上海电气
SHANGHAI ELECTRIC

# 2011

# ANNUAL REPORT

## Shanghai Electric Group Company Limited

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

# CONTENTS

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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 | No. 212 Qinjiang Road, Shanghai |
| Telephone, fax and email | +86(21)33261888 / +86(21)34695780 / ir@shanghai-electric.com |

## Summary of Basic Information

| | |
|---|---|
| Registered address | 30/F, Maxdo Center, No.8 Xingyi Road, Shanghai (zip code 200336) |
| Business address | No. 212 Qinjiang Road, Shanghai (zip code 200233) |
| Company website | http://www.shanghai-electric.com |
| Company 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 | http://www.sse.com.cn |
| Website designated for publishing annual report required by the Stock Exchange of Hong Kong Limited | http://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 |
| | Change of registration place of the Company | Shanghai, PRC |
| | Legal person business license registration number | 310000000086691 |
| | Tax registration number | 310105759565082 |
| | Organization code | 75956508-2 |

| | |
|---|---|
| Name of auditors appointed by the Company in the PRC | 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 | 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong |
| Legal advisers appointed by the Company as to PRC Law | Grandall Law Firm (Shanghai) |
| Legal advisers appointed by the Company as to Hong Kong Law and U.S. Law | Freshfields Bruckhaus Deringer |
| Legal advisers appointed by the Company as to Japanese Law | Anderson Mori & Tomotsune |

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# FIVE-YEAR FINANCIAL SUMMARY

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

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| *RMB(million)* | | | | | |
| Revenue and Profit | | | | | |
| Revenue | 55,981 | 59,058 | 57,622 | 62,957 | **67,918** |
| Profit before tax | 5,628 | 4,075 | 3,229 | 4,025 | **5,091** |
| Tax | (1,334) | (397) | (7) | (228) | **(715)** |
| Profit for the year | 4,294 | 3,678 | 3,222 | 3,797 | **4,376** |
| Attributable to: | | | | | |
| Equity holders of the parent | 2,830 | 2,566 | 2,453 | 2,784 | **3,267** |
| Non-controlling interests | 1,464 | 1,112 | 769 | 1,013 | **1,109** |
| Dividend | - | 1,463 | - | 1,590 | **980**[note1] |
| Earnings per share attributable to equity holders of the parent | | | | | |
| Basic | | | | | |
| Profit for the year (cents) | 23.67 | 21.49 | 19.62 | 21.90 | **25.48** |
| Assets and Liabilities | | | | | |
| Non-current assets | 16,896 | 18,081 | 19,518 | 21,367 | **22,773** |
| Current assets | 59,055 | 63,797 | 70,108 | 76,844 | **83,942** |
| Current liabilities | (45,644) | (50,672) | (57,325) | (60,878) | **(67,385)** |
| Net current assets | 13,411 | 13,125 | 12,783 | 15,966 | **16,557** |
| Total assets less current liabilities | 30,307 | 31,206 | 32,301 | 37,333 | **39,330** |
| Non-current liabilities | (3,002) | (3,230) | (3,237) | (2,831) | **(1,674)** |
| **Net assets** | 27,305 | 27,976 | 29,064 | 34,502 | **37,656** |
| **Equity attributable to equity owners of the parent** | 19,493 | 21,462 | 22,475 | 27,002 | **29,257** |
| **Non-controlling interests** | 7,812 | 6,514 | 6,589 | 7,500 | **8,399** |

Note 1: The proposed final dividend of approximately RMB980 million for 2011 is subject to the approval at the forthcoming annual general meeting.

# Shanghai Electric , Create Our Future Together

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

# CHAIRMAN'S REPORT



「Shanghai Electric has embarked on a completely new development path with its commitment to enhancing management standards via modernization, broadening development mindset via internationalization and "re-venturing".」

Chairman & CEO Xu Jianguo

As the starting year of the Twelfth Five-Year-Plan, 2011 witnessed the slowdown of world economic growth along with the worsening European debt crisis, slackening of US economic growth and the nuclear leak in Japan. Meanwhile, China also encountered a plethora of new issues and challenges in its economic transformation and development. Faced with the unusually complicated domestic and international economic situations, Shanghai Electric has been more committed than ever to the strategic direction of "innovation-driven and transformative development", take the initiative to overcome various difficulties and strive to break through bottlenecks of industrial development. In general, the Group has maintained good momentum in its operation and development by achieving the overall objective of "Having a good start, progressing to implementation and achieving solid results". Shanghai Electric has embarked on a completely new development path with its commitment to enhancing management standards via modernization, broadening development mindset via internationalization and "re-venturing".

## Enhancing core competence through accelerated technological progress

Scientific innovation and technological progress were the focal point of the Group in 2011. During the reporting period, we have improved our system for scientific and technological innovation, and strengthened the input of the science and technology effort to promote the unification on the technical research and development goal as well as strategic collaboration and to further enhance the ability of technological innovation. In respect to new energy segment, major breakthrough was achieved in large-scale casting and forging technology. Shanghai Electric has successfully delivered the full array of forgings for world's first AP1000 pressurizer and for high temperature gas-cooled reactor pressure vessels respectively and also developed the capability in mass production of stainless steel forgings for nuclear reactor vessel internals. Furthermore, Shanghai Electric has successfully manufactured and delivered the world's first domestically manufactured AP1000 pressurizer and AP1000 core make-up tank. As for high efficiency and clean energy segment, the 1.7 metres long turbine blades for our large nuclear steam turbine which we developed independently, were accepted and qualified as Shanghai Municipal high-tech industrial project. The stator base for 1,000MW nuclear power generator with a weight of over 500 tons was completed and successfully delivered, while the ultra-supercritical high and intermediate pressure rotor was in mass production, signifying Shanghai Electric's capability in manufacturing main equipment set of 1,000MW nuclear power conventional islands. We have successfully developed the technology of manufacturing China's first gas turbine and gasifier under the integrated gasification combined cycle (IGCC) exemplary project and started the process of installation and debugging. The enhancement of research & development ("R&D") capability for gas turbines is likely to provide solid technical support for our efforts to meet the ever growing market demand in the future. In the field of industrial equipment segment, our elevator business has continued to retain its leading position in China elevator market and achieved stage progress in the project of "R&D and industrialization for the high-speed elevator and high rise escalator" as one of Shanghai High-tech Industrialization projects. The first high capacity, ultra high speed motor rotor (maximum speed: 5,040 turns per minute) in China which was manufactured by the Group, passed ultra-speed dynamic balancing tests and was ready to be applied in the "Natural gas transmission from West to Eastern China" project. Our large scale grinder and computer-controlled machine tools have reached the highest standard in China. Meanwhile, the nano-scale precision micro computer-controlled grinder we developed has successfully passed relevant state-level testing.

## Improving economic benefits through management innovation

During the reporting period, Shanghai Electric's turnover amounted to RMB 67.92billion, representing a year-on-year increase of 7.9%, and its net profit attributable to owners of the parent amounted to RMB3.27billion, representing a year-on-year increase of 17.4%, was in line with the management expectation, set in the beginning of the year, which aimed at more rapid growth in profit than that in sales revenue. Faced with increasingly complex external environment, we continuously optimize our management capabilities through the stringent financial management, quality management and information management. During the reporting period, three major subsidiaries under Shanghai Electric Power Generation Group have undergone management diagnosis by well-known management consultancies including BBK, Roland Berger and iCognitive. Drawing from the suggestions in the diagnosis, we were able to resolve problems in inventory and logistics, strategic procurement and supply chain optimization as a result to improve management performance in a comprehensive manner. Meanwhile, a number of subsidiaries of the Group were awarded for their outstanding performances, e.g. Shanghai Mitsubishi Elevator Co., Limited has won the 11th National Quality Award; Shanghai Boiler Works Co., Ltd has won the Shanghai Mayor Quality Award, and two nuclear power subsidiaries, namely Shanghai Electric Power Generation Equipment Co., Ltd. and Shanghai Electric Nuclear Power Equipment Co., Ltd., received the 2011 Quality Management Award presented by China Guangdong Nuclear Power Holding Co., Ltd ("CGNPC"). During the reporting period, we promoted the management system utilizing information technologies in an orderly manner, standardized the entire business operation process featuring the vertical connection among three tiers and the horizontal business synergy in accordance with the management requirements of the Group, as well as established an integrated information platform (ERP). All those measures were taken to further enhance the capacity for vertical control and the overall operation of the Group.

## Achieving sustainable development through innovative business models

During the reporting period, Shanghai Electric has remained committed to developing innovative business models based on its strategic direction of "innovation-driven and transformative development", in order to facilitate the "re-venturing" of the Group. We have formed strategic alliance on wind power business with Siemens, aiming to enhance the Group's competence in the field of offshore wind power business as well as to drive the development of China's offshore wind power industry. The Group's subsidiary in India was officially established during the reporting period as a critical platform for international business operation and expansion in India and is bound to play a crucial role in the international development of Shanghai Electric. Meanwhile, we have signed a letter of binding intent for the joint venture with Alstom, agreeing to make joint efforts in establishing a world leader in boilers and related fields as well as consolidating competitive edge in terms of corporate scale, technology, cost structure and global strategic layout. In the field of power transmission and distribution, we have formed a joint venture with Shanghai Municipal Electric Power Company, a subsidiary of State Grid Corporation of China, in achieving competitive edge based on complementary effect in the field of power transmission and distribution equipments. In the field of environmental protection and energy efficiency, we have established joint ventures related to energy saving and efficiency in factories and buildings with Mitsubishi Electric from Japan, Carrier Corporation from the US and Schneider from France, respectively. This marked Shanghai Electric officially engaging in the field of energy efficiency in constructions and buildings, providing more reasonable energy efficiency solutions in China factories and buildings in the future.

2012 is an important consecutive year of implementing Shanghai Electric's Twelfth Five-Year-Plan. Also, it is a crucial year of Shanghai Electric to transform its way of development and to drive innovation. With a new perspective, the Group is determined to adhere to its strategic objectives set out in the Twelfth Five-Year-Plan in maintaining development momentum, increasing economic benefits, exploring new development paths and enhancing overall competence. We will be committed to speeding up the development of emerging industries as well as continuously seeking breakthroughs in new strategic business areas. Leveraging on technological advancement and competent human resources, we will strive to achieve the "re-venturing" of the Group. We are confident in driving Shanghai Electric into a whole new stage of extraordinary development with the integration and optimization of resources in a more open manner.

Lastly, I would like to take this opportunity to express my sincere gratitude to all shareholders for their continuous support and affection and to the directors, supervisors, management and the entire staff of the Group for their tremendous effort and devotion in the past year.

Let us strive to achieve for another remarkable year together!

Yours faithfully,
**Xu Jianguo**
Chairman
Shanghai, PRC
23 March 2012

# KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

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

(in accordance with the PRC GAAP)

Unit:'000 Currency: RMB

| Key accounting data | 2011 | 2010 | Change for the period over the corresponding period of the last year (%) |
|---|---|---|---|
| Operating revenue | **68,302,275** | 63,175,862 | 8.11 |
| Total profit | **5,208,373** | 4,122,568 | 26.34 |
| Net profit attributable to shareholders of the listed company | **3,310,083** | 2,819,499 | 17.40 |
| Net cash flows generated from operating activities | **929,753** | 4,827,114 | (80.74) |

| | At the end of 2011 | At the end of 2010 | Change for the end of the period over the end of the period of the last year (%) |
|---|---|---|---|
| Total assets | **106,715,059** | 98,211,841 | 8.66 |
| Equity attributable to owners of parent | **29,257,192** | 27,002,449 | 8.35 |

| Key financial indicators | 2011 | 2010 | Change for the period over the corresponding period of the last year (%) |
|---|---|---|---|
| Basic earnings per share (RMB/share) | **0.26** | 0.22 | 18.18 |
| Diluted earnings per share (RMB/share) | **0.26** | 0.22 | 18.18 |
| Weighted average net assets return rate (%) | **11.77** | 11.13 | increased by 0.64 percent |
| Net cash flows per share generated from operating activities (RMB/share) | **0.07** | 0.38 | (81.58) |

| | At the end of 2011 | At the end of 2010 | 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) | **2.28** | 2.11 | 8.06 |

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 the 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 | | Net assets | |
|---|---|---|---|---|
| | Current period | Previous period | At the end of the period | At the beginning of the period |
| In accordance with the PRC GAAP | 3,310,083 | 2,819,499 | 29,257,192 | 27,002,449 |
| Items and amounts adjusted in accordance with HKFRSs: | | | | |
| Staff bonus and welfare funds | (42,833) | (35,893) | - | - |
| In accordance with HKFRSs | 3,267,250 | 2,783,606 | 29,257,192 | 27,002,449 |

# SHAREHOLDING STRUCTURE AND DISCLOSURE OF INTERESTS

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## Shareholding Structure

| | Number of shares | Approximate percentage of issued share capital |
|---|---|---|
| A shares | 9,850,714,660 | 76.82% |
| 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 2011, 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 (%) |
|---|---|---|---|---|---|---|---|
| State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government | A | Interest of controlled corporation | 1 | 7,900,960,620 | Long position | 80.21 | 61.61 |
| | H | Interest of controlled corporation | 1 | 30,258,000 | Long position | 1.02 | 0.24 |
| Shanghai Electric (Group) Corporation | A | Beneficial owner | 1 | 7,411,068,498 | Long position | 75.23 | 57.79 |
| | H | Beneficial owner | 1 | 30,258,000 | Long position | 1.02 | 0.24 |
| Fengchi Investment Co., Ltd. | A | Beneficial owner | 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 |
| Templeton Investment Counsel, LLC | H | Investment manager | | 296,635,871 | Long position | 9.98 | 2.31 |
| Mirae Asset Global Investments (Hong Kong) Limited | H | Investment manager | | 175,754,000 | Long position | 5.91 | 1.37 |
| Siemens International Holding B.V. | H | Beneficial owner | 3 | 148,646,000 | Long position | 5.00 | 1.16 |
| Siemens Beteiligungsverwaltung GmbH & Co. OHG | H | Interest of controlled corporation | 3 | 148,646,000 | Long position | 5.00 | 1.16 |
| Siemens Beteiligungen Management GmbH | H | Interest of controlled corporation | 3 | 148,646,000 | Long position | 5.00 | 1.16 |
| Siemens Aktiengesellschaft | H | Interest of controlled corporation | 3 | 148,646,000 | Long position | 5.00 | 1.16 |

| 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 (%) |
|---|---|---|---|---|---|---|---|
| JP Morgan Chase & Co. | H | Beneficial owner | 4 | 28,952,674 | Long position | 0.97 | 0.23 |
| | H | Custodian corporation | 4 | 209,291,380 | Long position | 7.04 | 1.63 |
| | | Total long position | 4 | 238,244,054 | | 8.01 | 1.86 |
| | H | Beneficial owner | 4 | 16,055,004 | Short position | 0.54 | 0.13 |
| Blackrock, Inc. | H | Interest of controlled corporation | 5 | 177,902,336 | Long position | 5.98 | 1.39 |
| | H | Interest of controlled corporation | 5 | 3,075,722 | Short position | 0.10 | 0.02 |

## 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 7,441,326,498 shares (Long position) and 489,892,122 shares (Long position) 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 (Long position) 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 95% by Shenzhen Weijie Investment Company Limited which was owned as to 100% by Zhu Weihang. The interest in 907,778,942 shares (Long position) relates to the same block of shares in the Company.

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

(4) JPMorgan Chase & Co. held interests in a total of 238,244,054 shares (Long position) and 16,055,004 shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:-

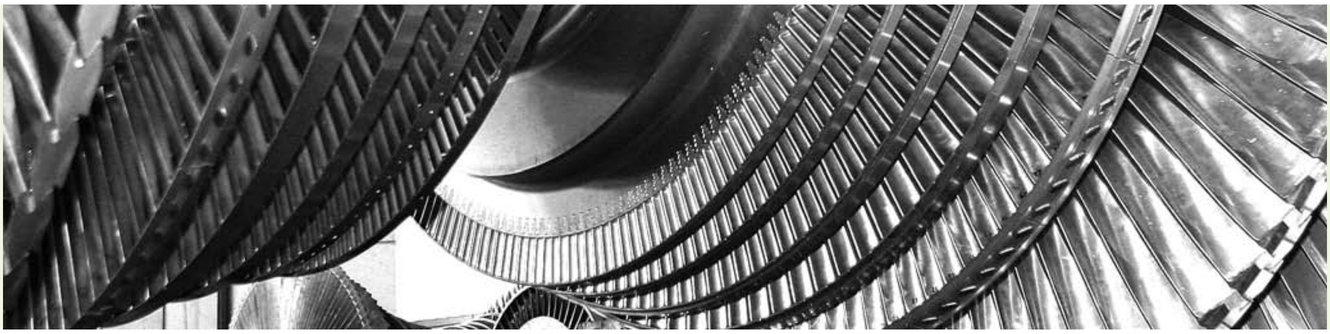
(4.1) JPMorgan Chase Bank, N.A. held 209,291,380 shares (Long position) in the Company. JPMorgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co.

(4.2) J.P. Morgan Whitefriars Inc. held 13,431,210 shares (Long position) and 546,304 shares (Short position) in the Company. J.P. Morgan Whitefriars Inc. was a wholly-owned subsidiary of J.P. Morgan Overseas Capital Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, which in turn was a wholly-owned subsidiary of J.P. Morgan International Inc. JPMorgan Chase Bank, N.A., referred to in (4.1) above, owned 100% interest in J.P. Morgan International Inc.

(4.3) J.P. Morgan Securities Ltd. held 15,521,464 shares (Long position) and 15,508,700 shares (Short position) in the Company. J.P. Morgan Securities Ltd. was owned as to 98.95% by J.P. Morgan Chase International Holdings, which in turn was wholly-owned by J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was wholly-owned by J.P. Morgan Capital Holdings Limited, which in turn was wholly-owned by J.P. Morgan International Finance Limited, referred to in (4.2) above.

(4.4) The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 209,291,380 shares (Long position). Besides, 546,304 shares (Short position) were held through derivatives as follows:-

| | | |
|---|---|---|
| 506,000 shares (Short position) | - | through cash settled listed derivatives |
| 40,304 shares (Short position) | - | through physically settled unlisted derivatives |



(5) Blackrock, Inc. held interest in a total of 177,902,336 shares (Long position) and 3,075,722 shares (Short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:-

(5.1) BlackRock Investment Management, LLC. held 8,950,300 shares (Long position) in the Company. BlackRock Investment Management, LLC. was a wholly-owned subsidiary of Trident Merger, LLC, which in turn was a wholly-owned subsidiary of Blackrock, Inc.

(5.2) BlackRock Fund Advisors held 12,266,000 shares (Long position) in the Company. BlackRock Fund Advisors was wholly-owned by BlackRock Institutional Trust Company, N.A., the latter was deemed to hold interest in 12,266,000 shares (Long position). BlackRock Institutional Trust Company, N.A. held 27,240,114 shares (Long position) and 170,000 shares (Short position) in the Company. BlackRock Institutional Trust Company, N.A. was a wholly-owned subsidiary of BlackRock Delaware Holdings, Inc., which in turn was wholly-owned by BlackRock Holdco 6 LLC. BlackRock Holdco 6 LLC was wholly-owned by BlackRock Holdco 4 LLC, which in turn was wholly-owned by BlackRock Financial Management, Inc.. BlackRock Financial Management, Inc was a wholly-owned subsidiary of BlackRock Holdco 2 Inc., which in turn was wholly-owned by Blackrock, Inc.

(5.3) BlackRock Advisors, LLC. held 62,730,300 shares (Long position) in the Company. BlackRock Advisors, LLC. was wholly-owned by BlackRock Capital Holdings, Inc., the latter was a wholly-owned subsidiary of BlackRock Advisors Holdings Inc. BlackRock Advisors Holdings Inc. was a wholly-owned subsidiary of BlackRock Financial Management, Inc., referred to in (5.2) above.

(5.4) BlackRock Asset Management Canada Limited held 222,000 shares (Long position) in the Company. BlackRock Asset Management Canada Limited was wholly-owned by BlackRock Holdings Canada Limited. BlackRock Holdings Canada Limited was a wholly-owned subsidiary of BlackRock (Institutional) Canada Ltd, and the latter was a wholly-owned subsidiary of BR Jersey International LP. BR Jersey International LP was a wholly-owned subsidiary of BlackRock International Holdings Inc., the latter was a wholly-owned subsidiary of BlackRock Advisors Holdings Inc., referred to in (5.3) above.

(5.5) BlackRock Asset Management Japan Limited held 40,000 shares (Long position) in the Company. BlackRock Asset Management Japan Limited was wholly-owned by BlackRock Japan Holdings GK. BlackRock Japan Holdings GK was a wholly-owned subsidiary of BlackRock Trident Holding Company Limited, which in turn was wholly-owned by BlackRock Cayco Ltd., the latter was a wholly-owned subsidiary of BR Jersey International LP, referred to in (5.4) above.

(5.6) BlackRock Investment Management (Australia) Limited held 701,300 shares (Long position) in the Company. BlackRock Investment Management (Australia) Limited was wholly-owned by BlackRock Australia Holdco Pty Ltd, the latter was a wholly-owned subsidiary of BR Jersey International LP, referred to in (5.4) above.

(5.7) BlackRock Asset Management Australia Limited held 46,000 shares (Long position) in the Company. BlackRock Asset Management Australia Limited was wholly-owned by BlackRock Australia Holdco Pty Ltd, referred to in (5.6) above.

(5.8) BlackRock Asset Management North Asia Limited held 1,942,750 shares (Long position) and 1,216,750 shares (Short position) in the Company. BlackRock Asset Management North Asia Limited was wholly-owned by BlackRock HK Holdco Limited, the latter was wholly-owned by BR Jersey International LP, referred to in (5.4) above.

(5.9) Blackrock Advisors (UK) Limited held 6,320,972 shares (Long position) and 1,688,972 shares (Short position) in the Company. BlackRock (Netherlands) B.V. held 80,000 shares (Long position) in the Company. BlackRock International Limited held 1,796,000 shares (Long position) in the Company. All the three corporations were wholly-owned by BlackRock Group Limited, the latter was wholly-owned by BR Jersey International LP, referred to in (5.4) above.

(5.10) BlackRock (Luxembourg) S.A. held 36,561,500 shares (Long position) in the Company. BlackRock (Luxembourg) S.A. was wholly-owned by BlackRock Luxembourg Holdco S.a.r.l., the latter was a wholly-owned subsidiary of BlackRock Group Limited, referred to in (5.9) above.

(5.11) BlackRock Asset Management Ireland Limited held 17,423,100 shares (Long position) in the Company. BlackRock Asset Management Ireland Limited was wholly-owned by BlackRock Investment Management Ireland Holdings Ltd, the latter was a wholly-owned subsidiary of BlackRock Luxembourg Holdco S.a.r.l., referred to in (5.10) above.

(5.12) BlackRock Fund Managers Limited held 256,000 shares (Long position) in the Company. BlackRock Fund Managers Limited was wholly-owned by BlackRock Investment Management (UK) Limited, the latter was deemed to hold interest in 256,000 shares (Long position). BlackRock Investment Management (UK) Limited held 1,326,000 shares (Long position) in the Company. BlackRock Investment Management (UK) Limited was wholly owned by BlackRock Group Limited, referred to in (5.9) above.

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 2011, had an interest or short positions in the shares and underlying shares of the Company.

## *Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Underlying Debentures of the Company*

As at 31 December 2011, none of the directors, supervisors or chief executives of the Company and their respective associates held or was deemed to hold interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be recorded in the register required to be kept 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 Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. As at 31 December 2011, none of the directors, supervisors or chief executives of the Company and 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 and Senior Management

| 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 | 60 | 15 December 2010 | 14 December 2013 | | | | | Yes |
| Zhu Kelin | Vice Chairmen and Non-executive Director | Male | 49 | 15 December 2010 | 14 December 2013 | | | | | Yes |
| Huang Dinan | Executive Director and President | Male | 45 | 15 December 2010 | 14 December 2013 | | | | 90.6 | No |
| Zhang Suxin * | Executive Director | Male | 47 | 15 December 2010 | 16 February 2011 | | | | 24.95 | No |
| Xu Ziying | Executive Director | Female | 42 | 25 May 2011 | 14 December 2013 | | | | | Yes |
| Yu Yingui | Executive Director and Chief Financial Officer | Male | 61 | 15 December 2010 | 14 December 2013 | | | | 70.6 | No |
| Yao Minfang | Non-executive Director | Female | 44 | 15 December 2010 | 14 December 2013 | | | | | Yes |
| Zhu Sendi | Independent Non-executive Director | Male | 71 | 15 December 2010 | 14 December 2013 | | | | 25 | No |
| Cheung Wai Bun | Independent Non-executive Director | Male | 75 | 15 December 2010 | 14 December 2013 | | | | 25 | No |
| Lui Sun Wing ** | Independent Non-executive Director | Male | 61 | 15 December 2010 | 14 December 2013 | | | | 27.08 | No |
| Dong Jianhua | Chief Supervisor | Male | 46 | 15 December 2010 | 14 December 2013 | | | | | Yes |
| Xie Tonglun | Supervisor | Male | 55 | 15 December 2010 | 14 December 2013 | | | | 34.4 | No |
| Li Bin | Supervisor | Male | 51 | 15 December 2010 | 14 December 2013 | | | | | No |
| Zhou Changsheng | Supervisor | Male | 46 | 15 December 2010 | 14 December 2013 | | | | | Yes |
| Zheng Weijian | Supervisor | Male | 50 | 15 December 2010 | 14 December 2013 | | | | | Yes |
| Zhu Bin * | Chief Operating Officer | Male | 50 | 15 December 2010 | 28 September 2011 | | | | 58.8 | No |
| Chen Ganjin | Chief Operating Officer | Male | 43 | 28 September 2011 | 14 December 2013 | | | | 11.9 | No |
| Huang Ou | Chief Technology Officer | Male | 40 | 17 June 2011 | 14 December 2013 | | | | 65 | No |
| Li Jing | Chief Information Officer | Female | 44 | 17 June 2011 | 14 December 2013 | 2,996 | 2,996 | | 60.7 | No |
| Tong Liping | Chief Legal Officer | Female | 40 | 17 June 2011 | 14 December 2013 | | | | 52.9 | No |
| Li Chung Kwong Andrew * | Company Secretary | Male | 52 | 15 December 2010 | 16 February 2011 | | | | 18.33 | No |
| Fu Rong | Secretary to the Board | Female | 41 | 15 December 2010 | 14 December 2013 | | | | 34.4 | No |
| Leung Ka Lok | Company Secretary | Male | 41 | 16 February 2011 | 14 December 2013 | | | | 110 | No |
| Total | | | | | | 2,996 | 2,996 | | 709.66 | |

* Details are contained in Changes of Driectors, Supervisors an Senior Management of the Company.

** The tenture corresponding to the remuneration paid to Lui Sun Wing, an independent non-executive director during the reporting period is from December 2010 to December 2011.

## Particulars of directors, supervisors and senior management:

### Directors

**Xu Jianguo**, aged 60, 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 45, 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.

**Xu Ziying**, aged 42, is an executive director of the Company. Ms. Xu has served as vice president of Shanghai Electric (Group) Corporation since April 2008 and the chairman of the board of directors of Shanghai Automation Instrumentation Co., Ltd. since May 2008. Ms. Xu has been the section officer, deputy division chief, division chief and deputy chief economist of Shanghai Municipal Development and Reform Commission. Ms. Xu has rich experience in strategic planning and industrial development. Ms. Xu graduated from Shanghai Jiao Tong University with a master's degree in management and she is an economist.

**Yu Yingui**, aged 61, joined the Company in March 2004 and is an executive director and the chief financial officer of the Company. Mr. Yu has over 40 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 49, 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 44, 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.

**Zhu Sendi**, aged 71, 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 supervisor of Chinese Mechanical Engineering Society, a consultant 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., and 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. Cheung Wai Bun**, Charles, J.P., aged 75, 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 and 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, Senior Advisor of Metropolitan Bank & Trust Co. Philippines, independent director and director general of Audit Committee of China Resources Bank of Zhuhai Co., Ltd. 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 Hong Kong main Board, independent director of Universal Technologies Holdings Limited(listed on Hong Kong main Board),independent director and chairman of Remuneration Committee of Grand T.G Gold Holding Limited (listed on Hong Kong GEM Board), Executive Director of Lightscape Technologies Inc. and advisor of Twin Wealth Group, Hong Kong. He is visiting professor, School of Business, Nanjing University, China and a member of Governing Committee of Kowloon Hospital and Hong Kong Eye Hospital. 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 in business administration from John Dewey University of USA and a master degree in business administration and a bachelor degree of science 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 and (3) Outstanding CEO Award for the Year 2010 of The Asia Pacific CEO Association in Hong Kong.

**Dr. Lui Sun Wing**, aged 61, joined the Company in December 2010. He is an independent non-executive director of the Company. Dr. Lui worked at the Hong Kong Productivity Council from October 1981, and served as various positions. In December 1992, 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 till retirement responsible for partnership development, applied R&D and transformation of research results. Dr. Lui is also an international director of SAE International, the founding 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 currently an executive director of Leeport (Holdings) Limited, independent non-executive director of EVA Precision Industrial 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 46, joined the Company in December 2010. He is the chief supervisor of the Company. He joined the Shanghai Electric (Group) Corporation, which is the parent group of the Company, 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 and 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 55, joined the Company in March 2004. He is the employee representative of the supervisory committee of the Company. He is also the secretary of the communist party office of Shanghai Electric Group Company Limited and vice chairman of labour union of Shanghai Electric Group Company Limited. Mr. Xie was the deputy manager of the administration office of Shanghai Electric (Group) Corporation from 1996 to 2001 and the deputy secretary of the Commission for Discipline Inspection of Shanghai Electric (Group) Corporation from 2001 to 2004. Mr. Xie graduated with a degree in business administration from Shanghai Administration Institute.

**Li Bin**, aged 51, joined the Company in November 2007 and is an employee representative of supervisory committee of the Company, the chief technologist of Shanghai Electric Hydraulic & Pneumatics Co., Ltd. and head of the production line of the computer numerically controlled plant of Shanghai Hydraulic Pump Factory. 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 an engineer and a Senior Technician.

**Zhou Changsheng**, aged 46, joined the Company in November 2007 and is a supervisor of the Company, deputy head of the audit office of Shenergy Group Co. Ltd., the chief auditor of Anhui Wuhu Nuclear Power Co., Ltd., and an independent director of Shanghai CP Guojian Pharmaceutical Co., Ltd. Mr. Zhou had been the deputy head of the treasury division of the finance department of Meishan subsidiary of Baosteel Group, the manager of the accounting department of Shanghai Bailian (Group) Co. Ltd., the director of the finance department of Shenergy Group Co. Ltd., a director of Shanghai Metro Construction Corporation Ltd. and an independent director of Shanghai Zhongxi Pharmaceutical Co., Ltd.. Mr. Zhou holds a master degree. He is also a senior accountant and a Certified Public Accountant in PRC.

**Zheng Weijian**, aged 50, 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 has 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 Management

**Chen Ganjin,** aged 43, joined the Company in 1993 and currently serves as the Chief Operating Officer of Shanghai Electric Group Company Limited as well as Vice Chairman of Shanghai Rail Traffic Equipment Co., Ltd.. Previously, Mr. Chen had served as Communist Party Secretary and Chairman of Shanghai Boiler Works, Ltd., Communist Party Deputy Secretary and Executive Vice President of Shanghai Electric Power Generation Group, Communist Party Secretary, General Manager and Director of Shanghai Station Auxiliary Machine Co., Ltd., General Manager, Communist Party Deputy Secretary and Director of Shanghai Diesel Engine Co., Ltd., Communist Party Secretary and General Manager of Shanghai Rail Traffic Equipment Development Co., Ltd. and Deputy Head of Industry Development Division of Shanghai Electric Group Company Limited, and Assistant President of Shanghai Electric Group Company Limited. Mr. Chen Ganjin graduated from Xi'an Jiaotong University with a Bachelor's Degree of Engineering, majoring in thermal energy and power engineering in power station. Mr. Chen obtained a Master of Business Administration from China Europe International Business School and a Master of Professional Accounting from the Chinese University of Hong Kong.

**Huang Ou**, aged 40, joined the Company in 1996 and currently serves as Chief Technology Officer and head of the Science and Technology Management Department of the Company, secretary of the communist party and standing vice president of the Central Research Institute of Shanghai Electric (Group) Corporation, executive vice president of Shanghai Electric Power Generation Group, vice chairman and vice president of Shanghai Electric Power Generation Equipment Co., Ltd. and chairman of SEC-IHI Power Generation Environment Protection Engineering Co., Ltd.. Mr. Huang has rich experience in the manufacture of power generation equipment. He previously served as president of Shanghai Turbine Co., Ltd. from 2004 to 2006, vice president of Shanghai Electric Power Generation Equipment Co., Ltd. from 2007 to 2009 and has served as executive vice president of Shanghai Electric Power Generation Group since 2006. Mr. Huang graduated from Shanghai Jiao Tong University with a master's degree in engineering and is a senior engineer of professor level.

**Li Jing**, aged 44, joined the Company in 1989 and currently serves as Chief Information Officer and director of the information management department of the Company, Chief Information Officer of the IT department of Shanghai Electric Power Generation Group. Ms. Li has long-term information construction work in the subsidiary of the Group and has over 23 years of extensive experience in IT and IT management. She has served as Chief Information Officer of the IT Department of Shanghai Electric Power Generation Group since 2004, and director of the IT Department of the Company since 2009. Ms. Li is an expert in manufacturing information engineering of the People's Republic of China. Ms. Li obtained a bachelor's degree in engineering and a master's degree in accounting and is a senior engineer of professorial level.

**Tong Liping**, aged 40, joined the Company in 1993 and currently serves as Chief Legal Officer and director of legal department of the Company. Ms. Tong has rich knowledge in economic laws and international laws and is experienced in managing corporate legal affair. She served as director of the legal and audit office of Shanghai Electric Power Generation Group from 2004 to 2009, director of the legal affairs centre of the Company from 2006 to 2008, deputy director of legal department of the Company from 2008 to 2009 (in charge of the work of this department), and has served as director of the legal department of the Company and director of the legal department of Shanghai Electric Power Generation Group since 2009. Ms. Tong graduated from Shanghai Fudan University with a master's degree in law.

**Fu Rong**, aged 41, 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, and head of the Investor Relations Department of the Company. She has been the Representative of Security Affairs of Shanghai Power Transmission and Distribution Co., Ltd., head of marketing department of low voltage product division of ABB (China) Ltd. and the secretary of the board of directors of Shanghai Power Transmission and Distribution Co., Ltd.. Ms. Fu holds a bachelor degree in management and is an Economist.

**Leung Ka Lok**, aged 41, joined the Company in January 2011 and is the Company Secretary and the deputy head of the Investor Relations Department of the Company. He served as the chief financial officer and company secretary of Fortune Sun (China) Holdings Limited. Mr. Leung has extensive experience in auditing, financial management, direct investment and corporate finance. Mr. Leung holds a Master Degree in Business Administration from the University of Manchester and a Bachelor's Degree in Accountancy from the City University of Hong Kong and is a member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants.

## 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 |
| Xu Ziying | Shanghai Electric (Group) Corporation | Vice President | April 2008 | Up to now | Yes |
| 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 shareholding 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 |
| Xu Ziying | Shanghai Automation Instrumentation Co., Ltd. | Chairman of the Board | June 2011 | June 2014 | No |
| Yu Yingui | Shanghai Mechanical & Electrical Industry Company Limited | Chief Supervisor | May 2009 | May 2012 | No |
| | Shanghai 3F New Materials Company Limited | Independent Director | April 2011 | April 2014 | 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 | Supervisor | 2011 | Up to now | 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 | Up to now | No |
| | Taiyuan Heavy Machinery (Group) Co., Ltd. | Independent Director | June 2010 | June 2013 | Yes |
| | Hangzhou Advance Gearbox Group Co., Ltd. | Independent Director | September 2011 | September 2014 | 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 2012 | Yes |
| | Pioneer Global Group Limited | Independent Non-executive Director and Chairman of Audit Committee | June 1999 | September 2013 | Yes |

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| Name | Name of shareholding entities | Positions | Commencement of term | End of term | Receiving remuneration and allowance |
|---|---|---|---|---|---|
| Cheung Wai Bun | China Financial International Investments Limited | Independent Non-executive Director and Chairman of Audit Committee | March 2001 | December 2014 | Yes |
| | Grand T G Gold Holdings Limited | Independent Director and Chairman of Remuneration Committee | July 2009 | July 2012 | Yes |
| | China Resources Bank of Zhuhai Co., Ltd. | Independent Director and Chairman of Audit Committee | December 2009 | December 2012 | Yes |
| | Twin Wealth Holdings Limited | Consultant | October 2011 | October 2012 | Yes |
| | Universal Technologies Holdings Limited | Independent Director | September 2011 | September 2013 | Yes |
| | Lightscape Technologies Inc. | Executive Chairman | November 2010 | November 2013 | 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. | Chief Technologist | December 1980 | Up to now | Yes |
| Zhou Changsheng | Anhui Wuhu Nuclear Power Co., Ltd. | Chief Auditor | March 2009 | Up to now | No |
| | Shanghai CP Guojian Pharmaceutical Co., Ltd. | Independent Director | October 2010 | Up to now | Yes |
| 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 |
| Tong Liping | Shanghai Highly (Group) Co., Ltd. | Supervisor | June 2011 | June 2014 | 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 |
|---|---|---|---|
| Zhang Suxin | Executive Director | Resigned | Re-designation of position |
| Xu Ziying | Executive Director | Appointed | New appointment of director |
| Zhu Bin | Chief Operating Officer | Resigned | Re-designation of position |
| Chen Ganjin | Chief Operating Officer | Appointed | New appointment as senior management |
| Huang Ou | Chief Technology Officer | Appointed | New appointment as senior management |
| Li Jing | Chief Information Officer | Appointed | New appointment as senior management |
| Tong Liping | Chief Legal Officer | Appointed | New appointment as senior management |
| Li Chung Kwong Andrew | Company Secretary | Resigned | Re-designation of position |
| Leung Ka Lok | Company Secretary | Appointed | New appointment as senior management |

## Employees of the Company

| | |
|---|---|
| Total number of employees | 26,330 |
| Number of retired employees for whom the Company is responsible for the retirement benefits | 280 |

Headcount Structure

| Personnel classification | Number of employees |
|---|---|
| Production personnel | 13,564 |
| Sales personnel | 1,844 |
| Technical personnel | 6,684 |
| Financial personnel | 575 |
| Administration personnel | 3,663 |
| Total | 26,330 |

Education Level

| Degree | Number of employees |
|---|---|
| Postgraduate and above | 1,285 |
| Undergraduate | 7,234 |
| Tertiary education | 5,794 |
| Secondary education or below | 12,017 |

## 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.

# CORPORATE GOVERNANCE REPORT

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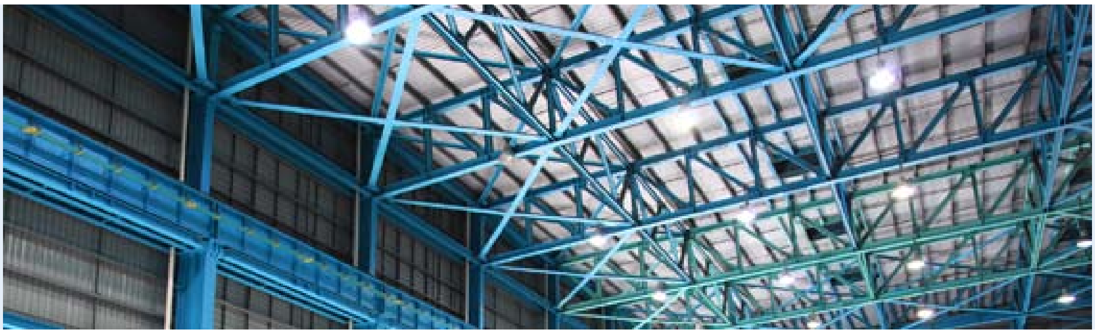


## Corporate Governance

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 2011.

## Board of Directors

The Board of Directors comprises nine directors, including four executive directors, namely Xu Jianguo, Huang Dinan, Xu Ziying and Yu Yingui, two non-executive directors, namely Zhu Kelin and 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 tremendous 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 making process and safeguarding interests of the Company and shareholders as a whole effectively.



All independent non-executive directors have confirmed their independence from the Company as required under Rule 3.13 of the Listing Rules annually. The Company has received the annual confirmations from such Directors and considered them to be independent in 2011.

The Board formulates overall development strategies of the Group, monitors its financial performance and maintains effective supervision over the management. Members of the Board act in an effort to maximize the long-term interests of shareholders and match the business goals and development direction of the Group to the current economic and market conditions. The management is responsible for the daily operation and management of the Group.

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, operational, famlial 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 | 4 | 8 | 0 | 0 | No |
| Zhu Kelin | No | 12 | 4 | 8 | 0 | 0 | No |
| Huang Dinan | No | 12 | 3 | 8 | 1 | 0 | No |
| Xu Ziying | No | 7 Note(i) | 2 | 5 | 0 | 0 | No |
| Yu Yingui | No | 12 | 4 | 8 | 0 | 0 | No |
| Yao Minfang | No | 12 | 3 | 7 | 2 | 0 | No |
| Zhu Sendi | Yes | 12 | 3 | 8 | 1 | 0 | No |
| Cheung Wai Bun | Yes | 12 | 3 | 8 | 1 | 0 | No |
| Lui Sun Wing | Yes | 12 | 4 | 8 | 0 | 0 | No |

Note (i) Ms. Xu Ziying commenced her directorship of the Company since 28 June 2011.

| | |
|---|---|
| Number of Board meetings held for the year | 12 |
| Of which: Number of physical meetings | 4 |
| Number of meetings held via electronic communications | 8 |
| Number of meetings held by the way combining physical meeting and electronic communication | 0 |



## 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 are eligible for re-election and reappointment 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, connected transactions, the appointment of and remuneration for auditors. The Audit Committee held a meeting and amended the terms of reference of Audit Committee in accordance with the latest securities listing rules promulgated by the Hong Kong Stock Exchange by increasing the minimum number of the Audit Committee's meetings with the auditor in the absence of the management from one to two, so as to discuss any matters regarding auditor fees, arising from auditing or raised by the auditor. The Audit Committee, currently comprising independent non-executive directors 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.

Five meetings of the Audit Committee were convened on 15 February, 23 March, 27 April, 16 August, 20 October 2011 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 made recommendations for improvement to the Board of Directors. Our Audit Committee has also reviewed the quarterly, interim and annual financial reports, profit distribution plan, and 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 in person/ number of meetings ought to attend):

| Name of Audit Committee Member | Attendance |
|---|---|
| Cheung Wai Bun (Chairman of the Committee) | 5/5 |
| Zhu Sendi | 5/5 |
| Lui Sun Wing | 3/5 |
| Yao Minfang | 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.

The meeting of the Remuneration Committee was held on 24 March 2011 and 18 August 2011, respectively, 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 set the incentive compensation plan for the management of the Company.

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

| Name of Remuneration Committee Member | Attendance |
|---|---|
| Lui Sun Wing (Chairman of the Committee) | 2/2 |
| Huang Dinan | 2/2 |
| Zhu Sendi | 2/2 |

## Strategic Committee

The Strategic Committee was newly established by the Board of the Company in 2011. The Strategic Committee is currently composed of Mr. Xu Jianguo, Mr. Huang Dinan, Ms. Xu Ziying, Mr. Zhu Sendi and Dr. Lui Sun Wing, and chaired by Mr. Xu Jianguo.

Meetings of the Strategic Committee were held on 24 March 2011 and 17 August 2011, respectively, at which the Strategic Committee reviewed the "Twelfth Five Year" strategic plan and major investment projects of the Company.

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

| Name of Strategic Committee Member | Attendance |
|---|---|
| Xu Jianguo (Chairman of the Committee) | 1/2 |
| Huang Dinan | 1/2 |
| Xu Ziying | 2/2 |
| Zhu Sendi | 2/2 |
| Lui Sun Wing | 2/2 |

## Nomination of Directors and Nomination Committee

The Board of Directors has not established the Nomination Committee during the reporting period. Pursuant to the Company's articles of association (the "Articles of Association"), shareholders of the Company are entitled to propose director 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 shall be no less than seven days.

The Nomination Committee was newly established by the Board of the Company on 23 March 2012. The Nomination Committee is currently composed of Mr. Zhu Sendi, Mr. Huang Dinan and Dr. Cheung Wai Bun, and chaired by Mr. Zhu Sendi. The Nomination Committee is primarily responsible for selecting and reviewing candidates for directors of the Company, the criteria and procedure for such selection, as well as making recommendations to the Board and general meetings of the Company.

## 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 2011, 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.

1000MW Thermal Power Station in Caojing

## Supervisory Committee

The supervisory committee of the Company (the "Supervisory Committee") is a standing monitoring agency of the Company responsible for monitoring the Board of Directors and its members and senior management to avoid abuse of power that may harm the legitimate 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 in person/ number of meetings ought to attend):

| Name of Supervisors | Attendance |
|---|---|
| Dong Jianhua | 6/7 |
| Xie Tonglun | 7/7 |
| Li Bin | 6/7 |
| Zhou Changsheng | 7/7 |
| Zheng Weijian | 7/7 |



## Internal Control

Pursuant to relevant 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 improved the implementation of the internal control system for the purpose of ensuring its effective implementation.

According to the requirements of the "Practice Guideline of Internal Controls for Enterprises" by the five PRC government departments and authorities, with reference to the practices of domestic and overseas advanced enterprises, the Company has compiled the "Internal Control Handbook" which standardizes the internal control requirements on 29 processes with 333 control points, which include corporate governance, overall budget, human resources, investment management, sales receipt, procurement payments, as well as the relevant segregation of duties and respective requirements on authorization and approval. Meanwhile, the Company has promoted the "Internal Control Handbook" to various business units and their subordinate units in a focused and step-by-step manner in an effort to organize and improve the internal control system. The Company completed the promotion of the "Internal Control Handbook" to all of its 60 controlling units on the basis of preliminary pilot promotion in 2011, which effectively facilitate the establishment and improvement of the internal control system of the Company.

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 improvement, so as to persistently enhance the level of the Company's internal control.

The Company has established an effective internal control assessment system. The Audit and Review Office draws up working plans for internal control reviews annually and set up an assessment team consisting of competent members transferred from various segments of businesses. The team conducts internal control assessment on units and businesses in a specified scope, identifies any defects of internal controls and makes proposals on rectification. Reports on the assessment of internal controls are compiled and presented to the audit committee and the Board, so as to persistently enhance the level of the Company's internal control. In 2011, the Company has complied with the requirements of C.2.1 of Appendix 14 of the Listing Rules. The Company has completed internal control reviews on 16 units and 18 business processes, including the Company's corporate office, covering the majority of important business units and key risk areas of the Company. The three indicators of the assessed units, namely total assets, turnover and net profits, all accounts for over 70% of those in the consolidated report of the Company.

The Board of the Company is responsible for the establishment and implementation of internal controls. The Audit Committee is responsible for monitoring the establishment and implementation of internal controls. The Company standardizes the requirements for internal controls and improves the internal control system mainly through the establishment and promotion of the "Internal Control Handbook". Any defects in internal controls are identified in a timely manner through annual internal control reviews in which accounting firms are engaged to conduct the audit on financial reporting internal controls. The Company would urge relevant business segments and units to implement rectification measures in a timely manner, so as to ensure effective operation of internal controls of the Company.



The Company has conducted self-assessment with respect to internal control during the year and the results discovered that from 1 January 2011 to the end of the current reporting period, the Company did not have weakness in terms of design and implementation of internal controls.

## 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 to 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 ("SE Corporation"). The independence in terms of operations, assets, staff, structure and finance of the Company from its controlling shareholders is as follows:

1. Operation Independence

   The Company has an independent chain of operation in respect of supply, production and sales system, which possess independent and comprehensive operational structure and the independent operational capability of facing the market. 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 authorized 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 and other senior management are appointed strictly in accordance with the relevant provisions of the Company Law and the Articles of Association. The president, chief financial officer, and other senior management do not have any executive position in the controlling shareholder or other companies under its control. The president, chief financial officer, and other senior management 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. Since its establishment, 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 discloses 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 department has arranged interviews and site visits for investors and organized reverse roadshows from time to time. The team has also attended investors forum and conducted domestic and 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

CREATE OUR FUTURE TOGETHER

| Session of the meeting | Date of meeting | Information disclosure newspapers for publishing the resolutions | Date of information disclosurefor publishing the resolutions |
| --- | --- | --- | --- |
| Annual general meetings of the Company for 2010 | 25 May 2011 | China Securities Daily, Shanghai Securities Daily, Securities Times Daily | 26 May 2011 |

# REPORT OF THE DIRECTORS

## Management Discussion and Analysis

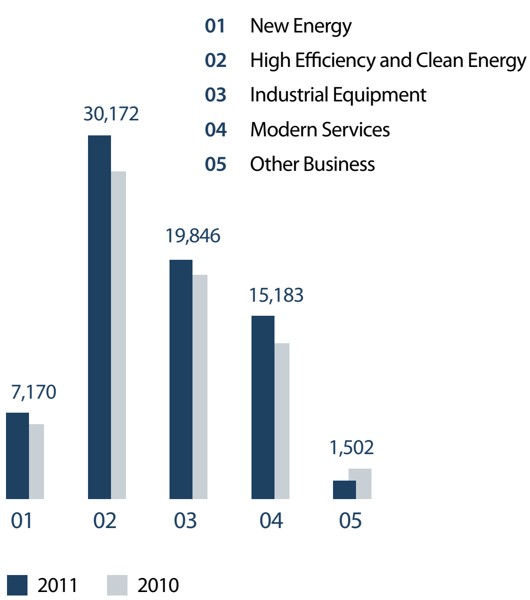
During the reporting period, the Company carefully coped with the volatile macroeconomic environment and accelerated the development of its core businesses through innovative management. It also aggressively promoted the commercialization of new and advanced technologies and establishment of our world-class plants, as to enhancing the profitability of the Group. The growth of economic benefits has outpaced the growth of revenue. During the reporting period, the Group recorded a sales revenue of RMB67,918 million, representing a growth of 7.9% compared with that of the same period last year. Net profit attributable to owners of the parent amounted to RMB3,267 million, representing a growth of 17.4% compared with that of the same period last year.

CREATE OUR FUTURE TOGETHER

## Business Review of Major Business Segments

(in RMB million)

| 2011 | 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 | 7,170 | 6,468 | 9.8% | 15.6% | 21.5% | -4.3 percent |
| High Efficiency and Clean Energy | 30,172 | 23,601 | 21.8% | 11.1% | 5.1% | 4.5 percent |
| Industrial Equipment | 19,846 | 16,011 | 19.3% | 6.9% | 6.5% | 0.2 percent |
| Modern Services | 15,183 | 14,319 | 5.7% | 17.8% | 19.5% | -1.4 percent |
| Other Business | 1,502 | 1,253 | 16.6% | -40.4% | -45.5% | 7.7 percent |
| Elimination | (5,955) | (5,912) | 0.7% | 35.6% | 34.1% | 1.1 percent |
| **Total** | **67,918** | **55,740** | **17.9%** | **7.9%** | **5.8%** | **1.6 percent** |




Gas Turbine Assembly Process

## New Energy Segment

During the reporting period, the wind power business of the Company continued to have steady growth with new orders inflow amounting to over RMB6 billion and set a new historical record. The wind power strategic alliance between the Company and Siemens will strengthen the Company's capability in off-shore wind power business. The new energy segment recorded a revenue of RMB7,170 million, representing a year-on-year increase of 15.6%, of which revenue from the sales of wind power equipment reached RMB3,483 million, representing a year-on-year increase of 15.9%. The gross profit margin and the operating margin of the segment were 9.8% and 2.4%, respectively. The varying degrees of declines in gross profit margin and operating profit margin over years were mainly due to the decline of market prices for wind power products. Profit declined as a result. In addition, the profitability of large forging components had yet to be improved in the product development phase.

## High Efficiency and Clean Energy Segment

During the reporting period, the Company continued to maintain its leading position in the domestic market of 1,000MW ultra super-critical thermal power equipment. The gas turbine business of the Group saw demand spurs by the latest development opportunities in the domestic gas turbine market. During the reporting period, new orders for gas turbines amounted to approximately RMB4.7 billion, representing a year-on-year increase of nearly 50%. Revenue from the high efficiency and clean energy segment amounted to RMB30,172 million, representing a year-on-year increase of 11.1%. Gross profit margin of the segment amounted to 21.8%, representing a year-on-year increase of 4.5 percent and operating profit margin of the segment amounted to 10.9%, representing a year-on-year increase of 5.9 percent. Such increases were mainly due to the increase of gross profit margin and the higher contribution to Group revenue of high parameter and high grade thermal power equipment in the segment.

## Industrial Equipment Segment

The elevator business of the Company maintained a strong momentum despite the tightening measures on the real estate sector promulgated by the central government. Our elevator business maintained strong momentum and outperformed its peers in terms of safety, quality and after-sale services and maintained a record of highest annual output for a single plant in the world for the seventh consecutive year. During the reporting period, the industrial equipment segment recorded a revenue of RMB19,846 million, representing a year-on-year increase of 6.9%, mainly due to the increase in sales of elevators, electric motors and other related products in the segment. The gross profit margin of the segment amounted to 19.3%, representing a year-on-year increase of 0.2 percent. The operating profit margin amounted to 5.5%, representing a year-on-year increase of 0.6 percent.

## Modern Services Segment

Leveraging our manufacturing competitive edge, we continued to optimize resource allocation in the service segment. During the reporting period, the Group has further expanded its power station EPC overseas projects with steady growth in order backlog. The modern services segment recorded a revenue of RMB15,183 million, representing an year-on-year increase of 17.8% during the reporting period, mainly due to the increase in sales of general contracting for power station engineering projects in the segment. Gross profit margin and operating margin of the segment amounted to 5.7% and -0.5%, respectively. The varying declines in gross profit margin and operating profit margin were mainly due to the increases in costs and provision of account receivables of certain individual projects in the segment.

## Review of the principal activities by geographical areas

(in RMB million)

| Geographical Areas | 2011 | | 2010 | |
|---|---|---|---|---|
| | Sales Revenue | Proportion | Sales Revenue | Proportion |
| Mainland China | 52,029 | 76.6% | 51,110 | 81.2% |
| Elsewhere | 15,889 | 23.4% | 11,847 | 18.8% |
| **Total** | **67,918** | **100.0%** | **62,957** | **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.

Note 2: Total purchases from the five largest suppliers of the Company accounted for 8.07% of the total purchases of the year and total sales to the five largest customers accounted for 14.34% of the total sales of the year.

## 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 | 19,088 | 17.9% | 18,943 | 19.3% |
| Trade receivables | 18,365 | 17.2% | 15,977 | 16.3% |
| Prepayments, deposits and other receivables | 10,449 | 9.8% | 8,886 | 9.0% |
| Inventories and construction contracts | 21,175 | 19.8% | 20,328 | 20.7% |
| **Liabilities** | | | | |
| Short-term interest-bearing bank and other borrowings | 685 | 0.6% | 396 | 0.4% |
| Trade payables | 20,657 | 19.4% | 15,968 | 16.3% |
| Other payables and accruals | 37,011 | 34.7% | 38,560 | 39.3% |
| Bonds | 1,000 | 0.9% | 1,000 | 1.0% |
| Long-term interest-bearing bank and other borrowings | 701 | 0.7% | 1,021 | 1.0% |
| Total liabilities | 69,059 | 64.7% | 63,710 | 64.9% |
| Total equity | 37,656 | 35.3% | 34,502 | 35.1% |
| Total assets | 106,715 | 100.0% | 98,212 | 100.0% |

The proportion of cash and cash equivalent in total assets at the end of the year decreased by 1.4 percent from the beginning of the year mainly due to the extension of the receivable recovery period and the decrease in cash inflows from operating activities. However, the balance of cash and cash equivalent still recorded an increase compared with that of the beginning of the year.

The proportion of trade receivables in total assets at the end of the year increased by 0.9 percent from the beginning of the year mainly due to the increase of sales revenue and an extension of the receivable recovery period as a result of the tightening monetary policies promulgated by the Central Government.

The proportion of inventories and construction contracts in total assets at the end of the year decreased by 0.9 percent from the beginning of the year mainly due to the continuous integration of supply chain management, the optimization of operation and management, as well as the improvement of inventories turnover, which was at a historically optimal level.

The proportion of trade payables in total assets at the end of the year increased by 3.1 percent from the beginning of the year mainly due to the increase of materials procurement driven by the increase in sales.

The proportion of other payables and accruals at the end of the year decreased by 4.6 percent from the beginning of the year mainly due to the advances from customers recognized as revenue after the accomplishment of purchases orders.

2. Items in the income statement

(in RMB million)

| | 2011 | 2010 | Change | Rate (%) |
|---|---|---|---|---|
| Revenue | 67,918 | 62,957 | 4,961 | 7.9 |
| Other income and gains | 894 | 1,328 | (434) | -32.7 |
| Finance costs | 83 | 52 | 31 | 59.6 |
| Other expenses | 2,726 | 2,955 | (229) | -7.7 |
| Share of profits and losses of jointly-controlled entities and associates | 734 | 814 | (80) | -9.8 |
| Income tax | 715 | 228 | 487 | 213.6 |
| Net profit attributable to owners of the parent | 3,267 | 2,784 | 483 | 17.4 |



Other income and gains decreased by 32.7% from 2010 mainly due to the year-on-year decreases in both government grants and gains from disposal of subsidiaries during the reporting period.

Other expenses decreased by 7.7% from 2010 mainly due to decreases in the royalty fees on technical know-how and in the loss on disposal of non-current assets during the reporting period.

Share of profits and losses of jointly-controlled entities and associates decreased by 9.8% from 2010 mainly due to the decline of the operation results of centain associates influenced by cyclical volatilities in the corresponding industries.

Income tax increased by 213.6% from 2010 mainly due to the profit increase for the year.

3. Items in the statement of cash flows

(in RMB million)

| Items | 2011 | 2010 | Change |
|---|---|---|---|
| Balances of cash and cash equivalents at beginning of year | 15,372 | 12,605 | 2,767 |
| Net cash flows from operating activities | 847 | 4,820 | (3,973) |
| Net cash flows from investing activities | (708) | (4,358) | 3,650 |
| Net cash flows from financing activities | (168) | 2,366 | (2,534) |
| Net increase in cash and cash equivalents | (29) | 2,828 | (2,857) |
| Effect of foreign exchange rate changes on cash | (32) | (61) | 29 |
| Balances of cash and cash equivalents at the end of the year | 15,311 | 15,372 | (61) |

Net cash inflow from operating activities decreased by RMB3,973 million from 2010 mainly due to the slowdown in receivables recovery and the decrease in advances from customers as a result of the tightening monetary measures promulgated by the Central Government during the reporting period.

Net cash outflow from investment activities decreased by RMB3,650 million from 2010 mainly due to decreases in capital expenditure on acquisition of fixed assets and investments of Shanghai Electric Group Finance Co., Ltd., a subsidiary of the Company, during the reporting period.

Net cash flows from financing activities decreased by RMB2,534 million from 2010 mainly due to the equity funds of approximately RMB2.2 billion raised in A share private offering during the same period last year.

## Source of Funding and Indebtedness

As at 31 December 2011, the Group had aggregate bank and other borrowings and bonds of RMB2,386 million (2010: RMB2,417 million), representing a decrease of RMB31 million from the beginning of the year. Borrowings and bonds repayable within one year amounted to RMB1,685 million, representing an increase of RMB1,289 million compared with that of the beginning of the year. Borrowings and bonds repayable after one year amounted to RMB701 million, representing a decrease of RMB1,320 million compared with that of the beginning of the year.

As at 31 December 2011, the bank and other borrowings of the Group, except for unsecured bank loans at HK$52,000,000 (2010: HK$52,000,000) in aggregate, which were equivalent to RMB42,156,000 (2010: RMB44,248,000); JPY80,000,000 (2010: JPY80,000,000) in aggregate, which were equivalent to RMB6,488,000 (2010: RMB6,501,000), all other non-secured bank borrowings are denominated in Renminbi.

As at 31 December 2011, 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 5.96%, a decrease from 6.55% at the beginning of the year.

## Pledge of Assets

As at 31 December 2011, bank deposits of RMB629 million (2010: RMB653 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 RMB914,000 as at 31 December 2011 (2010: RMB53 million).

## Contingent Liabilities

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

## Capital Commitments

Please refer to note 49 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 costs. On the other hand, leveraging 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-denominated purchase orders in order to mitigate our foreign exchange risk. We will also develop our foreign exchange forwards 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

With the macro-economic environment expected to remain complex and volatile for 2012, the Company will continuously focus on the national development strategies and enhance our technological innovation as to explore the international and domestic market. By focusing on strengthening of comprehensive management of the Company, we will continue to enhance economic value and management efficiency of the Group.

For the year 2012, the business objective of the Company is to achieve steady increases in sales revenue and net profit with the growth in net profit at a faster pace than that of sales revenue. The Company is committed to continuously improving the key financial operating indicators such as operating cash flow, receivables and inventories. Apart from the above, we will focus on the following major areas:



### Reinforce procurement management and enhance operation refinement

The Company will continue to strengthen the development of centralized procurement. On one hand, it will expand its scope of centralized procurement, further enhance the procedures in tender offering and tender evaluation, and strengthen the monitoring on daily operation. On the other hand, the Company will endeavour to lower overall cost and strive for better commercial favourable terms in the market and establish the periodic evaluation system of centralized procurement so as to continuously reduce the cost of procurement and improve gross profit margin of the Group. In addition, the Company will continue to strengthen operation refinement of the Group and its subsidiaries' factories, and enhance the efficiency of modern management for the Group through the continuous development of operating procedures, corporate systems and information technologies.

### Strengthen technology advancements and enhance quality management level

We will continue to optimize resources allocation, to promote industrial transformation and upgrading, and to increase value added features on our products by means of information technology and production intelligence. We will strengthen the continuous innovation and self-innovation in technological research and development and develop to be the world's high-end manufacturing corporation. In addition, the Company will also enhance the capacity for basic management and factory on-site management based on quality management focus, and pay close attention to the improvement and innovation of manufacturing techniques, as well as the management and improvement of manufacturing facilities.

### Promote the modernization of enterprise management model with the support of information technology

The Company will continue to push forward the development of Group Enterprise Resource Planning (ERP) system. With a view to establishing a smart factory plant, we will push forward with the implementation of the production visualization plan as well as the development of the quality control and Kanban management systems in the Lingang base. Meanwhile, we will achieve active interactions between management and on-site execution in the process of building a modern plant with delicacy management and lean production. In addition, we will continue to explore new areas on the application of information technologies, to enhance the development of various systems including the management and decision-making processes for headquarter, overall budget, capital management, and relations with suppliers, which are all in support for the innovation of management for the Group.

### Strengthen budget management and promote the "Cash is King" strategy

The Company will adopt the "Cash is King" strategy and fully implement stringent budget management. In particular, we will optimize the information technology process to resolve the problem of overdue receivables. The Company will set up credit rating for different customers and manage them differently according to their ratings, and also to improve inventories turnover by strengthening the supply chain management. The Company will rationalize the corporate demands for fund, enhance the efficiency of capital utilization and avoid monetary risks through its subsidiary, Shanghai Electric Group Finance Company Limited, as a platform to centralize funding within the Group.

## Capital utilization plan

In view of the ever changing economic situation, we will continue to apply scientific and prudent investment concept to maintain the investment scale at an appropriate level and also to promote the development of core businesses and businesses with competitive advantages . In 2012, the Company will allocate the use of proceeds in a scientific and reasonable manner and facilitate the effective implementation of investment projects financed by listing proceeds, so as to achieve economic benefit as soon as practicable .



## Use of Proceeds Raised from A Share Capital Market

In May 2010, 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 share market. The aggregate proceeds raised from the Placement amounted to approximately RMB2,221 million, net proceeds after deducting sponsor underwriting fees and remaining share issue expenses amounted to approximately RMB2,177 million. 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 Proceeds as at 31 December 2011 |
|---|---|---|---|
| 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 | 2.35 | 1.35 |
| Technology enhancement project of 450 tonnes electroslag furnace | 1.10 | 0.88 | 0.22 |
| 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 | 2.36 | 0.66 |
| Technology enhancement project of heavy nuclear power condenser assembly plant | 0.60 | 0.35 | 0.25 |
| 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 | 2.16 | 0.98 |
| Introduction and training for the use of the design and analysis software of wind power equipment | 1.10 | 0.98 | 0.12 |
| Research and production project of wind power equipment of 2MW and 3.6MW | 2.79 | 2.23 | 0.56 |
| Development project of research centre of wind power technology | 0.50 | 0.27 | 0.23 |
| 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 | 1.00 | 0.50 |
| Supplement to working capital | 4.32 | 4.32 | - |
| **Total** | **21.77** | **16.90** | **4.87** |

On 8 December 2011, the twelfth meeting of the third session Board meeting of the Company was convened, in which the resolution of "Proposal of transferring certain investment projects funded by the proceeds from the Private Offering of the Company" was reviewed and passed. As of 30 November 2011, the investment projects in the wind power business funded by the proceeds from the private offering have all been completed. According to the latest development of the wind power business of the Company, the Company proposed to establish joint venture companies with the Siemens Group and transfer all the wind power businesses to the wind power joint venture companies. Accordingly, it was agreed that the investment projects funded by the proceeds from the private offering in 2010 were transferred to the new wind power joint venture companies.

The above resolution of the Board meeting is subject to review by the general meeting of the Company.

On 8 December 2011, the twelfth meeting of the third session Board meeting of the Company was convened, in which the resolution of "Proposal of Permanent Allocation of the Surplus of the Proceeds to the Working Capital of the Company" was reviewed and passed. As of 30 November 2011, the wind power investment projects funded by the proceeds of the Company have all been completed. Those projects used the proceeds of approximately RMB563 million, projects outstanding payable but not paid amounted to approximately RMB23 million, and surplus proceeds amounted to approximately RMB167 million. As to reduce the financial costs and make efficient use of the proceeds, it was resolved that the approximately RMB167 million surplus of the proceeds in wind power investment projects be permanently allocated to the working capital of the Company.

The above resolution of the Board meeting is subject to review by the general meeting of the Company.



## 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 audit 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 RMB1,706,895,000 in 2011, and the opening retained earnings amounted to RMB3,192,847,000. After deducting 2010 dividends of RMB834,818,000 and transfering to surplus reserve of RMB170,690,000, profit attributable to equity holders amounted to RMB3,894,234,000. As audited by Ernst & Young Hua Ming, the Company's net profit attributable to owners of the parent prepared in accordance with the PRC GAAP amounted to RMB3,310,083,000 in 2011. As audited by Ernst & Young, the Company' net profit attributable to owners of the parent prepared in accordance with Hong Kong Financial Reporting Standards amounted to RMB3,267,250,000 in 2011.

Proposed profit appropriation for 2011 in accordance with the Articles of Association and relevant requirements of the PRC: Cash dividend of RMB0.0764 (tax inclusive) per share. Based on the total 12,823,626,660 shares of the Company, a total of RMB979,725,000 will be paid out as dividends, accounting for approximately 30% of the net profit attributable to equity holders of the parent prepared in accordance with HKFRSs of RMB3,267,250,000.



According to the Corporate Income Tax Law of the People's Republic of China which came into effect on 1 January 2008 as well as its implementation rules and relevant regulations, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend of year 2011 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 Sunday, 29 April 2012 to Tuesday, 29 May 2012, both days inclusive, during which period no transfer of H Shares will be effected.

H share shareholders whose names appear at the register of members of the Company as at Tuesday, 29 May 2012 are entitled to attend the AGM. In order to qualify for attending the AGM, 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 Friday, 27 April 2012.

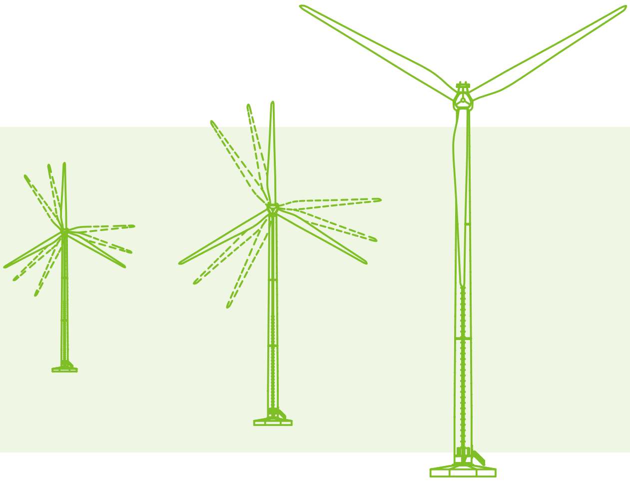
## Other Significant Matters

On 8 December 2011, the Company entered into a joint venture agreement with Siemens Ltd., China to form a joint venture, namely Shanghai Electric Wind Energy Co., Ltd. ("Wind Energy"), engaged in the sales of wind power equipment, and to inject capital to Siemens Wind Power Turbines (Shanghai) Co., Ltd. ("SWPT"), after which name changed to SmartPower Wind Turbines (Shanghai) Co., Ltd. after the capital in, engaged in the research and production of wind power equipment. The Company will make capital injections to Wind Energy and SWPT amounting to EUR 53,043,000 and EUR31,022,000, respectively. Upon the completion of transactions, the Company will hold a 51% equity interest in each of the joint ventures.

### Events After The Reporting Period

(1) Details of the final 2011 dividend proposed after the reporting period are contained in note 13 to the financial statements.

(2) On 8 February 2012, the board of directors of the Company resolved that Shanghai Mechanical & Electrical would acquire a 100% equity interest in Goss International Corporation from SE Corporation for a cash consideration of RMB571,060,000.



## 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 44(b) to the financial statements prepared under the Hong Kong Financial Reporting Standards and the consolidated statement of changes 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 15 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 confirms that the Company has maintained sufficient public float as at the date of this report.


Ling Ao Nclear Power Station

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# 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 second meeting of the third session of the Supervisory Committee on 16 February 2011 | The proposal of the implementation of the investment budgets of Shanghai Electric Group Company Limited for 2010; the proposal of the investment budgets of Shanghai Electric Group Company Limited for 2011; the proposal of the implementation of the investment budgets in technological research of Shanghai Electric Group Company Limited for 2010 and the investment budgets in technological research for 2011; the proposal of guarantees provided to outside parties by the Company for 2011; the proposal of formulating the *Administrative Measures for Depositing the Monetary Capital of Shanghai Electric Group Company Limited.* |
| The Company convened the third meeting of the third session of the Supervisory Committee on 25 March 2011 | Working report of the Supervisory Committee of the Company for 2010; the Annual Report of the Company for the year of 2010; written review opinion on the Annual Report of the Company for the year of 2010 by the Supervisory Committee; the final accounts of the Company for 2010; the profit distribution plan of the Company for 2010; the proposal of re-appointment of Ernst & Young as the auditors of the Company for 2011; special report on depositing and utilisation of proceeds raised of the Company for 2010; social responsibility report of the Company for 2010; assessment report on internal control of the Company for 2010; working plan for the implementation of internal control requirements of the Company for 2011; regulation on the work of audit and review of the Company |
| The Company convened the fourth meeting of the third session of the Supervisory Committee on 28 April 2011 | The full text and main text of report for the first quarter of 2011 of the Company; written review opinion on report for the first quarter of 2011 of the Company by the Supervisory Committee; the proposal of adjusting the continuing connected transactions between the Company and SE Corporation on loans and discount for the years from 2011 to 2013 |
| The Company convened the fifth meeting of the third session of the Supervisory Committee on 19 August 2011 | Half-year report of 2011 of the Company; written review opinion of the Supervisory Committee on the half-year report of 2011 of the Company; the proposal of the special report on depositing and actual utilisation of proceeds raised of Shanghai Electric Group Company Limited |
| The Company convened the sixth meeting of the third session of the Supervisory Committee on 21 October 2011 | Report for the third quarter of 2011 of the Company; written review opinion of the Supervisory Committee on report for the third quarter of 2011 of the Company; the proposal on the acquisition by Shanghai Electric Group Company Limited of 20% equity interest in KSB Shanghai Pump Co., Ltd. held by Shanghai General Machinery (Group) Co., Ltd. |
| The Company convened the seventh meeting of the third session of the Supervisory Committee on 8 December 2011 | The proposal of the establishment of wind power joint venture companies by Shanghai Electric and Siemens; the proposal of transferring certain investment projects funded by the proceeds from the Private Offering; the proposal of permanent allocation of the surplus of relevant proceeds to the working capital of the Company; the proposal of continuing connection transactions between the Company and Siemens and the exemption from signing a framework agreement on continuing connection transactions by the Company and Siemens |
| The Company convened the eighth meeting of the third session of the Supervisory Committee on 12 December 2011 | The proposal of transferring 100% equity interest in Shanghai Refrigerating Machine Works by Shanghai Electric Group General Refrigeration & Air-conditioning Equipment Co., Ltd. |

## 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 during the reporting period. 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 2011, 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 optimization 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 strengthen the management of the Company's receivables, and inventories, optimize cash and target cost management 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 committed 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 or 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 and opinion of the Supervisory Committee on the self assessment report on internal control

The Supervisory Committee has reviewed the Report on the Assessment of Internal Control for 2011 and has no objection to the report.

# SIGNIFICANT EVENTS



## Equity interests in other listed companies 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 | Change of owners' equity during the reporting period | Account | Source of shares |
|---|---|---|---|---|---|---|---|---|
| 600642 | Shenergy | 2,800,000 | 0.06 | 12,393,000 | 0 | (1,005,750) | Financial assets available for sale | Purchase |
| 601328 | BOCOM | 9,122,809 | 0.01 | 27,110,465 | 0 | (2,277,544) | Financial assets available for sale | Purchase |
| 600000 | SPDB | 767,760 | 0.02 | 27,380,250 | 0 | (2,853,006) | Financial assets available for sale | Purchase |
| 600845 | Baosight | 4,912,000 | 0.51 | 25,447,500 | 0 | (8,091,650) | Financial assets available for sale | Purchase |
| 600610 | SST China Textile Machinery Co., Ltd | 760,000 | 0.10 | 4,547,400 | 0 | (3,840,408) | Financial assets available for sale | Purchase |
| 600643 | Shanghai AJ Corporation | 70,000 | 0.003 | 179,418 | 0 | (87,466) | Financial assets available for sale | Purchase |
| 600082 | Tianjin Hi-Tech Development Co., Ltd. | 270,000 | 0.05 | 1,182,870 | 0 | (680,940) | Financial assets available for sale | Purchase |
| 600618 | SCAC | 1,240,008 | 0.03 | 2,889,964 | 0 | 104,181 | Financial assets available for sale | Purchase |
| 600633 | Zhejiang Daily Media | 7,471,992 | 1.44 | 31,597,104 | 0 | 11,733,876 | Financial assets available for sale | Purchase |
| 000501 | Wu Han Department Store Group Co., Ltd. | 353,609 | 0.03 | 2,275,331 | 0 | (351,371) | Financial assets available for sale | Purchase |
| 600665 | Tande Co., Ltd. | 1,399,200 | 0.09 | 2,343,000 | 0 | (653,400) | Financial assets available for sale | Purchase |
| Total | | 29,167,378 | | 137,346,302 | 0 | (8,003,478) | | |

## 2. Purchase and Sale of shares of other listed companies

| Name of shares | Initial number of shares (Shares) | Number of shares bought during the reporting period (Shares) | Amount of capital used (RMB) | Number of shares sold during the reporting period (Shares) | Number of shares at the end of the period (Shares) | Investment gains generated (RMB) |
|---|---|---|---|---|---|---|
| Shanghai AJ Corporation | 75,253 | 0 | 0 | 47,219 | 28,034 | 414,047 |

# 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 2011 are set out as follow:

## Connected transactions

On 21 October 2011, the Company entered into the Equity Transfer Agreement with Shanghai General Machinery (Group) Co., Ltd., pursuant to which, the Company has agreed to acquire a 20% equity interest in KSB Shanghai Pump Co., Ltd. held by Shanghai General Machinery (Group) Co., Ltd. for a cash consideration of RMB125,134,000 based on the evaluated net asset value of KSB Shanghai Pump Co., Ltd. as of 31 December 2010. As of now, the asset transfer has not been completed.

On 8 December 2011, Shanghai Electric Group General Refrigeration & Air-conditioning Equipment Co., Ltd., a subsidiary of the Company, entered into the Equity Transfer Agreement with Shanghai Highly Special Refrigeration Equipment Co., Ltd., pursuant to which Shanghai Electric Group General Refrigeration & Air-conditioning Equipment Co., Ltd. has agreed to transfer 100% equity interest in Shanghai Refrigerating Machine Works for a consideration of RMB8,355,700 based on the evaluated net asset value of Shanghai Refrigerating Machine Works as of 31 July 2011. On 14 February 2012, the equity disposal was completed.

The Company convened the twelfth meeting of the third session of the Board meeting on 8 December 2011 at which the below resolutions had been passed:

(1) The Company and Siemens Ltd., China has agreed to increase the registered capital of Siemens Wind Power Turbines (Shanghai) Co., Ltd. ("SWPT") from EUR5,000,000 to EUR60,820,000. The Company has agreed to contribute EUR31,022,344 in cash into SWPT and Siemens Ltd., China has agreed to contribute EUR34,104,475 in cash into SWPT. After the cash contribution, the Company will own 51% and Siemens Ltd., China will own 49% of the equity interest in SWPT.

(2) The Company has agreed to contribute EUR53,043,083 in cash and Siemens Ltd., China has agreed to contribute EUR50,962,963 in cash to set up a joint venture company with a tentative name of Shanghai Electric Wind Energy Co., Ltd. The registered capital of Shanghai Electric Wind Energy Co., Ltd. will be EUR104,006,046. The Company will own 51% and Siemens Ltd., China will own 49% of the equity interest in Shanghai Electric Wind Energy Co., Ltd.

## 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 Shanghai Electric (Group) Corporation ("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. The cap of rental payable for the year ended 31 December 2011 is 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 the year ended 31 December 2011 is RMB26 million.

### *Framework sales agreement*

The Company entered into a framework sales agreement with SE Corporation on 27 October 2010, pursuant to which the Group agrees to provide electrical engineering products and services, electrical equipment and component parts, and other related services to SE Corporation and its subsidiaries and associates (the "Parent Group"). Pursuant to the agreement, the annual caps of the relevant sales for the three years ending 31 December 2013 are estimated to be RMB0.9 billion, RMB1.1 billion and RMB1.3 billion, respectively.

The above framework sales 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 no 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 sales agreement is three years, renewable at the option of the Company for another term of three years by giving three months' notice in writing prior to the expiry of the term and may be terminated by either party to the agreement by giving three months' notice.

The actual sales to the Parent Group for year ended 31 December 2011 is RMB734 million.

### *Framework purchase agreement*

The Company entered into a framework purchase agreement with SE Corporation on 27 October 2010, pursuant to which the Group agrees to purchase, on a non-exclusive basis, certain component parts, such as turbine blades, coupling, AC motor and emergency trip control cabinet, equipment and raw materials (including copper wires and insulation materials) from the Parent Group. Pursuant to the agreement, the annual caps of the relevant purchase for the three years ending 31 December 2013 are estimated to be RMB1.4 billion, RMB1.5 billion and RMB1.6 billion, respectively.

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 the year ended 31 December 2011 is RMB1.278 billion.

### *Framework financial services agreements*

On 27 October 2010, the Company has entered into various 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 27 October 2010, 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 caps, representing the maximum daily balance of funds (including interests) that may be deposited, for the three years ending 31 December 2013 are estimated to be RMB3.5 billion, RMB4.5 billion and RMB5 billion, respectively. The interest rates offered by Finance Company for the deposits placed by the Parent Group shall be:

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

The actual daily balance of funds from the Parent Group for the year ended 31 December 2011 did not exceed the approved annual cap of RMB3.5 billion. Besides, the Parent Group received interest income of RMB26 million for the deposits from Finance Company for the year ended 31 December 2011.

(ii) Framework loan agreement

On 27 October 2010, the Company entered into a framework loan agreement with SE Corporation in relation to the loan services provided by Finance Company. 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.

On 28 April 2011, the Company entered into a supplemental framework loan and bills agreement with SE Corporation, pursuant to which the approved annual caps, representing the maximum daily balance of outstanding loans (including interests) and purchases of discounted bills, for the three years ending 31 December 2013 are revised to be RMB4.8 billion, RMB5.3 billion and RMB5.3 billion, respectively.

The actual daily balance of outstanding loans (including interests) and purchased discounted bills from the Parent Group in the year ended 31 December 2011 did not exceed the approved annual cap of RMB4.8 billion. Besides, the Parent Group paid interest of RMB153 million, which was derived from loans and discounted bills, to Finance Company for the year ended 31 December 2011.

### *Framework integrated services agreement*

Pursuant to an agreement dated 27 October 2010 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. Pursuant to the agreement, the annual caps of the relevant integrated services for the three years ending 31 December 2013 are estimated to be RMB50 million, RMB60 million and RMB70 million, respectively. The pricing basis shall be:

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

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

The actual various integrated services provided by the Parent Group in the year ended 31 December 2011 is RMB44 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 cap of purchase from Prime Machinery and its subsidiaries (the "Prime Machinery Group") for the year ended 31 December 2011 is RMB656 million.

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 2011 was RMB406 million, which was also included in the actual purchase from the Parent Group for the year ended 31 December 2011.

### *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:

- The cap of the purchases for the year ended 31 December 2011 is RMB1.5 billion; and
- The cap of the sales for the year ended 31 December 2011 is RMB7.5 billion.

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 2011 is RMB1,247 million and the sales to Siemens Group for the year ended 31 December 2011 is RMB135 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 two years ending 31 December 2012 are estimated to be 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 2011 was RMB1.262 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 two years ending 31 December 2012 are estimated to be 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 2011 was RMB36 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 exempted from all requirements of the transactions, and other continuing connected transactions have been 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 auditor 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 auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

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- Nothing has come to our attention that causes the auditor 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 auditor's attention that causes the auditor 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, 3 February 2010, 27 October 2010 and 28 April 2011 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 year | 9,905 |
| Statutory audit of subsidiaries | 6,285 |
| Special audit and non-audit services | 3,180 |
| **Total** | **19,370** |

Ernst & Young Hua Ming provides audit services to the Company for a term of 4 years, while Ernst & Young provides audit services to the Company for a term of 8 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 53 to 187, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 disclosure requirements of 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 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong
23 March 2012

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **REVENUE** | 5 | 67,917,633 | 62,957,499 |
| Cost of sales | | (55,739,858) | (52,678,744) |
| Gross profit | | 12,177,775 | 10,278,755 |
| Other income and gains | 5 | 893,622 | 1,328,039 |
| Selling and distribution costs | | (1,731,639) | (1,554,290) |
| Administrative expenses | | (4,173,204) | (3,833,132) |
| Other expenses | | (2,726,026) | (2,955,370) |
| Finance costs | 7 | (82,703) | (52,384) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | 118,204 | 67,022 |
| Associates | | 615,382 | 746,552 |
| **PROFIT BEFORE TAX** | 6 | 5,091,411 | 4,025,192 |
| Income tax expense | 10 | (715,021) | (227,740) |
| **PROFIT FOR THE YEAR** | | 4,376,390 | 3,797,452 |
| Attributable to: | | | |
| Owners of the parent | 11 | 3,267,250 | 2,783,606 |
| Non-controlling interests | | 1,109,140 | 1,013,846 |
| | | 4,376,390 | 3,797,452 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 14 | | |
| Basic and diluted | | | |
| - For profit for the year (RMB) | | 25.48 cents | 21.90 cents |

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | 4,376,390 | 3,797,452 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Available-for-sale assets: | | | |
| Changes in fair value | | (323,069) | (17,751) |
| Reclassification adjustments for losses/(gains) included in the consolidated income statement | | | |
| - loss/(gain) on disposal | 5 | 35 | (81,235) |
| - impairment losses | 6 | 85,304 | - |
| Income tax effect | | 52,766 | 27,863 |
| | | (184,964) | (71,123) |
| Cash flow hedges: | | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | 33 | (63,920) | 91,783 |
| Reclassification adjustments for gains included in the consolidated income statement | 33 | (30,015) | - |
| Income tax effect | | 23,484 | (22,946) |
| | | (70,451) | 68,837 |
| Share of other comprehensive income of: | | | |
| Jointly-controlled entities | | 202 | - |
| Associates | | - | (530) |
| | | 202 | (530) |
| Exchange differences on translation of foreign operation | | (4,531) | 22,670 |
| Exchange losses on translation recognised on disposal of a foreign subsidiary | | - | 14,091 |
| | | (4,531) | 36,761 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | | (259,744) | 33,945 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | 4,116,646 | 3,831,397 |
| Attributable to: | | | |
| Owners of the parent | | 3,040,775 | 2,830,368 |
| Non-controlling interests | | 1,075,871 | 1,001,029 |
| | | 4,116,646 | 3,831,397 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

| | Notes | 31 December 2011 RMB'000 | 31 December 2010 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | 13,617,950 | 13,460,765 |
| Investment properties | 16 | 129,368 | 134,417 |
| Prepaid land lease payments | 17 | 1,461,977 | 1,344,941 |
| Goodwill | 18 | 12,483 | 16,110 |
| Other intangible assets | 19 | 773,629 | 684,332 |
| Investments in jointly-controlled entities | 21 | 319,887 | 227,092 |
| Investments in associates | 22 | 2,991,706 | 2,969,016 |
| Loans receivable | 23 | 978,288 | 876,014 |
| Other investments | 24 | 680,576 | 308,745 |
| Derivative financial instruments | 33 | 74,346 | 85,537 |
| Other non-current assets | | 229,790 | 145,656 |
| Deferred tax assets | 25 | 1,502,589 | 1,114,752 |
| Total non-current assets | | 22,772,589 | 21,367,377 |
| **CURRENT ASSETS** | | | |
| Inventories | 26 | 20,885,190 | 19,871,769 |
| Construction contracts | 27 | 290,134 | 456,334 |
| Trade receivables | 28 | 18,364,867 | 15,977,396 |
| Loans receivable | 23 | 953,191 | 1,703,611 |
| Discounted bills receivable | 29 | 903,144 | 82,036 |
| Bills receivable | 30 | 4,450,924 | 2,374,707 |
| Prepayments, deposits and other receivables | 31 | 10,448,561 | 8,886,482 |
| Investments | 32 | 4,141,267 | 5,220,779 |
| Derivative financial instruments | 33 | 106,184 | 61,980 |
| Due from the Central Bank | 34 | 2,950,785 | 2,613,114 |
| Restricted deposits | 34 | 629,398 | 653,435 |
| Cash and cash equivalents | 34 | 19,088,481 | 18,942,821 |
| | | 83,212,126 | 76,844,464 |
| Assets of a disposal group classified as held for sale | 12 | 730,344 | - |
| Total current assets | | 83,942,470 | 76,844,464 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

| | Notes | 31 December 2011 RMB'000 | 31 December 2010 RMB'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables | 35 | 20,656,571 | 15,967,932 |
| Bills payable | 36 | 1,993,882 | 1,539,233 |
| Bonds | 41 | 1,000,000 | - |
| Other payables and accruals | 37 | 37,011,191 | 38,559,777 |
| Derivative financial instruments | 33 | 2,243 | - |
| Customer deposits | 38 | 2,784,445 | 1,930,598 |
| Interest-bearing bank and other borrowings | 39 | 684,991 | 395,629 |
| Tax payable | | 1,120,304 | 829,094 |
| Provisions | 40 | 1,902,686 | 1,656,048 |
| | | 67,156,313 | 60,878,311 |
| Liabilities directly associated with the assets classified as held for sale | 12 | 228,428 | - |
| Total current liabilities | | 67,384,741 | 60,878,311 |
| **NET CURRENT ASSETS** | | 16,557,729 | 15,966,153 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 39,330,318 | 37,333,530 |
| **NON-CURRENT LIABILITIES** | | | |
| Bonds | 41 | - | 1,000,000 |
| Interest-bearing bank and other borrowings | 39 | 700,552 | 1,021,285 |
| Provisions | 40 | 45,907 | 45,666 |
| Government grants | | 368,686 | 311,439 |
| Derivative financial instruments | 33 | 180,215 | - |
| Other non-current liabilities | 42 | 42,256 | 119,198 |
| Deferred tax liabilities | 25 | 336,924 | 333,477 |
| Total non-current liabilities | | 1,674,540 | 2,831,065 |
| **Net assets** | | 37,655,778 | 34,502,465 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2011

| | Notes | 31 December 2011 RMB'000 | 31 December 2010 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 43 | 12,823,627 | 12,823,627 |
| Reserves | 44(a) | 15,453,840 | 13,344,004 |
| Proposed final dividend | 13 | 979,725 | 834,818 |
| | | 29,257,192 | 27,002,449 |
| **Non-controlling interests** | | 8,398,586 | 7,500,016 |
| **Total equity** | | 37,655,778 | 34,502,465 |

**Director** **Mr. Xu Jianguo**

**Director** **Mr. Yu Yingui**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## Year ended 31 December 2011

| | | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 | Capital reserve RMB'000 (note 44(a)) | Contributed surplus RMB'000 (note 44(a)) | Surplus reserves RMB'000 (note 44(a)) | 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 | | 315,941 | 1,905,119 | - | - | - | - | - | - | - | 2,221,060 | - | 2,221,060 |
| Share issue expense | | - | (44,213) | - | - | - | - | - | - | - | (44,213) | - | (44,213) |
| Capital injection by non-controlling shareholders | | - | 211,285 | - | - | - | - | - | - | - | 211,285 | 806,689 | 1,017,974 |
| Deemed disposal of a subsidiary | 45 | - | 76,614 | - | - | - | - | 416 | - | - | 77,030 | - | 77,030 |
| Disposal of subsidiaries | 46 | - | - | - | (18,843) | - | - | - | 18,843 | - | - | (398,071) | (398,071) |
| Acquisition of non-controlling interests | | - | (21,385) | - | - | - | - | - | - | - | (21,385) | (35,623) | (57,008) |
| Dividend paid to non-controlling shareholders | | - | - | - | - | - | - | - | - | - | - | (513,994) | (513,994) |
| Modification of proposed 2009 final dividend | | - | - | - | - | - | - | - | 735,452 | (735,452) | - | - | - |
| Declared interim 2010 dividend | 13 | - | - | - | - | - | - | - | (755,311) | - | (755,311) | - | (755,311) |
| Proposed final 2010 dividend | 13 | - | - | - | - | - | - | - | (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 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2011

| | | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 | Capital reserve RMB'000 (note 44(a)) | Contributed surplus RMB'000 (note 44(a)) | Surplus reserves RMB'000 (note 44(a)) | 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 2011** | | 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 |
| Profit for the year | | - | - | - | - | - | - | - | 3,267,250 | - | 3,267,250 | 1,109,140 | 4,376,390 |
| Other comprehensive income for the year: | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investments, net of tax | | - | - | - | - | - | (151,695) | - | - | - | (151,695) | (33,269) | (184,964) |
| Cash flow hedges, net of tax | | - | - | - | - | (70,451) | - | - | - | - | (70,451) | - | (70,451) |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | (4,531) | - | - | (4,531) | - | (4,531) |
| Others | | - | 202 | - | - | - | - | - | - | - | 202 | - | 202 |
| Total comprehensive income for the year | | - | 202 | - | - | (70,451) | (151,695) | (4,531) | 3,267,250 | - | 3,040,775 | 1,075,871 | 4,116,646 |
| Capital injection by non-controlling shareholders | | - | - | - | - | - | - | - | - | - | - | 579,817 | 579,817 |
| Disposal of subsidiaries | 46 | - | (233) | - | (13,282) | - | - | - | 13,282 | - | (233) | (18,373) | (18,606) |
| Dividend paid to non-controlling shareholders | | - | - | - | - | - | - | - | - | - | - | (697,116) | (697,116) |
| Final 2010 dividend declared | 13 | - | - | - | - | - | - | - | - | (834,818) | (834,818) | - | (834,818) |
| Proposed final 2011 dividend | 13 | - | - | - | - | - | - | - | (979,725) | 979,725 | - | - | - |
| Transfer from retained profits | | - | - | - | 337,216 | - | - | - | (337,216) | - | - | - | - |
| Others | | - | 49,019 | - | - | - | - | - | - | - | 49,019 | (41,629) | 7,390 |
| At 31 December 2011 | | 12,823,627 | 5,090,027* | (2,352,526)* | 3,130,749* | (1,614)* | (14,235)* | 6,805* | 9,594,634* | 979,725 | 29,257,192 | 8,398,586 | 37,655,778 |

* These reserve accounts constitute the consolidated reserves of RMB15,453,840,000 (2010: RMB13,344,004,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 5,091,411 | 4,025,192 |
| Adjustments for: | | | |
| Finance Company*: | | | |
| Interest income due from banks and other financial institutions | 5 | (267,370) | (209,464) |
| Interest income on loans receivable and discounted bills receivable | 5 | (194,318) | (94,655) |
| Interest income on non-restricted time deposits with original maturity of over three months when acquired | | (108,209) | (56,595) |
| Interest income on debt investments | 5 | (7,255) | (8,144) |
| Dividend income from equity investments and investment funds | 5 | (139,509) | (97,239) |
| Gain on disposal of items of property, plant and equipment, net | 5, 6 | (19,160) | (8,704) |
| Loss on disposal of other intangible assets | 6 | 9 | - |
| Loss/(gain) on disposal of subsidiaries | 5 | 15,180 | (148,831) |
| Gain on disposal of associates | 5 | (17,951) | (12,483) |
| Investments at fair value through profit or loss: | | | |
| Unrealised fair value losses/(gains), net | 5 | 8,524 | (8,791) |
| Realised fair value gains, net | 5 | (5,713) | (30,940) |
| Derivative financial instruments - transactions not qualifying as hedges: | | | |
| Unrealised fair value losses/(gains), net | 5 | 2,244 | (26,669) |
| Realised fair value gains, net | 5 | (45,049) | (41,700) |
| Realised losses/(gains) on available-for-sale investments (transferred from equity) | 5 | 35 | (81,235) |
| Gain on disposal of unquoted equity investments stated at cost | 5 | (59,955) | (10,443) |
| Gain on debt restructuring | 5 | (10) | (762) |
| Finance Company* : | | | |
| Interest expense due to banks and other financial institutions | 6 | 7,076 | 4,818 |
| Interest expense on customer deposits | 6 | 31,240 | 16,996 |
| Interest expense on bonds | 6 | 39,300 | 36,200 |
| Depreciation of property, plant and equipment | 6 | 1,171,655 | 1,116,085 |
| Depreciation of investment properties | 6 | 6,034 | 7,122 |
| Recognition of prepaid land lease payments | 6 | 33,683 | 37,545 |
| Amortisation of other intangible assets | 6 | 74,143 | 102,346 |
| Early retirement benefits and staff severance costs | 6 | 83,267 | 59,641 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES (continued)** | | | |
| Write-down of inventories to net realisable value | 6 | 442,635 | 361,335 |
| Share of profits and losses of jointly-controlled entities | | (118,204) | (67,022) |
| Share of profits and losses of associates | | (615,382) | (746,552) |
| Impairment of trade receivables and other receivables | 6 | 959,047 | 734,513 |
| (Reversal)/addition of impairment of loans receivable | 6 | (15,076) | 23,162 |
| Impairment of discounted bills receivable | 6 | 8,294 | 402 |
| Impairment of available-for-sale investments (transferred from equity) | 6 | 85,304 | - |
| Impairment of items of property, plant and equipment | 6 | 10,243 | 21,525 |
| Impairment of goodwill | 6 | - | 60,958 |
| Impairment of other intangible assets | 6 | 4,530 | 17,403 |
| Impairment of other non-current assets | 6 | - | 1,908 |
| Provision for product warranty | 6 | 132,934 | 147,012 |
| Provision for onerous contracts | 6 | 799,330 | 708,579 |
| Reversal of provision for late delivery | 6 | (24,000) | (40,560) |
| Other provisions | 6 | 47,503 | 9,452 |
| Finance costs | 7 | 82,703 | 52,384 |
| Exchange losses, net | | 31,820 | 61,359 |
| | | 7,530,983 | 5,915,148 |
| Increase in inventories | | (1,875,034) | (1,251,411) |
| Decrease in construction contracts | | 166,200 | 161,188 |
| Increase in trade receivables and other receivables | | (7,360,555) | (3,362,579) |
| Decrease in other non-current assets | | 33,686 | 42,737 |
| Increase in trade payables, bills payable, other payables and accruals | | 3,883,743 | 4,546,147 |
| Utilisation of product warranty provision and other provisions | | (792,155) | (509,218) |
| Cash generated from operations | | 1,586,868 | 5,542,012 |
| Taxes paid | | (739,807) | (721,573) |
| Net cash flows from operating activities | | 847,061 | 4,820,439 |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | 588,908 | 355,695 |
| Dividends received from jointly-controlled entities | | 25,612 | 12,035 |
| Dividends received from associates | | 703,214 | 490,317 |
| Dividends received from investments | | 139,621 | 98,492 |
| Purchases of items of property, plant and equipment | | (2,067,791) | (3,244,660) |
| Realised fair value gains on investments at fair value through profit or loss | | 5,713 | 30,940 |
| Realised fair value gains on derivative financial instruments | | 45,049 | 41,700 |
| Prepaid land lease payments | | (21,090) | (27,815) |
| Proceeds from disposal of items of property, plant and equipment | | 176,887 | 216,699 |
| Deemed disposal of a subsidiary | 45 | - | (58,320) |
| Disposal of subsidiaries | 46 | 163,832 | 360,568 |
| Capital injection in associates | | (33,373) | (43,755) |
| Capital injection in a jointly-controlled entity | | - | (900) |
| Proceeds from disposal of associates | | 27,707 | 40,710 |
| Purchases of non-current other investments | | (395,858) | (28,600) |
| Proceeds from disposal of non-current other investments | | 84,802 | 148,318 |
| Purchases of other intangible assets | | (179,308) | (157,056) |
| Proceeds from disposal of other intangible assets | | 10,476 | 9,281 |
| Proceeds from disposal of prepaid land lease payments | | - | 28,571 |
| Acquisition of non-controlling interests | | - | (57,008) |
| Acquisition of other non-current assets | | (117,820) | (117,581) |
| Decrease in restricted deposits | | 24,037 | 210,736 |
| Increase in non-restricted time deposits with original maturity of over three months when acquired | | (219,494) | (1,365,398) |
| Decrease/(increase) in loans receivable | | 663,222 | (726,382) |
| Increase in discounted bills receivable | | (829,402) | (40,175) |
| Increase in an amount due from the Central Bank | | (337,671) | (810,111) |
| Decrease in current investments | | 834,536 | 275,750 |
| Net cash flows used in investing activities | | (708,191) | (4,357,949) |

# CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Capital received | 43 | - | 2,221,060 |
| Capital injection by non-controlling shareholders | | 579,817 | 1,017,974 |
| New bank and other loans | | 442,583 | 291,383 |
| Repayments of bank and other loans | | (351,954) | (445,165) |
| Share issue expenses | 43 | - | (44,213) |
| Dividends paid to non-controlling shareholders | | (691,669) | (588,570) |
| Dividends paid by the Company | | (834,818) | (755,311) |
| Increase in customer deposits | | 846,647 | 777,291 |
| Interest paid | | (158,517) | (108,390) |
| Net cash flows (used in)/from financing activities | | (167,911) | 2,366,059 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | (29,041) | 2,828,549 |
| Cash and cash equivalents at beginning of year | | 15,372,071 | 12,604,881 |
| Effect of foreign exchange rate changes, net | 5 | (31,820) | (61,359) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 15,311,210 | 15,372,071 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents as stated in the statement of financial position | 34 | 19,088,481 | 18,942,821 |
| Less: non-restricted time deposits with original maturity of over three months when acquired | | (3,790,244) | (3,570,750) |
| Cash and cash equivalents attributable to a disposal group | 12 | 12,973 | - |
| Cash and cash equivalents as stated in the statement of cash flows | | 15,311,210 | 15,372,071 |

# STATEMENTS OF FINANCIAL POSITION

31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | 931,257 | 935,244 |
| Investment properties | 16 | 51,710 | 54,033 |
| Prepaid land lease payments | 17 | 231,342 | 67,174 |
| Other intangible assets | 19 | 145,537 | 11,824 |
| Investments in subsidiaries | 20 | 14,910,755 | 13,981,006 |
| Investments in associates | 22 | 1,717,570 | 1,720,310 |
| Other investments | 24 | 398,989 | 25,557 |
| Derivative financial instruments | 33 | 74,346 | 85,537 |
| Other non-current assets | | 2,936 | 4,402 |
| Deferred tax assets | 25 | 417,412 | 229,683 |
| Total non-current assets | | 18,881,854 | 17,114,770 |
| **CURRENT ASSETS** | | | |
| Inventories | 26 | 246,701 | 895,614 |
| Construction contracts | 27 | 102,224 | 42,119 |
| Trade receivables | 28 | 10,460,022 | 10,075,599 |
| Loans receivable | 23 | 1,300,000 | 740,000 |
| Bills receivable | 30 | 655,166 | 868,376 |
| Prepayments, deposits and other receivables | 31 | 16,990,124 | 20,000,040 |
| Derivative financial instruments | 33 | 106,184 | 60,384 |
| Restricted deposits | 34 | 27,000 | 27,000 |
| Cash and cash equivalents | 34 | 9,205,690 | 9,245,152 |
| Total current assets | | 39,093,111 | 41,954,284 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 35 | 15,812,840 | 13,698,133 |
| Other payables and accruals | 37 | 18,664,061 | 23,977,776 |
| Derivative financial instruments | 33 | 474 | - |
| Interest-bearing bank and other borrowings | 39 | 1,280,455 | 480,000 |
| Tax payable | | 267,632 | 202,645 |
| Provisions | 40 | 310,729 | 261,261 |
| Total current liabilities | | 36,336,191 | 38,619,815 |
| **NET CURRENT ASSETS** | | 2,756,920 | 3,334,469 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 21,638,774 | 20,449,239 |

# STATEMENTS OF FINANCIAL POSITION (continued)

31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 21,638,774 | 20,449,239 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 39 | 1,364 | 2,273 |
| Government grants | | 13,909 | 19,183 |
| Derivative financial instruments | 33 | 180,215 | - |
| Other non-current liabilities | 42 | 14,711 | 14,711 |
| Total non-current liabilities | | 210,199 | 36,167 |
| Net assets | | 21,428,575 | 20,413,072 |
| **EQUITY** | | | |
| Issued capital | 43 | 12,823,627 | 12,823,627 |
| Reserves | 44(b) | 7,625,223 | 6,754,627 |
| Proposed final dividend | 13 | 979,725 | 834,818 |
| Total equity | | 21,428,575 | 20,413,072 |

**Director** **Mr. Xu Jianguo**

**Director** **Mr. Yu Yingui**

# NOTES TO FINANCIAL STATEMENTS

31 December 2011

## 1. CORPORATE INFORMATION

Shanghai Electric Group Company Limited (the "Company") is a joint stock limited liability company established in the People's Republic of China (the "PRC") on 1 March 2004. The registered office of the Company is located on 30th floor, No. 8 Xing Yi Road, Shanghai, the PRC.

During the year, the Group was engaged in the following principal activities:

- design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components;
- 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;
- design, manufacture and sale of elevators, electrical motors, machine tools, printing and packaging equipment, marine crankshafts, 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 disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain investments and derivative financial instruments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. 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.

Total comprehensive income within a subsidiary is 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.

## 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 Amendments | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HK(IFRIC) – Int 14 Amendments | Amendments to HK(IFRIC)–Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC) – Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| *Improvements to HKFRSs 2010* | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, 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:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any significant impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 50 to the consolidated financial statements.

(b) Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations:* The amendment 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).

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

(b) (continued)

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- HKAS 1 Presentation of Financial Statements: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment 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.

## 2.3 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 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*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: *Disclosures – Transfers of Financial Assets*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: *Disclosures – Offsetting Financial Assets and Financial Liabilities*[3] |
| HKFRS 9 | *Financial Instruments*[5] |
| HKFRS 10 | *Consolidated Financial Statements*[3] |
| HKFRS 11 | *Joint Arrangements*[3] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[3] |
| HKFRS 13 | *Fair Value Measurement*[3] |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3] |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2] |
| HKAS 19 (2011) | *Employee Benefits*[3] |
| HKAS 27 (2011) | *Separate Financial Statements*[3] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[3] |
| HKAS 32 Amendments | Amendments to HKAS 32 Financial Instruments: *Presentation – Offsetting Financial Assets and Financial Liabilities*[4] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[3] |

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

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 January 2013
[4] Effective for annual periods beginning on or after 1 January 2014
[5] Effective for annual periods beginning on or after 1 January 2015

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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 Consolidation - Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

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

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12 and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC)-Int 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group expects to adopt HKAS 12 Amendments from 1 January 2012.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

## 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 that are not classified as held for sale in accordance with HKFRS 5 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Joint venture (continued)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

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

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

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

The Group's 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.

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.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Associates (continued)

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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.

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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations and goodwill (continued)

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.

# NOTES TO FINANCIAL STATEMENTS (continued)

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third party;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### 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 depreciates them accordingly.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

| | |
|---|---|
| Buildings | 10 to 40 years |
| Plant and machinery | 5 to 20 years |
| Motor vehicles | 5 to 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.

### 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.

# NOTES TO FINANCIAL STATEMENTS (continued)

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding 10 years, commencing from the date when the products are put into commercial production.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net 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.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*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 finance costs for loans and in other expenses for receivables.

*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 them to maturity. Held-to-maturity investments 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 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 investments 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

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

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 revaluation 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, when the cumulative gains or losses is reclassified from the available-for-sale investment revaluation reserve to the income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments 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 investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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.

# NOTES TO FINANCIAL STATEMENTS (continued)

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## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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.

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 yet 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 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 realised 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

*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.

### 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 plus, in the case of loans and borrowings, 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.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities (continued)

*Subsequent measurement*
The subsequent 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 include 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 does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKAS 39 are satisfied.

*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 amortisation process.

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

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

### Derecognition of financial liabilities

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 a 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; 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

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.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 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 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 of the hedge using the effective interest rate method. 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.

## 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.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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

- when 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, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

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

- in respect of deductible temporary differences associated with investments in subsidiaries, jointly-controlled entities and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

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

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

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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;

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

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

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

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 gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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:

*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 described below.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

### Estimation uncertainty (continued)

*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 2011 was RMB12,483,000 (2010: RMB16,110,000). More details are given in note 18 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 profits will be available against which the deferred tax asset 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 2011 was RMB1,502,589,000 (2010: RMB1,114,752,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2011 was RMB2,008,797,000 (2010: RMB1,513,051,000). Further details are contained in note 25 to the financial statements.

*Write-down of inventories to net realisable value*

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

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

### Estimation uncertainty (continued)

*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.

*Impairment of available-for-sale financial assets*

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2011, impairment losses of RMB85,304,000 have been recognised for available-for-sale assets (2010: Nil). More details are given in note 32 to the financial statements.

*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 2011 was RMB1,948,593,000 (2010: RMB1,701,714,000). More details are given in note 40 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 the other business segments.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 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 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 includes components such as the central research institute.

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, other investments 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, derivative financial instruments 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 2011 | 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 | 6,625,946 | 26,544,176 | 18,853,194 | 14,700,341 | 1,155,249 | 38,727 | - | 67,917,633 |
| Intersegment sales | 543,616 | 3,628,079 | 992,882 | 483,053 | 283,806 | 24,039 | (5,955,475) | - |
| Total revenue | 7,169,562 | 30,172,255 | 19,846,076 | 15,183,394 | 1,439,055 | 62,766 | (5,955,475) | 67,917,633 |
| **Operating profit/ (loss)** | 170,214 | 3,275,134 | 1,094,432 | (79,145) | (33,162) | 287,697 | (274,642) | 4,440,528 |
| Finance costs | | | | | | | | (82,703) |
| Share of profits and losses of: | | | | | | | | |
| Jointly-controlled entities | - | - | 1,827 | 116,377 | - | - | - | 118,204 |
| Associates | - | 244,030 | 360,261 | 11,091 | - | - | - | 615,382 |
| Profit before tax | | | | | | | | 5,091,411 |
| Income tax expense | | | | | | | | (715,021) |
| Profit for the year | | | | | | | | 4,376,390 |
| **Assets and liabilities** | | | | | | | | |
| Segment assets | 17,087,523 | 49,307,493 | 22,690,625 | 38,694,738 | 2,378,703 | 8,606,472 | (35,362,088) | 103,403,466 |
| Investments in jointly-controlled entities | - | - | 14,923 | 304,964 | - | - | - | 319,887 |
| Investments in associates | - | 1,161,813 | 1,810,402 | 19,491 | - | - | - | 2,991,706 |
| **Total assets** | | | | | | | | 106,715,059 |
| Segment liabilities | 9,108,647 | 36,636,167 | 12,826,618 | 35,492,594 | 1,254,389 | 3,856,170 | (30,115,304) | 69,059,281 |
| **Total liabilities** | | | | | | | | 69,059,281 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 4. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2011 (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 |
|---|---|---|---|---|---|---|---|---|
| **Other segment information:** | | | | | | | | |
| Capital expenditure* | 480,360 | 1,081,682 | 377,498 | 4,252 | 23,521 | 303,039 | (58,408) | 2,211,944 |
| Depreciation and amortisation | 186,610 | 577,074 | 430,532 | 7,697 | 46,414 | 37,188 | - | 1,285,515 |
| Impairment losses recognised in the income statement | - | 2,048 | 12,725 | - | - | - | - | 14,773 |
| Other non-cash expenses | 57,246 | 792,277 | 113,079 | 540,787 | 10,394 | - | (33,579) | 1,480,204 |
| Product warranty provision | 91,679 | 26,536 | 10,776 | 3,392 | 551 | - | - | 132,934 |
| Provision for onerous contracts | 27,220 | 528,499 | - | 212,247 | 31,364 | - | - | 799,330 |
| Reversal of late delivery provision | - | (24,000) | - | - | - | - | - | (24,000) |
| Other provisions | - | 7,261 | - | 40,000 | 242 | - | - | 47,503 |

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, prepaid land lease payments, investment properties and other non-current assets.

| 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 |

## 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 provision | - | - | - | (40,560) | - | - | - | (40,560) |
| Other provisions | 3,040 | 15,217 | - | - | - | - | (8,805) | 9,452 |

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, prepaid land lease payments, investment properties and other non-current assets.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 4. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

(a) Revenue from external customers

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Mainland China (place of domicile) | 52,029,249 | 51,110,559 |
| Other Asian countries/jurisdictions | 14,083,852 | 8,566,743 |
| Others | 1,804,532 | 3,280,197 |
| | 67,917,633 | 62,957,499 |

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

(b) Non-current assets

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Mainland China (place of domicile) | 19,393,237 | 18,822,223 |
| Other countries/jurisdictions | 143,553 | 154,215 |
| | 19,536,790 | 18,976,438 |

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 and the value of services rendered, net of sale taxes and surcharges.

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

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| *Turnover* | | |
| Sale of goods | 51,742,406 | 49,283,658 |
| Construction contracts | 12,422,206 | 10,496,976 |
| Rendering of services | 2,172,725 | 1,979,715 |
| | 66,337,337 | 61,760,349 |
| *Other revenue* | | |
| Sales of raw materials, spare parts and semi-finished goods | 769,466 | 650,372 |
| Gross rental income | 130,338 | 76,082 |
| Finance Company: | | |
| Interest income from banks and other financial institutions | 267,370 | 209,464 |
| Interest income on loans receivable and discounted bills receivable | 194,318 | 94,655 |
| Others | 218,804 | 166,577 |
| | 1,580,296 | 1,197,150 |
| | 67,917,633 | 62,957,499 |
| **Other income** | | |
| Interest income on bank balances and time deposits | 158,856 | 131,488 |
| Interest income on debt investments | 7,255 | 8,144 |
| | 166,111 | 139,632 |
| Dividend income from equity investments and investment funds | 139,509 | 97,239 |
| Subsidy income | 403,658 | 587,956 |
| Others | 79,771 | 127,088 |
| | 789,049 | 951,915 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

| | Note | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Gains** | | | |
| Gain on disposal of items of property, plant and equipment | | 33,698 | 75,629 |
| (Loss)/gain on disposal of subsidiaries | 46 | (15,180) | 148,831 |
| Gain on disposal of associates | | 17,951 | 12,483 |
| Gain on disposal of unquoted equity investments stated at cost | | 59,955 | 10,443 |
| Investments at fair value through profit or loss: | | | |
| Unrealised fair value (losses)/gains, net | | (8,524) | 8,791 |
| Realised fair value gains, net | | 5,713 | 30,940 |
| Derivative financial instruments - transactions not qualifying as hedges: | | | |
| Unrealised fair value (losses)/gains, net | | (2,244) | 26,669 |
| Realised fair value gains, net | | 45,049 | 41,700 |
| Realised (loss)/gain on available-for-sale investments (transfer from equity) | | (35) | 81,235 |
| Exchange losses, net | | (31,820) | (61,359) |
| Others | | 10 | 762 |
| | | 104,573 | 376,124 |
| | | 893,622 | 1,328,039 |

## 6. PROFIT BEFORE TAX

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Cost of inventories sold | 40,651,093 | 39,989,690 |
| Cost of construction contracts | 11,499,633 | 9,450,099 |
| Cost of services provided | 1,918,734 | 1,778,800 |
| Finance Company: | | |
| Interest expense due to banks and other financial institutions | 7,076 | 4,818 |
| Interest expense on customer deposits | 31,240 | 16,996 |
| Interest expense on bonds | 39,300 | 36,200 |
| | 77,616 | 58,014 |

## 6. PROFIT BEFORE TAX (continued)

| | Notes | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| Depreciation of property, plant and equipment | 15 | 1,171,655 | 1,116,085 |
| Depreciation of investment properties | 16 | 6,034 | 7,122 |
| Recognition of prepaid land lease payments* | 17 | 33,683 | 37,545 |
| Amortisation of patents and licences* | 19 | 9,939 | 25,857 |
| Amortisation of concession intangible assets* | 19 | 17,766 | 18,382 |
| Amortisation of other intangible assets* | 19 | 9,478 | 8,108 |
| Research and development costs:* | | | |
| Amortisation of technology know-how | 19 | 36,960 | 49,999 |
| Current year expenditure | | 1,410,274 | 1,499,524 |
| | | 1,447,234 | 1,549,523 |
| Minimum lease payments under operating leases: | | | |
| Land and buildings | | 125,068 | 115,272 |
| Plant, machinery and motor vehicles | | 51,441 | 43,409 |
| Auditors' remuneration | | 23,226 | 22,748 |
| Staff costs (including directors' and supervisors' remuneration (note 8)): | | | |
| Wages and salaries | | 4,205,685 | 3,610,190 |
| Defined contribution pension scheme (note i) | | 454,670 | 439,619 |
| Supplementary pension | | 104,583 | 97,329 |
| Early retirement benefits and staff severance costs (note ii) | 40 | 83,267 | 59,641 |
| Medical benefits costs (note iii) | | 268,365 | 234,700 |
| Housing fund | | 226,634 | 223,347 |
| Cash housing subsidy costs | | 3,499 | 345 |
| | | 5,346,703 | 4,665,171 |
| Write-down of inventories to net realisable value | | 442,635 | 361,335 |
| Impairment of trade receivables and other receivables* | 28, 31 | 959,047 | 734,513 |
| (Reversal)/addition of impairment of loans receivable* | 23 | (15,076) | 23,162 |
| Impairment of discounted bills receivable* | 29 | 8,294 | 402 |
| Impairment of available-for-sale investments (transferred from equity)* | 32 | 85,304 | - |
| Impairment of items of property, plant and equipment* | 15 | 10,243 | 21,525 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 6. PROFIT BEFORE TAX (continued)

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Impairment of goodwill * | 18 | - | 60,958 |
| Impairment of patents and licences* | 19 | 4,530 | 17,403 |
| Impairment of other non-current assets* | | - | 1,908 |
| Loss on disposal of items of property, plant and equipment* | | 14,538 | 66,925 |
| Loss on disposal of other intangible assets* | | 9 | - |
| Product warranty provision: | 40 | | |
| Additional provision | | 132,934 | 147,012 |
| Onerous contract provision: | 40 | | |
| Additional provision | | 920,308 | 708,579 |
| Reversal of unutilised provision | | (120,978) | - |
| Late delivery provision: | 40 | | |
| Reversal of unutilised provision | | (24,000) | (40,560) |
| Other provisions: | 40 | | |
| Additional provisions | | 48,627 | 10,152 |
| Reversal of unutilised provisions | | (1,124) | (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% (2010: 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 and staff severance

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 from the date of early retirement to the normal retirement date and the salary amount on the date of early retirement of the employee.

The Group recognises staff severance costs when terminating the employment of employees before the expiry date of employment contracts or making an offer in order to encourage voluntary redundancy.

The directors have estimated the Group's obligations to the early retirement benefits and staff severance until the qualified employees are eligible for the government-regulated pension scheme totalled to be approximately RMB129,038,000 as at 31 December 2011 (2010: RMB105,716,000) 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. The staff severance costs are recognised when the Group has a formal plan for the termination or an offer to voluntary redundancy and is without realistic possibility of withdrawal.

(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 for 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:

| | **2011**<br>**RMB'000** | **2010**<br>**RMB'000** |
|---|---|---|
| Interest on bank loans and other loans wholly repayable within five years | 71,695 | 77,078 |
| Interest on bank loans and other loans wholly repayable beyond five years | 11,008 | 9,587 |
| Total interest expense | 82,703 | 86,665 |
| Less: interest capitalised | - | (34,281) |
| | 82,703 | 52,384 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 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:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Directors** | | |
| Fees | 771 | 750 |
| Other emoluments: | | |
| Salaries, bonus and allowances received from the Group | 1,862 | 1,998 |
| Pension scheme contributed by the Group | 67 | 84 |
| Other social benefit schemes contributed by the Group | 64 | 78 |
| | 2,764 | 2,910 |
| **Supervisors** | | |
| Fees | - | - |
| Other emoluments: | | |
| Salaries, bonus and allowances received from the Group | 344 | 344 |
| Pension scheme contributed by the Group | 30 | 28 |
| Other social benefit schemes contributed by the Group | 29 | 26 |
| | 403 | 398 |
| | 3,167 | 3,308 |

(a) Independent non-executive directors

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Mr. Zhu Sendi | 250 | 250 |
| Dr. Cheung Wai Bun | 250 | 250 |
| Dr. Lui Sun Wing (assigned on 15 December 2010) | 271 | - |
| Mr. Lei Huai Chin (retired on 15 December 2010) | - | 250 |
| | 771 | 750 |

There were no other emoluments payable to the independent non-executive directors during the year (2010: 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 |
|---|---|---|---|---|---|
| 2011 | | | | | |
| **Executive directors** | | | | | |
| Mr. Huang Dinan | - | 906 | 30 | 29 | 965 |
| Mr. Yu Yingui | - | 706 | 30 | 29 | 765 |
| Mr. Zhang Suxin (resigned on 16 February 2011) | - | 250 | 7 | 6 | 263 |
| | - | 1,862 | 67 | 64 | 1,993 |
| **Supervisor** | | | | | |
| Mr. Xie Tonglun | - | 344 | 30 | 29 | 403 |
| | - | 2,206 | 97 | 93 | 2,396 |
| 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 |

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)

31 December 2011

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2010: Nil) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2010: five) non-director/non-supervisor, highest paid employees for the year are as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Salaries, bonus and allowances received from the Group | 4,471 | 5,070 |
| Pension scheme contributed by the Group | 91 | 111 |
| Other social benefit schemes contributed by the Group | 86 | 105 |
| | 4,648 | 5,286 |

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

| | Number of employees | |
|---|---|---|
| | 2011 | 2010 |
| Nil to HKD1,000,000 | - | - |
| HKD1,000,001 to HKD1,500,000 | 3 | 4 |
| HKD1,500,001 to HKD2,000,000 | 1 | 1 |
| | 4 | 5 |

## 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 2011 (2010: 25%) under the income tax rules and regulations of the PRC, except that:

- certain subsidiaries were subject to a corporate income tax rate of 24% 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 three successive years from 2011;

## 10. INCOME TAX (continued)

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Group: | | |
| Current - Mainland China | | |
| Charge for the year | 1,086,716 | 894,660 |
| Overprovision in prior years | (76,924) | (332,164) |
| Current - Elsewhere | | |
| Charge for the year | 13,358 | 6,968 |
| Underprovision in prior years | - | 778 |
| Deferred (note 25) | (308,129) | (342,502) |
| Total tax charge for the year | 715,021 | 227,740 |

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:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Mainland China RMB'000 | % | Elsewhere RMB'000 | % | Total RMB'000 | % |
| Profit before tax | 5,060,597 | | 30,814 | | 5,091,411 | |
| Tax at the statutory tax rate | 1,265,149 | 25.0 | 11,123 | 36.1 | 1,276,272 | 25.1 |
| Lower tax rate for specific districts or concessions | (349,152) | (6.9) | - | - | (349,152) | (6.9) |
| Effect of change in tax rate on the opening balance of deferred tax* | (27) | (0.0) | - | - | (27) | (0.0) |
| Adjustments in respect of current tax of previous periods | (76,924) | (1.5) | - | - | (76,924) | (1.5) |
| Profits and losses attributable to jointly-controlled entities and associates | (177,096) | (3.5) | - | - | (177,096) | (3.5) |
| Income not subject to tax | (69,620) | (1.4) | (40) | (0.1) | (69,660) | (1.4) |
| Expenses not deductible for tax | 49,837 | 1.0 | 1,920 | 6.2 | 51,757 | 1.0 |
| Tax incentives on eligible expenditures | (11,218) | (0.2) | - | - | (11,218) | (0.2) |
| Tax losses utilised from previous periods | (41,418) | (0.8) | - | - | (41,418) | (0.8) |
| Tax losses not recognised | 52,319 | 1.0 | - | - | 52,319 | 1.0 |
| Deductible temporary differences not recognised | 60,168 | 1.2 | - | - | 60,168 | 1.2 |
| Tax charge at the Group's effective rate | 702,018 | 13.9 | 13,003 | 42.2 | 715,021 | 14.0 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 10. INCOME TAX (continued)

| | 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 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 |

* The effect of change in tax rate on the opening balances of deferred tax for the years ended 31 December 2011 and 2010 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 RMB183,583,000 (2010: RMB178,294,000) 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 2011 includes a profit of RMB1,925,381,000 (2010: RMB1,679,718,000) which has been dealt with in the financial statements of the Company (note 44(b)).

## 12. DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

In year 2011, Guangxi LiuGong Corporation ("Guangxi LiuGong"), a third party, planned to acquire a 51% equity interest in Shanghai Jintai Engineering Machinery Co., Ltd. ("Shanghai Jintai"), a subsidiary of the Group, by capital injection. On 19 October 2011, the parties entered into a capital injection agreement of Shanghai Jintai. Pursuant to the agreement, the registered capital of Shanghai Jintai would be increased from RMB407,797,000 to RMB832,239,000 and Guangxi LiuGong would acquire the equity through unilateral capital injection into Shanghai Jintai at a cash consideration of RMB611,275,000. Upon completion of the capital contribution, the Group would hold 49% equity interests in Shanghai Jintai and Shanghai Jintai would no longer be a subsidiary of the Group. On 17 January 2012, the capital injection was completed.

In year 2011, the board of directors of Shanghai Mechanical & Electrical Industry Co., Ltd. ("Shanghai Mechanical & Electrical"), a subsidiary of the Group, resolved to dispose of its 100% equity interest in Shanghai Refrigerating Machine Works ("Shanghai Refrigerating Machine") held by its fully-owned subsidiary, Shanghai Electric Group General Refrigeration and Air-conditioning Equipment Co., Ltd. ("General Refrigeration and Air-conditioning"), to Shanghai Highly Special Refrigeration Equipment Co., Ltd. ("Shanghai Highly"), a subsidiary of SE Corporation, for a cash consideration of RMB8,356,000. On 14 February 2012, the equity disposal was completed.

In year 2011, in the opinion of the directors, no impairment shall be provided for the assets associated with the disposal group. Shanghai Jintai and Shanghai Refrigerating Machine were included in the segment of Industrial equipment in the segment information.

The major classes of assets and liabilities of Shanghai Jintai and Shanghai Refrigerating Machine classified as held for sale as at 31 December 2011 are as follows:

| | **2011**<br>**RMB'000** |
|---|---:|
| *Assets* | |
| Property, plant and equipment (note 15) | 146,114 |
| Prepaid land lease payments (note 17) | 96,464 |
| Other intangible assets (note 19) | 26 |
| Deferred tax assets (note 25) | 9,194 |
| Inventories | 335,698 |
| Trade receivables | 56,249 |
| Bills receivable | 15,677 |
| Prepayments, deposits and other receivables | 57,949 |
| Cash and cash equivalents | 12,973 |
| Assets of the disposal group classified as held for sale | 730,344 |
| *Liabilities* | |
| Trade payables | 131,455 |
| Other payables and accruals | 104,253 |
| Tax payable | (7,280) |
| Liabilities directly associated with the assets of the disposal group classified as held for sale | 228,428 |
| Net assets directly associated with the disposal group | 501,916 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 13. DIVIDENDS

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Interim 2011 – Nil<br>(2010: RMB5.89 cents) | - | 755,311 |
| Proposed final 2011 – RMB7.64 cents<br>per ordinary share (2010: RMB6.51 cents) | 979,725 | 834,818 |

On 25 May 2011, the Company's 2010 annual general meeting approved the proposed final 2010 dividend of an aggregate amount of RMB834,818,000, based on total 12,823,626,660 shares and a cash dividend of RMB6.51 cents per share (tax inclusive). The dividend was distributed on 11 July 2011.

On 23 March 2012, the Board of Directors of the Company resolved to recommend to the shareholders of the Company a final dividend of RMB7.64 cents per share (tax inclusive), totalling RMB979,725,000 for the year ended 31 December 2011.

The proposed final dividend for the year ended 31 December 2011 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 the final dividend of RMB979,725,000 for the year ended 31 December 2011 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.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 12,823,626,660 (2010: 12,708,503,224) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 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:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation | 3,267,250 | 2,783,606 |

| | Number of shares | |
|---|---|---|
| | 2011 | 2010 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 12,823,626,660 | 12,708,503,224 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

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 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **At cost:** | | | | | | |
| At 1 January 2011 | 5,738,542 | 10,649,791 | 545,022 | 687,719 | 2,788,269 | 20,409,343 |
| Additions | 62,929 | 377,000 | 25,926 | 101,556 | 1,443,980 | 2,011,391 |
| Disposals | (16,069) | (249,132) | (97,095) | (28,393) | (58,005) | (448,694) |
| Transfers | 1,411,866 | 943,804 | 20,129 | 32,416 | (2,408,215) | - |
| Transfer to investment properties (note 16) | (1,677) | - | - | - | - | (1,677) |
| Transfer to prepaid land lease payments (note 17) | - | - | - | - | (231,931) | (231,931) |
| Disposal of subsidiaries (note 46) | (94,077) | (171,860) | (9,407) | (3,742) | - | (279,086) |
| Disposal group held for sale (note 12) | (109,627) | (98,771) | (12,557) | (1,332) | - | (222,287) |
| Exchange realignment | (629) | (1,038) | (69) | (180) | - | (1,916) |
| At 31 December 2011 | 6,991,258 | 11,449,794 | 471,949 | 788,044 | 1,534,098 | 21,235,143 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2011 | 1,903,402 | 4,256,507 | 336,748 | 451,051 | 870 | 6,948,578 |
| Depreciation provided during the year | 273,149 | 743,698 | 56,649 | 98,159 | - | 1,171,655 |
| Impairment | 626 | 7,626 | 483 | 129 | 1,379 | 10,243 |
| Transfer to investment properties (note 16) | (692) | - | - | - | - | (692) |
| Disposals | (10,412) | (183,273) | (71,174) | (26,108) | - | (290,967) |
| Disposal of subsidiaries (note 46) | (26,277) | (112,090) | (4,161) | (1,813) | - | (144,341) |
| Disposal group held for sale (note 12) | (18,903) | (48,601) | (7,740) | (929) | - | (76,173) |
| Exchange realignment | (498) | (414) | (42) | (156) | - | (1,110) |
| At 31 December 2011 | 2,120,395 | 4,663,453 | 310,763 | 520,333 | 2,249 | 7,617,193 |
| **Net carrying amount:** | | | | | | |
| At 31 December 2011 | 4,870,863 | 6,786,341 | 161,186 | 267,711 | 1,531,849 | 13,617,950 |

## 15. 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 |
|---|---|---|---|---|---|---|
| **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) | - |
| Disposal of subsidiaries (note 46) | (252,961) | (510,910) | (27,551) | (28,073) | (33,785) | (853,280) |
| Deemed disposal of a subsidiary (note 45) | (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) |
| Disposal of subsidiaries (note 46) | (63,228) | (308,802) | (18,373) | (18,131) | (6,265) | (414,799) |
| Deemed disposal of a subsidiary (note 45) | (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 |

CREATE OUR FUTURE TOGETHER

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 15. 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 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **At cost:** | | | | | | |
| At 1 January 2011 | 313,861 | 90,031 | 11,510 | 56,418 | 598,565 | 1,070,385 |
| Additions | - | 55,459 | - | 5,579 | 150,841 | 211,879 |
| Transfers | 480,898 | 39,822 | - | - | (520,720) | - |
| Transfer to prepaid land lease payments (note 17) | - | - | - | - | (154,499) | (154,499) |
| Disposals | (1,826) | (563) | (5,871) | (759) | - | (9,019) |
| At 31 December 2011 | 792,933 | 184,749 | 5,639 | 61,238 | 74,187 | 1,118,746 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2011 | 58,046 | 31,652 | 7,591 | 37,852 | - | 135,141 |
| Depreciation provided during the year | 40,799 | 8,430 | 1,379 | 7,323 | - | 57,931 |
| Disposals | - | (448) | (4,510) | (625) | - | (5,583) |
| At 31 December 2011 | 98,845 | 39,634 | 4,460 | 44,550 | - | 187,489 |
| **Net carrying amount:** | | | | | | |
| At 31 December 2011 | 694,088 | 145,115 | 1,179 | 16,688 | 74,187 | 931,257 |
| **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 |

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

As at 31 December 2011, no buildings (2010: RMB594,000) and machinery (2010: RMB47,886,000) were pledged to secure general banking facilities granted to the Group (note 39).

As at 31 December 2011, the Group has not obtained the real estate certificates for buildings with a net carrying amount of RMB371,435,000 (2010: RMB424,367,000). The Group was in the process of applying for the real estate certificates for buildings with a net carrying amount of approximately RMB346,904,000 as at 31 December 2011.

As at 31 December 2011, the Company has not obtained the real estate certificates for buildings with a net carrying amount of RMB65,779,000 (2010: Nil). The Company was in the process of applying for the real estate certificates for buildings with a net carrying amount of approximately RMB65,779,000 as at 31 December 2011.

## 16. INVESTMENT PROPERTIES

Group

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 192,950 | 192,950 |
| Transferred from owner-occupied properties (note 15) | 1,677 | - |
| At 31 December | 194,627 | 192,950 |
| **Accumulated depreciation:** | | |
| At 1 January | 58,533 | 51,411 |
| Transferred from owner-occupied properties (note 15) | 692 | - |
| Depreciation provided during the year | 6,034 | 7,122 |
| At 31 December | 65,259 | 58,533 |
| **Net carrying amount:** | | |
| At 31 December | 129,368 | 134,417 |

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Medium term leases | 124,040 | 133,785 |
| Short term leases | 5,328 | 632 |
| | 129,368 | 134,417 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 16. INVESTMENT PROPERTIES (continued)

Company

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 54,033 | - |
| Additions | - | 54,033 |
| At 31 December | 54,033 | 54,033 |
| **Accumulated depreciation:** | | |
| At 1 January | - | - |
| Depreciation provided during the year | 2,323 | - |
| At 31 December | 2,323 | - |
| **Net carrying amount** | | |
| At 31 December | 51,710 | 54,033 |

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Medium term leases | 51,710 | 54,033 |

## 17. PREPAID LAND LEASE PAYMENTS

Group

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 1,628,125 | 1,788,330 |
| Additions | 21,090 | 90,445 |
| Transferred from property, plant and equipment (note 15) | 231,931 | - |
| Disposals | - | (98,186) |
| Disposal of subsidiaries (note 46) | (9,633) | (83,324) |
| Disposal group held for sale (note 12) | (116,701) | - |
| Deemed disposal of a subsidiary (note 45) | - | (69,140) |
| At 31 December | 1,754,812 | 1,628,125 |

## 17. PREPAID LAND LEASE PAYMENTS (continued)

Group (continued)

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Accumulated depreciation:** | | |
| At 1 January | 250,026 | 236,841 |
| Amortisation provided during the year | 33,683 | 37,545 |
| Disposals | - | (6,985) |
| Disposal of subsidiaries (note 46) | (2,715) | (17,375) |
| Disposal group held for sale (note 12) | (20,237) | - |
| At 31 December | 260,757 | 250,026 |
| **Net carrying amount:** | | |
| At 31 December | 1,494,055 | 1,378,099 |
| Of which: | | |
| Current portion included in prepayments, deposits and other receivables (note 31) | 32,078 | 33,158 |
| Non-current portion | 1,461,977 | 1,344,941 |
| | 1,494,055 | 1,378,099 |

Except for three (2010: three) parcels of leasehold land with a total cost of RMB29,300,000 (2010: RMB29,401,000), 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:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **At cost:** | | |
| Long term (no less than 50 years) | 101,050 | 101,151 |
| Medium term (no less than 10 years but less than 50 years) | 1,653,762 | 1,526,974 |
| | 1,754,812 | 1,628,125 |

As at 31 December 2011, certain of the Group's land use rights with a net carrying amount of approximately RMB914,000 (2010: RMB4,508,000) were pledged to secure general banking facilities granted to the Group (note 39).

As at 31 December 2011, the Group was in the process of applying for land use right certificates for lands with a net carrying amount of approximately RMB16,853,000 (2010: Nil).

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 17. PREPAID LAND LEASE PAYMENTS (continued)

Company

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 81,500 | 81,500 |
| Additions | 13,506 | - |
| Transferred from property, plant and equipment (note 15) | 154,499 | - |
| At 31 December | 249,505 | 81,500 |
| **Accumulated depreciation:** | | |
| At 1 January | 12,428 | 9,650 |
| Amortisation provided during the year | 3,835 | 2,778 |
| At 31 December | 16,263 | 12,428 |
| **Net carrying amount:** | | |
| At 31 December | 233,242 | 69,072 |
| Of which: | | |
| Current portion included in prepayments, deposits and other receivables (note 31) | 1,900 | 1,898 |
| Non-current portion | 231,342 | 67,174 |
| | 233,242 | 69,072 |

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

## 18. GOODWILL

Group

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 77,068 | 106,175 |
| Disposal of subsidiaries (note 46) | (3,627) | - |
| Deemed disposal of a subsidiary | - | (29,107) |
| At 31 December | 73,441 | 77,068 |

## 18. GOODWILL (continued)

| Group (continued) | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Accumulated impairment:** | | |
| At 1 January | 60,958 | 29,107 |
| Impairment during the year | - | 60,958 |
| Deemed disposal of a subsidiary | - | (29,107) |
| At 31 December | 60,958 | 60,958 |
| **Net carrying amount:** | | |
| At 31 December | 12,483 | 16,110 |

### 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 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Printing and packing machinery | Industrial equipment | 12,483 | 12,483 |
| Others | | - | 3,627 |
| | | 12,483 | 16,110 |

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% (2010: 13%) and cash flows beyond the five-year period are extrapolated using a growth rate of 3% (2010: 3%).

Key assumptions were used in the value in use calculations of the above cash-generating units for 31 December 2011 and 2010. 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.

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

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 19. OTHER INTANGIBLE ASSETS

Group

| | Patents and licences RMB'000 | Technology know-how RMB'000 | Concession intangible assets RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2011** | | | | | |
| **At cost:** | | | | | |
| 1 January 2011 | 360,055 | 499,764 | 425,779 | 47,403 | 1,333,001 |
| Additions | 121,304 | 17,203 | - | 40,801 | 179,308 |
| Disposals | - | - | - | (11,480) | (11,480) |
| Disposal of subsidiaries (note 46) | (100) | (1,914) | - | - | (2,014) |
| Disposal group held for sale (note 12) | - | - | - | (1,082) | (1,082) |
| At 31 December 2011 | 481,259 | 515,053 | 425,779 | 75,642 | 1,497,733 |
| **Accumulated amortisation and impairment:** | | | | | |
| 1 January 2011 | 330,520 | 257,973 | 32,120 | 28,056 | 648,669 |
| Amortisation provided during the year | 9,939 | 36,960 | 17,766 | 9,478 | 74,143 |
| Impairment | 4,530 | - | - | - | 4,530 |
| Disposals | - | - | - | (995) | (995) |
| Disposal of subsidiaries (note 46) | (71) | (1,116) | - | - | (1,187) |
| Disposal group held for sale (note 12) | - | - | - | (1,056) | (1,056) |
| At 31 December 2011 | 344,918 | 293,817 | 49,886 | 35,483 | 724,104 |
| **Net carrying amount:** | | | | | |
| At 31 December 2011 | 136,341 | 221,236 | 375,893 | 40,159 | 773,629 |

## 19. OTHER INTANGIBLE ASSETS (continued)

Group (continued)

| | Patents and licences RMB'000 | Technology know-how RMB'000 | Concession intangible assets RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| **At cost:** | | | | | |
| 1 January 2010 | 375,857 | 382,069 | 399,433 | 69,401 | 1,226,760 |
| Additions | 5,000 | 117,749 | 26,632 | 8,918 | 158,299 |
| Disposals | - | - | (286) | (10,608) | (10,894) |
| Disposal of subsidiaries (note 46) | (20,676) | (54) | - | (11,688) | (32,418) |
| Deemed disposal of a subsidiary (note 45) | (126) | - | - | (8,620) | (8,746) |
| At 31 December 2010 | 360,055 | 499,764 | 425,779 | 47,403 | 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 46) | (12,807) | (28) | - | (7,006) | (19,841) |
| Deemed disposal of a subsidiary (note 45) | (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 | 19,347 | 684,332 |

Company

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **At cost:** | | |
| At 1 January | 20,781 | 21,666 |
| Additions | 147,307 | 1,371 |
| Disposals | (9,989) | (2,256) |
| At 31 December | 158,099 | 20,781 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 19. OTHER INTANGIBLE ASSETS (continued)

Company (continued)

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| **Accumulated depreciation:** | | |
| At 1 January | 8,957 | 7,520 |
| Amortisation provided during the year | 3,605 | 1,437 |
| At 31 December | 12,562 | 8,957 |
| **Net carrying amount:** | | |
| At 31 December | 145,537 | 11,824 |

## 20. INVESTMENTS IN SUBSIDIARIES

Company

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Unlisted investments, at cost | 13,445,277 | 12,515,528 |
| Listed investment, at cost | 1,465,478 | 1,465,478 |
| | 14,910,755 | 13,981,006 |

As at 31 December 2011, the Company had one listed subsidiary, Shanghai Mechanical & Electrical, with a carrying amount of RMB1,465,478,000. Shanghai Mechanical & Electrical is listed on the Shanghai Stock Exchange. As at 31 December 2011, the fair market value of the listed shares of the subsidiary held by the Company amounted to RMB3,834,560,000.

## 20. 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.<br>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.<br>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 and spare parts |
| Shanghai Boiler Works, Ltd.<br>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.<br>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. #<br>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.<br>上海電气風電設備有限公司 | PRC | RMB1,028,000 | 100% | - | Production and sale of wind power equipment, spare parts and provision of after-sales service |
| Shanghai Electric Engineering Design Co., Ltd.<br>上海電气工程設計有限公司 | PRC | RMB10,000 | 70% | - | Design, consulting and supervision of engineering works |
| SEC-IHI Power Generation Environment Protection Engineering Co., Ltd.<br>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.<br>上海重型機器廠有限公司 | PRC | RMB1,973,214 | 100% | - | Sale of metallurgy materials, spare parts, power station equipment and anti-pressure containers |
| Shanghai Electric Nuclear Power Equipment Co., Ltd.<br>上海電气核電設備有限公司 | PRC | RMB2,092,000 | 100% | - | Production and sale of nuclear power equipment, spare parts and provision of after-sales service |
| Shanghai Ship-use Crankshaft Co., Ltd.<br>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.<br>上海第一機床廠有限公司 | PRC | RMB620,000 | 100% | - | Design, manufacture of civil nuclear bearing equipment and electrical and mechanical equipment |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 20. 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 | 95.70% | - | 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 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% | 6.24% | 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 & 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 |

## 20. INVESTMENTS IN SUBSIDIARIES (continued)

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

| Company name | Place of incorporation/ registration and operations | Registered capital (in'000) | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai 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 | RMB557,863 | - | 47.28% | Production and sale of printing and packaging equipment, spare parts and raw materials |
| Shanghai Mitsubishi Elevator Co., Ltd. # * 上海三菱電梯有限公司 | PRC | USD155,269 | - | 24.59% | Manufacture and sale of elevators, escalators, electronic ramps, building automation, management and safety systems and provision of related services |
| Shanghai Guanghua Printing Machinery Co., Ltd. * 上海光華印刷機械有限公司 | PRC | RMB172,480 | - | 47.28% | Production and sale of printing machinery |
| Shanghai Electric Hydraulics Pneumatics Co., Ltd. * 上海電气液壓气動有限公司 | PRC | RMB251,243 | - | 47.28% | Sale of pressurised pumps and related equipment |
| Shanghai Machine Tool Works Ltd. 上海機床廠有限公司 | PRC | RMB698,733 | 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 |
| 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 |
| Shanghai Electric Transmission and Distribution Equipment Co., Ltd.& 上海電气輸配電裝備有限公司 | PRC | RMB2,000,000 | 50% | - | Production and sale of power transmission, distribution and controlling equipment |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 20. 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-SPX Engineering & Technologies Co., Ltd.# 上海電气斯必克工程技術有限公司 | PRC | RMB267,841 | 55% | - | Installation and sale of dry cooling products |
| Shanghai Electric (India) Ltd. 上海電气(印度)有限公司 | India | USD9,800 | 100% | - | Provision of after service and spare parts for power station |
| Shanghai Electric (Vietnam) Ltd. 上海電气(越南)有限公司 | Vietnam | USD1,500 | 100% | - | Provision of after service and components for secured projects |

\# Sino-foreign equity joint ventures

^ Shanghai Mechanical & Electrical 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.

& Pursuant to the joint venture agreement, the Company is entitled to a contractual right to acquire additional 1% equity from the counterparty at the Company's discretion. Taking into account the potential voting right, the joint venture has been included in the consolidation scope of the Group's consolidated financial statements.

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

## 21. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

| Group | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Share of net assets | 319,887 | 227,092 |

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 23, 28, 31, 35 and 38 to the financial statements, respectively.

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

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

| Company name | Place of Incorporation/ registration and operations | Registered capital (in'000) | Percentage of Ownership interest | Voting power | 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 through wholly owned subsidiaries.

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

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Share of the jointly-controlled entities' assets and liabilities: | | |
| Current assets | 623,415 | 430,686 |
| Non-current assets | 118,412 | 104,421 |
| Current liabilities | (419,901) | (305,922) |
| Non-current liabilities | (2,039) | (2,093) |
| Net assets | 319,887 | 227,092 |
| Share of the jointly-controlled entities' results: | | |
| Revenue | 639,494 | 446,655 |
| Other income | 11,670 | 5,878 |
| | 651,164 | 452,533 |
| Total expenses | (514,737) | (374,686) |
| Income tax expenses | (18,223) | (10,825) |
| Profit after tax | 118,204 | 67,022 |

# NOTES TO FINANCIAL STATEMENTS (continued)

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## 22. INVESTMENTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Unlisted investments, at cost | - | - | 1,717,570 | 1,720,310 |
| Share of net assets | 2,970,424 | 2,947,734 | - | - |
| Goodwill on acquisition | 21,282 | 21,282 | - | - |
| | 2,991,706 | 2,969,016 | 1,717,570 | 1,720,310 |

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 23, 28, 29, 30, 31, 35, 36, 37 and 38 to the financial statements, respectively.

Particulars of the principal associates are as follows:

| Company name | Place of Incorporation/ registration and operations | Registered capital (in'000) | Percentage of ownership interest attributable to the Group Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Shanghai Rail Traffic Equipment Development Co., Ltd. 上海軌道交通設備髮展有限公司 | 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 |
| 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 and 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 |

## 22. INVESTMENTS IN ASSOCIATES (continued)

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

| Company name | Place of Incorporation/ registration and operations | Registered capital (in'000) | Percentage of ownership interest attributable to the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Trench High Voltage Products Co., Ltd. , Shengyang #<br>傳奇電气（沈陽）有限公司 | PRC | RMB112,634 | 35% | - | Production and sale of bushings and instrument transformers |
| Siemens Shanghai High Voltage Switchgear Co., Ltd. #<br>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 Alstom (Shanghai Baoshan) Transformers Co., Ltd. # ^<br>上海電气阿爾斯通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. #<br>上海電气阿海法武漢變壓器有限公司 | PRC | EUR20,000 | 25% | 12.5% | Production and sale of oil-immersed power transformers |
| Goss Graphic Systems (China) Co., Ltd. # *<br>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. # *<br>上海一冷開利空調設備有限公司 | PRC | RMB372,343 | - | 14.18% | Production and sale of centralised air-conditioning systems |
| Shanghai Marathon-Gexin Electric Co., Ltd. # *<br>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. # *<br>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. # *<br>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 |
| Shanghai Ri Yong-JEA Gate Electric Co., Ltd. # *<br>上海日用-友捷汽車電气有限公司 | PRC | USD17,000 | - | 18.91% | Design, manufacture and sale of auto radiator fans, blowers and micromotors |
| Shanghai Faiverley Transport Co., Ltd. # *<br>上海法維萊交通車輛設備有限公司 | PRC | DEM10,500 | - | 23.17% | Production and sale of key systems for modern railway vehicles and locomotives |
| Sauer Shanghai Hydrostatic Transmission Co., Ltd. # *<br>上海薩澳液壓傳動有限公司 | PRC | USD18,000 | - | 18.91% | Production and sale of hydraulic piston pumps and motors |
| Shanghai C&D Battery Co., Ltd. # *<br>上海西恩迪蓄電池有限公司 | PRC | USD24,904 | - | 15.60% | Production and sale of spare power systems |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 22. INVESTMENTS IN ASSOCIATES (continued)

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

# Sino-foreign equity joint ventures

^ SEC Areva (Shanghai Baoshan) Transformers Co., Ltd. was renamed as SEC Alstom (Shanghai Baoshan) Transformers Co., Ltd. in year 2011.

* The investments in these entities are indirectly held by the Group through its subsidiary Shanghai Mechanical & Electrical. The Group excises significant influence on these entities.

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:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Assets | 20,685,393 | 18,007,426 |
| Liabilities | 11,546,598 | 9,391,130 |
| Revenue | 26,614,034 | 21,823,486 |
| Net profit | 2,294,801 | 2,267,228 |

## 23. LOANS RECEIVABLE

| Group | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Gross RMB'000 | Provision RMB'000 | Net RMB'000 | Gross RMB'000 | Provision RMB'000 | Net RMB'000 |
| Loans to the ultimate holding company | - | - | - | 1,000,000 | (10,000) | 990,000 |
| Loans to SEC group companies* | 1,903,120 | (25,596) | 1,877,524 | 1,375,842 | (26,517) | 1,349,325 |
| Loans to jointly-controlled entities | 24,500 | (245) | 24,255 | 10,000 | (100) | 9,900 |
| Loans to associates | 30,000 | (300) | 29,700 | 10,000 | (100) | 9,900 |
| Loans to other related companies | - | - | - | 225,000 | (4,500) | 220,500 |
| | 1,957,620 | (26,141) | 1,931,479 | 2,620,842 | (41,217) | 2,579,625 |
| Portion classified as current assets | 969,451 | (16,260) | 953,191 | 1,726,950 | (23,339) | 1,703,611 |
| Long term portion | 988,169 | (9,881) | 978,288 | 893,892 | (17,878) | 876,014 |

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

## 23. LOANS RECEIVABLE (continued)

| Company | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| | Annual interest rate | Gross RMB'000 | Provision RMB'000 | Net RMB'000 | Gross RMB'000 | Provision RMB'000 | Net RMB'000 |
| Current portion | Nil | 400,000 | - | 400,000 | 740,000 | - | 740,000 |
| Current portion | 6.10%-6.56% | 900,000 | - | 900,000 | - | - | - |
| | | 1,300,000 | - | 1,300,000 | 740,000 | - | 740,000 |

As at 31 December 2011, 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 | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | 41,217 | 18,055 |
| Impairment losses recognised (note 6) | - | 23,162 |
| Impairment losses reversed (note 6) | (15,076) | - |
| At 31 December | 26,141 | 41,217 |

As at 31 December, none (2010: Nil) of the Group's loans receivable was past due. The annual interest rates of loans provided to related parties range from 5.23% to 6.65% (2010: 4.59% to 7.56%).

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Credit loans receivable | 54,500 | 1,010,000 |
| Guaranteed loans receivable | 1,903,120 | 1,600,842 |
| Pledged loans receivable | - | 10,000 |
| | 1,957,620 | 2,620,842 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 24. OTHER INVESTMENTS (NON-CURRENT)

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Equity investments: | | | | |
| - Available-for-sale (unlisted), at cost | 42,006 | 52,090 | 12,925 | 15,039 |
| - Impairment | (10,947) | (13,048) | - | - |
| | 31,059 | 39,042 | 12,925 | 15,039 |
| - Available-for-sale (listed), at fair value | 137,346 | 145,927 | 5,910 | 10,518 |
| | 168,405 | 184,969 | 18,835 | 25,557 |
| Debt investments: | | | | |
| - Available-for-sale (unlisted), at fair value | 101,700 | 103,776 | - | - |
| - Available-for-sale (listed), at fair value | 20,000 | 20,000 | - | - |
| - Held-to-maturity (unlisted), at amortised cost | 10,317 | - | - | - |
| | 132,017 | 123,776 | - | - |
| Trust product: | | | | |
| - Available-for-sale (unlisted), at fair value | 380,154 | - | 380,154 | - |
| | 680,576 | 308,745 | 398,989 | 25,557 |

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

| Group | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | 13,048 | 14,602 |
| Disposals | (2,101) | - |
| Disposal of subsidiaries | - | (1,554) |
| At 31 December | 10,947 | 13,048 |

All the above available-for-sale equity investments are tradable.

As of 31 December 2011, the above trust product was "Shanghai Trust Platinum Series – single fund trust product invested in the Hong Kong market" ("Trust Product") denominated in Renminbi equivalent to USD60,000,000 subscribed by the Company on 21 December 2011. The Company used HKD387,440,000 under the Trust Product to subscribe for a total of 232,000,000 H shares of Beijing Jingneng Clean Energy Co., Ltd. The term of the Trust Product is no longer than eight years and the lock-up restriction period is no less than one month.

## 24. OTHER INVESTMENTS (NON-CURRENT) (continued)

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 RMB8,132,000 (2010: RMB41,070,000). In addition, upon the disposal of certain non-current available-for-sale investments, a cumulative gain of RMB356,000 (2010: RMB2,701,000) 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 2011, certain unlisted available-for-sale equity investments with a carrying amount of RMB31,059,000 (2010: RMB39,042,000) 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.

## 25. DEFERRED TAX

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

### Deferred tax assets

| **Group** | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Losses available for offsetting against future taxable profits RMB'000 | Impairment of assets and provisions RMB'000 | Unrealised loss on investments RMB'000 | Accrued expense RMB'000 | Eliminated profits resulting from intragroup transactions RMB'000 | Others RMB'000 | Total RMB'000 |
| As at 1 January 2011 | 2,550 | 799,991 | - | 305,036 | 44,657 | 33,441 | 1,185,675 |
| Effect of change in tax rate on the opening balance credited to the income statement (note 10) | - | 27 | - | - | - | - | 27 |
| Deferred tax (charged)/credited to the income statement during the year (note 10) | (2,550) | 226,028 | 265 | 93,975 | 614 | 12,036 | 330,368 |
| Deferred tax credited to the equity during the year | - | - | 24,049 | - | - | - | 24,049 |
| Disposal of subsidiaries (note 46) | - | (743) | - | - | - | (173) | (916) |
| Disposal group held for sale (note 12) | - | (9,194) | - | - | - | - | (9,194) |
| Exchange realignment | - | (4) | - | - | - | (12) | (16) |
| Gross deferred tax assets at 31 December 2011 | - | 1,016,105 | 24,314 | 399,011 | 45,271 | 45,292 | 1,529,993 |
| Offset against deferred tax liabilities* | | | | | | | (27,404) |
| Net deferred tax assets at 31 December 2011 | | | | | | | 1,502,589 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 25. DEFERRED TAX (continued)

### Deferred tax liabilities

**Group**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 2011 | (155,554) | (26,744) | (92,573) | (66,139) | (63,390) | (404,400) |
| Deferred tax credited/(charged) to the income statement during the year (note 10) | 1,462 | 1,153 | 15,377 | (40,258) | - | (22,266) |
| Deferred tax credited to equity during the year | - | - | 52,201 | - | - | 52,201 |
| Deferred tax credited to others during the year | - | - | - | - | 10,127 | 10,127 |
| Exchange realignment | - | - | - | 10 | - | 10 |
| Gross deferred tax liabilities at 31 December 2011 | (154,092) | (25,591) | (24,995) | (106,387) | (53,263) | (364,328) |
| Offset against deferred tax assets* | | | | | | 27,404 |
| Net deferred tax liabilities at 31 December 2011 | | | | | | (336,924) |

### Deferred tax assets

**Group**

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Losses available for offsetting against future taxable profits RMB'000 | Impairment of assets and provisions 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 | 217,960 | 27,662 | 34,582 | 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 | 84,978 | 16,995 | (1,621) | 285,049 |
| Disposal of subsidiaries (note 46) | - | (11,021) | - | - | - | (11,021) |
| Exchange realignment | - | - | - | - | 480 | 480 |
| Gross deferred tax assets at 31 December 2010 | 2,550 | 799,991 | 305,036 | 44,657 | 33,441 | 1,185,675 |
| Offset against deferred tax liabilities* | | | | | | (70,923) |
| Net deferred tax assets at 31 December 2010 | | | | | | 1,114,752 |

## 25. 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

**Company**

| | 2011 | | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| | Impairment of assets and provisions RMB'000 | Accrued expense RMB'000 | Unrealised loss on investments RMB'000 | Total RMB'000 | Impairment of assets and provisions RMB'000 | Accrued expense RMB'000 | Total RMB'000 |
| At 1 January | 127,547 | 140,767 | - | 268,314 | 54,002 | 113,601 | 167,603 |
| Deferred tax credited to the income statement during the year | 90,250 | 60,959 | - | 151,209 | 73,545 | 27,166 | 100,711 |
| Deferred tax credited to the equity during the year | - | - | 538 | 538 | - | - | - |
| Gross deferred tax assets at 31 December | 217,797 | 201,726 | 538 | 420,061 | 127,547 | 140,767 | 268,314 |
| Offset against deferred tax liabilities* | | | | (2,649) | | | (38,631) |
| Net deferred tax assets at 31 December | | | | 417,412 | | | 229,683 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 25. DEFERRED TAX (continued)

### Deferred tax liabilities

| Company | 2011<br>Unrealised gain on investments<br>RMB'000 | 2010<br>Unrealised gain on investments<br>RMB'000 |
|---|---|---|
| At 1 January | (38,631) | (2,151) |
| Deferred tax credited/(charged) to the income statement during the year | 13,036 | (13,534) |
| Deferred tax credited/(charged) to the equity during the year | 22,946 | (22,946) |
| Gross deferred tax liabilities at 31 December | (2,649) | (38,631) |
| Offset against deferred tax assets* | 2,649 | 38,631 |
| 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 | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Tax losses | 711,403 | 716,664 | - | - |
| Deductible temporary differences | 1,297,394 | 796,387 | - | - |
| | 2,008,797 | 1,513,051 | - | - |

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.

## 26. INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Raw materials | 4,226,348 | 3,625,928 | - | 1,500 |
| Work in progress | 11,197,944 | 12,708,491 | 201,350 | 851,140 |
| Finished goods | 5,460,898 | 3,537,350 | 45,351 | 42,974 |
| | 20,885,190 | 19,871,769 | 246,701 | 895,614 |

## 27. CONSTRUCTION CONTRACTS

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Gross amount due from contract customers | 290,134 | 456,334 | 102,224 | 42,119 |
| Contract costs incurred plus recognised profits less losses to date | 51,517,692 | 38,561,949 | 47,045,986 | 36,363,959 |
| Less: progress billings | (51,227,558) | (38,105,615) | (46,943,762) | (36,321,840) |
| | 290,134 | 456,334 | 102,224 | 42,119 |

As at 31 December 2011, 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 RMB4,230,357,000 (2010: RMB3,488,169,000) and RMB4,072,721,000 (2010: RMB3,363,220,000), respectively.

## 28. TRADE RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Trade receivables | 21,999,640 | 18,682,303 | 11,055,834 | 10,305,260 |
| Impairment | (3,634,773) | (2,704,907) | (595,812) | (229,661) |
| | 18,364,867 | 15,977,396 | 10,460,022 | 10,075,599 |

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

## 28. TRADE RECEIVABLES (continued)

For the sale of other products, the Group's trading terms with its customers are mainly on credit except for new customers, where payment in advance or cash on delivery is normally required. The credit period is generally three months and may extend to six months for key customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at 31 December 2011, accounts receivable of a net carrying amount of approximately RMB313,911,000 (2010: Nil) was factored with recourse term to secure certain bank facilities of RMB250,000,000 (2010: Nil) (note 39).

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 | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Undue | 12,049,667 | 11,339,121 | 6,921,900 | 7,133,800 |
| Within 3 months past due | 2,085,445 | 2,257,240 | 729,339 | 1,398,887 |
| Over 3 months but within 6 months past due | 1,495,822 | 980,597 | 701,178 | 425,619 |
| Over 6 months but within 1 year past due | 1,549,520 | 610,011 | 827,193 | 338,196 |
| Over 1 year but within 2 years past due | 828,933 | 726,917 | 766,264 | 653,527 |
| Over 2 years but within 3 years past due | 338,624 | 50,244 | 463,329 | 121,895 |
| Over 3 years past due | 16,856 | 13,266 | 50,819 | 3,675 |
| | 18,364,867 | 15,977,396 | 10,460,022 | 10,075,599 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| At 1 January | 2,704,907 | 2,021,463 | 229,661 | 133,896 |
| Impairment losses recognised (note 6) | 1,351,897 | 1,103,176 | 369,384 | 104,443 |
| Disposal of subsidiaries | - | (38,017) | - | - |
| Amount written off as uncollectible | (22,885) | (29,722) | (7) | - |
| Impairment losses reversed (note 6) | (385,729) | (351,993) | (3,226) | (8,678) |
| Disposal group classified as held for sale | (13,417) | - | - | - |
| | 3,634,773 | 2,704,907 | 595,812 | 229,661 |

## 28. TRADE RECEIVABLES (continued)

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 RMB6,976,146,000 (2010: RMB5,841,628,000) and RMB3,835,513,000 (2010: RMB1,731,812,000), 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.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Neither past due nor impaired | 11,669,526 | 10,228,629 | 6,066,560 | 7,018,428 |
| Less than 3 months past due | 2,052,435 | 1,894,393 | 709,741 | 1,239,250 |
| 3 to 6 months past due | 1,153,955 | 621,502 | 438,108 | 281,358 |
| Over 6 months past due | 147,578 | 96,151 | 5,912 | 34,412 |
| | 15,023,494 | 12,840,675 | 7,220,321 | 8,573,448 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| The ultimate holding company | 89,131 | 125,995 | - | - |
| Subsidiaries | - | - | 174,196 | 148,557 |
| Jointly-controlled entities | 35 | 106 | - | - |
| Associates | 8,867 | 23,365 | - | 1,882 |
| SEC group companies | 91,688 | 71,252 | - | - |
| Other related companies | 132,397 | 510,351 | 72,280 | 448,948 |
| | 322,118 | 731,069 | 246,476 | 599,387 |

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

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 29. DISCOUNTED BILLS RECEIVABLE

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Within 3 months | 823,947 | 42,048 |
| Over 3 months but within 6 months | 88,320 | 40,817 |
| | 912,267 | 82,865 |
| Less: Provision for discounted bills receivable | (9,123) | (829) |
| | 903,144 | 82,036 |

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | 829 | 427 |
| Recognised impairment losses (note 6) | 8,294 | 402 |
| | 9,123 | 829 |

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Associates | - | 2,131 |
| SEC group companies | 773,655 | - |
| | 773,655 | 2,131 |

The annual interest rates of discounting services provided to related parties ranged from 4.74% to 6.36% for the year ended 31 December 2011 (2010: 2.16% to 2.52%).

Discounted bills receivable for bills issued by related parties are analysed as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Associates | 8,600 | 21,000 |
| SEC group companies | 54,849 | 30,389 |
| | 63,449 | 51,389 |

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.

## 30. BILLS RECEIVABLE

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Within 3 months | 1,927,763 | 1,207,433 | 70,703 | 399,451 |
| Over 3 months but within 6 months | 2,482,985 | 1,146,674 | 584,463 | 468,925 |
| Over 6 months but within 1 year | 40,176 | 20,600 | - | - |
| | 4,450,924 | 2,374,707 | 655,166 | 868,376 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Associates | - | 2,500 | - | - |
| SEC group companies | 173,523 | 57,765 | - | - |
| Other related companies | 2,168 | 5,000 | - | - |
| | 175,691 | 65,265 | - | - |

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 2011 was an amount of RMB873,431,000 (2010: RMB38,318,000) 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 2011.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 31. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Prepayments | 7,275,739 | 6,139,612 | 2,535,639 | 2,136,198 |
| Deposits and other receivables | 1,454,251 | 1,149,753 | 539,984 | 337,013 |
| Prepaid land lease payments (note 17) | 32,078 | 33,158 | 1,900 | 1,898 |
| Dividend receivables | 36,307 | 123,324 | 128,201 | 188,340 |
| Compensation receivables | 31,234 | 31,092 | - | - |
| Due from subsidiaries | - | - | 13,537,557 | 17,133,318 |
| Due from the ultimate holding company | 5,377 | 8,857 | - | - |
| Due from associates | 133,355 | 82,162 | 39,076 | 2,124 |
| Due from SEC group companies | 424,567 | 676,386 | 91,663 | 178,078 |
| Due from other related companies | 1,098,579 | 695,709 | 116,413 | 23,458 |
| | 10,491,487 | 8,940,053 | 16,990,433 | 20,000,427 |
| Less: Provision for deposits and other receivables | (42,926) | (53,571) | (309) | (387) |
| | 10,448,561 | 8,886,482 | 16,990,124 | 20,000,040 |

As at 31 December 2011, the Group's and the Company's balances with related parties included prepayments of RMB1,633,441,000 (2010: RMB1,437,547,000) and RMB13,453,243,000 (2010: RMB16,988,063,000), respectively. The remaining balances of RMB28,437,000 (2010: RMB25,567,000) and RMB331,466,000 (2010: RMB348,915,000) 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 | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| At 1 January | 53,571 | 106,407 | 387 | 15,954 |
| Impairment losses recognised (note 6) | 2,048 | 1,475 | - | 277 |
| Amount written off as uncollectible | (106) | (314) | - | - |
| Impairment losses reversed (note 6) | (9,169) | (18,145) | (78) | (15,844) |
| Disposal of subsidiaries | (161) | (30,109) | - | - |
| Disposal group classified as held for sale | (3,257) | - | - | - |
| Others | - | (5,743) | - | - |
| | 42,926 | 53,571 | 309 | 387 |

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

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 RMB77,927,000 (2010: RMB100,553,000), and RMB9,845,000 (2010: RMB7,933,000). 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 RMB1,404,761,000 (2010: RMB1,056,330,000) and RMB861,605,000 (2010: RMB677,995,000), 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.

## 32. INVESTMENTS (CURRENT)

**Group**

| | **2011 RMB'000** | **2010 RMB'000** |
|---|---|---|
| Equity investments: | | |
| - At fair value through profit or loss (listed) | 357 | 175 |
| - Available-for-sale (listed), at fair value | 118,800 | 260,342 |
| | 119,157 | 260,517 |
| Debt investments: | | |
| - At fair value through profit or loss (listed) | 105,728 | 59,717 |
| - Available-for-sale (listed), at fair value | - | 29,496 |
| | 105,728 | 89,213 |
| Investment funds: | | |
| - Available-for-sale (listed), at fair value | 7,859 | 8,477 |
| - Available-for-sale (unlisted), at fair value | 2,898,639 | 4,250,095 |
| | 2,906,498 | 4,258,572 |
| Investment products: | | |
| - Available-for-sale (unlisted), at fair value | 745,550 | 42,393 |
| Designated investment management: | | |
| - Available-for-sale (unlisted), at fair value | 264,334 | 570,084 |
| | 4,141,267 | 5,220,779 |

During the year, the decrease in fair value in respect of the Group's current available-for-sale investments recognised in other comprehensive income amounted to RMB314,937,000 (2010: increase in fair value of RMB23,320,000). In addition, upon the disposals of certain current available-for-sale investments, a cumulative loss of RMB391,000 (2010: a cumulative gain of RMB78,534,000) was transferred from equity and recognised in the income statement.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 32. INVESTMENTS (CURRENT) (continued)

There was a significant decline in the fair value of certain of the above available-for-sale investments during the year. The directors consider that such a decline indicates that the available-for-sale investments have been impaired and an impairment loss of RMB85,304,000 (2010: Nil), which included a reclassification from other comprehensive income of RMB85,304,000 (2010: Nil), has been recognised in the income statement for the year.

The movements in the provision for impairment of available-for-sale investments are as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | - | - |
| Impairment losses recognised (note 6) | | |
| - Equity investments | 14,977 | - |
| - Investment funds | 24,158 | - |
| - Investment products | 12,307 | - |
| - Designated investment management | 33,862 | - |
| | 85,304 | - |
| At 31 December | 85,304 | - |

As at 31 December 2011, certain listed equity investments designated as available-for-sale amounted to RMB3,335,000 were restricted for trading over certain periods of less than three 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.

## 33. DERIVATIVE FINANCIAL INSTRUMENTS

**Group**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Assets RMB'000 | Liabilities RMB'000 | Assets RMB'000 | Liabilities RMB'000 |
| Forward currency contracts | 180,530 | (182,458) | 147,517 | - |
| Portion classified as non-current | 74,346 | (180,215) | 85,537 | - |
| Current portion | 106,184 | (2,243) | 61,980 | - |

*Forward currency contracts – cash flow hedges*

Forward currency contracts are designated as hedging instruments in respect of forecast future sales to overseas customers of which the Group has firm commitments. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

## 33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Group (continued)

*Forward currency contracts – cash flow hedges (continued)*

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 2012, 2013 and 2014 were assessed to be highly effective and a net loss of RMB70,451,000 (net of tax effect) was included in the hedging reserve as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Total fair value (losses)/gains included in the hedging reserve | (63,920) | 91,783 |
| Deferred tax impact on fair value change | 15,980 | (22,946) |
| Reclassified from other comprehensive income and recognised in the income statement | (30,015) | - |
| Deferred tax on reclassifications to profit or loss | 7,504 | - |
| Net (loss)/gain on cash flow hedges | (70,451) | 68,837 |

In addition, the Group has entered into several forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging financial derivatives amounting to RMB2,244,000 (2010: RMB26,669,000) were charged to the income statement during the year.

### Company

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Assets<br>RMB'000 | Liabilities<br>RMB'000 | Assets<br>RMB'000 | Liabilities<br>RMB'000 |
| Forward currency contracts | 180,530 | (180,689) | 145,921 | - |
| Portion classified as non-current | 74,346 | (180,215) | 85,537 | - |
| Current portion | 106,184 | (474) | 60,384 | - |

*Forward currency contracts – cash flow hedges*

Forward currency contracts are designated as hedging instruments in respect of forecast future sales to overseas customers of which the Group has firm commitments. The forward currency contract balances vary with the levels of expected foreign currency sales and changes in foreign exchange forward rates.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 33. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Company (continued)

*Forward currency contracts – cash flow hedges (continued)*

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 2012, 2013 and 2014 were assessed to be highly effective and a net loss of RMB70,451,000 (net of tax effect) was included in the hedging reserve as follows:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Total fair value (losses)/gains included in the hedging reserve | (63,920) | 91,783 |
| Deferred tax impact on fair value change | 15,980 | (22,946) |
| Reclassified from other comprehensive income and recognised in the income statement | (30,015) | - |
| Deferred tax on reclassifications to profit or loss | 7,504 | - |
| Net (loss)/gain on cash flow hedges | (70,451) | 68,837 |

In addition, the Company has entered into several forward currency contracts to manage its exchange rate exposures. The forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging financial derivatives amounting to RMB1,121,000 (2010: RMB25,771,000) were charged to the income statement during the year.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Cash and bank balances | 8,524,927 | 9,367,133 | 7,732,690 | 6,759,152 |
| Time deposits | 11,192,952 | 10,229,123 | 1,500,000 | 2,513,000 |
| | 19,717,879 | 19,596,256 | 9,232,690 | 9,272,152 |
| Less: Restricted deposits | (629,398) | (653,435) | (27,000) | (27,000) |
| Cash and cash equivalents | 19,088,481 | 18,942,821 | 9,205,690 | 9,245,152 |
| Due from the Central Bank | 2,950,785 | 2,613,114 | - | - |
| Total | 22,039,266 | 21,555,935 | 9,205,690 | 9,245,152 |

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Pledged deposits secured for: | | | | |
| Bank loans | 4,500 | 5,000 | - | - |
| Security deposits | 624,898 | 648,435 | 27,000 | 27,000 |
| | 629,398 | 653,435 | 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** | 2011 | | 2010 | |
|---|---|---|---|---|
| | Foreign currency in'000 | RMB equivalent RMB'000 | Foreign currency in'000 | RMB equivalent RMB'000 |
| Cash and bank balances: | | | | |
| United States Dollars ("USD") | 176,820 | 1,112,452 | 142,271 | 943,412 |
| Euro ("EUR") | 15,616 | 127,472 | 27,032 | 238,023 |
| Japan Yen ("JPY") | 1,334,813 | 108,257 | 1,420,447 | 115,426 |
| Great Britain Pound ("GBP") | 1 | 11 | - | - |
| Hong Kong Dollars ("HKD") | 23,700 | 19,214 | 24,050 | 20,465 |
| Vietnam Dong ("VND") | 34,061,068 | 10,516 | - | - |
| Bangladesh Taka ("BDT") | 32,413 | 2,493 | - | - |
| Indian Rupee ("INR") | 499,534 | 65,166 | 15,819 | 2,296 |
| Indonesian Rupiah ("IDR") | 80,275,485 | 55,779 | 17,732,688 | 13,119 |
| Ethiopian Birr ("ETB") | 847 | 307 | 86 | 34 |
| **Time deposits:** | | | | |
| USD | 2,015 | 12,692 | 1,959 | 12,976 |
| EUR | - | - | 14,045 | 123,687 |
| JPY | 40,000 | 3,244 | 40,000 | 3,250 |
| HKD | 19 | 15 | 2,041 | 1,737 |

| **Company** | 2011 | | 2010 | |
|---|---|---|---|---|
| | Foreign currency in'000 | RMB equivalent RMB'000 | Foreign currency in'000 | RMB equivalent RMB'000 |
| Cash and bank balances: | | | | |
| USD | 139,665 | 880,016 | 63,792 | 423,313 |
| EUR | 1,307 | 10,668 | - | - |
| VND | 5,313,174 | 1,805 | - | - |
| BDT | 32,413 | 2,493 | - | - |
| INR | 24,234 | 2,881 | 15,819 | 2,296 |
| IDR | 80,275,485 | 55,779 | 17,732,688 | 13,119 |
| ETB | 847 | 307 | 86 | 34 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

The RMB is not freely convertible into other currencies. However, according to Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations in China, 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 2011 comprised deposits of RMB2,927,037,000 (2010: RMB2,567,987,000) and USD3,769,000 (equivalent to RMB23,748,000) (2010: USD6,814,000, equivalent to RMB45,127,000) with the People's Bank of China (the "Central Bank"), including a statutory reserve of 16% and 5% (2010: 13.5% and 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 RMB7,130,558,000 (2010: RMB7,587,048,000) which were deposited with Finance Company according to the prevailing market conditions.

## 35. 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 | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Within 3 months | 12,895,492 | 11,686,364 | 7,049,374 | 6,974,276 |
| Over 3 months but within 6 months | 2,696,856 | 1,222,287 | 1,865,160 | 2,041,849 |
| Over 6 months but within 1 year | 2,364,021 | 1,194,253 | 1,849,793 | 2,246,934 |
| Over 1 year but within 2 years | 1,607,005 | 1,235,178 | 3,221,113 | 1,522,823 |
| Over 2 years but within 3 years | 724,901 | 496,512 | 1,493,785 | 770,890 |
| Over 3 years | 368,296 | 133,338 | 333,615 | 141,361 |
| | 20,656,571 | 15,967,932 | 15,812,840 | 13,698,133 |

## 35. TRADE PAYABLES (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Subsidiaries | - | - | 10,036,371 | 8,734,353 |
| Jointly-controlled entities | 70 | 342 | - | - |
| Associates | 216,163 | 177,310 | 14,787 | 21,753 |
| SEC group companies | 563,249 | 435,105 | 268,492 | 315,857 |
| Other related companies | 143,131 | 118,691 | 37,068 | 30,080 |
| | 922,613 | 731,448 | 10,356,718 | 9,102,043 |

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.

## 36. BILLS PAYABLE

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Within 3 months | 616,613 | 804,884 |
| Over 3 months but within 6 months | 1,352,469 | 643,232 |
| Over 6 months but within 1 year | 24,800 | 91,117 |
| | 1,993,882 | 1,539,233 |

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Associates | 2,164 | - |
| SEC group companies | 143,540 | 12,741 |
| Other related companies | 1,027 | 32,100 |
| | 146,731 | 44,841 |

Bills payable are non-interest-bearing.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 37. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Advances from customers | 27,844,232 | 30,706,099 | 17,557,823 | 22,771,037 |
| Other payables | 3,139,274 | 2,476,243 | 454,865 | 431,095 |
| Government grants | 239,603 | 210,078 | 20,482 | 18,049 |
| Dividend payable to non-controlling shareholders | 30,076 | 24,629 | 6,427 | 5,593 |
| Accruals | 3,471,782 | 3,258,542 | - | - |
| Payroll payable | 1,669,373 | 1,384,323 | 436,463 | 229,770 |
| Due to subsidiaries | - | - | 120,062 | 516,756 |
| Due to the ultimate holding company | 76,012 | 81,243 | 276 | 1,553 |
| Due to associates | 207,458 | 80,847 | 956 | 500 |
| Due to SEC group companies | 43,671 | 59,338 | 6,479 | 3,423 |
| Due to other related companies | 289,710 | 278,435 | 60,228 | - |
| | 37,011,191 | 38,559,777 | 18,664,061 | 23,977,776 |

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 RMB225,704,000 (2010: RMB344,707,000) and RMB127,773,000 (2010: RMB522,231,000) as at 31 December 2011 which are non-trade in nature, the Group's and the Company's balances with related parties as at 31 December 2011 all related to purchase deposits received by the Group and the Company. 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 one year.

## 38. CUSTOMER DEPOSITS

| Group | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Deposits from the ultimate holding company | 1,374,637 | 421,306 |
| Deposits from jointly-controlled entities | 354 | 122 |
| Deposits from associates | 157,618 | 373,872 |
| Deposits from SEC group companies | 1,198,159 | 983,207 |
| Deposits from other related companies | 26 | 178 |
| Deposits from former subsidiaries | 648 | 103,156 |
| Deposits from non-related parties | 53,003 | 48,757 |
| | 2,784,445 | 1,930,598 |
| Repayable: | | |
| On demand | 2,205,695 | 1,435,848 |
| Within 3 months | 332,750 | 248,000 |
| Over 3 months but within 1 year | 246,000 | 246,750 |
| | 2,784,445 | 1,930,598 |

## 38. CUSTOMER DEPOSITS (continued)

The annual interest rates of customer deposits provided to related parties range from 0.50% to 3.50% (2010: 0.36% to 2.75%).

## 39. INTEREST-BEARING BANK AND OTHER BORROWINGS

| Group | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Bank loans | | | | | | |
| - secured | 6.56 | 2012 | 30,000 | 5.31-5.56 | 2011 | 63,000 |
| - trade receivables factoring | 5.90-6.59 | 2012 | 250,000 | | | - |
| - unsecured | 1.48-6.56 | 2012 | 162,583 | 1.48-5.31 | 2011 | 182,333 |
| Current portion of long-term bank loans | | | | | | |
| - unsecured | 2.55-7.05 | 2012 | 242,408 | 5.35-5.94 | 2011 | 150,296 |
| | | | 684,991 | | | 395,629 |
| Non-current | | | | | | |
| Bank loans | | | | | | |
| - unsecured | 10% off over-5-year base rate | 2014 | 273,200 | 10% off over-5-year base rate | 2014 | 509,800 |
| - unsecured | Over-5-year base rate | 2017 | 156,150 | Over-5-year base rate | 2017 | 156,138 |
| - unsecured | Over-5-year base rate | 2015 | 167,928 | Over-5-year base rate | 2015 | 351,269 |
| - unsecured | 10% off over-5-year base rate | 2015 | 100,000 | | | - |
| - unsecured | 2.55 | 2015 | 1,364 | 2.55 | 2015 | 2,273 |
| - secured | 7.50 | 2013 | 1,910 | 7.25 | 2012 | 1,805 |
| | | | 700,552 | | | 1,021,285 |
| | | | 1,385,543 | | | 1,416,914 |

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 684,991 | 395,629 |
| In the second year | 1,910 | 1,805 |
| In the third to fifth years, inclusive | 542,492 | 863,342 |
| Beyond five years | 156,150 | 156,138 |
| | 1,385,543 | 1,416,914 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

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

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Foreign currency in'000 | RMB equivalent RMB'000 | Foreign currency in'000 | RMB equivalent RMB'000 |
| Foreign currency borrowing balances: | | | | |
| USD | 303 | 1,910 | 273 | 1,806 |
| JPY | 80,000 | 6,488 | 80,000 | 6,501 |
| HKD | 52,000 | 42,156 | 52,000 | 44,248 |

As at 31 December 2011, certain of the Group's bank loans are secured by mortgages over certain of the Group's land use rights with a net carrying amount of approximately RMB914,000 (2010: land use rights, buildings and machinery with net carrying amounts of RMB4,508,000, RMB594,000 and RMB47,886,000, respectively) (notes 17 and 15). In addition, as at 31 December 2011, certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposits amounted to RMB4,500,000 (2010: RMB5,000,000) (note 34).

As at 31 December 2011, accounts receivable of a net carrying amount of approximately RMB313,911,000 (2010: Nil) was factored with recourse to obtain certain bank facilities of RMB250,000,000 (2010: Nil).

| Company | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Bank loans | | | | | | |
| - unsecured | 4.37-5.90 | 2012 | 1,280,000 | 4.37 | 2011 | 480,000 |
| Current portion of long-term bank loans | | | | | | |
| - unsecured | 2.55 | 2012 | 455 | | | - |
| | | | 1,280,455 | | | 480,000 |
| Non-current | | | | | | |
| Bank loans | | | | | | |
| - unsecured | 2.55 | 2015 | 1,364 | 2.55 | 2015 | 2,273 |
| | | | 1,281,819 | | | 482,273 |

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 1,280,455 | 480,000 |
| In the third to fifth years, inclusive | 1,364 | 2,273 |
| | 1,281,819 | 482,273 |

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

As at 31 December 2011, the bank loan amounted to RMB1,280,000,000 (2010: RMB480,000,000) was borrowed from Finance Company.

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 | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Floating rate bank loans | 697,278 | 1,017,207 | 693,350 | 1,011,748 |
| Fixed rate bank loans | 3,274 | 4,078 | 3,102 | 3,815 |
| | 700,552 | 1,021,285 | 696,452 | 1,015,563 |

## 40. PROVISIONS

### Group

| | Product warranty RMB'000 | Onerous contracts RMB'000 | Early retirement benefits and staff severance costs RMB'000 | Late delivery RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2011 | 409,656 | 1,076,190 | 105,716 | 94,000 | 16,152 | 1,701,714 |
| Additional provisions (note 6) | 132,934 | 920,308 | 83,267 | - | 48,627 | 1,185,136 |
| Reversal during the year (note 6) | - | (120,978) | - | (24,000) | (1,124) | (146,102) |
| Amounts utilised during the year | (66,789) | (656,012) | (59,945) | - | (9,409) | (792,155) |
| At 31 December 2011 | 475,801 | 1,219,508 | 129,038 | 70,000 | 54,246 | 1,948,593 |
| Portion classified as current portion | 475,801 | 1,219,508 | 83,131 | 70,000 | 54,246 | 1,902,686 |
| Non-current portion | - | - | 45,907 | - | - | 45,907 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 40. PROVISIONS (continued)

**Company**

| | Product warranty RMB'000 | Onerous contracts RMB'000 | Late delivery RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2011 | - | 237,261 | 24,000 | - | 261,261 |
| Additional provisions | 576 | 60,618 | - | 40,000 | 101,194 |
| Reversal during the year | - | - | (24,000) | - | (24,000) |
| Amounts utilised during the year | - | (27,726) | - | - | (27,726) |
| At 31 December 2011 | 576 | 270,153 | - | 40,000 | 310,729 |
| Portion classified as current portion | 576 | 270,153 | - | 40,000 | 310,729 |

*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 2011. Provision has been made for such onerous contracts based on the estimated minimum net cost of exiting from the contracts.

*Early retirement benefits and staff severance costs*

The Group implemented plans for early retirement, termination of employment or offer to encourage voluntary redundancy 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.

## 41. BONDS

On 30 November 2007, Finance Company issued five-year floating rate bonds with a nominal value of RMB1 billion in the PRC inter-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. The maturity date of the Bonds is 30 November 2012 and, therefore, the balance is included in current liabilities as at 31 December 2011.

## 42. OTHER NON-CURRENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Due to the ultimate holding company | - | 1,548 | - | - |

## 43. SHARE CAPITAL

### Shares

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Registered, issued and fully paid: | | |
| A shares of RMB1.00 each, restricted | | |
| - state-owned shares | - | 7,409,088 |
| - state-owned corporate shares | - | 211,941 |
| - other legal person shares | - | 104,000 |
| A shares of RMB1.00 each, unrestricted | 9,850,715 | 2,125,686 |
| H shares of RMB1.00 each | 2,972,912 | 2,972,912 |
| Total | 12,823,627 | 12,823,627 |

As at the end of the reporting period, all restricted shares were no longer subject to the statutory lock-up restriction period and were tradable on the Shanghai Stock Exchange.

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<br>'000 | Issued capital<br>RMB'000 | Share premium<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| At 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 and 1 January 2011 | 12,823,627 | 12,823,627 | 3,606,286 | 16,429,913 |
| At 31 December 2011 | 12,823,627 | 12,823,627 | 3,606,286 | 16,429,913 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 44. RESERVES

(a) Group

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

*Capital reserve*

The capital reserve of the Group includes the share premium and the non-distributable reserves of the Company and its subsidiaries recognised 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 2011, the Company's reserves available for distribution, calculated in accordance with the relevant regulations, amounted to RMB3,894,234,000 (2010: RMB3,192,847,000), out of which a dividend totalling RMB979,725,000 for the year has been proposed on 23 March 2012 (note 13).

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.

## 44. RESERVES (continued)

(b) Company

| | Notes | Capital reserve RMB'000 | Surplus reserves RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 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 | | - | - | 735,452 | 735,452 |
| Interim 2010 dividend declared | 13 | - | - | (755,311) | (755,311) |
| Proposed 2010 final dividend | 13 | - | - | (834,818) | (834,818) |
| Others | | - | 6,510 | (6,510) | - |
| At 31 December 2010 and 1 January 2011 | | 3,567,612 | 756,952 | 2,430,063 | 6,754,627 |
| Total comprehensive income for the year | | (75,060) | - | 1,925,381 | 1,850,321 |
| Appropriation of statutory surplus reserves | | - | 170,690 | (170,690) | - |
| Proposed 2011 final dividend | 13 | - | - | (979,725) | (979,725) |
| As at 31 December 2011 | | 3,492,552 | 927,642 | 3,205,029 | 7,625,223 |

The capital reserve account balance as at 31 December 2011 included the Company's share premium of RMB3,606,286,000 (2010: RMB3,606,286,000) (note 43).

## 45. 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 interest. Since then, AIC was no longer included in consolidation of the Group and its equity interest was 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.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 45. DEEMED DISPOSAL OF A SUBSIDIARY(continued)

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 | 15 | 35,881 |
| Prepaid land lease payments | 17 | 69,140 |
| Other intangible assets | 19 | 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 |
| | | - |

There was no such event of deemed disposal of a subsidiary during year 2011.

## 46. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2011, the Group disposed of the following subsidiaries:

On 21 September 2011, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in Shanghai Green Continent Investment Co., Ltd. ("Shanghai Green Continent") for a cash consideration of RMB194,858,000, representing the total price of RMB207,003,000 less staff costs of RMB13,409,000 undertaken by the Group upon the disposal. In addition, the profit of RMB1,264,000 generated by Shanghai Green Continent during the period from the transaction benchmark date, 1 March 2011, to the completion date, 30 September 2011, was attributable to the Group. The disposal was completed in September 2011. As at 31 December 2011, the Group received the proceeds of RMB193,594,000 and RMB1,264,000 was recorded as other receivables.

On 21 March 2011, the Group entered into an equity transfer agreement to dispose of its 55% equity interest in Shanghai Electric Solar Energy Co., Ltd. for a cash consideration of RMB7,743,000. The disposal was completed in July 2011. The proceeds from the disposal has been received as at 31 December 2011.

## 46. DISPOSAL OF SUBSIDIARIES (continued)

On 30 November 2011, the Group entered into an equity transfer agreement to dispose of its 100% equity interest in Binhai Ace Environmental Protection Co., Ltd. for a cash consideration of RMB20,094,000. The disposal was completed in December 2011. The proceeds from the disposal has been received as at 31 December 2011.

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.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 46. 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 | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Property, plant and equipment | 15 | 134,745 | 438,481 |
| Prepaid land lease payments | 17 | 6,918 | 65,949 |
| Goodwill | 18 | 3,627 | - |
| Other intangible assets | 19 | 827 | 12,577 |
| Deferred tax assets | 25 | 916 | 11,021 |
| Available-for-sale financial assets | | - | 1,018 |
| Investments in associates | | - | 46,841 |
| Inventories | | 83,280 | 391,208 |
| Construction contracts | | - | 40,203 |
| Trade and other receivables | | 90,003 | 1,120,597 |
| Bills receivable | | 29,482 | 44,539 |
| Derivative financial instruments | | - | 35,205 |
| Cash and bank balances | | 64,799 | 958,805 |
| Trade and other payables | | (92,533) | (988,718) |
| Bills payable | | (300) | (167,202) |
| Interest-bearing bank and other borrowings | | (65,000) | (434,845) |
| Tax payable | | (283) | 650 |
| Provision | | - | (68,591) |
| Other non-current liabilities | | - | (12,288) |
| | | 256,481 | 1,495,450 |
| Fair value of the remaining interests | | - | (317,920) |
| Capital reserve transferred out | | (233) | - |
| Effect of changes in reserves on: | | | |
| Exchange fluctuation reserve | | - | 14,091 |
| Non-controlling interests | | (18,373) | (398,071) |
| (Loss)/gain on disposal of subsidiaries | 5 | (15,180) | 148,831 |
| | | 222,695 | 942,381 |
| Satisfied by: | | | |
| Cash | | 221,431 | 930,353 |
| Prepayments, deposits and other receivables | | 1,264 | 12,028 |
| | | 222,695 | 942,381 |

## 46. DISPOSAL OF SUBSIDIARIES (continued)

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

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Cash consideration | 221,431 | 930,353 |
| Cash and cash equivalents deposited with Finance Company | 7,200 | 386,603 |
| Cash and cash equivalents disposed of | (64,799) | (956,388) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | 163,832 | 360,568 |

## 47. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Guarantees given to banks in connection with facilities granted to: | | | | |
| - Subsidiaries | - | - | 1,148,970 | 1,240,390 |
| - Associates | 121,253 * | 154,766 * | 28,000 | 28,000 |
| | 121,253 | 154,766 | 1,176,970 | 1,268,390 |
| Guarantees given to banks in connection with facilities utilised by: | | | | |
| - Subsidiaries | - | - | 955,600 | 1,091,516 |
| - Associates | 98,752 | 92,252 | 5,499 | 266 |
| | 98,752 | 92,252 | 961,099 | 1,091,782 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RMB'000 | 2010 RMB'000 | 2011 RMB'000 | 2010 RMB'000 |
| Non-financial guarantee letters issued by Finance Company on behalf of: | | | | |
| - Associates | 17,800 | 12,456 | - | - |
| - SEC group companies | 324 | 1,274 | - | - |
| | 18,124 | 13,730 | - | - |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 47. CONTINGENT LIABILITIES (continued)

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

* The above guarantees include one guarantee denominated in USD (2010: JPY) with a guarantee facility of USD14,800,000 (2010: JPY1,560,000,000), out of which USD14,800,000 (2010: JPY1,132,000,000) has been utilised. The guarantee is for a period from 30 September 2011 to 30 September 2014 (2010: 8 August 2008 to 30 September 2011).

(b) As of 31 December 2011, financial guarantees issued by financial institutions for contracts awarded to a subsidiary of the Group amounted to RMB44,589,000 (2010: RMB44,248,000). The Company provides joint liability guarantee in respect of the financial guarantees.

(c) As of 31 December 2011, non-financial guarantees issued by financial institutions for contracts awarded to the Group amounted to RMB26,010,229,000 (2010: RMB23,635,176,000).

(d) As of 31 December 2011, contingent liabilities derived from pending lawsuits and arbitration amounted to RMB4,352,000 (2010: RMB13,990,000).

(e) 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 year 2010, the owner enforced the guarantee letter for advance payment and performance guarantee 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 was considered necessary as at 31 December 2011.

## 48. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties and plant and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 20 years and those for plant and machinery are negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

## 48. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

As at 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 88,967 | 54,957 | 30,885 | 16,953 |
| In the second to fifth years, inclusive | 171,614 | 114,062 | 5,147 | 16,953 |
| After five years | 143,524 | 74,712 | - | - |
| | 404,105 | 243,731 | 36,032 | 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.

As at 31 December 2011, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 59,495 | 51,650 | 4,090 | 3,066 |
| In the second to fifth years, inclusive | 113,969 | 88,988 | 669 | 3,577 |
| After five years | 80,015 | 87,871 | - | - |
| | 253,479 | 228,509 | 4,759 | 6,643 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 49. COMMITMENTS

In addition to the operating lease commitments detailed in note 48(b) above, the Group and the Company had the following capital commitments at the end of reporting period:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RMB'000 | 2010<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Contracted, but not provided for: | | | | |
| In respect of the acquisition of | | | | |
| - Land and buildings | 347,594 | 336,513 | - | 15,944 |
| - Plant and machinery | 611,409 | 831,224 | - | 15,824 |
| - Intangible assets | 86,706 | 34,915 | - | 32,723 |
| In respect of capital contribution to | | | | |
| - Subsidiaries | - | - | 573,656 | - |
| - Companies to be established/acquired | 811,319 | - | 811,319 | - |
| | 1,857,028 | 1,202,652 | 1,384,975 | 64,491 |
| Authorised, but not contracted for: | | | | |
| In respect of the acquisition of | | | | |
| - Land and buildings | 11,681 | 126,734 | - | 4,207 |
| - Plant and machinery | 368,489 | 461,180 | - | 11,499 |
| In respect of capital contribution to | | | | |
| - Subsidiaries | - | - | 599,918 | 420,000 |
| - Companies to be established/acquired | 575,809 | 179,934 | - | 94,934 |
| - Non-controlling interests to be acquired | 21,847 | - | - | - |
| | 977,826 | 767,848 | 599,918 | 530,640 |
| | 2,834,854 | 1,970,500 | 1,984,893 | 595,131 |

## 50. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of SE Corporation, which is a state-owned enterprise subject to the control of the State Council of the PRC Government. The State Council of the PRC Government directly and indirectly controls a significant number of entities through its government authorities and other state-owned entities.

(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 | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| Purchase of materials from: | (i) | | |
| Associates | | 1,652,162 | 1,507,215 |
| Jointly-controlled entities | | 790 | 48 |
| SEC group companies | | 1,038,237 | 1,084,526 |
| Other related companies | | 1,616,961 | 698,683 |
| | | 4,308,150 | 3,290,472 |
| Sale of goods to: | (i) | | |
| The ultimate holding company | | 10,526 | - |
| Associates | | 241,729 | 197,713 |
| Jointly-controlled entities | | 1,192 | 882 |
| SEC group companies | | 723,297 | 376,161 |
| Other related companies | | 282,625 | 565,624 |
| | | 1,259,369 | 1,140,380 |
| Construction contract from: | (i) | | |
| Other related companies | | - | 558,535 |
| Sale of scraps and spare parts to: | (i) | | |
| Associates | | 6,722 | 9,890 |
| SEC group companies | | - | 860 |
| | | 6,722 | 10,750 |
| Purchases of services from: | (i) | | |
| Associates | | - | 2,336 |
| SEC group companies | | 43,017 | 26,434 |
| Other related companies | | 140,605 | 189,248 |
| | | 183,622 | 218,018 |
| Provision of services to: | (i) | | |
| The ultimate holding company | | 1,782 | 3,251 |
| Associates | | 38,441 | 51,326 |
| SEC group companies | | 13,108 | 8,980 |
| Other related companies | | - | 4 |
| | | 53,331 | 63,561 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 50. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Purchases of equipment from: | (i) | | |
| The ultimate holding company | | 55 | - |
| Associates | | 212 | - |
| SEC group companies | | 10,157 | 7,152 |
| Other related companies | | 31 | 76,892 |
| | | 10,455 | 84,044 |
| Purchases of other intangible assets from: | (i) | | |
| SEC group companies | | 525 | - |
| Rental income from: | (ii) | | |
| Associates | | 15,696 | 20,055 |
| SEC group companies | | 1,761 | 1,700 |
| | | 17,457 | 21,755 |
| Rental fee to: | (ii) | | |
| The ultimate holding company | | 25,938 | 26,807 |
| SEC group companies | | 8,001 | 5,053 |
| | | 33,939 | 31,860 |

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 2011, the Group effected the following non-recurring transaction:

The Company and SE Corporation entered into entrusted agreements in year 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 USD889,786,000.

## 50. RELATED PARTY TRANSACTIONS (continued)

(1) (continued)

Sales regarding the Project of RMB383,794,000 (2010: RMB549,565,000) were recognised during the year. In addition, purchases of RMB7,608,000 (2010: RMB7,443,000) and an agent fee of RMB11,395,000 (2010: RMB9,363,000) were incurred through SE Corporation during the year.

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

As at 31 December 2011, the Group has provided corporate guarantees in connection with facilities totalling RMB121,253,000 (2010: RMB154,766,000) to related parties, out of which RMB98,752,000 (2010: RMB92,252,000) has been utilised; and Finance Company has issued non-financial guarantee letters on behalf of related parties totalling RMB18,124,000 (2010: RMB13,730,000).

As at 31 December 2011, SE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Bonds of RMB1 billion (note 41).

(3) Deposits and loan services provided to related parties by Finance Company

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Interest expenses for customer deposits: | | |
| The ultimate holding company | 10,352 | 4,864 |
| Associates | 4,237 | 920 |
| Jointly-controlled entities | 4 | 2 |
| SEC group companies | 15,798 | 10,685 |
| Other related companies | 17 | 45 |
| | 30,408 | 16,516 |
| Interest income for loans and bills discounting: | | |
| The ultimate holding company | 15,706 | 11,287 |
| Associates | 1,229 | 1,097 |
| Jointly-controlled entities | 1,673 | 596 |
| SEC group companies | 120,694 | 53,003 |
| Other related companies | 17,094 | 2,506 |
| | 156,396 | 68,489 |

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 23, 28, 29, 30, 31, 35, 36, 37, 38 and 42 to the financial statements, respectively.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 50. RELATED PARTY TRANSACTIONS (continued)

(5) Transactions and balances with other state-owned entities

The Group enters into extensive transactions covering purchases of materials, property, plant and equipment, receiving of services, sale of goods, rendering of services and making deposits and borrowings with state-owned entities, other than the SEC group companies, in the normal course of business at terms comparable to those with other non state-owned entities.

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

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Fees | 771 | 750 |
| Salaries, bonuses and allowances received from the Group | 6,327 | 4,372 |
| Pension scheme contributed by the Group | 251 | 166 |
| Other social benefit schemes contributed by the Group | 238 | 158 |
| | 7,587 | 5,446 |

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:

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|
| Purchases of equipment, components and technology from an associate: | | |
| Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. | 1,262,124 | 1,048,347 |
| Purchases of equipment, components and technology from other related companies: | | |
| Jointly-controlled entities and associates of SEC group | 229,425 | 31,259 |
| Siemens Aktiengesellschaft | 1,217,374 | 215,183 |
| Alstom (China) Investment Co., Ltd. | - | 28 |
| Sales of goods to an associate: | | |
| Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co., Ltd. | 35,746 | 15,602 |
| Sales of goods to other related companies: | | |
| Siemens Aktiengesellschaft | 134,533 | 445,672 |
| Purchases of services from other related companies: | | |
| Jointly-controlled entities and associates of SEC group | 1,145 | - |

## 51. 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**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments 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 | - | - | - | 1,931,479 | - | 1,931,479 |
| Equity investments | 357 | - | - | - | 287,205 | 287,562 |
| Debt investments | 105,728 | - | 10,317 | - | 121,700 | 237,745 |
| Trust product | - | - | - | - | 380,154 | 380,154 |
| Trade receivables | - | - | - | 18,364,867 | - | 18,364,867 |
| Discounted bills receivable | - | - | - | 903,144 | - | 903,144 |
| Bills receivable | - | - | - | 4,450,924 | - | 4,450,924 |
| Financial assets included in prepayments, deposits and other receivables | - | - | - | 1,503,832 | - | 1,503,832 |
| Investment funds | - | - | - | - | 2,906,498 | 2,906,498 |
| Investment products | - | - | - | - | 745,550 | 745,550 |
| Designated investment management | - | - | - | - | 264,334 | 264,334 |
| Derivative financial instruments | 1,994 | 178,536 | - | - | - | 180,530 |
| Due from the Central Bank | - | - | - | 2,950,785 | - | 2,950,785 |
| Restricted deposits | - | - | - | 629,398 | - | 629,398 |
| Cash and cash equivalents | - | - | - | 19,088,481 | - | 19,088,481 |
| | 108,079 | 178,536 | 10,317 | 49,822,910 | 4,705,441 | 54,825,283 |

### Financial liabilities

**Group**

| | 2011 | | | |
|---|---|---|---|---|
| | Financial liabilities at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
| Trade payables | - | - | 20,656,571 | 20,656,571 |
| Bills payable | - | - | 1,993,882 | 1,993,882 |
| Financial liabilities included in other payables and accruals | - | - | 3,197,610 | 3,197,610 |
| Customer deposits | - | - | 2,784,445 | 2,784,445 |
| Interest-bearing bank and other borrowings | - | - | 1,385,543 | 1,385,543 |
| Bonds | - | - | 1,000,000 | 1,000,000 |
| Derivative financial instruments | 1,769 | 180,689 | - | 182,458 |
| | 1,769 | 180,689 | 31,018,051 | 31,200,509 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Financial assets

| Group | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments 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 |
| 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 | 55,734 | 91,783 | - | - | - | 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 |
| | 115,626 | 91,783 | - | 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 |

## 51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

### Financial assets

| Company | 2011 | | | | |
|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Loans receivable | - | - | 1,300,000 | - | 1,300,000 |
| Equity investments | - | - | - | 18,835 | 18,835 |
| Trust Product | - | - | - | 380,154 | 380,154 |
| Trade receivables | - | - | 10,460,022 | - | 10,460,022 |
| Bills receivable | - | - | 655,166 | - | 655,166 |
| Financial assets included in prepayments, deposits and other receivables | - | - | 999,342 | - | 999,342 |
| Derivative financial instruments | 1,994 | 178,536 | - | - | 180,530 |
| Restricted deposits | - | - | 27,000 | - | 27,000 |
| Cash and cash equivalents | - | - | 9,205,690 | - | 9,205,690 |
| | 1,994 | 178,536 | 22,647,220 | 398,989 | 23,226,739 |

### Financial liabilities

| Company | 2011 | | |
|---|---|---|---|
| | Derivative financial instruments designated as hedging instruments RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
| Trade payables | - | 15,812,840 | 15,812,840 |
| Financial liabilities included in other payables and accruals | - | 564,239 | 564,239 |
| Interest-bearing bank and other borrowings | - | 1,281,819 | 1,281,819 |
| Derivative financial instruments | 180,689 | - | 180,689 |
| | 180,689 | 17,658,898 | 17,839,587 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets

**Company**

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Derivative financial instruments designated as hedging instruments 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 |
| 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 | 54,138 | 91,783 | - | - | 145,921 |
| Restricted deposits | - | - | 27,000 | - | 27,000 |
| Cash and cash equivalents | - | - | 9,245,152 | - | 9,245,152 |
| | 54,138 | 91,783 | 21,830,008 | 25,557 | 22,001,486 |

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 |

## 52. 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:

The fair values of 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 model, 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 2011, the marked to market value of the derivative asset position was 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 values 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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 52. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

*Assets measured at fair value as at 31 December 2011:*

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| Available-for-sale investments: | | | | |
| Equity investments | 252,811 | 3,335 | - | 256,146 |
| Debt investments | - | 121,700 | - | 121,700 |
| Investment fund | 2,906,498 | - | - | 2,906,498 |
| Investment products | - | 745,550 | - | 745,550 |
| Designated investment management | - | 264,334 | - | 264,334 |
| Trust Product | - | 380,154 | - | 380,154 |
| Equity investments at fair value through profit or loss | 357 | - | - | 357 |
| Debt investments at fair value through profit or loss | 105,728 | - | - | 105,728 |
| Derivative financial instruments | - | 180,530 | - | 180,530 |
| | 3,265,394 | 1,695,603 | - | 4,960,997 |

*Assets measured at fair value as at 31 December 2010:*

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>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 |

## 52. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

*Liabilities measured at fair value as at 31 December 2011:*

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Derivative financial instruments | - | 182,458 | - | 182,458 |

As at 31 December 2010, the Group has no financial liability measured at fair value.

As at 31 December 2011, the Company held the following financial instruments measured at fair value:

*Assets measured at fair value as at 31 December 2011:*

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Available-for-sale investments: | | | | |
| Equity investments | 5,910 | - | - | 5,910 |
| Trust Product | - | 380,154 | - | 380,154 |
| Derivative financial instruments | - | 180,530 | - | 180,530 |
| | 5,910 | 560,684 | - | 566,594 |

*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 | 10,518 | - | - | 10,518 |
| Derivative financial instruments | - | 145,921 | - | 145,921 |
| | 10,518 | 145,921 | - | 156,439 |

*Liabilities measured at fair value as at 31 December 2011:*

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Derivative financial instruments | - | 180,689 | - | 180,689 |

As at 31 December 2010, the Company has no financial liability measured at fair value.

## 53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, bonds, other interest-bearing loans, customer deposits and cash and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the 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 and using forward currency contracts to eliminate the foreign currency exposures.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currencies 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).

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

Market risk (continued)

(a) Foreign currency risk (continued)

**Group**

| | Increase/ (decrease) in foreign currency exchange rate % | Increase/ (decrease) in profit after tax RMB'000 | Increase/ (decrease) in equity* RMB'000 |
|---|---|---|---|
| 2011 | | | |
| If RMB weakens against USD | 5 | 123,492 | (368,484) |
| If RMB strengthens against USD | (5) | (123,492) | 368,484 |
| If RMB weakens against EUR | 5 | 60,362 | 3,235 |
| If RMB strengthens against EUR | (5) | (60,362) | (3,235) |
| If RMB weakens against JPY | 5 | 6,263 | 17,340 |
| If RMB strengthens against JPY | (5) | (6,263) | (17,340) |
| If RMB weakens against HKD | 5 | (801) | 800 |
| If RMB strengthens against HKD | (5) | 801 | (800) |
| If RMB weakens against IDR | 5 | 3,212 | - |
| If RMB strengthens against IDR | (5) | (3,212) | - |
| If RMB weakens against INR | 5 | 2,510 | 3,114 |
| If RMB strengthens against INR | (5) | (2,510) | (3,114) |
| If RMB weakens against VND | 5 | 426 | 455 |
| If RMB strengthens against VND | (5) | (426) | (455) |
| If RMB weakens against BDT | 5 | 114 | - |
| If RMB strengthens against BDT | (5) | (114) | - |
| 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) |

* Excluding retained profits

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

### Market risk (continued)

(a) Foreign currency risk (continued)

**Company**

| | Increase/ (decrease) in foreign currency exchange rate % | Increase/ (decrease) in profit after tax RMB'000 | Increase/ (decrease) in equity* RMB'000 |
|---|---|---|---|
| 2011 | | | |
| If RMB weakens against USD | 5 | 89,076 | (368,570) |
| If RMB strengthens against USD | (5) | (89,076) | 368,570 |
| If RMB weakens against EUR | 5 | 28,662 | - |
| If RMB strengthens against EUR | (5) | (28,662) | - |
| If RMB weakens against IDR | 5 | 3,212 | - |
| If RMB strengthens against IDR | (5) | (3,212) | - |
| If RMB weakens against INR | 5 | 108 | - |
| If RMB strengthens against INR | (5) | (108) | - |
| If RMB weakens against VND | 5 | 60 | - |
| If RMB strengthens against VND | (5) | (60) | - |
| If RMB weakens against BDT | 5 | 114 | - |
| If RMB strengthens against BDT | (5) | (114) | - |
| 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) | - |

* 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 was 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 24 and 32) as at 31 December 2011. 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.

## 53. 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:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | 31 December | High | Low | 31 December | High | Low |
| SZSE A-share Index | 907 | 1,373 | 889 | 1,351 | 1,455 | 965 |
| SHSE A-share Index | 2,304 | 3,202 | 2,269 | 2,940 | 3,443 | 2,478 |

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 |
|---|---|---|---|
| 2011 | | | |
| Equity investments listed in: | | | |
| Shenzhen – Available-for-sale | 61,061 | - | 2,290 |
| Shanghai – Available-for-sale | 195,085 | - | 7,504 |
| – At fair value through profit or loss | 357 | 13 | - |
| 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 | - |

* Excluding retained profits

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

Market risk (continued)

(c) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

### Debt investments

| **Group** | **2011** | | |
|---|---|---|---|
| | **At fair value through profit or loss RMB'000** | **Held-to maturity RMB'000** | **Available-for-sale RMB'000** |
| 1 to 5 years | 21,767 | 10,317 | 121,700 |
| More than 5 years | 83,961 | - | - |
| Total | 105,728 | 10,317 | 121,700 |
| Effective interest rate (% per annum) | 0.50-0.70 | 5.43 | 5.43-8.50 |

| | **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 |

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

### Market risk (continued)

(c) Interest rate risk (continued)

#### Other financial assets

**Group**

| | 2011 | | | |
|---|---|---|---|---|
| | **Loans receivable RMB'000** | **Discounted bills receivable RMB'000** | **Due from the central bank RMB'000** | **Time deposits RMB'000** |
| Within 1 year | 953,191 | 903,144 | 2,950,785 | 11,192,952 |
| 1 to 5 years | 978,288 | - | - | - |
| Total | 1,931,479 | 903,144 | 2,950,785 | 11,192,952 |
| Effective interest rate (% per annum) | 5.23-6.65 | 4.56-6.90 | 0.72-1.62 | 0.35-6.43 |

| | 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 |

#### Financial liabilities

**Group**

| | 2011 | | |
|---|---|---|---|
| | **Bonds RMB'000** | **Interest-bearing bank and other borrowings RMB'000** | **Customer deposits RMB'000** |
| Within 1 year | 1,000,000 | 684,991 | 2,784,445 |
| 1 to 5 years | - | 544,402 | - |
| More than 5 years | - | 156,150 | - |
| Total | 1,000,000 | 1,385,543 | 2,784,445 |
| Effective interest rate (% per annum) | 4.85 | 1.48-8.00 | 0.50-3.50 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

Market risk (continued)

(c) Interest rate risk (continued)

Financial liabilities (continued)

| 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 | 865,147 | - |
| More than 5 years | - | 156,138 | - |
| Total | 1,000,000 | 1,416,914 | 1,930,598 |
| Effective interest rate (% per annum) | 3.85 | 0.63-8.00 | 0.36-2.75 |

Other financial assets

| Company | 2011 | |
|---|---|---|
| | Loans receivable RMB'000 | Time deposits RMB'000 |
| Within 1 year | 1,300,000 | 1,500,000 |
| Effective interest rate (% per annum) | 0.00-6.56 | 3.10-3.30 |

| | 2010 | |
|---|---|---|
| | Loans receivable RMB'000 | Time deposits RMB'000 |
| Within 1 year | 740,000 | 2,513,000 |
| Effective interest rate (% per annum) | 0.00 | 1.98-2.25 |

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

### Market risk (continued)

(c) Interest rate risk (continued)

#### Financial liabilities

| Company | 2011<br>Interest-bearing bank and other borrowings<br>RMB'000 | 2010<br>Interest-bearing bank and other borrowings<br>RMB'000 |
|---|---|---|
| Within 1 year | 1,280,455 | 480,000 |
| 1 to 5 years | 1,364 | 2,273 |
| Total | 1,281,819 | 482,273 |
| Effective interest rate (% per annum) | 2.55-5.90 | 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 financial assets and liabilities):

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit after tax RMB'000 |
|---|---|---|
| 2011 | | |
| RMB | 15 | 74 |
| RMB | (15) | (74) |
| 2010 | | |
| RMB | 15 | 1,719 |
| RMB | (15) | (1,719) |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 53. 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 47 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 9.2% (2010: 12.7%) of the Group's trade receivables as at 31 December 2011.

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

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

### Financial risks (continued)

(b) Liquidity risk (continued)

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

**Group**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 14,595,083 | 5,153,246 | 726,240 | 182,002 | - | 20,656,571 |
| Bills payable | - | 616,613 | 1,377,269 | - | - | 1,993,882 |
| Financial liabilities included in other payables and accruals | 2,578,006 | 589,528 | 30,076 | - | - | 3,197,610 |
| Customer deposits | 2,205,695 | 335,124 | 249,661 | - | - | 2,790,480 |
| Bonds | - | - | 1,000,000 | - | - | 1,000,000 |
| Interest-bearing bank and other borrowings | - | 58,526 | 652,063 | 544,816 | 156,150 | 1,411,555 |
| Derivative financial instruments | - | 1,769 | 474 | 180,215 | - | 182,458 |
| Financial guarantee contracts | - | - | 10,500 | 110,753 | - | 121,253 |
| | 19,378,784 | 6,754,806 | 4,046,283 | 1,017,786 | 156,150 | 31,353,809 |

| | 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 |
| 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 |

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

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

Financial risks (continued)

(b) Liquidity risk (continued)

**Company**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 15,812,840 | - | - | - | - | 15,812,840 |
| Financial liabilities included in other payables and accruals | 551,456 | 6,356 | 6,427 | - | - | 564,239 |
| Interest-bearing bank and other borrowings | - | 16,706 | 1,312,210 | 1,439 | - | 1,330,355 |
| Financial guarantee contracts | - | - | 177,589 | 757,470 | 269,000 | 1,204,059 |
| Derivative financial instruments | - | - | 474 | 180,215 | - | 180,689 |
| | 16,364,296 | 23,062 | 1,496,700 | 939,124 | 269,000 | 19,092,182 |

| | 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 |

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

### 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 2011 and 31 December 2010.

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 end of the reporting periods were as follows:

**Group**

| | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---:|---:|
| Interest-bearing bank and other borrowings | 1,385,543 | 1,416,914 |
| Bonds | 1,000,000 | 1,000,000 |
| Net debt | 2,385,543 | 2,416,914 |
| Total equity | 37,655,778 | 34,502,465 |
| Total equity and net debt | 40,041,321 | 36,919,379 |
| Gearing ratio | 6.0% | 6.5% |

## 54. OTHER SIGNIFICANT MATTERS

(1) On 20 April 2011, the Company entered into the letter of binding intent with Alstom Holdings to form a joint venture in Shanghai, each party holding a 50% equity interest in the joint venture. The joint venture will engage in the business of power station boilers and auxiliary products. As at the date of approval of the financial statements, both parties have not signed the joint venture contract yet.

# NOTES TO FINANCIAL STATEMENTS (continued)

31 December 2011

## 54. OTHER SIGNIFICANT MATTERS(continued)

(2) On 8 December 2011, the Company entered into a joint venture agreement with Siemens Ltd., China to form a joint venture, namely Shanghai Electric Wind Energy Co., Ltd. ("Wind Energy"), engaged in the sales of wind power equipment, and to inject capital to Siemens Wind Power Turbines (Shanghai) Co., Ltd. ("SWPT"), whose name would be changed to SmartPower Wind Turbines (Shanghai) Co., Ltd. after the capital injection, engaged in the research and production of wind power equipment. The Company will make capital injections to Wind Energy and SWPT amounting to EUR 53,043,000 and EUR31,022,000, respectively. Upon the completion of transactions, the Company will hold a 51% equity interest in each of the joint ventures.

## 55. EVENTS AFTER THE REPORTING PERIOD

(1) On 21 October 2011, the Company and Shanghai General Machinery (Group) Co., Ltd. ("General Machinery"), a wholly-owned subsidiary of SE Corporation, entered into an equity transfer agreement to acquire a 20% equity interest in KSB Shanghai Pump Co., Ltd. for a cash consideration of RMB125,134,000. On 4 January 2012, the Company paid 50% of the consideration, equivalent to RMB62,567,000.

(2) On 17 January 2012, the Company acquired a 30% equity interest in Shanghai Electric Engineering Design Co., Ltd. ("Shanghai Electric Engineering Design") from Shenyang Electric Power Design Co., Ltd. for a cash consideration of RMB3,700,000. Upon completion of equity acquisition, the Group held 100% equity interest in Shanghai Electric Engineering Design.

(3) On 17 January 2012, Shanghai Jintai received the capital contribution of RMB611,275,000 from Guangxi LiuGong.

(4) On 8 February 2012, the board of directors of the Company resolved that Shanghai Mechanical & Electrical would acquire a 100% equity interest in Goss International Corporation from SE Corporation for a cash consideration of RMB571,060,000.

(5) On 8 February 2012, the board of directors of the Company resolved to contribute additional capital into Shanghai Electric-KSB Nuclear Pumps & Valves Co., Ltd. for a cash consideration of EUR14,550,000, out of which the Company will contribute an aggregate amount up to EUR8,003,000.

(6) On 14 February 2012, General Refrigeration and Air-conditioning, a subsidiary of the Group, disposed of its 100% equity interest in Shanghai Refrigerating Machine to Shanghai Highly, a subsidiary of SE corporation, for a cash consideration of RMB8,356,000.

(7) On 17 February 2012, the board of directors of the Company resolved to enter into a joint venture agreement with Schneider Electric (China) Co., Ltd. to form a joint venture named Shanghai Electric Architecture Saving Co., Ltd. Pursuant to the terms of the joint venture agreement, the Company will contribute an aggregate amount of RMB165,000,000 for a 55% equity interest in the joint venture.

## 55. EVENTS AFTER THE REPORTING PERIOD(continued)

(8) On 27 February 2012, the Company received a notice from SE Corporation that, from 20 January 2011 to 20 January 2012, SE Corporation, through its wholly-owned subsidiary, Shanghai Electric Group HONGKONG Company Limited, had cumulatively increased its shareholding in the H shares of the Company by 30,258,000 shares, representing approximately 0.23% of the total issued share capital of the Company. From 27 July 2011 to 20 January 2012, SE Corporation has cumulatively increased its shareholding in the Company by 1,980,000 A shares, representing approximately 0.015% of the total issued share capital of the Company.

(9) Details of the final 2011 dividend proposal are contained in note 13 to the financial statements.

## 56. COMPARATIVE AMOUNTS

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

## 57. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2012.