actual purchase from Siemens Group for the year ended 31 December 2010 is approximately RMB711 million and the sales to Siemens Group for the year ended 31 December 2010 is approximately RMB446 million.

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 on 25 April 2008 for a term of three years, in relation to the purchase of elevators, related components and services from MESMEE by SMEC.

In anticipation that the Group will continue to purchase elevators and elevator components manufactured by MESMEE to be used in the projects of the Group as well as to resell these elevators and the expected purchase from MESMEE in 2010 may exceed the existing annual cap for 2010 under the existing framework purchase agreement, SMEC renewed the Mitsubishi framework purchase agreement with MESMEE on 3 February 2010. Pursuant to the renewed agreement, the annual caps of the relevant purchase for the three years ending 31 December 2012 are estimated to be RMB1.1 billion, RMB1.4 billion and RMB1.7 billion, respectively. The price of products to be purchased from MESMEE is determined principally by arm's length commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the prevailing market price.

The term of the framework purchase agreement is three years commencing on 3 February 2010, 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 actual purchase from MESMEE by the Group for the year ended 31 December 2010 was approximately RMB1.048 billion.

(ii) Mitsubishi framework sales agreement

SMEC entered into a framework sales agreement with MESMEE on 25 April 2008 for a term of three years, in relation to the sales of elevators, related components and rendering services to MESMEE by SMEC.

In anticipation that the Company will continue to sell elevators, related components and provide services to MESMEE, the Group renewed the Mitsubishi framework sales agreement with MESMEE on 3 February 2010. Pursuant to the renewed agreement, the annual caps of the relevant sales for the three years ending 31 December 2012 are estimated to be RMB100 million, RMB120 million and RMB150 million, respectively. The price of products to be sold to MESMEE is determined principally by arm's length commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the prevailing market price.

The term of the framework sales agreement is three years commencing on 3 February 2010, 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 actual sales to MESMEE by the Group for the year ended 31 December 2010 was approximately RMB16 million.

The independent non-executive directors of the Company have reviewed the continuing connected transactions of the Company within the reporting period and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. In addition, of the above continuing connected transactions, those entered into by the Company prior to its listing were 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.

The auditor of the Company has issued a letter to the Board stating the following:

- nothing has come to our attention that causes the auditors to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;
- for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes the auditors to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
- nothing has come to our attention that causes the auditors to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to the auditors' attention that causes the auditors to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 25 April 2008, 6 January 2009, 23 January 2009 and 3 February 2010 made by the Company in respect of each of the disclosed continuing connected transactions.

Appointment and removal of auditors

Unit: RMB'000

Name of the PRC auditor	Ernst & Young Hua Ming
Name of the international auditor	Ernst & Young

Services provided by auditors	Remuneration
Audit of the Company for the yaer	10,275
Statutory audit of subsidiary	6,260
Special audit and non-audit services	2,180
Total	18,715

Ernst & Young Hua Ming provides audit services to the Company for a term of 3 years, while Ernst & Young provides audit services to the Company for a term of 7 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 consolidated financial statements of Shanghai Electric Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 170, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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 Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F Two International Finance Centre
8 Finance Street
Hong Kong
25 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	62,957,499	57,622,366
Cost of sales		(52,678,744)	(48,771,926)
Gross profit		10,278,755	8,850,440
Other income and gains	5	1,328,039	895,228
Selling and distribution costs		(1,554,290)	(1,486,731)
Administrative expenses		(3,833,132)	(3,594,500)
Other expenses		(2,955,370)	(1,998,221)
Finance costs	7	(52,384)	(58,650)
Share of profits and losses of:			
Jointly-controlled entities		67,022	29,194
Associates		746,552	592,297
PROFIT BEFORE TAX	6	4,025,192	3,229,057
Income tax expense	10	(227,740)	(7,344)
PROFIT FOR THE YEAR		3,797,452	3,221,713
Attributable to:			
Owners of the parent	11	2,783,606	2,453,448
Non-controlling interests		1,013,846	768,265
		3,797,452	3,221,713
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted			
- For profit for the year (RMB)		21.90 cents	19.62 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 2010

	Notes	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR		3,797,452	3,221,713
OTHER COMPREHENSIVE INCOME			
Available-for-sale assets:			
Changes in fair value		(17,751)	306,201
Reclassification adjustments for gains included in the consolidated income statement			
- gain on disposal	5	(81,235)	(134,167)
Income tax effect		27,863	(39,347)
		(71,123)	132,687
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	32	91,783	-
Income tax effect		(22,946)	-
		68,837	-
Share of other comprehensive income of:			
Jointly-controlled entities		-	(130)
Associates		(530)	330
		(530)	200
Translation of foreign operation			
Exchange differences		22,670	(7,887)
Exchange losses on translation recognized on disposal of a foreign subsidiary		14,091	-
		36,761	(7,887)
Effect of changes in tax rate on the opening balance	24	-	1,569
Fair value gains on step acquisition of subsidiaries		-	91,760
Others		-	12,664
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		33,945	230,993
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,831,397	3,452,706
Attributable to:			
Owners of the parent		2,830,368	2,637,314
Non-controlling interests		1,001,029	815,392
		3,831,397	3,452,706

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	31 December 2010 RMB'000	31 December 2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	13,460,765	12,279,471
Investment properties	15	134,417	141,539
Prepaid land lease payments	16	1,344,941	1,516,286
Goodwill	17	16,110	77,068
Other intangible assets	18	684,332	670,126
Investments in jointly-controlled entities	20	227,092	176,780
Investments in associates	21	2,969,016	2,663,205
Loans receivable	22	876,014	521,690
Other investments	23	308,745	490,843
Other non-current assets		231,193	72,720
Deferred tax assets	24	1,114,752	908,286
Total non-current assets		21,367,377	19,518,014
CURRENT ASSETS			
Inventories	25	19,871,769	19,532,300
Construction contracts	26	456,334	660,698
Trade receivables	27	15,977,396	13,613,954
Loans receivable	22	1,703,611	1,160,715
Discounted bills receivable	28	82,036	42,263
Bills receivable	29	2,374,707	2,041,120
Prepayments, deposits and other receivables	30	8,886,482	10,039,377
Investments	31	5,220,779	5,452,907
Derivative financial instruments	32	61,980	84,910
Due from the Central Bank	33	2,613,114	1,803,003
Restricted deposits	33	653,435	866,588
Cash and cash equivalents	33	18,942,821	14,810,233
Total current assets		76,844,464	70,108,068
CURRENT LIABILITIES			
Trade payables	34	15,967,932	12,818,416
Bills payable	35	1,539,233	1,580,267
Other payables and accruals	36	38,559,777	39,037,752
Derivative financial instruments	32	-	9,443
Customer deposits	37	1,930,598	766,704
Interest-bearing bank and other borrowings	38	395,629	901,407
Tax payable		829,094	980,617
Provisions	39	1,656,048	1,230,118
Total current liabilities		60,878,311	57,324,724

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2010

	Notes	31 December 2010 RMB,000	31 December 2009 RMB'000
NET CURRENT ASSETS		15,966,153	12,783,344
TOTAL ASSETS LESS CURRENT LIABILITIES		37,333,530	32,301,358
NON-CURRENT LIABILITIES			
Bonds	40	1,000,000	1,000,000
Interest-bearing bank and other borrowings	38	1,021,285	1,342,404
Provisions	39	45,666	165,281
Government grants		311,439	119,263
Other non-current liabilities	41	119,198	147,354
Deferred tax liabilities	24	333,477	463,437
Total non-current liabilities		2,831,065	3,237,739
Net assets		34,502,465	29,063,619
EQUITY			
Equity attributable to owners of the parent			
Issued capital	42	12,823,627	12,507,686
Reserves	43(a)	13,344,004	9,231,706
Proposed final dividend	12	834,818	735,452
		27,002,449	22,474,844
Non-controlling interests		7,500,016	6,588,775
Total equity		34,502,465	29,063,619

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Notes	Attributable to owners of the parent									Non-controlling interests RMB'000	Total equity RMB'000
		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 dividend RMB'000	Total 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 (a)		-	(96,556)	-	-	-	(32,697)	(147,817)	-	(277,070)	(44,658)	(321,728)
Acquisition of SIMBT (b)	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
Profit for the year		-	-	-	-	-	-	2,453,448	-	2,453,448	768,265	3,221,713
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax		-	-	-	-	103,098	-	-	-	103,098	29,589	132,687
Exchange differences on translation of foreign operations		-	-	-	-	-	(7,887)	-	-	(7,887)	-	(7,887)
Others		-	88,655	-	-	-	-	-	-	88,655	17,538	106,193
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		-	-	-	-	-	-	-	(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

(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..

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2010

		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))	Hedging revaluation reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010		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
Profit for the year		-	-	-	-	-	-	-	2,783,606	-	2,783,606	1,013,846	3,797,452
Other comprehensive income for the year:													
Changes in fair value of available-for-sale investments, net of tax		-	-	-	-	-	(58,306)	-	-	-	(58,306)	(12,817)	(71,123)
Cash flow hedges, net of tax		-	-	-	-	68,837	-	-	-	-	68,837	-	68,837
Exchange differences on translation of foreign operations		-	-	-	-	-	-	36,761	-	-	36,761	-	36,761
Others		-	(530)	-	-	-	-	-	-	-	(530)	-	(530)
Total comprehensive income for the year		-	(530)	-	-	68,837	(58,306)	36,761	2,783,606	-	2,830,368	1,001,029	3,831,397
Private offering	42	315,941	1,905,119	-	-	-	-	-	-	-	2,221,060	-	2,221,060
Share issue expense	42	-	(44,213)	-	-	-	-	-	-	-	(44,213)	-	(44,213)
Capital injection by non-controlling shareholders		-	211,285	-	-	-	-	-	-	-	211,285	806,689	1,017,974
Disposal of subsidiaries	48	-	-	-	(18,843)	-	-	-	18,843	-	-	(398,071)	(398,071)
Deemed disposal of a subsidiary	49	-	76,614	-	-	-	-	416	-	-	77,030	-	77,030
Acquisition of non-controlling interests	46	-	(21,385)	-	-	-	-	-	-	-	(21,385)	(35,623)	(57,008)
Dividend paid to non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(513,994)	(513,994)
Modification of proposed 2009 final dividend	12	-	-	-	-	-	-	-	735,452	(735,452)	-	-	-
Declared interim 2010 dividend	12	-	-	-	-	-	-	-	(755,311)	-	(755,311)	-	(755,311)
Proposed final 2010 dividend	12	-	-	-	-	-	-	-	(834,818)	834,818	-	-	-
Transfer from retained profits		-	-	-	396,365	-	-	-	(396,365)	-	-	-	-
Others		-	8,771	-	-	-	-	-	-	-	8,771	51,211	59,982
At 31 December 2010		12,823,627	5,041,039*	(2,352,526)*	2,806,815*	68,837*	137,460*	11,336*	7,631,043*	834,818	27,002,449	7,500,016	34,502,465

* These reserve accounts constitute the consolidated reserves of RMB13,344,004,000 (2009: RMB9,231,706,000) on the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,025,192	3,229,057
Adjustments for:			
Finance Company*:			
Interest income due from banks and other financial institutions	5	(209,464)	(150,393)
Interest income on loans receivable and discounted bills receivable	5	(94,655)	(51,818)
Interest income on time deposits		(56,595)	(49,727)
Interest income on debt investments	5	(8,144)	(20,324)
Dividend income from equity investments and investment funds and products	5	(97,239)	(42,691)
Gain on disposal of items of property, plant and equipment, net	5,6	(8,704)	(50,287)
Gain on disposal of subsidiaries	5	(148,831)	-
Gain on disposal of associates	5	(12,483)	(4,651)
Investments at fair value through profit or loss:			
Unrealised fair value (losses)/gains, net	5	(8,791)	10,395
Realised fair value gains, net	5	(30,940)	(17,415)
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value gains, net	5	(26,669)	(35,518)
Realised fair value gains, net	5	(41,700)	(6,790)
Realised gain on available-for-sale investments (transfer from equity)	5	(81,235)	(134,167)
Gain on disposal of unquoted equity investments stated at cost	5	(10,443)	(7,907)
Gain on debt restructuring	5	(762)	(90)
Finance Company:			
Interest expense due to banks and other financial institutions	6	4,818	1,279
Interest expense on customer deposits	6	16,996	8,364
Interest expense on bonds	6	36,200	38,614
Depreciation of property, plant and equipment	6	1,116,085	987,622
Depreciation of investment properties	6	7,122	5,570
Recognition of prepaid land lease payments	6	37,545	32,074
Amortisation of other intangible assets	6	102,346	94,471
Early retirement benefit costs	6	59,641	38,002
Write-down of inventories to net realisable value	6	361,335	374,885

* Finance Company is the abbreviation of Shanghai Electric Finance Company Co., Ltd..

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Share of profits and losses of jointly-controlled entities		(67,022)	(29,194)
Share of profits and losses of associates		(746,552)	(592,297)
Impairment of trade receivables and other receivables	6	734,513	301,522
Impairment of loans receivable	6	23,162	2,901
Addition/ (reversal) of impairment of discounted bills receivable	6	402	(1,293)
Impairment of unquoted equity investments stated at cost	6	-	8,627
Impairment of items of property, plant and equipment	6	21,525	88,796
Impairment of goodwill	6	60,958	29,107
Impairment of other intangible assets	6	17,403	48,475
Impairment of other non-current assets	6	1,908	20,001
Provision for product warranty	6	147,012	122,356
Provision for onerous contracts	6	708,579	660,011
Reversal/ (addition) of provision for late delivery	6	(40,560)	142,110
Other provision	6	9,452	6,700
Finance costs	7	52,384	58,650
Exchange losses, net		61,359	(16,198)
		5,915,148	5,098,829
Increase/ (decrease) in inventories		(1,251,411)	1,966,457
Decrease/ (increase) in construction contracts		161,188	(277,751)
Increase in trade receivables and other receivables		(3,362,579)	(5,031,738)
Decrease in other non-current assets		42,737	18,912
Increase in trade payables, bills payable, other payables and accruals		4,546,147	5,941,291
Utilisation of warranty provision and other provisions		(509,218)	(185,364)
Cash generated from operations		5,542,012	7,530,636
Taxes paid		(721,573)	(633,830)
Net cash flows from operating activities		4,820,439	6,896,806

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		355,695	280,957
Dividends received from jointly-controlled entities		12,035	116,382
Dividends received from associates		490,317	379,283
Dividends received from investments		98,492	42,691
Purchases of items of property, plant and equipment		(3,244,660)	(2,173,744)
Realised fair value gains on investments at fair value through profit or loss		30,940	-
Realised fair value gains on derivative instruments		41,700	6,790
Prepaid land lease payments		(27,815)	(35,203)
Proceeds from disposal of items of property, plant and equipment		216,699	242,238
Acquisition of subsidiaries	45	-	(203,869)
Business combination of SMIBT under common control	44	-	(156,368)
Disposal of subsidiaries	48	360,568	-
Repayment of adcances from disposal of a subsidiary		-	(41,580)
Deemed disposal of a subsidiary	49	(58,320)	-
Capital injection in associates		(43,755)	(3,225)
Capital injection in a jointly-controlled entity		(900)	(165,213)
Proceeds from disposal of associates		40,710	275,488
Purchases of non-current other investments		(28,600)	(30,917)
Proceeds from disposal of non-current other investments		148,318	377,084
Purchases of other intangible assets		(157,056)	(69,606)
Proceeds from disposal of other intangible assets		9,281	21,586
Proceeds from disposal of prepaid land lease payments		28,571	30,642
Acquisition of non-controlling interests	46	(57,008)	(17,700)
Acquisition of other non-current assets		(117,581)	-
Decrease in restricted deposits		210,736	536,621
Increase/ (decrease) in non-restricted time deposits with original maturity of over three months when acquired		(1,365,398)	9,500
Increase in loans receivable		(726,382)	(354,530)
(Increase)/decrease in discounted bills receivable		(40,175)	90,182
Increase in an amount due from the Central Bank		(810,111)	(542,127)
Decrease/(increase) in current investments		275,750	(758,497)
Net cash flows used in investing activities		(4,357,949)	(2,143,135)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital received	42	2,221,060	-
Capital injection by non-controlling shareholders		1,017,974	6,695
New bank and other loans		291,383	451,890
Repayments of bank and other loans		(445,165)	(876,344)
Share issue expenses	42	(44,213)	-
Dividends paid to non-controlling shareholders		(588,570)	(679,439)
Dividends paid by the Company		(755,311)	(1,463,399)
Increase in customer deposits		777,291	27,805
Interest paid		(108,390)	(124,776)
Net cash flows from/(used in) financing activities		2,366,059	(2,657,568)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,828,549	2,096,103
Cash and cash equivalents at beginning of year		12,604,881	10,492,580
Effect of foreign exchange rate changes, net	5	(61,359)	16,198
CASH AND CASH EQUIVALENTS AT END OF YEAR		15,372,071	12,604,881
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	33	18,942,821	14,810,233
Less: Non-restricted time deposits with original maturity of over three months when acquired		(3,570,750)	(2,205,352)
Cash and cash equivalents as stated in the statement of cash flows		15,372,071	12,604,881

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	935,244	599,981
Investment properties	15	54,033	-
Other intangible assets	18	11,824	14,146
Prepaid land lease payments	16	67,174	70,219
Investments in subsidiaries	19	13,981,006	12,644,708
Investments in associates	21	1,720,310	1,552,309
Other investments	23	25,557	22,998
Other non-current assets		89,939	-
Deferred tax assets	24	229,683	165,452
Total non-current assets		17,114,770	15,069,813
CURRENT ASSETS			
Inventories	25	895,614	109,015
Construction contracts	26	42,119	144,486
Trade receivables	27	10,075,599	7,940,427
Loans receivable	22	740,000	1,020,000
Bills receivable	29	868,376	333,672
Prepayments, deposits and other receivables	30	20,000,040	21,293,655
Derivative financial instruments	32	60,384	39,564
Restricted deposits	33	27,000	27,000
Cash and cash equivalents	33	9,245,152	8,291,623
Total current assets		41,954,284	39,199,442
CURRENT LIABILITIES			
Trade payables	34	13,698,133	10,910,534
Other payables and accruals	36	23,977,776	25,530,577
Interest-bearing bank and other borrowings	38	480,000	300,000
Tax payable		202,645	129,890
Provisions	39	261,261	132,472
Total current liabilities		38,619,815	37,003,473
NET CURRENT ASSETS		3,334,469	2,195,969
TOTAL ASSETS LESS CURRENT LIABILITIES		20,449,239	17,265,782

STATEMENT OF FINANCIAL POSITION (continued)

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		20,449,239	17,265,782
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	38	2,273	2,727
Other non-current liabilities	41	33,894	22,692
Total non-current liabilities		36,167	25,419
Net assets		20,413,072	17,240,363
EQUITY			
Issued capital	42	12,823,627	12,507,686
Reserves	43(b)	6,754,627	3,997,225
Proposed final dividends	12	834,818	735,452
Total equity		20,413,072	17,240,363

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

NOTES TO FINANCIAL STATEMENTS

31 December 2010

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 sales of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components;
- design, manufacture and sales of thermal power equipment products and corollary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products;
- design, manufacture and sales of elevators, electrical motors, machine tools, printing and packaging equipment, marine crankshafts, urban rail transportation equipment, and other electromechanical equipment products; and
- provision of integrated engineering services for power station projects and other industries, financial services and functional services including international trading 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 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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

NOTES TO FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments 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*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

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

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

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 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards– Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards– Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures –Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

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

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

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.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

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

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint venture

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

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

The Group's investments in 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 investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Associates

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

The Group's investments in associates are stated in the consolidated 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 investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates 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.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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.

Impairment of non-financial assets

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 12 years
Equipment, tools and moulds	3 to 10 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 20 to 40 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. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

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 5 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 15 years.

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)

Intangible assets (other than goodwill) (continued)

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.

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 investments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

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 by 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. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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 and all collateral has been reailsed or has been transferred to the Group.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 dose not include any interest charged on these financial liabilities.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition of financial liabilities (continued)

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

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.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. 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, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognised in the income statement in other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement in other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the income statement in other expenses.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale occurs.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

NOTES TO FINANCIAL STATEMENTS (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

(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 a 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

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 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.

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:

NOTES TO FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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.

Revenue recognition

The Group uses the percentage of completion method to account for its contract revenue from construction contracts when the outcome of the construction contracts could be estimated reliably. The stage of completion is measured in accordance with the accounting policy for construction contracts stated in note 2.4. Significant estimation 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 estimation, 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.

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 2010 was RMB16,110,000 (2009: RMB77,068,000). 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 2010 was RMB1,114,752,000 (2009: RMB908,286,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2010 was RMB1,513,051,000 (2009: RMB1,475,212,000). Further details are contained in note 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2010 was RMB 1,701,714,000 (2009: RMB1,395,399,000). More details are given in note 39 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. As of 31 December 2010, the carrying amount of capitalised development costs is RMB902,000 (2009: RMB9,931,000). 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

The Group organises and manages its operating business in accordance with the nature of business and provision of goods and services. Each business segment of the Group is one operating group, providing goods and services with risks and rewards different from those of other business segments.

In order to more appropriately assess the nature and the financial impact of business activities that the Group is involved in, and the economic environment of the Group's operation, the Group revised the structure of business segments during the year and relevant comparative figures were restated accordingly.

4. OPERATING SEGMENT INFORMATION (continued)

The details of operating segments are as follows:

(a) the new energy segment is engaged in the design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components;

(b) the high efficiency and clean energy segment is engaged in the design, manufacture and sale of thermal power equipment products and corollary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products;

(c) the industrial equipment segment is engaged in the design, manufacture and sale of elevators, electrical motors, machine tools, printing and packaging equipment, marine crankshafts, urban rail transportation equipment, and other electromechanical equipment products;

(d) the modern services segment is principally engaged in the provision of integrated engineering services for power station projects and other industries, financial services and functional services including international trading services; and

(e) the "others" segment include the central research institute and etc.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax (i.e. operating profit/loss stated below) is measured consistently with the Group's profit 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, other investments, 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 2010	New energy RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:								
Sales to external customers	5,659,366	24,714,184	17,881,834	12,473,000	2,187,467	41,648	-	62,957,499
Intersegment sales	540,888	2,446,880	690,024	421,327	292,904	-	(4,392,023)	-
Total revenue	6,200,254	27,161,064	18,571,858	12,894,327	2,480,371	41,648	(4,392,023)	62,957,499
Operating profit/ (loss)	504,650	1,350,640	909,442	496,336	(173,616)	354,407	(177,857)	3,264,002
Finance costs								(52,384)
Share of profits and losses of:								
Jointly-controlled entities	-	-	1,764	65,258	-	-	-	67,022
Associates	-	357,792	382,774	5,986	-	-	-	746,552
Profit before tax								4,025,192
Income tax expense								(227,740)
Profit for the year								3,797,452

NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2010 (continued)	New energy RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities								
Segment assets	12,905,331	46,763,449	20,248,742	34,789,455	2,682,995	7,608,826	(29,983,065)	95,015,733
Investments in jointly-controlled entities	-	-	14,705	212,387	-	-	-	227,092
Investments in associates	-	1,383,386	1,567,323	18,307	-	-	-	2,969,016
Total assets								98,211,841
Segment liabilities	6,268,423	37,369,898	10,430,895	30,967,708	1,481,683	3,192,329	(26,001,560)	63,709,376
Total liabilities								63,709,376
Other segment information:								
Capital expenditure *	695,187	1,121,194	1,263,046	31,815	35,025	648,669	(12,615)	3,782,321
Depreciation and amortisation	164,371	472,900	476,800	16,144	98,574	37,085	(2,776)	1,263,098
Impairment losses recognised in the income statement	-	18,606	67,410	-	15,778	-	-	101,794
Other non-cash expenses	31,536	844,459	138,797	130,893	13,778	(15,844)	(24,207)	1,119,412
Product warranty provision	65,827	11,215	69,970	-	-	-	-	147,012
Provision for onerous contracts	-	694,923	20,500	-	(6,844)	-	-	708,579
Reversal of late delivery	-	-	-	(40,560)	-	-	-	(40,560)
Other provision	3,040	15,217	-	-	-	-	(8,805)	9,452

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009	New energy RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:								
Sales to external customers	3,172,541	23,663,832	15,733,653	12,099,116	2,933,677	19,547	-	57,622,366
Intersegment sales	825,512	3,781,732	613,868	385,307	406,324	-	(6,012,743)	-
Total revenue	3,998,053	27,445,564	16,347,521	12,484,423	3,340,001	19,547	(6,012,743)	57,622,366
Operating profit/ (loss)	41,890	1,361,605	770,341	427,538	(105,399)	237,528	(67,287)	2,666,216
Finance costs								(58,650)
Share of profits and losses of:								
Jointly-controlled entities	-	-	1,168	28,026	-	-	-	29,194
Associates	-	348,566	244,711	(8,943)	(809)	-	8,772	592,297
Profit before tax								3,229,057
Income tax expense								(7,344)
Profit for the year								3,221,713

NOTES TO FINANCIAL STATEMENTS (continued)

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2009 (continued)	New energy RMB'000	High efficiency and clean energy RMB'000	Industrial equipment RMB'000	Modern services RMB'000	Others RMB'000	Corporate and other unallocated amounts RMB'000	Eliminations RMB'000	Total RMB'000
Assets and liabilities								
Segment assets	9,607,236	43,786,460	21,584,427	28,945,758	4,209,619	6,307,995	(27,655,398)	86,786,097
Investments in jointly-controlled entities	-	-	13,970	162,810	-	-	-	176,780
Investments in associates	-	1,484,941	1,160,959	12,350	4,955	-	-	2,663,205
Total assets								89,626,082
Segment liabilities	5,555,270	36,536,099	9,186,958	25,675,340	2,266,204	4,265,548	(22,922,956)	60,562,463
Total liabilities								60,562,463
Other segment information:								
Capital expenditure *	391,576	859,067	1,448,787	3,290	149,893	98,116	(44,289)	2,906,440
Depreciation and amortisation	150,314	466,329	400,344	4,062	99,736	2,747	(3,795)	1,119,737
Impairment losses recognised in the income statement	-	50,234	96,775	-	39,370	-	-	186,379
Other non-cash expenses	11,216	530,354	120,556	19,252	19,203	4,913	(18,852)	686,642
Product warranty provision	35,791	68,310	14,506	-	3,749	-	-	122,356
Provision for onerous contracts	-	660,011	-	-	-	-	-	660,011
Provision for late delivery	-	70,000	-	72,110	-	-	-	142,110
Other provision	-	-	-	-	6,700	-	-	6,700

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2010 RMB'000	2009 RMB'000
Mainland China (place of domicile)	51,110,559	48,268,654
Other Asian countries/jurisdictions	8,566,743	7,632,596
Others	3,280,197	1,721,116
	62,957,499	57,622,366

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

(b) Non-current assets

	2010 RMB'000	2009 RMB'000
Mainland China (place of domicile)	18,822,223	17,413,305
Other countries/jurisdictions	154,215	248,474
	18,976,438	17,661,779

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.

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

	2010 RMB'000	2009 RMB'000
Revenue		
Turnover		
Sale of goods	49,283,658	43,245,399
Construction contracts	10,496,976	11,635,872
Rendering of services	1,979,715	1,788,948
	61,760,349	56,670,219
Other revenue		
Sales of raw materials, spare parts and semi-finished goods	650,372	491,583
Gross rental income	76,082	63,393

5. REVENUE, OTHER INCOME AND GAINS (continued)

	Notes	2010 RMB'000	2009 RMB'000
Finance Company:			
Interest income from banks and other financial institutions		209,464	150,393
Interest income on loans receivable and discounted bills receivable		94,655	51,818
Others		166,577	194,960
		1,197,150	952,147
		62,957,499	57,622,366
Other income			
Interest income on bank balances and time deposits		131,488	138,434
Interest income on debt investments		8,144	20,324
		139,632	158,758
Dividend income from equity investments and investment funds and products		97,239	42,691
Subsidy income		587,956	305,737
Others		127,088	125,414
		951,915	632,600
Gains			
Gain on disposal of items of property, plant and equipment		75,629	50,287
Gain on disposal of subsidiaries	48	148,831	-
Gain on disposal of associates		12,483	4,651
Investments at fair value through profit or loss:			
Unrealised fair value gains/(losses), net		8,791	(10,395)
Realised fair value gains, net		30,940	17,415
Derivative financial instruments - transactions not qualifying as hedges:			
Unrealised fair value gains, net	32	26,669	35,518
Realised fair value gains, net		41,700	6,790
Realised gain on available-for-sale investments (transfer from equity)		81,235	134,167
Gain on disposal of unquoted equity investments stated at cost		10,443	7,907
Exchange (losses)/gains, net		(61,359)	16,198
Others		762	90
		376,124	262,628
		1,328,039	895,228

6. PROFIT BEFORE TAX

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		39,989,690	34,953,613
Cost of construction contracts		9,450,099	10,676,765
Cost of services provided		1,778,800	1,601,174
Finance Company:			
Interest expense due to banks and other financial institutions		4,818	1,279
Interest expense on customer deposits		16,996	8,364
Interest expense on bonds		36,200	38,614
		58,014	48,257
Depreciation of property, plant and equipment	14	1,116,085	987,622
Depreciation of investment properties	15	7,122	5,570
Recognition of prepaid land lease payments*	16	37,545	32,074
Amortisation of patents and licences	18	25,857	30,500
Amortisation of concession intangible assets	18	18,382	13,146
Amortisation of other intangible assets	18	8,108	16,802
Research and development costs:*			
Amortisation of technology know-how	18	49,999	34,023
Current year expenditure		1,499,524	1,074,204
		1,549,523	1,108,227
Minimum lease payments under operating leases:			
Land and buildings		115,272	119,059
Plant, machinery and motor vehicles		43,409	36,039
Auditors' remuneration		22,748	22,343
Staff costs (including directors' and supervisors' remuneration (note 8)):			
Wages and salaries		3,530,190	3,369,308
Defined contribution pension scheme (note i)		439,619	400,499
Supplementary pension		97,329	65,330
Early retirement benefits costs (note ii)	39	36,285	38,002
Staff severance costs	39	23,356	74,587
Medical benefits costs (note iii)		234,700	224,514
Housing fund		223,347	196,587
Cash housing subsidies costs		345	1,020
		4,585,171	4,369,847

6. PROFIT BEFORE TAX (continued)

	Notes	2010 RMB'000	2009 RMB'000
Write-down of inventories to net realisable value		361,335	374,885
Impairment of trade receivables and other receivables*	27, 30	734,513	301,522
Impairment of loans receivable*	22	23,162	2,901
Addition/(reversal) of impairment of discounted bills receivable*	28	402	(1, 293)
Impairment of items of property, plant and equipment*	14	21,525	88,796
Impairment of goodwill *	17	60,958	29,107
Impairment of concession intangible assets*	18	-	286
Impairment of patents and licences*	18	17,403	48,189
Impairment of unquoted equity investments stated at cost*	23	-	8,627
Impairment of other non-current assets*		1,908	20,001
Loss on disposal of items of property, plant and equipment*		66,925	-
Product warranty provision:	39		
Additional provision		147,012	158,409
Reversal of unutilised provision		-	(36,053)
Onerous contracts provision:	39		
Additional provision		708,579	676,642
Reversal of unutilised provision		-	(16,631)
Late delivery provision:	39		
Additional provision		-	142,110
Reversal of unutilised provision		(40,560)	-
Other provision:	39		
Additional provision		10,152	6,700
Reversal of unutilised provision		(700)	-

* 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% (2009: 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 the respective employee.

The directors have estimated the Group's obligations to the early retirement benefits until the qualified employees are eligible for the government-regulated pension scheme totalled approximately RMB105,716,000 as at 31 December 2010 (2009: RMB74,074,000) 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:

	2010 RMB'000	2009 RMB'000
Interest on bank loans and other loans wholly repayable within five years	77,078	107,471
Interest on bank loans and other loans wholly repayable beyond five years	9,587	5,886
Total interest expense	86,665	113,357
Less: Interest capitalised	(34,281)	(54,707)
	52,384	58,650

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:

	2010 RMB'000	2009 RMB'000
Directors		
Fees	750	750
Other emoluments:		
Salaries, bonus and allowances received from the Group	1,998	1,648
Pension scheme contributed by the Group	84	78
Other social benefit schemes contributed by the Group	78	75
	2,910	2,551
Supervisors		
Fees	-	-
Other emoluments:		
Salaries, bonus and allowances received from the Group	344	282
Pension scheme contributed by the Group	28	26
Other social benefit schemes contributed by the Group	26	25
	398	333
	3,308	2,884

(a) Independent non-executive directors

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

	2010 RMB'000	2009 RMB'000
Mr. Zhu Sendi	250	250
Dr. Cheung Wai Bun	250	250
Dr. Lui Sun Wing (assigned on 15 December 2010)	-	-
Mr. Lei Huai Chin (retired on 15 December 2010)	250	250
	750	750

There were no other emoluments payable to the independent non-executive directors during the year (2009: 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 RMB'000	Salaries, bonus and allowances received from the Group RMB'000	Pension scheme contributed by the Group RMB'000	Other social benefit schemes contributed by the Group RMB'000	Total RMB'000
2010					
Executive directors					
Mr. Huang Dinan	-	806	28	26	860
Mr. Zhang Suxin	-	606	28	26	660
Mr. Yu Yingui	-	586	28	26	640
	-	1,998	84	78	2,160
Supervisor					
Mr. Xie Tonglun	-	344	28	26	398
	-	2,342	112	104	2,558
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

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.

NOTES TO FINANCIAL STATEMENTS (continued)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2009: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining five (2009: four) non-directors/non-supervisors, highest paid employees for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, bonus and allowances received from the Group	5,070	3,432
Pension scheme contributed by the Group	111	78
Other social benefit schemes contributed by the Group	105	75
	5,286	3,585

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

	Number of employees	
	2010	2009
Nil to HKD1,000,000	-	2
HKD1,000,001 to HKD1,500,000	4	2
HKD1,500,001 to HKD2,000,000	1	-
	5	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 2010 (2009: 25%) under the income tax rules and regulations of the PRC, except that:

- certain subsidiaries were subject to a corporate income tax rate of 22% 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.

10. INCOME TAX (continued)

	2010 RMB'000	2009 RMB'000
Group:		
Current - Mainland China		
Charge for the year	894,660	672,821
Overprovision in prior years	(332,164)	(391,854)
Current - Elsewhere		
Charge for the year	6,968	7,936
Underprovision/(overprovision) in prior years	778	(1,287)
Deferred (note 24)	(342,502)	(280,272)
Total tax charge for the year	227,740	7,344

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:

	2010					
	Mainland China RMB'000	%	Elsewhere RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	4,029,989		(4,797)		4,025,192	
Tax at the statutory tax rate	1,007,498	25.0	(1,360)	28.4	1,006,138	25.0
Lower tax rate for specific provinces and districts or concessions	(300,556)	(7.5)	-	-	(300,556)	(7.5)
Effect of change in tax rate on the opening balance of deferred tax*	(2,881)	(0.1)	-	-	(2,881)	(0.1)
Adjustments in respect of current tax of previous periods	(332,164)	(8.2)	778	(16.2)	(331,386)	(8.2)
Profits and losses attributable to jointly-controlled entities and associates	(196,099)	(4.9)	-	-	(196,099)	(4.9)
Income not subject to tax	(71,184)	(1.8)	-	-	(71,184)	(1.8)
Expenses not deductible for tax	38,877	1.0	4,669	(97.3)	43,546	1.1
Tax incentives on eligible expenditures	(8,164)	(0.2)	-	-	(8,164)	(0.2)
Tax losses utilised from previous periods	(17,653)	(0.4)	-	-	(17,653)	(0.4)
Tax losses not recognised	82,239	2.0	6,222	(129.7)	88,461	2.2
Deductible temporary differences not recognised	17,518	0.4	-	-	17,518	0.4
Tax charge at the Group's effective rate	217,431	5.4	10,309	(214.9)	227,740	5.7

10. INCOME TAX (continued)

	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 and 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 and associates	(233,512)	(7.2)	-	-	(233,512)	(7.2)
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

* The effect of change in tax rate on the opening balance of deferred tax for the years ended 31 December 2010 and 2009 is due to the preferential/transitional tax rates granted to certain subsidiaries during those years.

The share of tax attributable to jointly-controlled entities and associates amounting to RMB178,294,000 (2009: RMB161,002,000) is included in "Share of profits and losses of jointly-controlled entities / associates" on the face of 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 2010 includes a profit of RMB1,679,718,000 (2009: RMB2,533,775,000) which has been dealt with in the financial statements of the Company (note 43(b)).

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Interim 2010 – RMB5.89 cents per ordinary share (2009: nil)	755,311	-
Proposed final 2010 – RMB6.51 cents per ordinary share (2009: RMB5.88 cents)	834,818	735,452

12. DIVIDENDS (continued)

On 22 June 2010, the proposal of dividend distribution for year 2009 was approved by the Company's shareholders in the 2009 annual general meeting, according to which the originally proposed final dividend for year 2009 was modified and no dividend would be distributed for year 2009.

On 15 October 2010, the Company's 2010 first extraordinary general meeting approved the interim 2010 dividend proposed with an aggregate amount of RMB755,311,000, based on total 12,823,626,660 shares and cash dividend of RMB5.89 cent per share (tax inclusive). The dividend was distributed on 8 December 2010.

On 25 March 2011, the Board of Directors resolved to recommend to the shareholders of the Company a final dividend of RMB6.51 cents per share (tax inclusive), totalling RMB834,818,000 for the year ended 31 December 2010.

The proposed final dividend for the year ended 31 December 2010 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 RMB834,818,000 for the year ended 31 December 2010 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 12,708,503,224 (2009: 12,507,686,405) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 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:

	2010 RMB'000	**2009 RMB'000**
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	2,783,606	2,453,448

	Number of shares	
	2010	**2009**
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	12,708,503,224	12,507,686,405

NOTES TO FINANCIAL STATEMENTS (continued)

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and moulds RMB'000	Construction in progress RMB'000	Total RMB'000
2010						
At cost:						
At 1 January 2010	5,669,187	10,113,438	565,420	668,571	1,943,594	18,960,210
Additions	352,143	129,211	45,766	40,834	2,965,623	3,533,577
Disposals	(433,130)	(326,081)	(60,446)	(23,073)	(356,893)	(1,199,623)
Transfers	403,639	1,271,923	26,682	28,053	(1,730,297)	-
Disposals of subsidiaries (note 48)	(252,961)	(510,910)	(27,551)	(28,073)	(33,785)	(853,280)
Deemed disposal of a subsidiary (note 49)	(18,579)	(52,297)	(4,970)	-	-	(75,846)
Exchange realignment	18,243	24,507	121	1,407	27	44,305
At 31 December 2010	5,738,542	10,649,791	545,022	687,719	2,788,269	20,409,343
Accumulated depreciation and impairment:						
At 1 January 2010	1,798,579	4,128,945	345,109	401,106	7,000	6,680,739
Depreciation provided during the year	256,824	708,935	64,810	85,516	-	1,116,085
Impairment	1,200	20,075	-	115	135	21,525
Disposals	(96,427)	(284,424)	(51,500)	(18,534)	-	(450,885)
Disposals of subsidiaries (note 48)	(63,228)	(308,802)	(18,373)	(18,131)	(6,265)	(414,799)
Deemed disposal of a subsidiary (note 49)	(6,809)	(29,817)	(3,339)	-	-	(39,965)
Exchange realignment	13,263	21,595	41	979	-	35,878
At 31 December 2010	1,903,402	4,256,507	336,748	451,051	870	6,948,578
Net carrying amount:						
At 31 December 2010	3,835,140	6,393,284	208,274	236,668	2,787,399	13,460,765

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Equipment, tools and moulds RMB'000	Construction in progress RMB'000	Total RMB'000
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	(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	(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 carrying amount:						
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)

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
2010						
At cost:						
At 1 January 2010	142,029	46,849	11,311	49,364	429,270	678,823
Additions	170,598	43,182	360	3,129	474,354	691,623
Transfers	1,234	-	-	4,906	(6,140)	-
Disposals	-	-	(161)	(981)	(298,919)	(300,061)
At 31 December 2010	313,861	90,031	11,510	56,418	598,565	1,070,385
Accumulated depreciation:						
At 1 January 2010	20,793	23,486	5,617	28,946	-	78,842
Depreciation provided during the year	37,253	8,166	2,127	9,826	-	57,372
Disposals	-	-	(153)	(920)	-	(1,073)
At 31 December 2010	58,046	31,652	7,591	37,852	-	135,141
Net carrying amount:						
At 31 December 2010	255,815	58,379	3,919	18,566	598,565	935,244
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 carrying amount:						
At 31 December 2009	121,236	23,363	5,694	20,418	429,270	599,981

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2010, certain buildings and machinery of the Group with net carrying amounts of approximately RMB594,000 (2009: RMB1,219,000) and RMB47,886,000 (2009: RMB9,600,000), respectively, were pledged to secure general banking facilities granted to the Group (note 38).

As at 31 December 2010, the Group has not obtained the real estate certificates for buildings with a net carrying amount of RMB424,367,000 (2009: RMB288,326,000), out of which the Group obtained the real estate certificates for buildings with a net carrying amount of RMB71,195,000 on 4 January 2011. The Group was still in the process of applying for the real estate certificates for buildings with a net carrying amount of approximately RMB326,326,000 as at 31 December 2010.

15. INVESTMENT PROPERTIES

Group

	2010 RMB'000	2009 RMB'000
At cost:		
At 1 January	192,950	-
Transferred from owner-occupied properties (note 14)	-	90,029
Acquisition of subsidiaries (note 45)	-	102,921
At 31 December	192,950	192,950
Accumulated depreciation and impairment:		
At 1 January	51,411	-
Transferred from owner-occupied properties (note 14)	-	24,565
Acquisition of subsidiaries (note 45)	-	21,276
Depreciation provided during the year	7,122	5,570
At 31 December	58,533	51,411
Net carrying amount:		
At 31 December	134,417	141,539

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

	2010 RMB'000	2009 RMB'000
Long term leases	133,785	140,837
Medium term leases	632	702
	134,417	141,539

NOTES TO FINANCIAL STATEMENTS (continued)

15. INVESTMENT PROPERTIES (continued)

Company

	2010 RMB'000	2009 RMB'000
At cost:		
At 1 January	-	-
Addition	54,033	-
At 31 December	54,033	-
Accumulated depreciation and impairment:		
At 1 January	-	-
Depreciation provided during the year	-	-
At 31 December	-	-
Net carrying amount		
At 31 December	54,033	-

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

	2010 RMB'000	2009 RMB'000
Long term leases	54,033	-

16. PREPAID LAND LEASE PAYMENTS

Group

	2010 RMB'000	2009 RMB'000
At cost:		
At 1 January		
As previously reported	1,788,330	1,598,932
Effect of adopting AG 5	-	(73,400)
Acquisition of SIMBT (note 44)	-	60,259
As restated	1,788,330	1,585,791
Additions	90,445	35,203
Acquisition of subsidiaries (note 45)	-	204,517
Disposals	(98,186)	(37,181)
Disposal of subsidiaries (note 48)	(83,324)	-
Deemed disposal of a subsidiary (note 49)	(69,140)	-
At 31 December	1,628,125	1,788,330

16. PREPAID LAND LEASE PAYMENTS (continued)

Group (continued)

	2010 RMB'000	2009 RMB'000
Accumulated amortisation and impairment:		
At 1 January		
As previously reported	236,841	206,159
Effect of adopting AG 5	-	(1,797)
Acquisition of SIMBT (note 44)	-	2,112
As restated	236,841	206,474
Amortisation provided during the year	37,545	32,074
Acquisition of subsidiaries (note 45)	-	4,832
Disposals	(6,985)	(6,539)
Disposal of subsidiaries (note 48)	(17,375)	-
At 31 December	250,026	236,841
Net carrying amount:		
At 31 December	1,378,099	1,551,489
Of which:		
Current portion included in prepayments, deposits and other receivables (note 30)	33,158	35,203
Non-current portion	1,344,941	1,516,286
	1,378,099	1,551,489

Except for three (2009: three) parcels of leasehold land with a total cost of RMB29,401,000 (2009: RMB94,964,000), two of which are situated in Japan and one of which is situated in USA, the Group's leasehold lands are all situated in Mainland China.

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

	2010 RMB'000	2009 RMB'000
At cost:		
Long term (no less than 50 years)	101,151	133,281
Medium term (no less than 10 years but less than 50 years)	1,526,974	1,655,049
	1,628,125	1,788,330

As at 31 December 2010, certain of the Group's land use rights with a net carrying amount of approximately RMB4,508,000 (2009: RMB3,863,000) were pledged to secure general banking facilities granted to the Group (note 38).

NOTES TO FINANCIAL STATEMENTS (continued)

16. PREPAID LAND LEASE PAYMENTS (continued)

Company

	2010 RMB'000	2009 RMB'000
At cost:		
At 1 January	81,500	-
Merger of SPTD (note 47)	-	79,860
Additions	-	1,640
At 31 December	81,500	81,500
Accumulated amortisation:		
At 1 January	9,650	-
Merger of SPTD (note 47)	-	8,331
Amortisation provided during the year	2,778	1,319
At 31 December	12,428	9,650
Net carrying amount:		
At 31 December	69,072	71,850
Of which:		
Current portion included in prepayments, deposits and other receivables (note 30)	1,898	1,631
Non-current portion	67,174	70,219
	69,072	71,850

The Company's leasehold land is situated in Mainland China and is held under a long term lease.

17. GOODWILL

Group

	2010 RMB'000	2009 RMB'000
At cost:		
At 1 January		
As previously reported	106,175	237,467
Effect of adopting AG 5	-	(233,840)
As restated	106,175	3,627
Acquisition of subsidiaries (note 45)	-	102,548
At 31 December	106,175	106,175

17. GOODWILL (continued)

Group (continued)

	2010 RMB'000	2009 RMB'000
Accumulated impairment:		
At 1 January		
As previously reported	29,107	46,406
Effect of adopting AG 5	-	(46,406)
As restated	29,107	-
Impairment during the year	60,958	29,107
At 31 December	90,065	29,107
Net carrying amount:		
At 31 December	16,110	77,068

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 2010 RMB'000	2009 RMB'000
Printing and packing machinery	Industrial equipment	12,483	73,441
Others		3,627	3,627
		16,110	77,068

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 13% (2009: 13%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2009: 3%) .

Key assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2010 and 2009. 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 the raw materials are sourced.

Discount rate - The discount rate used is before tax and reflects specific risks relating to the relevant units.

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

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

Based on the result of impairment testing, the Group recognised an impairment loss with an amount of RMB 60,958,000 for the goodwill allocated to the cash-generating unit of printing and packing machinery.

18. OTHER INTANGIBLE ASSETS

Group

	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
2010						
At cost:						
1 January 2010	375,857	382,069	399,433	9,931	59,470	1,226,760
Additions	5,000	117,749	26,632	1,242	7,676	158,299
Disposals	-	-	(286)	(10,271)	(337)	(10,894)
Disposal of subsidiaries (note 48)	(20,676)	(54)	-	-	(11,688)	(32,418)
Deemed disposal of a subsidiary (note 49)	(126)	-	-	-	(8,620)	(8,746)
At 31 December 2010	360,055	499,764	425,779	902	46,501	1,333,001
Accumulated amortisation and impairment:						
1 January 2010	300,190	208,002	14,024	-	34,418	556,634
Amortisation provided during the year	25,857	49,999	18,382	-	8,108	102,346
Impairment	17,403	-	-	-	-	17,403
Disposals	-	-	(286)	-	(84)	(370)
Disposal of subsidiaries (note 48)	(12,807)	(28)	-	-	(7,006)	(19,841)
Deemed disposal of a subsidiary (note 49)	(123)	-	-	-	(7,380)	(7,503)
At 31 December 2010	330,520	257,973	32,120	-	28,056	648,669
Net carrying amount:						
At 31 December 2010	29,535	241,791	393,659	902	18,445	684,332

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
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	(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	(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 carrying amount:						
At 31 December 2009	75,667	174,067	385,409	9,931	25,052	670,126

NOTES TO FINANCIAL STATEMENTS (continued)

18. OTHER INTANGIBLE ASSETS (continued)

Company

	2010 RMB'000	2009 RMB'000
At cost:		
At 1 January	21,666	8,069
Merger of SPTD (note 47)	-	11,449
Additions	1,371	2,148
Disposals	(2,256)	-
At 31 December	20,781	21,666
Accumulated amortisation:		
At 1 January	7,520	3,810
Merger of SPTD (note 47)	-	1,228
Amortisation provided during the year	1,437	2,482
At 31 December	8,957	7,520
Net carrying amount:		
At 31 December	11,824	14,146

19. INVESTMENTS IN SUBSIDIARIES

Company

	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	12,515,528	11,179,230
Listed investment, at cost	1,465,478	1,465,478
	13,981,006	12,644,708

As at 31 December 2010, 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. As at 31 December 2010, the fair market value of the listed shares of the subsidiary held by the Company amounted to RMB5,120,481,000.

19. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Registered capital (in'000)	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Turbine Works Co., Ltd. 上海汽輪機廠有限公司	PRC	RMB246,675	100%	-	Production and sale of turbines, ancillary appliances and spare parts
Shanghai Electric Group Shanghai Electric Machinery Co., Ltd. 上海電气集團上海電機廠有限公司	PRC	RMB241,818	100%	-	Production and sale of turbine generators andspare parts
Shanghai Boiler Works, Ltd. 上海鍋爐廠有限公司	PRC	RMB207,483	100%	-	Sale of power station boilers, industry boilers and power station 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 Power Generation Equipment Co., Ltd. # 上海電气電站設備有限公司	PRC	USD264,792	-	60%	Design, manufacture and sale of power generation equipment and auxiliary products
Shanghai Electric Wind Power Equipment Co., Ltd. 上海電气風電設備有限公司	PRC	RMB943,000	100%	-	Production and sale of wind power equipment, spare parts and provision of after-sales service
Shanghai Electric Engineering Design Co., Ltd. 上海電气工程設計有限公司	PRC	RMB10,000	70%	-	Design, consulting and supervision of engineering workings
SEC-IHI Power Generation Environment Protection Engineering Co., Ltd. 上海電气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 Heavy Machinery Plant Co., Ltd. 上海重型機器廠有限公司	PRC	RMB 1,973,214	100%	-	Sale of metallurgy materials, spare parts, power station equipment and anti-pressure containers
Shanghai Electric Nuclear Power Equipment Co., Ltd. 上海電气核電設備有限公司	PRC	RMB 2,092,000	100%	-	Production and sale of nuclear power equipment, spare parts and provision of after-sales service
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 No.1 Machine Tool Works Co.,Ltd. 上海第一機床廠有限公司	PRC	RMB200,000	100%	-	Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipmentl

NOTES TO FINANCIAL STATEMENTS (continued)

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 Environment Protection Engineering Complete 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. 上海電气自動化設計研究所有限公司	PRC	RMB30,450	100%	-	Design and installation of automatic apparatus
Shanghai Institute of Mechanical and Electrical Engineering Co., Ltd. 上海市機電設計研究院有限公司	PRC	RMB92,000	100%	-	Provision of engineering design,general contracting, technology consulting services
Shanghai Centrifuge Institute Co., Ltd. 上海市離心機械研究所有限公司	PRC	RMB40,000	100%	-	Development of technology for general purpose machinery
Shanghai Electric Group Finance Co., Ltd. 上海電气集團財務有限責任公司	PRC	RMB1,500,000	73.38%	7.62%	Provision of financial services
Shanghai Electric Environment Protection Investment Co., Ltd. 上海電气環保投資有限公司	PRC	RMB200,000	100%	-	Investment and management in environment protection industry
Shanghai Electric International Economic and Trading Co., Ltd. 上海電气國際經濟貿易有限公司	PRC	RMB350,000	100%	-	Import and export of products
Shanghai Electric Nantong Environment Thermoelectricity Co., Ltd. 上海電气環保熱電(南通)有限公司	PRC	USD19,063	75%	25%	Establishment and operation of waste treatment plants
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 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

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 Group General Refrigeration and Air-conditioning Equipment Co., Ltd. * 上海電气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. * 上海電气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 rmetal and welding materials
Shanghai Refrigerating Machine Co., Ltd. * 上海冷气機廠有限公司	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	-	50.03%	Manufacture and sale 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	RMB172,480	-	73.64%	Production and sale of printing machinery
Shanghai Purlux Machinery Co., Ltd. * 上海紫光機械有限公司	PRC	RMB47,507	-	47.28%	Design, production and repair of packing machinery
Shanghai Electric Hydraulics Pneumatics Co., Ltd. * 上海電气液壓气動有限公司	PRC	RMB171,243	-	47.28%	Sale of pressurised pumps and related equipment
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
Japan Ikegai Corporation # 池貝株式會社	Japan	JPY490,000	65%	-	Production and servicing of machine tools
SMAC Werkzeugamaschine GmbH 四達機床制造有限公司	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 Institute of Machinery Building Technology Co., Ltd. 上海市機械制造工藝研究所有限公司	PRC	RMB28,500	100%	-	Research and development in production, materials and equipment

NOTES TO FINANCIAL STATEMENTS (continued)

19. INVESTMENTS IN SUBSIDIARIES (continued)

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	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	227,092	176,780

The Group's balances with jointly-controlled entities in respect of loans receivable, trade receivables, prepayments, deposits and other receivables, trade payables and customer deposits are disclosed in notes 22, 27, 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. # ^ 上海髮那科機器人有限公司	PRC	USD12,000	50%	50%	50%	Manufacturing, assembling and maintaining robots and automotive equipment

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:

	2010 RMB'000	2009 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	430,686	242,575
Non-current assets	104,421	78,417
Current liabilities	(305,922)	(130,721)
Non-current liabilities	(2,093)	(13,491)
Net assets	227,092	176,780
Share of the jointly-controlled entities' results:		
Revenue	446,655	298,509
Other income	5,878	6,191
	452,533	304,700
Total expenses	(374,686)	(270,960)
Income tax expenses	(10,825)	(4,546)
Profit after tax	67,022	29,194

21. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Unlisted investments, at cost	-	-	1,720,310	1,552,309
Share of net assets	2,947,734	2,641,923	-	-
Goodwill on acquisition	21,282	21,282	-	-
	2,969,016	2,663,205	1,720,310	1,552,309

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	
Shanghai Rail Traffic Equipment Development Co., Ltd. 上海軌道交通設備發展有限公司	PRC	RMB662,520	34.91%	-	Production, sale, maintenance and technology development of city rail-traffic equipment and provision of consultancy services
Siemens Gas Turbine Parts Co., Ltd. # 上海西門子燃气輪機部件有限公司	PRC	EUR32,000	49%	-	Production and sale of combustion chambers and burners
Shanghai Zhenfa Machinery Equipment Co., Ltd. 上海振髮機電有限公司	PRC	RMB10,000	27.4%	-	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	USD11,000	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	USD14,560	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	EUR15,300	45%	-	Design, manufacture and sale of switchgears and related products
MWB (Shanghai) Co., Ltd. # 上海MWB互感器有限公司	PRC	USD18,344	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	USD13,100	49%	-	Production and sale of gas insulated switchgears
SEC Areva (Shanghai Baoshan)Transformers Co., Ltd. # 上海電气阿海法寶山變壓器有限公司	PRC	USD50,180	50%	-	Production and sale of oil-immersed power transformers
SEC Areva (Wuhan)Transformers Co., Ltd. # 上海電气阿海法武漢變壓器有限公司	PRC	EUR20,000	25%	25%	Production and sale of oil-immersed power transformers
Goss Graphic Systems (China)Co., Ltd. # 高斯圖文印刷系統（中國）有限公司	PRC	USD15,500	-	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. # 上海馬拉松革新電气有限公司	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	USD14,500	-	14.18%	Production and sale of hydraulic travelling motors and swing motors
Trench High Voltage Products Ltd. , Shengyang # 傳奇電气（沈陽）有限公司	PRC	RMB112,634	35%	-	Production and sale of bushings and instrument transformers
Shanghai Ri Yong-JEA Gate Electric Co., Ltd. # 上海日用-友捷汽車電气有限公司	PRC	USD17,000	40%	-	Design,manufacture and sales of auto radiator fans, blowers and micromotors
Shanghai Faiverley Transport Co., Ltd. # 上海法維萊交通車輛設備有限公司	PRC	DEM10,500	49%	-	Production and sale of key systems for modern railway vehicles and locomotives

\# 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:

	2010 RMB'000	2009 RMB'000
Assets	18,007,426	16,598,866
Liabilities	9,391,130	9,459,921
Revenue	21,823,486	19,055,505
Net profit	2,267,228	2,079,399

22. LOANS RECEIVABLE

Group	2010 Gross RMB'000	2010 Provision RMB'000	2010 Net RMB'000	2009 Gross RMB'000	2009 Provision RMB'000	2009 Net RMB'000
Loans to the ultimate holding company	1,000,000	(10,000)	990,000	900,000	(9,000)	891,000
Loans to SEC group companies*	1,375,842	(26,517)	1,349,325	729,780	(8,098)	721,682
Loans to jointly-controlled entities	10,000	(100)	9,900	10,000	(100)	9,900
Loans to associates	10,000	(100)	9,900	25,680	(257)	25,423
Loans to other related companies	225,000	(4,500)	220,500	35,000	(600)	34,400
	2,620,842	(41,217)	2,579,625	1,700,460	(18,055)	1,682,405
Portion classified as current assets	1,726,950	(23,339)	1,703,611	1,173,500	(12,785)	1,160,715
Long term portion	893,892	(17,878)	876,014	526,960	(5,270)	521,690

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

Company	Annual interest rate	2010 Gross RMB'000	2010 Provision RMB'000	2010 Net RMB'000	2009 Gross RMB'000	2009 Provision RMB'000	2009 Net RMB'000
Current portion	Nil	740,000	-	740,000	660,000	-	660,000
Current portion	4.20%-6.48%	-	-	-	360,000	-	360,000
		740,000	-	740,000	1,020,000	-	1,020,000

As at 31 December 2010, 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	2010 RMB'000	2009 RMB'000
At 1 January	18,055	15,154
Impairment losses recognised (note 6)	23,162	5,513
Impairment losses reversed (note 6)	-	(2,612)
At 31 December	41,217	18,055

As at 31 December 2010, none (2009: nil) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 4.59% to 7.56% (2009: 4.37% to 5.31%).

22. LOANS RECEIVABLE (continued)

Group (contnued)

The detailed analysis on loans receivable by category is as follows:

	2010 RMB'000	2009 RMB'000
Credit loans receivable	1,010,000	910,000
Guaranted loans receivable	1,600,842	767,780
Mortgaged loans receivable	-	2,180
Pledged loans receivable	10,000	20,500
	2,620,842	1,700,460

23. OTHER INVESTMENTS (NON-CURRENT)

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Equity investments:				
- Available-for-sale (unlisted), at cost	52,090	94,734	15,039	15,039
- Impairment	(13,048)	(14,602)	-	-
	39,042	80,132	15,039	15,039
- Available-for-sale (listed), at fair value	145,927	184,542	10,518	7,959
	184,969	264,674	25,557	22,998
Debt investments:				
- Available-for-sale (unlisted), at fair value	103,776	226,169	-	-
- Available-for-sale (listed), at fair value	20,000	-	-	-
	123,776	226,169	-	-
	308,745	490,843	25,557	22,998

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

Group	2010 RMB'000	2009 RMB'000
At 1 January	14,602	16,808
Impairment losses recognised	-	8,627
Disposal of subsidiaries	(1,554)	(10,833)
At 31 December	13,048	14,602

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

As of 31 December 2010, the above available-for-sale investments include 2,191,200 shares of Shanghai White Cat Co., Ltd. ("White Cat") with a net carrying amount of RMB15,952,000. These shares were ceased to be listed on 25 May 2010 due to straight losses of White Cat over the past three years. Pursuant to the announcement issued by White Cat on 29 January 2011, the China Securities Regulatory Commission accepted the administrative permit application of its major asset reorgnisation. Apart from this, all the above available-for-sale investments are tradable.

During the year, the decrease in the fair value of the Group's non-current available-for-sale investments recognised in other comprehensive income amounted to RMB41,070,000 (2009: increase in the fair value of RMB76,138,000). In addition, upon the disposal of certain non-current available-for-sale investments, a cumulative gain of RMB2,701,000 (2009: RMB25,968,000) 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.

As at 31 December 2010, certain unlisted available-for-sale equity investments with a carrying amount of RMB39,042,000 (2009: RMB80,132,000) 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

	2010						
	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 2010	-	628,082	4,937	217,960	27,662	29,645	908,286
Effect of change in tax rate on the opening balance credited to the income statement (note 10)	-	783	-	2,098	-	-	2,881
Deferred tax credited/(charged) to the income statement during the year (note 10)	2,550	182,147	(2,298)	84,978	16,995	677	285,049
Disposal of subsidiaries (note 48)	-	(11,021)	-	-	-	-	(11,021)
Exchange realignment	-	-	-	-	-	480	480
Gross deferred tax assets at 31 December 2010	2,550	799,991	2,639	305,036	44,657	30,802	1,185,675
Offset against deferred tax liabilities*							(70,923)
Net deferred tax assets at 31 December 2010							1,114,752

24. DEFERRED TAX (continued)

Deferred tax liabilities

Group

	2010					
	Revaluation of properties RMB'000	Fair value adjustments arising from acquisitions of subsidiaries 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 2010	(156,934)	(36,505)	(81,506)	(134,092)	(54,400)	(463,437)
Deferred tax credited/(charged) to the income statement during the year (note 10)	1,380	9,761	(15,983)	68,404	(8,990)	54,572
Deferred tax credited to equity during the year	-	-	4,917	-	-	4,917
Exchange realignment	-	-	(1)	(451)	-	(452)
Gross deferred tax liabilities at 31 December 2010	(155,554)	(26,744)	(92,573)	(66,139)	(63,390)	(404,400)
Offset against deferred tax assets*						70,923
Net deferred tax liabilities at 31 December 2010						(333,477)

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

24. DEFERRED TAX (continued)

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	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 charged 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)

Deferred tax assets

Company	2010			2009		
	Impairment of assets and provisions RMB'000	Accrued expense RMB'000	Total RMB'000	Impairment of assets and provisions RMB'000	Accrued expense RMB'000	Total RMB'000
At 1 January	54,002	113,601	167,603	45,760	80,059	125,819
Merger of SPTD (note 47)	-	-	-	2,405	-	2,405
Deferred tax credited to the income statement during the year	73,545	27,166	100,711	5,837	33,542	39,379
Gross deferred tax assets at 31 December	127,547	140,767	268,314	54,002	113,601	167,603
Offset against deferred tax liabilities*			(38,631)			(2,151)
Net deferred tax assets at 31 December			229,683			165,452

24. DEFERRED TAX (continued)

Deferred tax liabilities

Company	2010 Gain on investments RMB'000	2009 Gain on investments RMB'000
At 1 January	(2,151)	-
Merger of SPTD (note 47)	-	(983)
Deferred tax charged to the income statement during the year	(13,534)	(1,168)
Deferred tax charged to the equity during the year	(22,946)	-
Gross deferred tax liabilities at 31 December	(38,631)	(2,151)
Offset against deferred tax assets*	38,631	2,151
Net deferred tax liabilities at 31 December	-	-

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

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Tax losses	716,664	577,155	-	-
Deductible temporary differences	796,387	898,057	-	-
	1,513,051	1,475,212	-	-

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Raw materials	3,625,928	4,103,349	1,500	1,500
Work in progress	12,708,491	12,169,403	851,140	4,054
Finished goods	3,537,350	3,259,548	42,974	103,461
	19,871,769	19,532,300	895,614	109,015

26. CONSTRUCTION CONTRACTS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Gross amount due from contract customers	456,334	660,698	42,119	144,486
Contract costs incurred plus recognised profits less losses to date	38,561,949	28,697,906	36,363,959	26,387,515
Less: Progress billings	(38,105,615)	(28,037,208)	(36,321,840)	(26,243,029)
	456,334	660,698	42,119	144,486

As at 31 December 2010, 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 RMB3,488,169,000 (2009: RMB3,833,385,000) and RMB3,363,220,000 (2009: RMB3,512,402,000), respectively.

27. TRADE RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Trade receivables	18,682,303	15,635,417	10,305,260	8,074,323
Impairment	(2,704,907)	(2,021,463)	(229,661)	(133,896)
	15,977,396	13,613,954	10,075,599	7,940,427

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

For the sales 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.

27. TRADE RECEIVABLES (continued)

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Undue	11,339,121	8,441,455	7,133,800	6,046,858
Within 3 months	2,257,240	2,281,832	1,398,887	482,333
Over 3 months but within 6 months	980,597	1,444,940	425,619	624,025
Over 6 months but within 1 year	610,011	1,046,196	338,196	363,595
Over 1 year but within 2 years	726,917	318,396	653,527	314,679
Over 2 years but within 3 years	50,244	59,430	121,895	99,988
Over 3 years	13,266	21,705	3,675	8,949
	15,977,396	13,613,954	10,075,599	7,940,427

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
At 1 January				
As previously reported	2,021,463	1,707,337	133,896	124,828
Acquisition of SIMBT	-	2,036	-	-
As restated	2,021,463	1,709,373	133,896	124,828
Impairment losses recognised (note 6)	1,103,176	513,427	104,443	3,003
Acquisition of subsidiaries	-	52,525	-	-
Merger of SPTD	-	-	-	6,222
Disposal of subsidiaries	(38,017)	-	-	-
Amount written off as uncollectible	(29,722)	(31,745)	-	-
Impairment losses reversed (note 6)	(351,993)	(222,117)	(8,678)	(157)
	2,704,907	2,021,463	229,661	133,896

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 RMB5,841,628,000 (2009: RMB4,103,286,000) and RMB1,731,812,000 (2009: RMB1,425,632,000), 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.

27. TRADE RECEIVABLES (continued)

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	10,228,629	8,573,550	7,018,428	6,141,171
Less than 3 months past due	1,894,393	2,274,267	1,239,250	361,621
3 to 6 months past due	621,502	484,084	281,358	145,899
6 months to 1 year past due	96,151	200,230	34,412	-
	12,840,675	11,532,131	8,573,448	6,648,691

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

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

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
The ultimate holding company	125,995	149,567	-	-
Subsidiaries	-	-	148,557	83,173
Jointly-controlled entities	106	312	-	-
Associates	23,365	14,951	1,882	-
SEC group companies	71,252	112,174	-	-
Other related companies	510,351	130,884	448,948	121,561
	731,069	407,888	599,387	204,734

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 are as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	42,048	25,549
Over 3 months but within 6 months	40,817	17,141
	82,865	42,690
Less: Provision for discounted bills receivable	(829)	(427)
	82,036	42,263

28. DISCOUNTED BILLS RECEIVABLE (continued)

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

	2010 RMB'000	2009 RMB'000
At 1 January	427	1,720
Recognised impairment losses (note 6)	402	-
Reversal of impairment losses (note 6)	-	(1,293)
	829	427

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

	2010 RMB'000	2009 RMB'000
Associates	2,131	6,199

The annual interest rates of discounting services provided to related parties ranged from 2.16% to 2.52% for the year ended 31 December 2010 (2009: 3.6% to 4.5%).

Discounted bills receivable relate to discounting services provided by Finance Company. For those bills endorsed by banks, the banks have an 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 3 months	1,207,433	913,268	399,451	114,160
Over 3 months but within 6 months	1,146,674	1,126,102	468,925	219,512
Over 6 months but within 1 year	20,600	1,750	-	-
	2,374,707	2,041,120	868,376	333,672

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Associates	2,500	6,500	-	-
SEC group companies	57,765	33,607	-	-
Other related companies	5,000	-	-	-
	65,265	40,107	-	-

29. BILLS RECEIVABLE(continued)

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 2010 was an amount of RMB38,318,000 (2009: RMB26,200,000) 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 2010.

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
Prepayments	6,139,612	7,236,506	2,136,198	2,505,508
Deposits and other receivables	1,149,753	1,011,534	337,013	316,873
Prepaid land lease payments (note 16)	33,158	35,203	1,898	1,631
Dividend receivables	123,324	18,813	188,340	127,074
Current portion of non-current compensation receivables	31,092	20,937	-	-
Due from subsidiaries	-	-	17,133,318	18,130,878
Due from the ultimate holding company	8,857	5,740	-	-
Due from jointly-controlled entities	-	13,366	-	4,911
Due from associates	82,162	215,633	2,124	145,770
Due from SEC group companies	676,386	1,056,062	178,078	76,964
Due from other related companies	695,709	531,990	23,458	-
	8,940,053	10,145,784	20,000,427	21,309,609
Less: Provision for deposits and other receivables	(53,571)	(106,407)	(387)	(15,954)
	8,886,482	10,039,377	20,000,040	21,293,655

As at 31 December 2010, the Group's and the Company's balances with related parties include prepayments of RMB1,437,547,000 (2009: RMB1,649,452,000) and RMB16,988,063,000 (2009: RMB17,842,527,000), respectively. The remaining balances of RMB25,567,000 (2009: RMB173,339,000) and RMB348,915,000 (2009: RMB515,996,000) 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	
	2010 RMB'000	**2009 RMB'000**	**2010 RMB'000**	**2009 RMB'000**
At 1 January				
As previously reported	106,407	90,561	15,954	10,931
Acquisition of SIMBT	-	1,988	-	-

30. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES(continued)

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
As restated	106,407	92,549	15,954	10,931
Impairment losses recognised (note 6)	1,475	18,737	277	4,913
Acquisition of subsidiaries	-	7,894	-	-
Merger of SPTD	-	-	-	414
Amount written off as uncollectible	(314)	(4,248)	-	-
Impairment losses reversed (note 6)	(18,145)	(8,525)	(15,844)	(304)
Disposal of subsidiaries	(30,109)	-	-	-
Others	(5,743)	-	-	-
	53,571	106,407	387	15,954

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 RMB100,553,000 (2009: RMB286,393,000), and RMB7,933,000 (2009: RMB150,801,000). 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 RMB1,056,330,000 (2009: RMB893,205,000) and RMB677,995,000 (2009: RMB677,743,000), 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

	2010 RMB'000	2009 RMB'000
Equity investments:		
- At fair value through profit or loss (listed)	175	213
- Available-for-sale (listed), at fair value	260,342	270,588
	260,517	270,801
Debt investments:		
- At fair value through profit or loss (listed)	59,717	1,622
- Available-for-sale (listed), at fair value	29,496	-
(unlisted), at fair value	-	82,050
	89,213	83,672

31. INVESTMENTS (CURRENT) (continued)

Group (continued)

	2010 RMB'000	2009 RMB'000
Investment funds:		
- Available-for-sale (listed), at fair value	8,477	-
(unlisted), at fair value	4,250,095	4,487,539
	4,258,572	4,487,539
Investment products:		
- Available-for-sale (unlisted), at fair value	42,393	111,092
Designated investment management:		
- Available-for-sale (unlisted), at fair value	570,084	499,803
	5,220,779	5,452,907

During the year, the increase in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB23,320,000 (2009: increase in fair value of RMB230,063,000). In addition, upon the disposals of certain current available-for-sale investments, a cumulative gain of RMB 78,534,000 (2009: RMB108,199,000) was transferred from equity and recognised in the income statement.

As at 31 December 2010, listed available-for-sale equity investments of RMB188,059,000 were restricted for trading over certain periods of less than 6 months.

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

	2010		2009	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	147,517	-	84,910	(9,443)
Portion classified as non-current (included in other non-current assets)	85,537	-	-	-
Current portion	61,980	-	84,910	(9,443)

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges

At 31 December 2010, the Group held 56 (2009: nil) forward currency contracts designated as hedges in respect of expected future sales to overseas customers which will be settled in US Dollar. The Group expects that these forecast sales will be highly probable.

The terms of the forward currency contracts have been negotiated to match the expected future sales. The cash flow hedges relating to expected future monthly sales in 2011, 2012 and 2013 were assessed to be highly effective and a net gain of RMB68,837,000 was included in the hedging reserve as follows:

	2010 **RMB'000**
Total fair value gains included in the hedging reserve	91,783
Deferred tax impact on fair value gains	(22,946)
Net gains on cash flow hedges	68,837

As at 31 December 2010, the Group has entered into 32 (2009: 16) 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 financial derivatives amounting to RMB26,669,000 (2009: RMB35,518,000) were charged to the income statement during the year.

Company

	2010		**2009**	
	Assets **RMB'000**	**Liabilities** **RMB'000**	**Assets** **RMB'000**	**Liabilities** **RMB'000**
Forward currency contracts	145,921	-	39,564	-
Portion classified as non-current (Included in other non-current assets)	85,537	-	-	-
Current portion	60,384	-	39,564	-

Forward currency contracts – cash flow hedges

At 31 December 2010, the Company held 56 (2009: nil) forward currency contracts designated as hedges in respect of expected future sales to overseas customers which will be settled in US Dollar.

The terms of the forward currency contracts have been negotiated to match the expected future sales. The cash flow hedges relating to expected future monthly sales in 2011, 2012 and 2013 were assessed to be highly effective and a net gain of RMB68,837,000 was included in the hedging reserve as follows:

	2010 **RMB'000**
Total fair value gains included in the hedging reserve	91,783
Deferred tax on fair value gains	(22,946)
Net gains on cash flow hedges	68,837

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As at 31 December 2010, the Company has entered into 24 (2009: 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 financial derivatives amounting to RMB25,771,000 (2009: RMB39,564,000) were charged to the income statement during the year.

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Cash and bank balances	9,367,133	11,987,046	6,759,152	6,805,623
Time deposits	10,229,123	3,689,775	2,513,000	1,513,000
	19,596,256	15,676,821	9,272,152	8,318,623
Less: Restricted deposits	(653,435)	(866,588)	(27,000)	(27,000)
Cash and cash equivalents	18,942,821	14,810,233	9,245,152	8,291,623
Due from the Central Bank	2,613,114	1,803,003	-	-
Total	21,555,935	16,613,236	9,245,152	8,291,623

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Pledged deposits secured for:				
Bank loans	5,000	22,048	-	-
Credit facilities	648,435	844,540	27,000	27,000
	653,435	866,588	27,000	27,000

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

Group	2010		2009	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
United States Dollars ("USD")	142,271	943,412	120,180	820,610
Euro ("EUR")	27,032	238,023	33,484	328,062
Japan Yen ("JPY")	1,420,447	115,426	2,185,543	163,369
Hong Kong Dollars ("HKD")	24,050	20,465	28,138	24,775
South African Rand ("ZAR")	-	-	249	227
Indian Rupee ("INR")	15,819	2,296	21,660	3,017
Indonesian Rupiah ("IDR")	17,732,688	13,119	10,264,985	7,456
Ethiopian Birr ("ETB")	86	34	8,086	4,325

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

Group (continued)	2010		2009	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Time deposits:				
USD	1,959	12,976	1,931	13,183
EUR	14,045	123,687	-	-
JPY	40,000	3,250	20,193	1,482
HKD	2,041	1,737	2,035	1,792

Company	2010		2009	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Cash and bank balances:				
USD	63,792	423,313	31,015	211,776
EUR	-	-	-	4
INR	15,819	2,296	21,660	3,017
IDR	17,732,688	13,119	10,264,985	7,456
ETB	86	34	8,086	4,325

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 Regulations, 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 2010 comprised deposits of RMB2,567,987,000 and USD6,814,000 (equivalent to RMB45,127,000) with the People's Bank of China (the "Central Bank"), including a statutory reserve of 13.5% and 5% (2009: 11.0%/5%) for RMB and foreign currency respectively on customer deposits held by Finance Company.

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

Included in the Company's year-end balance of cash and cash equivalents are cash and bank balances of RMB7,587,048,000 (2009: RMB7,274,028,000) which were deposited with Finance Company according to the prevailing market conditions.

NOTES TO FINANCIAL STATEMENTS (continued)

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within 3 months	11,686,364	8,584,734	6,974,276	5,898,749
Over 3 months but within 6 months	1,222,287	1,389,013	2,041,849	2,026,493
Over 6 months but within 1 year	1,194,253	1,434,707	2,246,934	1,207,552
Over 1 year but within 2 years	1,235,178	1,169,365	1,522,823	1,388,729
Over 2 years but within 3 years	496,512	107,196	770,890	340,316
Over 3 years	133,338	133,401	141,361	48,695
	15,967,932	12,818,416	13,698,133	10,910,534

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Subsidiaries	-	-	8,734,353	8,025,436
Jointly-controlled entities	342	2,506	-	-
Associates	177,310	152,848	21,753	16
SEC group companies	435,105	421,470	315,857	1,264
Other related companies	118,691	40,850	30,080	4,682
	731,448	617,674	9,102,043	8,031,398

The trade payables are non-interest-bearing and are normally settled on 90-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

An aged analysis of the Group's bills payable as at the end of the reporting period is as follows:

	2010 RMB'000	2009 RMB'000
Within 3 months	804,884	1,211,549
Over 3 months but within 6 months	643,232	368,718
Over 6 months but within 1 year	91,117	-
	1,539,233	1,580,267

35. BILLS PAYABLE (continued)

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

	2010 RMB'000	2009 RMB'000
Associates	-	13,391
SEC group companies	12,741	2,628
Other related companies	32,100	10,880
	44,841	26,899

Bills payable are non-interest-bearing.

36. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Advances from customers	30,706,099	31,635,154	22,771,037	24,313,400
Other payables	2,476,243	2,763,805	431,095	631,940
Government grants	210,078	77,433	18,049	-
Dividend payable to non-controlling shareholders	24,629	100,752	5,593	5,631
Accruals	4,642,865	4,119,191	229,770	193,192
Due to subsidiaries	-	-	516,756	381,831
Due to the ultimate holding company	81,243	112,485	1,553	-
Due to associates	80,847	18,349	500	-
Due to SEC group companies	59,338	32,666	3,423	4,583
Due to other related companies	278,435	177,917	-	-
	38,559,777	39,037,752	23,977,776	25,530,577

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 RMB344,707,000 (2009: RMB255,861,000) and RMB522,231,000 (2009: RMB386,414,000) as at 31 December 2010 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2010 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	2010 RMB'000	2009 RMB'000
Deposits from the ultimate holding company	421,306	152,908
Deposits from jointly-controlled entities	122	116
Deposits from associates	373,872	43,123
Deposits from SEC group companies	983,207	519,659
Deposits from other related companies	178	4,115
Deposits from a former subsidiary	103,156	-
Deposits from non-related parties	48,757	46,783
	1,930,598	766,704
Repayable:		
On demand	1,435,848	594,952
Within 3 months	248,000	49,521
Over 3 months but within 1 year	246,750	122,231
	1,930,598	766,704

The annual interest rates of customer deposits provided to related parties range from 1.71% to 2.75% (2009: 1.71% to 2.25%).

38. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group	2010			2009		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- secured	5.31-5.56	2011	63,000	1.17 - 5.58	2010	57,321
- unsecured	1.48-5.56	2011	332,629	0.76 - 7.91	2010	844,086
			395,629			901,407
Non-current						
Bank loans						
- unsecured	2.55	2015	2,273	2.55	2011-2015	2,727
- unsecured	5.35-8.00	2015	351,269	5.35 - 9.00	2011-2015	611,069
- unsecured	10% off over-5-year base rate	2014	509,800	10% off over-5-year base rate	2011-2014	546,400

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

Group(continued)	2010			2009		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
- unsecured	over-5-year base rate	2017	156,138	over-5-year base rate	2017	182,154
- secured	7.25	2012	1,805			-
			1,021,285			1,342,350
Other loans						
- unsecured			-	9.00	2012	54
			1,021,285			1,342,404
			1,416,914			2,243,811

	2010 RMB'000	2009 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	395,629	901,407
In the second year	1,805	70,000
In the third to fifth years, inclusive	863,342	636,200
Beyond five years	156,138	636,150
	1,416,914	2,243,757
Other loans repayable:		
In the second year	-	54
	1,416,914	2,243,811

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

	2010		2009	
	Foreign currency in'000	RMB equivalent RMB'000	Foreign currency in'000	RMB equivalent RMB'000
Foreign currency borrowing balance:				
USD	-	-	833	5,688
EUR	-	-	1,839	18,017
JPY	80,000	6,501	6,288,000	463,941
HKD	52,000	44,248	52,000	45,786
ZAR	-	-	59	55

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

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 carrying amounts of approximately RMB4,508,000 (2009: RMB3,863,000), RMB594,000 (2009: RMB1,219,000) and RMB47,886,000 (2009: RMB9,600,000) (notes 16 and 14) as of 31 December 2010, respectively. In addition, as at 31 December 2010, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB5,000,000 (2009: RMB22,048,000) (note 33).

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

	2010 RMB'000	2009 RMB'000
Guaranteed by:		
The ultimate holding company	-	473,814

Company	2010			2009		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans						
- unsecured	4.37	2011	480,000	4.37	2010	300,000
Non-current						
Bank loans						
- unsecured	2.55	2015	2,273	2.55	2015	2,727
			482,273			302,727

	2010 RMB'000	2009 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	480,000	300,000
In the third to fifth years, inclusive	2,273	-
Beyond five years	-	2,727
	482,273	302,727

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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Floating rate bank loans	400,000	400,000	396,139	392,979
Fixed rate bank loans	621,285	942,350	648,999	949,824
Other loans - unsecured	-	54	-	59
	1,021,285	1,342,404	1,045,138	1,342,862

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 2010	386,749	761,766	74,074	166,110	6,700	1,395,399
Additional provisions (note 6)	147,012	708,579	59,641	-	10,152	925,384
Reversal during the year (note 6)	-	-	-	(40,560)	(700)	(41,260)
Amounts utilised during the year	(62,855)	(386,814)	(27,999)	(31,550)	-	(509,218)
Disposal of subsidiaries (note 48)	(61,250)	(7,341)	-	-	-	(68,591)
At 31 December 2010	409,656	1,076,190	105,716	94,000	16,152	1,701,714
Portion classified as current portion	409,656	1,076,190	60,050	94,000	16,152	1,656,048
Non-current portion	-	-	45,666	-	-	45,666

Company

	Onerous contracts RMB'000	Late delivery provision RMB'000	Total RMB'000
As at 1 January 2010	36,362	96,110	132,472
Additional provision	213,347	-	213,347
Reversal during the year	-	(40,560)	(40,560)
Amounts utilised during the year	(12,448)	(31,550)	(43,998)
As at 31 December 2010	237,261	24,000	261,261
Portion classified as current portion	237,261	24,000	261,261

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 2010. 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 has 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.

NOTES TO FINANCIAL STATEMENTS (continued)

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. The interests are settled on an annual basis with the principal payable in full when due. 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	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Due to the ultimate holding company	1,548	1,548	-	-

42. SHARE CAPITAL

Shares

	2010 RMB'000	2009 RMB'000
Registered, issued and fully paid:		
A shares of RMB1.00 each, restricted		
- state-owned shares	7,409,088	7,409,088
- state-owned corporate shares	211,941	-
- other legal person shares	104,000	-
A shares of RMB1.00 each, unrestricted	2,125,686	2,125,686
H shares of RMB1.00 each	2,972,912	2,972,912
Total	12,823,627	12,507,686

On 13 May 2010, the Company issued 315,940,255 Renminbi ordinary shares with a nominal value of RMB 1 per share through a private offering. Upon the completion of the private offering , the share capital of the Company increased to RMB12,823,627,000, comprising of 12,823,626,660 shares of RMB1.00 each.

As at the end of the reporting period, all restricted shares, except for the above newly issued shares and 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.

42. SHARE CAPITAL (continued)

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

	Number of shares in issue '000	Issued capital RMB'000	Share premium RMB'000	Total RMB'000
At 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 and 1 January 2010	12,507,686	12,507,686	1,745,380	14,253,066
Private offering of A shares	315,941	315,941	1,905,119	2,221,060
Share issue expenses	-	-	(44,213)	(44,213)
At 31 December 2010	12,823,627	12,823,627	3,606,286	16,429,913

On 13 May 2010, the Company issued 315,940,255 Renmibi ordinary shares with an issue price of RMB7.03 per share through the private offering. The gross proceeds of the private offering was RMB2,221,060,000 and capital premium of RMB1,860,906,000 was recorded after deducting the nominal value of the shares and share issue expenses.

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 a 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 2010, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB3,192,847,000 (2009: RMB2,379,257,000), out of which a dividend totalling RMB834,818,000 for the year has been proposed on 25 March 2011 (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.

43. RESERVES (continued)

(b) Company

	Notes	Capital reserve RMB'000	Surplus reserves RMB'000	Retained profits RMB'000	Total RMB'000
As at 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	47	(3,781,784)	-	-	(3,781,784)
Appropriation of statutory surplus reserves		-	247,530	(247,530)	-
Proposed 2009 final dividend	12	-	-	(735,452)	(735,452)
At 31 December 2009 and 1 January 2010		1,635,251	582,630	1,779,344	3,997,225
Total comprehensive income for the year		71,455	-	1,679,718	1,751,173
Issue of shares		1,860,906	-	-	1,860,906
Appropriation of statutory surplus reserves		-	167,812	(167,812)	-
Modification of proposed 2009 final dividend	12	-	-	735,452	735,452
Interim 2010 dividend declared	12	-	-	(755,311)	(755,311)
Proposed 2010 final dividend	12	-	-	(834,818)	(834,818)
Others		-	6,510	(6,510)	-
As at 31 December 2010		3,567,612	756,952	2,430,063	6,754,627

The capital reserve account balance as at 31 December 2010 included the Company's share premium of RMB3,606,286,000 (2009: RMB1,745,380,000) (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.

The Group has applied merger accounting as prescribed in AG 5 to account for the business combination under common control.

44. BUSINESS COMBINATION UNDER COMMON CONTROL (continued)

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

2009

	The Group excluding SIMBT RMB'000	SIMBT RMB'000	Adjustments RMB'000	Consolidated RMB'000
Assets and liabilities				
Investment in a subsidiary	156,368	-	(156,368)	-
Non-current assets	19,500,168	17,846	-	19,518,014
Cash and cash equivalents	14,796,939	51,901	(38,607)	14,810,233
Other 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

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.

There was no such event of business combination under common control during year 2010.

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.

45. BUSINESS COMBINATIONS (continued)

- 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.

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 RMB'000	Carrying amount 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
Investments 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	

45. BUSINESS COMBINATIONS (continued)

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)

Since the acquisition, the newly acquired subsidiaries contributed 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.

There is no such event of business combination during year 2010.

46. ACQUISITION OF NON-CONTROLLING INTERESTS

2010

During the year ended 31 December 2010, the Group acquired the following non-controlling interest:

On 24 August 2010, the Group acquired an additional 9.33% equity interest in Shanghai Electric Wind Power Equipment Co., Ltd. ("Wind Power Equipment") from China Hua Dian Engineering (Group) Co., Ltd. at a cash consideration of RMB41,000,000. After the acquisition, the Group held a 100% equity interest in Wind Power Equipment. The share of net assets attributable to the additional 9.33% equity interest acquired was RMB19,183,000. The difference of RMB21,817,000 between the additional capital injection and the book value of the share of the net assets acquired was recorded in equity directly.

On 30 July 2010, the Group acquired an additional 24% equity interest in Shanghai Electric Xantrex Power Electronics Co., Ltd. ("SE Xantrex") from Xantrex Technology Inc. at a cash consideration of RMB16,008,000. After the acquisition, the Group held a 75% equity interest in SE Xantrex which was renamed as Shanghai Electric Power Electronics Co., Ltd. The share of net assets attributable to the additional 24% acquired was RMB16,440,000. The difference of RMB432,000 between the additional capital injection and the book value of the share of the net assets acquired was recorded in equity directly.

2009

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

On 31 August 2009, Shanghai Mechanical and Electrical, 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 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.

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.

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)

47. LEGAL MERGER (continued)

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

There was no such event of legal merger during year 2010.

48. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2010, the Group disposed of the following subsidiaries:

On 23 June 2010, the Group entered into an equity transfer agreement to dispose its 100% equity interest in Shanghai Crane & Conveyor Works Co., Ltd. for a cash consideration of RMB268,723,000. The disposal was completed in July 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 26 August 2010, the Group entered into an equity transfer agreement to dispose of its 61% equity interest in Anhui Green Continent Wood-based Panel Co., Ltd. for a cash consideration of RMB33,481,000. The disposal was completed in August 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 9 November 2010, the Group entered into an equity transfer agreement to dispose of its 51% equity interest in Suichuan Green Continent Wood-based Panel Co., Ltd. for a cash consideration of RMB8,944,000. The disposal was completed in November 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 5 July 2010, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in CHISA Welding Consumables (Proprietary) Ltd. for a cash consideration of RMB5,886,000. The disposal was completed in July 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 23 October 2009, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in Shanghai No.3 Machine Tools Plant for a cash consideration of RMB85,646,000. The disposal was completed in August 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 23 October 2009, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in Shanghai Meter Machine Tools Plant for a cash consideration of RMB327,000. The disposal was completed in August 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 7 September 2010, the Group entered into an equity transfer agreement to dispose of its 44.79% equity interest in Shanghai Rail Traffic Equipment Development Co., Ltd. for a cash consideration of RMB365,089,000. The disposal was completed in September 2010. The proceeds from the disposal had been received as of 31 December 2010.

On 20 December 2010, the Group entered into an equity transfer agreement to dispose of its 61.35% equity interest in Shanghai Topsolar Green Energy Co., Ltd. ("Topsolar") for a cash consideration of RMB174,285,000. The equity transfer was completed in December 2010. Pursuant to the equity transfer agreement, the net profit of RMB12,028,000 generated by Topsolar during the period from the transaction benchmark date to the completion date was attributed to the Group. As at 31 December 2010, the Group has received the proceeds of RMB162,257,000 from the disposal and the profit of RMB12,028,000 was recorded as other receivables.

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	438,481
Prepaid land lease payments	16	65,949
Other intangible assets	18	12,577
Deferred tax assets	24	11,021
Available-for-sale financial assets		1,018
Investments in associates		46,841
Inventories		391,208
Construction contracts		40,203
Trade and other receivables		1,120,597
Bills receivable		44,539
Derivative financial instruments		35,205
Cash and bank balances		958,805
Bills payable		(167,202)
Trade and other payables		(988,718)
Interest-bearing bank and other borrowings		(434,845)
Tax payable		650
Provision		(68,591)
Other non-current liabilities		(12,288)
		1,495,450
Fair value of the remaining interests		(317,920)
Effect of changes in reserves on:		
Exchange fluctuation reserve		14,091
Non-controlling interests		(398,071)
Gain on disposal of subsidiaries	5	148,831
		942,381
Satisfied by:		
Cash		930,353
Prepayments, deposits and other receivables		12,028
		942,381

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	930,353
Cash and cash equivalents deposited with Finance Company	386,603
Cash and cash equivalents disposed of	(956,388)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	360,568

49. DEEMED DISPOSAL OF A SUBSIDIARY

On 23 October 2009, the Group and SE Corporation entered into an agreement, pursuant to which, SE Corporation agreed to contribute additional capital into Akiyama International Corporation ("AIC") of JPY2,700,000,000, equivalent to RMB192,000,000 approximately. Upon completion of the capital contribution on 31 May 2010, the registered capital of AIC increased from JPY1,050,000,000 to JPY3,750,000,000 and SE corporation held 90% of its equity interests. Since then, AIC was no longer included in consolidation of the Group and its equity interests were accounted for as an unlisted equity investment of the Group. In the opinion of the directors, this transaction was an equity transaction, and the relevant gain was recorded in capital reserve accordingly.

The carrying amounts of the assets and liabilities of the above company as at the date of the deemed disposal were as follows:

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	35,881
Prepaid land lease payments	16	69,140
Other intangible assets	18	1,243
Investment in an associate		15,341
Inventories		162,372
Trade and other receivables		85,906
Bills receivable		1,251
Cash and bank balances		58,320
Trade and other payables		(52,389)
Interest-bearing bank and other borrowings		(432,270)
Tax payable		(843)
Other payables and accruals		(11,712)
Other non-current liabilities		(9,270)
		(77,030)
Fair value of the remaining interests		-
Effect of changes in reserves on:		
Exchange fluctuation reserve		416
Capital reserve		76,614
		-

50. CONTINGENT LIABILITIES

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Guarantees given to banks in connection with facilities granted to:				
- subsidiaries	-	-	1,240,390	1,360,390
- associates	154,766*	153,128*	28,000	35,000
	154,766	153,128	1,268,390	1,395,390

* The above guarantees are denominated in Japanese Yen. The maximum guarantee is JPY1,560,000,000 (2009: JPY1,560,000,000) and the guarantee utilised is JPY1,132,000,000 (2009: JPY1,132,000,000).

50. CONTINGENT LIABILITIES (continued)

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Guarantees given to banks in connections with facilities utilised				
- Subsidiaries	-	-	1,091,516	1,211,589
- Associates	92,252	91,354	266	4,812
	92,252	91,354	1,091,782	1,216,401
Non-financial guarantee letters issued on behalf of:				
- associates	12,456	3,931	-	-
- SEC group companies	1,274	1,345	-	-
	13,730	5,276	-	-
Discounting bills receivable issued by subsidiaries to:				
- associates	21,000	19,000	-	-
- SEC group companies	30,389	17,700	-	-
	51,389	36,700	-	-

(b) As of 31 December 2010, financial and non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB44,248,000 (2009: RMB45,786,000) and RMB23,635,176,000 (2009: RMB19,140,299,000), respectively.

(c) As of 31 December 2010, contingent liabilities derived from pending lawsuits and arbitration amounted to RMB13,990,000 (2009: RMB18,000,000).

(d) The Company was engaged in a construction project in Indonesia with an aggregate amount of USD108,000,000. During the year ended 31 December 2009, the owner unilaterally terminated the contract. In the current year, the owner executed the guarantee letter for advance payment and performance guarantee letter, amounting to USD10,800,000 and USD13,500,000, respectively. The Company has appealed for arbitration in Singapore. Up to the date of approval of the financial statements, the arbitration has not been administered. The directors are of the opinion that, apart from the recorded costs and provision, no additional provision is considered necessary as at 31 December 2010.

51. 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 2010, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within one year	54,957	51,386	16,953	-
In the second to fifth years, inclusive	114,062	133,895	16,953	-
After five years	74,712	97,337	-	-
	243,731	282,618	33,906	-

(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 term of one year.

At 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within one year	51,650	57,880	3,066	2,554
In the second to fifth years, inclusive	88,988	99,133	3,577	4,775
After five years	87,871	83,885	-	-
	228,509	240,898	6,643	7,329

NOTES TO FINANCIAL STATEMENTS (continued)

52. COMMITMENTS

In addition to the operating lease commitments detailed in note 51(b) above, the Group and the Company had the following capital commitments at the end of reporting period:

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Contracted, but not provided for				
In respect of the acquisition of:				
- land and buildings	336,513	91,045	15,944	-
- plant and machinery	831,224	774,782	15,824	-
- intangible assets	34,915	52,904	32,723	52,904
In respect of capital contribution to:				
- associates	-	186,145	-	186,145
- companies to be established/acquired	-	70,000	-	-
	1,202,652	1,174,876	64,491	239,049
Authorised, but not contracted for				
In respect of the acquisition of:				
- land and buildings	126,734	285,685	4,207	164,000
- plant and machinery	461,180	726,898	11,499	20,774
In respect of capital contribution to:				
- subsidiaries	-	-	420,000	-
- companies to be established/acquired	179,934	-	94,934	-
	767,848	1,012,583	530,640	184,774
	1,970,500	2,187,459	595,131	423,823

53. 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	2010 RMB'000	2009 RMB'000
Purchase of materials from:	(i)		
Associates		1,507,215	1,027,769
Jointly-controlled entities		48	18,476
SEC group companies		1,084,526	1,226,348
Other related companies		698,683	823,128
		3,290,472	3,095,721

53. RELATED PARTY TRANSACTIONS(continued)

(1) (continued)

	Notes	2010 RMB'000	2009 RMB'000
Sale of goods to:	(i)		
The ultimate holding company		-	6,936
Associates		197,713	242,737
Jointly-controlled entities		882	30,499
SEC group companies		376,161	437,666
Other related companies		565,624	305,797
		1,140,380	1,023,635
Construction contract from:	(i)		
Other related companies		558,535	1,286,135
Sale of scraps and spare parts to:	(i)		
The ultimate holding company		-	2,569
Associates		9,890	5,670
SEC group companies		860	3,732
		10,750	11,971
Purchases of services from:	(i)		
Associates		2,336	1,977
SEC group companies		26,434	30,442
Other related companies		189,248	135,495
		218,018	167,914
Provision of services to:	(i)		
The ultimate holding company		3,251	2,706
Associates		51,326	67,719
SEC group companies		8,980	5,437
Other related companies		4	2,996
		63,561	78,858
Purchases of equipment from:	(i)		
Associates		-	46
SEC group companies		7,152	12,997
Other related companies		76,892	-
		84,044	13,043

53. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

	Notes	2010 RMB'000	2009 RMB'000
Rental income from:	(ii)		
Associates		20,055	9,382
SEC group companies		1,700	-
		21,755	9,382
Rental fee to:	(ii)		
The ultimate holding company		26,807	21,997
SEC group companies		5,053	6,472
		31,860	28,469

Notes:

(i) The sales and purchases, services and construction contract 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 2010, the Group effected the following non-recurring transactions:

(a) In July 2010, the Company transferred a 100% equity interest in Shanghai Crane & Conveyor Works Co., Ltd. to SE Corporation, who paid a total consideration of RMB268,723,000 based on the appraised value of the entity. The Company made a net profit of RMB160,032,000 through this transaction.

(b) In August 2010, Shanghai Magine Machine Tool Co., Ltd. ("SMMT"), a subsidiary of the Company, transferred a 100% equity interest in Shanghai No.3 Machine Tool Works to SE Corporation, who paid a total consideration of RMB85,646,000 based on the appraised value of the entity. SMMT made a net profit of RMB11,331,000 through this transaction.

(c) In August 2010, SMMT transferred a 100% equity interest in Shanghai Meter Machine Tool Plant to SE Corporation, who paid a total consideration of RMB327,000 based on the appraised value of the entity. SMMT made a net profit of RMB6,530,000 through this transaction.

(d) Shanghai Rail Traffic Equipment Development Co., Ltd. ("SRTE"), a subsidiary of the Company which was disposed on 27 September 2010, entered into a property transfer agreement during the year with Shanghai Automation Instrumentation Co., Ltd. ("SAI"), a subsidiary of SE Corporation, to transfer certain assets and related 22 employees regarding the business of an integrated monitoring system for a total consideration of RMB3,358,000. As at 27 September 2010, the transfer of assets was partially completed at a total consideration of RMB2,491,000 with a net loss of RMB72,000.

(e) Shanghai Guanghua Printing Machinery Co., Ltd. ("Guanghua") entered into a property transfer agreement with SE Corporation during the year for the disposal of two parcels of land and relevant buildings and equipment. The total cash consideration of the transaction was determined at RMB80,650,000 based on the appraised value of these assets. As of 31 December 2010, the transfer of the land and buildings was completed with a net gain of RMB18,002,000.

(f) The Company entered into a property transfer agreement with its associates Shanghai Diamond Electric Development Co., Ltd. during the year to buy building and the related land use right at a consideration of RMB164,400,000. The asset transfer has been completed.

53. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

(g) The Company and SE Corporation entered into entrusted agreements in 2007, 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 a 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. The aggregate amount of the agreements was USD870,986,000.

Sales regarding the Project of RMB549,565,000 (2009: RMB1,009,083,000) were recognised during the year. In addition, purchases of RMB7,443,000 (2009: RMB25,393,000) and an agent fee of RMB9,363,000 (2009: RMB13,458,000) were incurred through SE Corporation during the year.

(h) On 31 May 2010, SE corporation unilaterally contributed additional capital of JPY2,700,000,000 to AIC, a former subsidiary of the Company. Upon the completion of capital contribution, AIC is no longer a subsidiary of the Company. Details are contained in note 49 to the financial statements.

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

As at 31 December 2010, the Group has provided corporate guarantees in connection with facilities totalling RMB154,766,000 (2009: RMB153,128,000) to related parties, out of which RMB92,252,000 (2009: RMB91,354,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB13,730,000 (2009: RMB5,276,000).

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

	2010 **RMB'000**	**2009** **RMB'000**
Guarantees provided to the Group by:		
The ultimate holding company	-	473,814

As at 31 December 2010, SE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Bonds of RMB1 billion (note 40).

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

	2010 **RMB'000**	**2009** **RMB'000**
Interest expenses for customer deposits:		
The ultimate holding company	4,864	3,389
Associates	920	90
Jointly-controlled entities	2	1
SEC group companies	10,685	3,892
Other related companies	45	15
	16,516	7,387

53. RELATED PARTY TRANSACTIONS(continued)

(3) (continued)

	2010 RMB'000	2009 RMB'000
Interest income for loans and bills discounting:		
The ultimate holding company	11,287	15,588
Associates	1,097	2,047
Jointly-controlled entities	596	683
SEC group companies	53,003	37,404
Other related companies	2,506	-
	68,489	55,722

Interest rates for customer deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(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:

	2010 RMB'000	2009 RMB'000
Fees	750	750
Salaries, bonuses and allowances received from the Group	4,372	3,313
Pension scheme contributed by the Group	166	130
Other social benefit schemes contributed by the Group	158	124
	5,446	4,317

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

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

	2010 RMB'000	2009 RMB'000
Purchases of equipment, components and technology from an associate:		
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.	1,048,347	631,601

53. RELATED PARTY TRANSACTIONS(continued)

	2010 RMB'000	2009 RMB'000
Purchases of equipment, components and technology from other related companies:		
Siemens Aktiengesellschaft	215,183	167,048
Alstom (China) Investment Co., Ltd.	28	4,672
Sales of goods to an associate:		
Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd.	15,602	45,225
Sales of goods to other related companies:		
Shanghai Shenneng Changxing Wind Power Co., Ltd.	-*	20,107
Siemens Aktiengesellschaft	445,672	45,508
Construction contract from other related companies:		
Yangxi Haibing Power Development Co., Ltd.	-*	1,286,135

* Pursuant to Chapter 14A of the Listing Rules, the promoters of the Company are no longer regarded as connected person from the year 2010.

54. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

Group

	2010				
	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	-	-	2,579,625	-	2,579,625
Equity investments	175	-	-	445,311	445,486
Debt investments	59,717	-	-	153,272	212,989

54. FINANCIAL INSTRUMENTS BY CATEGORY(continued)

Financial assets (continued)

Group	2010				
	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
Trade receivables	-	-	15,977,396	-	15,977,396
Discounted bills receivable	-	-	82,036	-	82,036
Bills receivable	-	-	2,374,707	-	2,374,707
Financial assets included in prepayments, deposits and other receivables	-	-	1,276,165	-	1,276,165
Investment funds	-	-	-	4,258,572	4,258,572
Investment products	-	-	-	42,393	42,393
Designated investment management	-	-	-	570,084	570,084
Derivative financial instruments	147,517	-	-	-	147,517
Due from the Central Bank	-	-	2,613,114	-	2,613,114
Restricted deposits	-	-	653,435	-	653,435
Cash and cash equivalents	-	-	18,942,821	-	18,942,821
	207,409	-	44,499,299	5,469,632	50,176,340

Financial liabilities

Group	2010
	Financial liabilities at amortised cost RMB'000
Trade payables	15,967,932
Bills payable	1,539,233
Financial liabilities included in other payables and accruals	3,041,107
Customer deposits	1,930,598
Interest-bearing bank and other borrowings	1,416,914
Bonds	1,000,000
Other non-current liabilities	76,000
	24,971,784

54. FINANCIAL INSTRUMENTS BY CATEGORY(continued)

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
Trade receivables	-	-	13,613,954	-	13,613,954
Discounted bills receivable	-	-	42,263	-	42,263
Bills receivable	-	-	2,041,120	-	2,041,120
Financial assets included in prepayments, deposits and other receivables	-	-	1,118,216	-	1,118,216
Investment funds	-	-	-	4,487,539	4,487,539
Investment products	-	-	-	111,092	111,092
Designated investment management	-	-	-	499,803	499,803
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	-	35,977,782	5,941,915	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
Derivative financial instruments	9,443	-	9,443
Customer deposits	-	766,704	766,704
Interest-bearing bank and other borrowings	-	2,243,811	2,243,811
Bonds	-	1,000,000	1,000,000
	9,443	21,210,847	21,220,290

54. FINANCIAL INSTRUMENTS BY CATEGORY(continued)

Financial assets

Company	2010			
	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	-	740,000	-	740,000
Equity investments	-	-	25,557	25,557
Hedging instruments	-	-	91,783	91,783
Trade receivables	-	10,075,599	-	10,075,599
Bills receivable	-	868,376	-	868,376
Financial assets included in prepayments, deposits and other receivables	-	873,881	-	873,881
Derivative financial instruments	145,921	-	-	145,921
Restricted deposits	-	27,000	-	27,000
Cash and cash equivalents	-	9,245,152	-	9,245,152
	145,921	21,830,008	117,340	22,093,269

Financial liabilities

Company	2010
	Financial liabilities at amortised cost RMB'000
Trade payables	13,698,133
Financial liabilities included in other payables and accruals	996,542
Interest-bearing bank and other borrowings	482,273
	15,176,948

54. 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

55. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

55. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Cash and cash equivalents, restricted deposits, an amount due from the Central Bank, trade receivables, loans receivable, bills receivable, financial assets included in prepayments, deposits and other receivables, trade payables, bills payable, financial liabilities included in other payables and accruals, customer deposits, interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of loans receivable in the long-term portion, financial assets included in other non-current assets, interest-bearing bank and other borrowings in the long-term portion have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the bonds is estimated using an equivalent market interest rate for a similar bond.

The fair values of listed equity investments are based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

As at 31 December 2010, the marked to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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)

As at 31 December 2010, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2010:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	202,258	204,011	-	406,269
Debt investments	49,496	103,776	-	153,272
Investment fund	4,258,572	-	-	4,258,572
Investment products	-	42,393	-	42,393
Designated investment management	-	570,084	-	570,084
Equity investments at fair value through profit or loss	175	-	-	175
Debt investments at fair value through profit or loss	59,717	-	-	59,717
Derivative financial instruments	-	147,517	-	147,517
	4,570,218	1,067,781	-	5,637,999

55. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Assets measured at fair value as at 31 December 2009:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments:				
Equity investments	273,375	181,755	-	455,130
Debt investments	201,952	106,267	-	308,219
Investment fund	4,487,539	-	-	4,487,539
Investment products	-	111,092	-	111,092
Designated investment management	-	499,803	-	499,803
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
	4,964,701	983,827	-	5,948,528

Liabilities measured at fair value as at 31 December 2009:

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

As at 31 December 2010, the Company held the following financial instruments measured at fair value:

Assets measured at fair value as at 31 December 2010:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments				
– Equity (listed)	10,518	-	-	10,518
Derivative financial instruments	-	145,921	-	145,921
	10,518	145,921	-	156,439

Assets measured at fair value as at 31 December 2009:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total 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

56. 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 foreign currency contracts. The purpose is to manage the foreign 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 after tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

Group	**Increase/ (decrease) in USD/EUR/JPY/HKD rate %**	**Increase/ (decrease) in profit after tax RMB'000**	**Increase/ (decrease) in equity * RMB'000**
2010			
If RMB weakens against USD	5	7,685	(200,436)
If RMB strengthens against USD	(5)	(7,685)	200,436
If RMB weakens against EUR	5	26,350	2,939
If RMB strengthens against EUR	(5)	(26,350)	(2,939)
If RMB weakens against JPY	5	759	16,976
If RMB strengthens against JPY	(5)	(759)	(16,976)
If RMB weakens against HKD	5	(789)	476
If RMB strengthens against HKD	(5)	789	(476)

56. 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 after tax RMB'000	Increase/ (decrease) in equity * RMB'000
2009			
If RMB weakens against USD	5	72,869	-
If RMB strengthens against USD	(5)	(72,869)	-
If RMB weakens against EUR	5	20,128	3,091
If RMB strengthens against EUR	(5)	(20,128)	(3,091)
If RMB weakens against JPY	5	(14,304)	12,648
If RMB strengthens against JPY	(5)	14,304	(12,648)
If RMB weakens against HKD	5	(834)	416
If RMB strengthens against HKD	(5)	834	(416)

* Excluding retained profits

Company	Increase/ (decrease) in USD/EUR rate	Increase/ (decrease) in profit after tax	Increase/ (decrease) in equity *
2010			
If RMB weakens against USD	5	(15,139)	(200,510)
If RMB strengthens against USD	(5)	15,139	200,510
If RMB weakens against EUR	5	13,078	-
If RMB strengthens against EUR	(5)	(13,078)	-
2009			
If RMB weakens against USD	5	41,330	-
If RMB strengthens against USD	(5)	(41,330)	-
If RMB weakens against EUR	5	3,317	-
If RMB strengthens against EUR	(5)	(3,317)	-

* Excluding retained profits

(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 2010. 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.

56. 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:

	2010			2009		
	31 December	High	Low	31 December	High	Low
SZSE A-share Index	1,351	1,455	965	1,261	1,296	600
SHSE A-share Index	2,940	3,443	2,478	3,437	3,644	1,956

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant, based on their carrying amounts at the end of the reporting period.

	Carrying amount RMB'000	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in equity* RMB'000
2010			
Equity investments listed in:			
Shenzhen – Available-for-sale	205,137	-	7,693
Shanghai – Available-for-sale	201,132	-	7,769
– At fair value through profit or loss	175	7	-
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	8	-

* 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.

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:

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Debt investments

Group	2010	
	At fair value through profit or loss RMB'000	Available-for-sale RMB'000
Within 1 year	-	29,496
1 to 5 years	59,717	123,776
Total	59,717	153,272
Effective interest rate (% per annum)	0.50	3.43-8.50

	2009	
	At fair value through profit or loss RMB'000	Available-for-sale RMB'000
Within 1 year	1,622	82,050
1 to 5 years	-	216,169
More than 5 years	-	10,000
Total	1,622	308,219
Effective interest rate (% per annum)	0.50	1.65 - 7.15

Other financial assets

Group	2010			
	Loans receivable RMB'000	Discounted bills receivable RMB'000	Due from the central bank RMB'000	Time deposits RMB'000
Within 1 year	1,703,611	82,036	2,613,114	10,229,123
1 to 5 years	834,560	-	-	-
More than 5 years	41,454	-	-	-
Total	2,579,625	82,036	2,613,114	10,229,123
Effective interest rate (% per annum)	4.59-7.56	3.60-5.10	0.72-1.62	0.35-5.84

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets (continued)

	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 5 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

Financial liabilities

Group

	2010		
	Bonds RMB'000	Interest-bearing bank and other borrowings RMB'000	Customer deposits RMB'000
Within 1 year	-	395,629	1,930,598
1 to 5 years	1,000,000	863,889	-
More than 5 years	-	157,396	-
Total	1,000,000	1,416,914	1,930,598
Effective interest rate (% per annum)	3.85	0.63-8.00	1.71-2.75

	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 5 years	1,000,000	1,156,264	-
More than 5 years	-	186,140	-
Total	1,000,000	2,243,811	766,704
Effective interest rate (% per annum)	3.87	0.76 - 9.00	1.71 - 2.25

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

(c) Interest rate risk (continued)

Other financial assets

Company	2010 Loans receivable RMB'000	2009 Loans receivable RMB'000
Within 1 year	740,000	1,020,000
Effective interest rate (% per annum)	0	0 – 6.48

Financial liabilities

Company	2010 Interest-bearing bank and other borrowings RMB'000	2009 Interest-bearing bank and other borrowings RMB'000
Within 1 year	480,000	300,000
1 to 5 years	2,273	-
More than 5 years	-	2,727
Total	482,273	302,727
Effective interest rate (% per annum)	2.55 - 4.37	2.55 - 4.37

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit after tax RMB'000
2010		
RMB	15	1,719
RMB	(15)	(1,719)
2009		
RMB	15	985
RMB	(15)	(985)

56. 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 50 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 13% (2009: 10%) of the Group's trade receivables as at 31 December 2010.

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.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of borrowers, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment individually and collectively.

(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 liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2010					
	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	12,501,155	2,951,690	316,977	198,110	-	15,967,932
Bills payable	-	804,884	734,349	-	-	1,539,233
Financial liabilities included in other payables and accruals	2,582,113	417,615	41,379	-	-	3,041,107
Customer deposits	1,435,848	249,169	250,781	-	-	1,935,798

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

Group (continued)

	2010					
	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
Bonds	-	-	-	1,000,000	-	1,000,000
Interest-bearing bank and other borrowings	-	21,929	409,486	902,612	157,396	1,491,423
Financial liabilities included in other non-current liabilities	-	-	-	76,000	-	76,000
Financial guarantee contracts	-	-	154,766	-	-	154,766
	16,519,116	4,445,287	1,907,738	2,176,722	157,396	25,206,259

	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	-	-	-	1,000,000	-	1,000,000
Interest-bearing bank and other borrowings	-	498,407	495,896	1,451,549	186,140	2,631,992
Derivative financial instruments	-	-	9,443	-	-	9,443
Financial guarantee contracts	-	-	38,000	115,128	-	153,128
	10,396,961	5,037,008	3,491,483	2,652,714	186,140	21,764,306

NOTES TO FINANCIAL STATEMENTS (continued)

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial risks (continued)

(b) Liquidity risk (continued)

Company

	2010					
	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	13,698,133	-	-	-	-	13,698,133
Financial liabilities included in other payables and accruals	987,681	3,268	5,593	-	-	996,542
Interest-bearing bank and other borrowings	-	282,406	202,230	2,451	-	487,087
Financial guarantee contracts	-	48,000	38,000	833,000	349,390	1,268,390
	14,685,814	333,674	245,823	835,451	349,390	16,450,152

	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
Financial guarantee contracts	-	48,000	65,000	633,000	649,390	1,395,390
	11,844,150	50,694	365,070	633,278	652,123	13,545,315

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 2010 and 31 December 2009.

56. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	2010 RMB'000	2009 RMB'000
Interest-bearing bank and other borrowings	1,416,914	2,243,811
Bonds	1,000,000	1,000,000
Net debt	2,416,914	3,243,811
Total equity	34,502,465	29,063,619
Total equity and net debt	36,919,379	32,307,430
Gearing ratio	6.5%	10.0%

57. OTHER SIGNIFICANT MATTERS

(1) As at 31 December 2010, out of 907,778,942 restricted A shares of the Company held by Fengchi Investment Co., Ltd., 903,140,000 shares were pledged to China Credit Trust Co., Ltd., Beijing International Trust Co., Ltd., Guangdong Finance Trust Co., Ltd., Huaneng Guicheng Trust Co., Ltd. Kunlun Trust Co., Ltd. and Ping An Trust Co., Ltd. The pledged shares accounted for 7.04% of the Company's total share capital.

(2) On 28 October 2010, the Company entered into a supply contract with Reliance Anil Dhirubhai Amabani Group of India for three projects of provision of power stations, each of which consists of 12 sets of 660MW coal fired super critical thermal power generation equipment with total 36 sets of coal fired super critical thermal power generation equipment and mandatory spare parts at a total consideration of USD8.291 billion.

58. EVENTS AFTER THE REPORTING PERIOD

(1) On 16 February 2011, the board of directors of the Company resolved to acquire a 30% equity interest in Shanghai Electric Engineering Design Co., Ltd. from Shenyang Electric Power Design Co., Ltd. at a consideration of RMB3,700,000 in cash.

(2) On 23 February 2011, Shanghai Electric Environmental Protection Investment Co., Ltd. ("SE EPI"), the Company's wholly-owned subsidiary, entered into a joint venture agreement with Mitsubishi Electric Automation (China) Limited ("MEAC") and Mitsubishi Electric (China) Co., Ltd. ("MEC").

The parties have agreed to form the joint venture ("JV") with the tentative name of Shanghai Electric Ryoden Energy Saving and Control Technology Co., Ltd. Pursuant to the terms of the JV agreement, the registered capital of the JV will be RMB34,000,000. SE EPI will contribute an aggregate amount up to RMB17,340,000 in cash for 51% equity interests in the JV.

(3) Details of the final 2010 dividend proposal are contained in note 12 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

59. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

60. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.